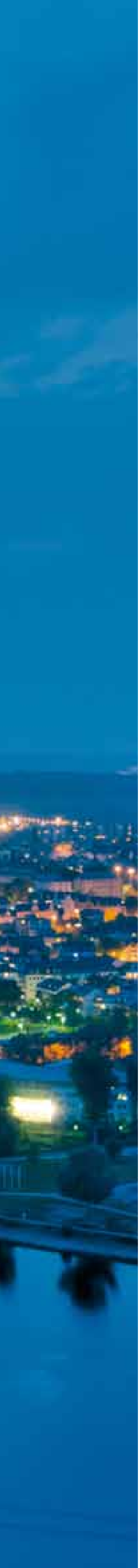
WGZ BANK
Die Initiativbank

# 2015 Annual Report

**Cooperative central institution and SME bank since 1884**



# WGZ BANK – Die Initiativbank

WGZ BANK has been the central institution to local cooperative banks in Germany's Rhineland and Westphalia regions since 1884. In addition to its traditional functions as a central institution, it proactively complements the services of its member banks in domestic and international transactions. Beyond its role as a central institution, WGZ BANK has a tradition of working in collaboration with small and medium-sized enterprises (SMEs) in the Rhineland and Westphalia regions and acts as a reliable financial partner for businesses in this sector. As a modern corporate bank, it offers its clients a broad range of specialized products and services tailored to their specific needs.

As a trading bank, WGZ BANK takes an active part in global trading of cash deposits, foreign currencies, and derivatives, in the buying and selling of products available on the capital markets, and in the business of issuing securities and undertaking syndicated transactions. It also offers customized products to partners on the capital markets (banks, institutions, and major corporate customers).

In addition, WGZ BANK acts as a bridge to the international markets for its local cooperative banks, working with over 3,000 correspondent banks in every continent and thereby ensuring that foreign transactions are processed quickly and smoothly.

WGZ BANK complements its innovative financial services offering via a range of subsidiary businesses, equity interests, and the cooperative financial network.

# Key figures for WGZ BANK

| Dec. 31, € million | 2014 (HGB) | 2015 (HGB) | Change | %[3] |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to | | | | |
| affiliated banks | 15,336 | 15,379 | 43 | 0.3 |
| other banks | 3,168 | 4,607 | 1,439 | 45.4 |
| customers | 8,509 | 9,063 | 554 | 6.5 |
| Securities | 8,470 | 8,878 | 408 | 4.8 |
| Trading securities | 9,592 | 6,746 | -2,846 | -29.7 |
| Long-term equity investments and shares in affiliated companies | 2,694 | 2,619 | -75 | -2.8 |
| Other assets | 482 | 477 | -5 | -1.0 |
| **Equity and liabilities** | | | | |
| Deposits from/amounts owed to | | | | |
| affiliated banks | 10,177 | 10,130 | -47 | -0.5 |
| other banks | 16,701 | 18,609 | 1,908 | 11.4 |
| customers | 6,254 | 4,735 | -1,519 | -24.3 |
| Debt certificates including bonds | 7,415 | 6,809 | -606 | -8.2 |
| Trading securities | 2,979 | 2,731 | -248 | -8.3 |
| Subordinated liabilities | 740 | 740 | 0 | 0.0 |
| Profit-sharing rights | - | - | 0 | 0.0 |
| Fund for general banking risks | 829 | 829 | 0 | 0.0 |
| Subscribed capital | 714 | 714 | 0 | 0.0 |
| Reserves | 1,814 | 1,928 | 114 | 6.3 |
| Distributable profit | 108 | 120 | 12 | 11.1 |
| Other liabilities | 520 | 424 | -96 | -18.5 |
| **Total assets / total equity and liabilities** | 48,251 | 47,769 | -482 | -1.0 |
| Contingent liabilities | 3,500 | 2,709 | -791 | -22.6 |
| **Volume of business** | 51,751 | 50,478 | -1,273 | -2.5 |
| **Derivatives – notional amount –** | 161,033 | 141,088 | -19,945 | -12.4 |
| **Tier 1 capital** | 2,743 | 2,805 | 62 | 2.3 |
| **Own funds** | 3,438 | 3,513.0 | 75 | 2.2 |
| **Total capital ratio (%)** | 18.8 | 19.1 | | |
| **Results of operations** | | | | |
| Net interest income | 289 | 302 | 13 | 4.5 |
| Net fee and commission income | 116 | 110 | -6 | -5.2 |
| Net trading income | 81 | 91 | 10 | 12.3 |
| Other net operating income/expense | -2 | -10 | -8 | >100.0 |
| Administrative expenses | 240 | 239 | -1 | -0.4 |
| Operating profit before allowances for losses on loans and advances | 244 | 255 | 11 | 4.5 |
| Net income/expense from other business[1] | -69 | -66 | 3 | <-100 |
| Allowances for losses on loans and advances[2] | 68 | 77 | 9 | 13.2 |
| Addition to fund for general banking risks | - | - | 0 | 0.0 |
| Tax expense | 77 | 91 | 14 | 18.2 |
| Net income for the year | 166 | 175 | 9 | 5.4 |
| Cost/income ratio (%) | 49.6 | 48.4 | | |

[1] Incl. gains on long-term equity investments and losses assumed under profit and loss transfer agreements. [2] Incl. change in hidden reserves.
[3] Percentage discrepancies due to unrounded figures.

# Key figures for the WGZ BANK Group

| Dec. 31,<br>€ million | 2014<br>(IFRS) | 2015<br>(IFRS) | Change | %[3] |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to | | | | |
| affiliated banks | **15,596** | **15,596** | 0 | 0.0 |
| other banks | **7,242** | **5,456** | -1,786 | -24.7 |
| customers | **37,621** | **39,155** | 1,534 | 4.1 |
| Financial assets held for trading | **10,013** | **6,970** | -3,043 | -30.4 |
| Long-term equity investments portfolio and securities portfolio | **21,682** | **20,231** | -1,451 | -6.7 |
| Companies accounted for using the equity method | **980** | **880** | -100 | -10.2 |
| Other assets | **1,739** | **1,506** | -233 | -13.4 |
| **Equity and liabilities** | | | | |
| Deposits from/amounts owed to | | | | |
| affiliated banks | **10,342** | **10,274** | -68 | -0.7 |
| other banks | **26,729** | **25,353** | -1,376 | -5.2 |
| customers | **22,555** | **20,450** | -2,105 | -9.3 |
| Debt certificates including bonds | **21,239** | **21,338** | 99 | 0.5 |
| Financial liabilities held for trading | **7,004** | **5,546** | -1,458 | -20.8 |
| Subordinated capital | **770** | **738** | -32 | -4.1 |
| Subscribed capital | **714** | **714** | 0 | 0.0 |
| Reserves | **2,955** | **3,106** | 151 | 5.1 |
| Convertible bonds | **98** | **98** | 0 | 0.0 |
| Non-controlling interests | **-8** | **2** | 10 | >100.0 |
| Distributable profit attributable to the group | **108** | **120** | 12 | 10.4 |
| Other liabilities | **2,367** | **2,055** | -312 | -13.2 |
| **Total assets / total equity and liabilities** | **94,873** | **89,794** | -5,079 | -5.4 |
| Contingent liabilities | **1,026** | **1,069** | 43 | 4.2 |
| **Volume of business** | **95,899** | **90,863** | -5,036 | -5.3 |
| **Derivatives – notional amount –** | **207,499** | **191,204** | -16,295 | -7.9 |
| **Tier 1 capital** | **3,772** | **3,916** | 144 | 3.8 |
| **Liable capital** | **3,466** | **3,542** | 76 | 2.2 |
| **Total capital ratio (%)** | **15.1** | **15.9** | | |
| **Financial performance** | | | | |
| Net interest income | **514** | **535** | 21 | 4.1 |
| Allowances for losses on loans and advances | **-23** | **10** | 33 | >100.0 |
| Net fee and commission income | **69** | **53** | -16 | -22.4 |
| Gains and losses arising on hedging transactions | **-25** | **-8** | 17 | -67.5 |
| Gains and losses on trading activities | **212** | **142** | -70 | -33.1 |
| Gains and losses on investments | **-133** | **-109** | 24 | -17.9 |
| Profit/loss from companies accounted for using the equity method | **17** | **26** | 9 | 53.6 |
| Administrative expenses | **296** | **305** | 9 | 3.1 |
| Other net operating income/expense | **3** | **-27** | -30 | >100.0 |
| Operating profit | **308** | **347** | 39 | 12.6 |
| Tax expense | **74** | **146** | 72 | 97.8 |
| Net profit for the year | **234** | **201** | -33 | -14.2 |
| Cost/income ratio (%) | **47.2** | **47.6** | | |

WGZ BANK
Die Initiativbank

# 2015 Annual Report

# Contents

## 2015 Annual Report

# Supervisory Board

**Werner Böhnke**
– Chairman –
Bank Director (ret.)
Düsseldorf

**Franz Lipsmeier**
– Deputy Chairman –
Bank Director, Chief Executive Officer
of Volksbank Delbrück-Hövelhof eG
Delbrück

**Peter Bersch**
Bank Director, Chief Executive Officer
of Volksbank Bitburg eG
Bitburg

**Martin Eul**
Bank Director, Chief Executive Officer
of Dortmunder Volksbank eG
Dortmund

**Uwe Goldstein**
Bank Director, Spokesman of the
Board of Managing Directors
of Raiffeisenbank Frechen-Hürth eG
Hürth

**Ludger Hünteler**
WGZ BANK
Düsseldorf

**Manfred Jorris**
WGZ BANK
Düsseldorf

**Ina Maßmann**
WGZ BANK
Düsseldorf

**Herbert Pfennig**
Bank Director, Chief Executive Officer
of Deutsche Apotheker- und Ärztebank eG
Düsseldorf

# Board of Managing Directors

**Hans-Bernd Wolberg**
– Chief Executive Officer –

**Uwe Berghaus**

**Dr. Christian Brauckmann**

**Karl-Heinz Moll**

**Michael Speth**

# Advisory Council

**Werner Böhnke**
– Chairman –
Bank Director (ret.)
Düsseldorf

**Franz Lipsmeier**
– Deputy Chairman –
Bank Director, Chief Executive Officer
of Volksbank Delbrück-Hövelhof eG
Delbrück

**Markus Bäumler**
Bank Director, Member of the
Board of Managing Directors
of VR-Bank Hunsrück-Mosel eG
Morbach

**Ralf W. Barkey**
Association Director, Chief Executive
Officer of the Rhineland-Westphalia
Cooperative Association
Düsseldorf

**Christoph Bickmann**
Bank Director, Chief Executive Officer
of Darlehnskasse Münster eG
Münster

**Leo Blum**
Former President of the Rhineland-Nassau
Farmers and Wine-Growers Association
Hillesheim

**Konrad Breul**
Bank Director, Member of the
Board of Managing Directors of
Raiffeisenbank Neustadt eG
Neustadt

**Gerhard Bröcker**
Bank Director, Spokesman of the Board of
Managing Directors of Vereinigte Volksbank
Münster eG
Münster

**Friedhelm Decker**
Honorary President of the Rhineland
Agricultural Association
Bonn

**Rainer Eggert**
Bank Director, Chief Executive Officer
of Volksbank Versmold eG
Versmold

**Christian Eschbach**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Sauerland eG
Arnsberg

**Johannes Gastreich**
Bank Director, Chief Executive Officer
of Raiffeisen-Bank Eschweiler eG
Eschweiler

**Carsten Graaf**
Bank Director (ret.)
Dormagen

**Dr. Clemens Große Frie**
Chief Executive Officer of
AGRAVIS Raiffeisen AG
Münster

**Andreas Hartmann**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Greven eG
Greven

**Franz-Josef Heidermann**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Bocholt eG
Bocholt

**Martin Herding**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Nottuln eG
Nottuln

**Heinz-Wilhelm Hermeling**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Mönchengladbach eG
Mönchengladbach

**Hans-Josef Hilgers**
Chief Executive Officer of
Raiffeisen Waren-Zentrale Rhein-Main eG
Cologne

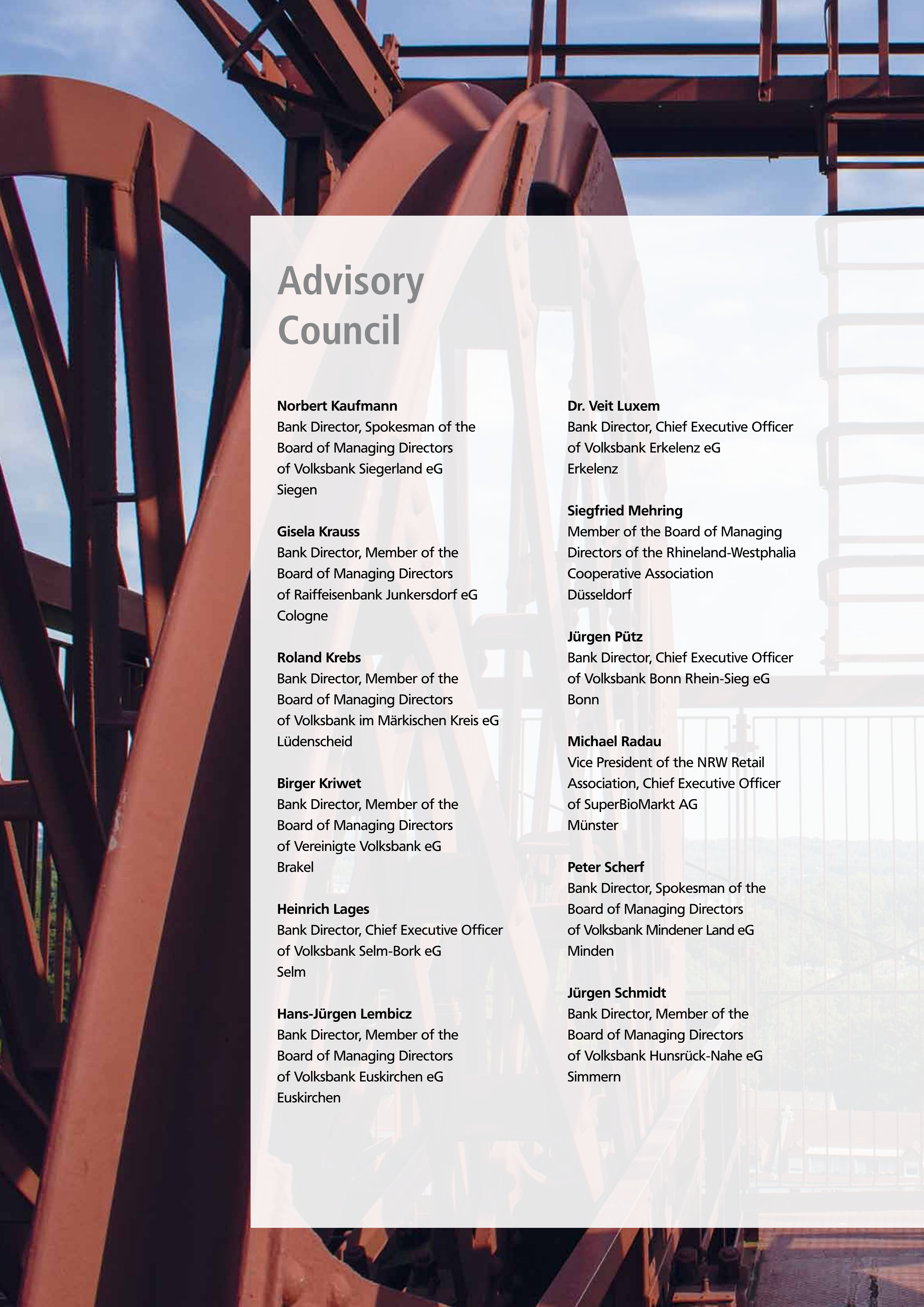
**Günter Hippchen**
Bank Director (ret.)
Lippstadt

**Walter Hoff**
Bank Director, Member of the
Board of Managing Directors
of Raiffeisenbank Zeller Land eG
Zell (Moselle)

**Bruno Hollweger**
Bank Director, Member of the
Board of Managing Directors
of Kölner Bank eG
Cologne

**Rainer Jenniches**
Bank Director, Chief Executive Officer
of VR-Bank Bonn eG
Bonn

**Christoph Kaminski**
Bank Director, Member of the
Board of Managing Directors
of VR-Bank Rhein-Erft eG
Brühl



# Advisory Council

**Norbert Kaufmann**
Bank Director, Spokesman of the Board of Managing Directors of Volksbank Siegerland eG
Siegen

**Gisela Krauss**
Bank Director, Member of the Board of Managing Directors of Raiffeisenbank Junkersdorf eG
Cologne

**Roland Krebs**
Bank Director, Member of the Board of Managing Directors of Volksbank im Märkischen Kreis eG
Lüdenscheid

**Birger Kriwet**
Bank Director, Member of the Board of Managing Directors of Vereinigte Volksbank eG
Brakel

**Heinrich Lages**
Bank Director, Chief Executive Officer of Volksbank Selm-Bork eG
Selm

**Hans-Jürgen Lembicz**
Bank Director, Member of the Board of Managing Directors of Volksbank Euskirchen eG
Euskirchen

**Dr. Veit Luxem**
Bank Director, Chief Executive Officer of Volksbank Erkelenz eG
Erkelenz

**Siegfried Mehring**
Member of the Board of Managing Directors of the Rhineland-Westphalia Cooperative Association
Düsseldorf

**Jürgen Pütz**
Bank Director, Chief Executive Officer of Volksbank Bonn Rhein-Sieg eG
Bonn

**Michael Radau**
Vice President of the NRW Retail Association, Chief Executive Officer of SuperBioMarkt AG
Münster

**Peter Scherf**
Bank Director, Spokesman of the Board of Managing Directors of Volksbank Mindener Land eG
Minden

**Jürgen Schmidt**
Bank Director, Member of the Board of Managing Directors of Volksbank Hunsrück-Nahe eG
Simmern

**Elmar Schmitz**
Bank Director, Chief Executive Officer
of Volksbank RheinAhrEifel eG
Bad Neuenahr-Ahrweiler

**Carsten Schruck**
Member of the Board of Managing
Directors of WESTFLEISCH SCE mbH
Münster

**Manfred Stevermann**
Bank Director, Chief Executive Officer
of Sparda-Bank West eG
Düsseldorf

**Ludger Suttmeyer**
Bank Director, Member of the
Board of Managing Directors
of Volksbank eG
Waltrop

**Dr. Ekkehard Thiesler**
Bank Director, Chief Executive Officer
of Bank für Kirche und Diakonie eG –
KD-Bank
Dortmund

**Claus-Dieter Toben**
Deputy Chief Executive Officer
of Fiducia & GAD IT AG
Münster

**Helmut Vilmar**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Wipperfürth-Lindlar eG
Wipperfürth

**Holger Zitter**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Emmerich-Rees eG
Emmerich

**Peter Zurheide**
Bank Director, Member of the
Board of Managing Directors
of Volksbank Bielefeld-Gütersloh eG
Gütersloh

# SME Initiative Group

Thanks to the long-standing partnership between WGZ BANK and its small and medium-sized corporate customers, the bank has recognized that there are a number of similar challenges on which businesses and the bank can work together to find a solution that is beneficial to them both. For this reason, WGZ BANK regularly enters into dialog with a select group of experienced, high-profile businesspeople and academics from across the bank's territory under the umbrella of the SME Initiative Group.

The SME Initiative Group's 16 members meet in a creative working environment to discuss practical issues and visionary ideas, share their experiences, and develop common positions. The latest suggestions and findings from both academic studies and day-to-day operations are always a feature of these discussions. These meetings aim to have an outcome that can be used to make SMEs more aware of current challenges and help them to overcome the hurdles, thereby having a lasting impact.

Initiativkreis
Mittelstand

**Jürgen Abromeit**
Chief Executive Officer,
INDUS Holding AG

**Dr. Matthias Becker**
Managing Director,
Hüls AG & Co. KG

**Professor Dr. Wolfgang Berens**
Chair of business administration
focusing on financial control,
University of Münster

**Klaus-Dieter Hölz**
Managing Director,
Vulkan Grundstücksgesellschaft mbH & Co. KG

**Peter van Hüllen** (until April 16, 2015)
Chief Executive Officer,
Georgsmarienhütte Holding GmbH

**Philipp Koecke**
Chief Financial Officer,
SolarWorld AG

**Thomas Löhr** (since April 29, 2015)
Member of the Board of Managing Directors,
Georgsmarienhütte Holding GmbH

**Patrick Ludwig**
Deputy Chairman of the
Board of Managing Directors,
Rheinisch-Bergische Verlagsgesellschaft mbH

**Roland Mauss**
Chief Financial Officer,
KMR Stainless AG and KMR Group

**Hans-Ewald Reinert**
Managing Director,
H. & E. Reinert Westfälische
Privat-Fleischerei GmbH

**Heinz-Peter Schlüter**
(died November 29, 2015)
Chairman of the Supervisory Board,
TRIMET ALUMINIUM SE and
owner of the TRIMET Group

**Professor Dr. Günther Schuh**
Professor at RWTH Aachen University

**Ulrich Schümer**
Chief Executive Officer,
Schmitz Cargobull AG

**Albert ten Brinke**
Managing Director,
Ten Brinke Group

**Jürgen Tönsmeier**
Chairman of the Supervisory Board,
Tönsmeier Dienstleistung GmbH & Co. KG

**Dr. Carsten Wilken**
Member of the Board
of Managing Directors,
Westfalen AG

**Joachim Wörtz** (since March 19, 2015)
Member of the Board of
Managing Directors,
NOWEDA eG Apothekergenossenschaft

# Introduction by the Board of Managing Directors

Dear reader,

Against all the odds, economic conditions proved favorable in 2015 – ultimately even for the financial services sector. Germany's GDP grew by 1.7 percent year on year, which was about the same rate as in 2014. Foreign trade flagged, especially in the second half of the year, but strong domestic demand luckily more than made up for this weakness. Domestic demand, combined with the good situation in the job market, is likely to remain a significant source of support for the economy in 2016. The reduction in energy prices and lower rate of inflation meant a real rise in income for consumers too – a trend that is set to continue.

Nonetheless, sharp price falls in financial markets during the first few weeks of the year have significantly dampened corporate sentiment in Germany and the rest of the eurozone. Economic performance over the course of the year will predominantly be determined by whether – and if so, to what extent – the growth problems in key emerging markets, particularly China, will impact on both Germany and Europe as a whole.

Overall, Germany's economic environment remains stable, which is likely to benefit not only companies but also government finances. The ECB's monetary policy is the only major cause for concern. While low interest rates will continue to have a drastic effect on savers' income and banks' net interest income for the foreseeable future, they bring considerable relief to government finances in Europe – almost all of which are characterized by high deficits. Given this interest-rate environment, it remains unclear how effective incentives can be created for the austerity measures and structural reforms that are still required in many European countries. But one thing is clear: The European patchwork – both political and economic – continues to be fragile, with all the risks that this entails for the financial sector.

For WGZ BANK, 2015 was an extremely good year. Our results are confirmation of our business model's firm focus on the real economy. This enabled us to generate significantly higher growth in our key business segments than we had originally expected, leading to increased levels of income. As we can see from the latest survey of the local cooperative banks in our territory, our member banks' appreciation of us has risen yet again since the previous survey. We have also made good progress in our collaboration with corporate customers, capital market partners, real estate customers, and public-sector customers.

The WGZ BANK Group generated growth across all business segments last year. But our good results did not just extend to our operations. The ECB again put us through our paces during the Supervisory Review and Evaluation Process (SREP), and we achieved a respectable result. Moody's also recently underlined WGZ BANK's financial strength by issuing an improved assessment and raising the long-term deposit rating by one notch from Aa2 to Aa1. WGZ BANK can therefore count itself among the leading European banks.

And precisely because we have such financial strength, we entered into talks with DZ BANK last year about refining the 'superstructure' of the cooperative financial network. We quickly came to the conclusion – in full agreement on all sides – that the first step would be to merge DZ BANK and WGZ BANK retrospectively with effect from January 1, 2016. In doing so, we are paving the way for the next step after successfully integrating the two central institutions: realizing the shared objective of a holding structure. This will bring long-term benefits for the cooperative financial network.

Since the announcement of our merger plans on November 19, 2015, the related project work has made considerable progress. We are confident of being able to complete the remaining tasks and of obtaining the crucial supporting votes at our Annual Shareholders' Meetings on June 21 and 22. The first working day for the joint central institution is scheduled for August 1, 2016.

In the meantime, we are continuing to drive forward our market activities. Overall, 2016 has got off to a very promising start. Our customers would not forgive us if we focused entirely on the undoubtedly huge challenge presented by the merger and neglected our primary duties as a cooperative central institution and dependable partner to their regional economy. This means we are performing a balancing act that demands maximum commitment and creativity from our employees. We are delighted to be working with such a capable and highly motivated team in this challenging situation. They deserve our greatest respect, appreciation, and thanks.

Special thanks go to our shareholders for their support throughout 2015. We would also like to thank the members of our Supervisory Board and Advisory Council for their constructive cooperation and expert advice. And above all, we thank our customers, who continued to place their trust in us in 2015.

The Board of Managing Directors

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

UNESCO World Heritage

# *World heritage in WGZ BANK's region*








Münster
Höxter
Essen
Düsseldorf
Cologne
Brühl
Aachen
Koblenz
Trier
THE **HISTORICAL**
REGION COVERED
BY **WGZ BANK**

# *Everyone reaps the benefits*

**'The idea and practice of organizing shared interests in cooperatives' is the first international nomination from Germany for UNESCO's Representative List of the Intangible Cultural Heritage of Humanity. By the end of 2016, UNESCO will decide whether it wants to pursue this nomination. At national level, Germany officially recognized the 'cooperative principle' as intangible cultural heritage in 2014.**

There are plenty of reasons why cooperatives should be recognized as intangible cultural heritage: The first were founded more than 150 years ago, yet they are more relevant today than ever. In the years since the financial crisis, in particular, cooperatives have emphatically proven how stable they are and have been extremely popular. Only the local cooperative banks in Germany have reported sustained increases in their customer base over recent years, and now have the support of more than 18 million members. The establishment of the cultural phenomenon that is the cooperative model was not restricted solely to Germany, however. Earlier examples were found in the UK, France, and eastern Europe. But it was Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen in Germany who laid the necessary foundations for this worldwide movement in the mid-19th century. The importance of cooperatives was highlighted recently when the UN declared 2012 to be the International Year of Cooperatives.

Understanding the cooperatives as purely commercial forms of business would be taking too narrow a perspective. Although these organizations generally pursue commercial objectives, the cooperative model is about bringing people together with shared interests to achieve collective goals that do not focus solely on profit maximization – a manifestation of our culture that must be safeguarded for future generations.

For that reason, this year's annual report addresses the subject of UNESCO World Heritage, putting the spotlight on cultural and natural heritage sites in WGZ BANK's region. Indeed, the region between Porta Nigra and Porta Westfalica boasts a large number of World Heritage treasures: Aachen Cathedral, Cologne Cathedral, the Castles of Augustusburg and Falkenlust at Brühl, the Roman monuments, Cathedral and Church of Our Lady in Trier, the Upper Middle Rhine Valley starting in Koblenz, the Zollverein mine in Essen, and the Carolingian Westwork and Civitas Corvey in Höxter. These inspirational sites create a sense of identity for local people and businesses, as well as for the cooperative banks and their employees, members, and customers.

*__Cultural diversity__ can only be protected and promoted if __human rights__ and __fundamental freedoms__ are guaranteed, such as the right to free speech, the freedom of information and communication, and the right of individuals to choose their own __forms of cultural expression__. (...)*

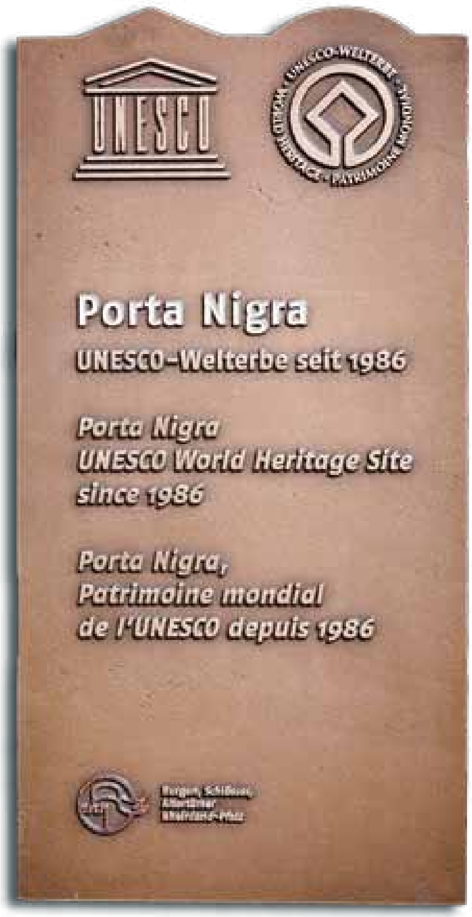
UNESCO – The Magna Carta of International Cultural Policy:
Article 2 – Guiding principles, 1. Principle of respect for human rights and fundamental freedoms

Roman monuments, Cathedral, and Church of Our Lady

# *An ancient city with a modern feel*

**The city of Trier, founded as Augusta Treverorum in 17 BC, is Germany's oldest city and is truly deserving of its UNESCO World Heritage status. Trier is steeped in history yet is still a hugely important place for trade, commerce, and science at the heart of Europe. And the local cooperative bank, Volksbank Trier eG, is doing its bit to ensure that it continues to prosper.**

An almost inconceivable 7,200 stone blocks were used to build the Porta Nigra gate. But from the perspective of future generations, the endeavors of the Roman architects, and the physical hardships that the laborers of the time would have endured, were truly worthwhile. Built in around AD 180, the Porta Nigra is Trier's most famous landmark and the best-preserved Roman city gate north of the Alps. It has been on the list of UNESCO World Heritage properties since 1986, together with other places of interest in the city. In the words of the UNESCO World Heritage Committee: "The Porta Nigra, an enormous fortified gate built of large stones, flanked by two semi-circular four-story towers, is a unique achievement of 2nd century Roman architecture."




After the fall of the Roman Empire, the city gate served many different purposes over the centuries. In the 11th century, it was a dwelling for the monk Simeon, who lived there as a hermit. On his death, the city gate was converted into a church, which is another reason why it is still intact to this day. In 1803, under Napoleon's rule, the church was dissolved and orders were given for the Roman building to be restored to its original form. Today the Nigra serves as a central information center for the Roman city of Trier.

## *The oldest Gothic church in Germany*

The Porta Nigra gate was inscribed on the list of UNESCO World Heritage sites exactly 30 years ago this year, along with other architectural legacies from Roman times in Trier – the amphitheater, Imperial Thermal Baths, and St Barbara Baths. UNESCO describes the number and architectural quality of the surviving monuments – the bridge, the remains of the fortified wall, the baths, the amphitheater, the storehouses – as "an outstanding testimony to Roman civilization".

Later Christian buildings that were built from Roman ruins and are now inseparable from them have also been granted UNESCO World Heritage status. Right next to the cathedral is the Church of Our Lady, the earliest Gothic church in Germany, which was built in the 13th century.

In 2009, Trier, Germany's oldest city, celebrated 2,025 years of history – with its unbroken timeline as a settlement dating back all the way to 17 BC. The city's foundation date is based on the age of excavated wooden pilings from the first Moselle bridge, which the Romans had built when expanding their road system to other parts of the empire. The bridge provided the link to the settlement on the river's eastern bank. The name of Germany's oldest city, Augusta Treverorum, comes from the Celtic tribe of the Treveri, who occupied a territory between the Meuse and the Rhine rivers in the 1st century BC. The sporadic settlement of the Trier valley goes back even further, with archaeological finds dating from the Neolithic Age some 7,000 years ago.

Toward the end of the 4th century, the Western Roman Empire was shaken by an increasing number of invasions by Germanic tribes. Trier's exposed position meant it was unable to continue as a seat of power for long. Roman rule ended in stages. The seat of the prefecture of Gaul was transferred to Arles in around AD 400. Between AD 410 and AD 435, Trier was devastated on four occasions by Frankish armies, but not once conquered. It was only in around AD 485 that the region as a whole was incorporated into the Frankish Empire of the Merovingians.

## *History – a burden or a driving force?*

Trier has experienced many ups and downs over the centuries. It was a seat of power in the Western Roman Empire and earned the byname 'holy city' in the Middle Ages. As a border town near France, it survived many armed conflicts and is today a university city at the heart of Europe with a population of more than 100,000 people.

The key question today that we have to ask ourselves today: Can a city really be modern when it is so dominated by its past? The answer, at least in the case of Trier, is an emphatic 'yes'. In fact, the innovative strength and cosmopolitan spirit of the city's founding fathers are qualities that benefit Trier and the surrounding region to this day.

"Trier is all about the interaction between the past and the future, and between our neighbors in Luxembourg, France, and Belgium, about a desire to achieve and a love of life, and about unspoiled nature and thriving industry," says Norbert Friedrich, who manages Volksbank Trier eG together with his fellow member of the Board of Managing Directors Alfons Jochem. "With approximately 38,000 members, 340 employees, and total assets of around 1.25 billion, Volksbank Trier is one of the main guarantors for the continued prosperity of the city," says Alfons Jochem.

### *Moselle and Saar as transport routes*

The Romans recognized long ago that Trier was situated in a central and strategically favorable location in the part of Europe that lay north of the Alps. Even then, the Moselle and Saar rivers served as natural transport routes. In modern times, they have long been developed into modern waterways, connecting the ARA ports of Amsterdam, Rotterdam, and Antwerp. Today, Trier also has excellent links to the European road and rail network. It takes less than 30 minutes to drive to Luxembourg's international airport, and the airports at Saarbrücken, Hahn, and Cologne/Bonn are also close by. As well as being at the heart of the Moselle/Saar wine region, Trier is home to many companies, some of them household names, in the food and beverage industry, the textile industry, the precision engineering and construction industries, and the creative sector.

**Websites:**
www.zentrum-der-antike.de
www.welterbe-trier.de

*"Trier is all about the interaction between the past and the future, and between our neighbors in Luxembourg, France, and Belgium, about a desire to achieve and a love of life, and about unspoiled nature and thriving industry."*

Norbert Friedrich and Alfons Jochem,
Board of Managing Directors, Volksbank Trier eG

Nobert Friedrich, member of the Board of Managing Directors, Volksbank Trier eG
Robert Müller, member banks representative, WGZ BANK
Alfons Jochem, member of the Board of Managing Directors, Volksbank Trier eG
(from left to right)

Upper Middle Rhine Valley near Koblenz

# *A river connecting people and places*

**The Upper Middle Rhine Valley has enjoyed UNESCO World Heritage status since 2002. The 65km section of river that runs from Koblenz in the north to Bingen and Rüdesheim in the south offers an abundance of romantic river scenery. But, thanks to this mighty waterway, the economic importance of the region is at least as great. The Rhine region and the river itself are a positive force for Europe's national economies.**

The waters flow and times may change, but the river is a constant force. Few regions in Germany are so characterized by resilience and change as the Middle Rhine. Many cultures have left traces here – the Celts, the Romans, the French, and the Prussians. A tour of Koblenz, in particular, is like a journey through time. Striking churches, magnificent palaces, stately residences, and grand town houses stand as reminders of more than 2,000 years of history. The city's narrow streets, romantic spots, and pretty squares delight visitors from all corners of the globe.

No visit to Koblenz is complete without seeing Ehrenbreitstein Fortress, which dates back to the year 1000 and is the second-largest preserved fortress in Europe. Another major attraction is the Deutsches Eck or 'German Corner'. This man-made promontory at the confluence of the Moselle and Rhine – where an equestrian statue of the first German Emperor, Wilhelm I, was erected in 1897 and rebuilt in 1993 – holds a special place in German cultural history because of its changing significance over the years. For many decades, it was a monument to German unity. Today, three pieces of the Berlin Wall are installed here, dedicated to the victims of the divided Germany.

## *Europe's most important river*

The city's official slogan, 'Koblenz connects', sums it up perfectly: This city in Rhineland-Palatinate, home to around 110,000 people, is where the Moselle and Rhine converge, two of the most important rivers in Europe – there could hardly be a better symbol for a united Europe. Indeed the Rhine, the longest river in western Europe, no longer separates Europe's nations, it connects them. Over 1,300km in length, it has a catchment area of more than 220,000 square kilometers, starting in the Swiss canton of Graubünden, and running through France and Germany before emptying into the North Sea in the Netherlands.

The Rhine is the most important waterway within the European Union. Around 50 percent of all inland shipping takes place on this river. More than 30 German ports are located along the Rhine. Every year, some 70,000 vessels travel along the section of the Middle Rhine between Bingen and Koblenz, carrying almost any cargo you could think of.

Koblenz, where the Moselle and Rhine converge, is also the gateway to the Upper Middle Rhine Valley, one of the world's most important cultural landscapes. The 65km section of the Rhine between Koblenz in the north and Bingen and Rüdesheim in the south has featured on the UNESCO World Heritage list since 2002. And only a short distance north of Koblenz is the start of the Upper Germanic-Rhaetian Limes, which was part of the frontier of the Roman Empire and runs from Rheinbrohl on the Rhine to Eining on the Danube. The Roman Limes is part of a transnational series of World Heritage properties, which also include Hadrian's Wall and the Antonine Wall in the UK.

Beyond Koblenz, the breathtaking scenery of the Upper Middle Rhine Valley awaits walkers, cyclists, and those travelling by boat. The area is dotted with villages, vineyards, and around 40 castles, palaces, and fortresses. The Loreley near St. Goarshausen, probably the world's most famous rocky outcrop, is also located on this section of the Rhine.

## *Shaped by man and nature*

The Upper Middle Rhine Valley was granted UNESCO World Heritage status on June 27, 2002. In its justification,

the World Heritage Committee praised the region as “a cultural landscape of great diversity and beauty”. According to the UNESCO Committee, the Upper Middle Rhine Valley presents an unusual wealth of cultural features and historical and artistic associations and owes its special appearance to both the natural shape of the river landscape and to human hand.

In its inscription for the site, the UNESCO Committee also acknowledged the great importance of the Rhine itself, which for approximately two millennia has been one of the main routes for cultural exchange between the Mediterranean region and northern Europe.

The UNESCO World Heritage Upper Middle Rhine Valley covers an area of around 620 square kilometers. It falls within the federal states of Rhineland-Palatinate

and Hessen, two prosperous areas of Germany, and within its geographical boundaries are 60 cities, towns, and villages, which are home to some 170,000 people. The Upper Middle Rhine Valley is proof positive that treasures of natural and cultural significance can go hand in hand with economic success and that the two need not be mutually exclusive.

One factor in the success of the region seems to be the interaction between the economy and the environment, between man and nature – and also between the different cultures and nations. As a result, the people that you will meet here are of a very special kind. They tend to be open-minded, cultured, and liberal, and are equally adept at dealing with friends as they are with new faces.

**Website:**
www.welterbe-mittelrheintal.de

WGZ BANK Board of Managing Directors, 'German Corner', Koblenz

From left to right:

Michael Speth

Uwe Berghaus

Hans-Bernd Wolberg – Chief Executive Officer

Karl-Heinz Moll

Dr. Christian Brauckmann

*"World Heritage, for me, is about finding traces from the past. Both natural heritage and cultural heritage give people a sense of identity and grounding, and connect them with their homeland and their ancestors. We are under an obligation to protect this heritage and pass it on to future generations."*

Hans-Bernd Wolberg,
Chief Executive Officer, WGZ BANK

Aachen Cathedral

# *The great Charlemagne*

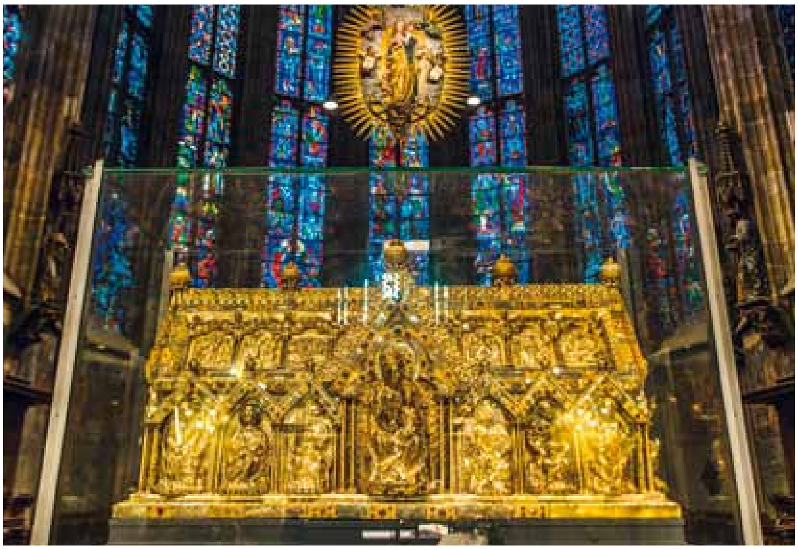
**What would Aachen be without its cathedral? And what would North Rhine-Westphalia be without Aachen? Germany's first UNESCO World Heritage site is history set in stone but also a shining example of the spirit in Europe today. Aachener Bank eG benefits from the buoyant economic activity in the tri-border area of Germany, Belgium, and the Netherlands and makes every effort to support it.**

What do Yellowstone National Park in the USA, the Galápagos Islands off the coast of Ecuador, the island of Gorée off the coast of Senegal, and Aachen Cathedral have in common? They were among the first twelve sites of universal cultural and natural importance to be granted World Heritage status by UNESCO in 1978. Speyer Cathedral was inscribed on the World Heritage List just three years later – but Cologne Cathedral not until 1996.

## *The dream of a 'new Rome'*

In the words of the German Commission for UNESCO: "Aachen Cathedral, which was built between around 790 and 800, is of universal significance to the history of art and architecture, and one of the great icons of religious architecture." The cathedral was a masterpiece that would attest to the greatness of the man who commissioned it, Charlemagne, long after his death. Charlemagne (747/748–814) made Aachen the center of his European empire in around 800. Here, in the western part of present-day North Rhine-Westphalia, he transformed his father's royal court into a palace that was on a par with an imperial residence. His dream was beyond ambitious: the creation of a 'new Rome'.

The Church of St Mary – also known as the Palatine Chapel, collegiate church, or minster – was built next to the palace and was to be the center of this 'new Rome'. It now forms the nucleus of the present-day cathedral. A small



## *More than 30 kings on the throne*

Christian church had been built there under Charlemagne's father, Pippin, and Charlemagne's Palatine Chapel was to tower above its altar.

The cathedral was more than a place of worship. For centuries, Aachen and its cathedral provided the basis for new political structures and radical church reforms. Charlemagne is considered the first major ruler of Europe and was referred to as Pater Europae (Father of Europe) in his own lifetime. Since 1950, the city of Aachen has awarded the Charlemagne Prize in his honor to individuals who have made an outstanding contribution to Europe and European unity. The local cooperative banks, together with WGZ BANK, have been the exclusive main sponsor of the Foundation of the International Charlemagne Prize of Aachen since 2010. "It is with great pleasure that the German local cooperative banks support this distinguished prize," says Uwe Fröhlich, President of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR) [National Association of German Cooperative Banks], and member of the advisory council for the Foundation of the International Charlemagne Prize of Aachen.

Charlemagne was buried in the Palatine Chapel following his death on January 28, AD 814. He was laid to rest in a Roman sarcophagus, which can still be found today in the cathedral treasury. Some 350 years later, Emperor Barbarossa arranged for Charlemagne to be canonized. His mortal remains were later transferred to the 'Shrine of Charlemagne', which was completed in 1215 and can be seen today in the central drum of the Gothic chancel.

In 936, Otto I chose Aachen as the site for his coronation, starting the illustrious 600-year history of the 'Aachen coronations'. The royal throne dates back to the time of Charlemagne and is constructed from fine marble slabs. More than

30 kings were crowned on this throne over the course of the next six centuries.

Aachen Cathedral has been one of the leading pilgrimage sites in the Christian world since the Middle Ages because of its four famous holy relics: Christ's swaddling clothes, the loincloth worn by Christ, Mary's robe, and the cloth used for John the Baptist's beheading. The Church of St Mary, which forms the core structure of the present-day cathedral, is the earliest example of a large domed building north of the Alps and has had the highest vaulted interior in this part of Europe for four centuries.

## *Commerce in the spirit of Charlemagne*

The cathedral's present-day appearance reflects more than 1,200 years of history. Its opulent furnishings and other treasures were donated by emperors, kings, and pilgrims. Today, the cathedral's Palatine Chapel is one of the best-preserved architectural monuments from Carolingian times.

Peter Jorias and Jens Ulrich Meyer, who together form the Board of Managing Directors of Aachener Bank eG, still benefit from Charlemagne's European spirit. With more than 20,000 members, 19 branches, and total assets of approximately 1 billion, the cooperative bank is one of the biggest champions of the Aachen Euregio region. Peter Jorias: "Economic relations in our region have long transcended national borders. For us, the economies of Germany, the Netherlands, and Belgium could not be any more tightly interwoven." Jens Ulrich Meyer, his colleague on the Board of Managing Directors, adds: "We make every effort to promote and support collaboration between our countries – very much in the spirit of Charlemagne."

**Website:**
www.aachendom.de

*"Economic relations in our region have long transcended national borders. For us, the economies of Germany, the Netherlands, and Belgium could not be any more tightly interwoven."*

Peter Jorias and Jens Ulrich Meyer,
Board of Managing Directors, Aachener Bank eG

Jens Ulrich Meyer, member of the Board of Managing Directors, Aachener Bank eG
Hartmut Maintz, cathedral architect, Aachen Cathedral
Michaela Lux, member banks representative, WGZ BANK
Peter Jorias, member of the Board of Managing Directors, Aachener Bank eG
Manfred von Holtum, dean of Aachen Cathedral
(from left to right)

# *Pomp and splendor*

**Anyone wanting to escape the hustle and bustle of the city of Cologne could not find a more charming spot than the picturesque gardens at the Castles of Augustusburg and Falkenlust. These two masterpieces of rococo architecture in Brühl near Cologne have enjoyed UNESCO World Heritage status for more than 30 years.**

Clemens August of Bavaria would certainly be proud if he could see how society and commerce have developed around his castles over the centuries. The Elector and Archbishop of Cologne was born in Brussels in 1700 and was the fourth son of Max Emanuel, Elector of Bavaria, and Teresa Kunegunda Sobieska,

the daughter of the Polish king. At the tender age of 15, he had already received his first religious titles and was appointed Bishop of Regensburg in 1716. In 1719 he was elected Bishop of Münster and Paderborn, and in 1722 Bishop of Hildesheim. Then in 1723 his path took him to the Rhineland, where he succeeded his uncle as Archbishop and Elector of Cologne. With papal dispensation, Clemens acquired the Bishopric of Osnabrück in August 1728 and was elected Grand Master of the Teutonic Order at the age of 32, the greatest accomplishment of his career.

## *Making rococo architecture a living reality*

Clemens August had a penchant for magnificent prestige buildings, grand ceremonial receptions, and spectacular court festivals, as well as a fondness for hunting parties that were the height of sophistication. His creative talents greatly impressed his contemporaries and still fascinate history buffs to this day.

He left future generations a magnificent legacy in the form of Augustusburg Castle, his favorite residence, and the Falkenlust hunting lodge that was adjacent to it. The two buildings and their beautiful gardens, which today are collectively owned by the federal state of North Rhine-Westphalia, have been UNESCO World Heritage sites since 1984. In its justification for the inscription, the World Heritage Committee stated that Augustusburg Castle made the magnificent creation of rococo architecture a living reality. The Castles of Augustusburg and Falkenlust were among the first significant rococo buildings to be constructed in Germany and provided the template for many royal courts in the country for half a century.

The collaboration between architects, painters, sculptors, and stucco artists originating from Germany, Italy, and France produced a synthesis of the arts whose centerpiece was the grand staircase by Balthasar Neumann.

In 1725 the Westphalian architect Johann Conrad Schlaun was commissioned by Clemens August to begin the construction of the palace on the ruins of a medieval moated castle. Many other artists of European standing worked on the building until its completion in 1768.

## *Hunting lodge built as a private retreat*

Falkenlust hunting lodge was built as a private retreat for Clemens August, the Elector and Archbishop of Cologne, as an addition to his summer residence, Augustusburg Castle. The small lodge took only a few years to complete, from 1729 to 1737. The Bavarian court architect François

de Cuvilliés drew up the plans and was responsible for its construction. In 1840 Peter Joseph Lenné started laying out the wooded area beyond the baroque gardens in the style of an English country park, creating an area that to this day is still ideal for leisurely walks. Lenné's design included a section of track from the Cologne-Bonn railway line, a contemporary marvel of engineering that opened in 1844. It was run across an ornate iron bridge through an area of man-made lakes.

Together with the French garden by landscape gardener Dominique Girard, a synthesis of the arts was produced, which is beautifully preserved and which was included on the list of UNESCO World Heritage sites in accordance with the World Heritage Convention's selection criterion II ("considerable influence on architecture over a span of time or within a cultural area") and IV ("outstanding example of a type of building or architectural ensemble").

From 1949 Augustusburg Castle was used for many decades as a venue for receptions hosted by the president and government of West Germany. Today, the castles serve as museums and as venues for concerts and other types of performance.

Markus Bärenfänger, Spokesman of the Board of Managing Directors of Brühl-based cooperative bank VR-Bank Rhein-Erft eG, pays a visit to the castles whenever time allows and enjoys admiring the works of art or walking in the gardens. For him, it is like stepping back in time: "This beautifully preserved rococo architecture is something we must protect for future generations. We can draw experience and tradition from our knowledge of history." Christoph Kaminski, his colleague on the Board of Managing Directors, adds: "The stability of cooperative banks is based both on tradition and on our ability to innovate. That is why we too take such a keen interest in the cultural heritage of our region." With 16 branches, nearly 21,000 members, and total assets of around 1 billion, VR-Bank Rhein-Erft is one of the leading financial organizations in the region.

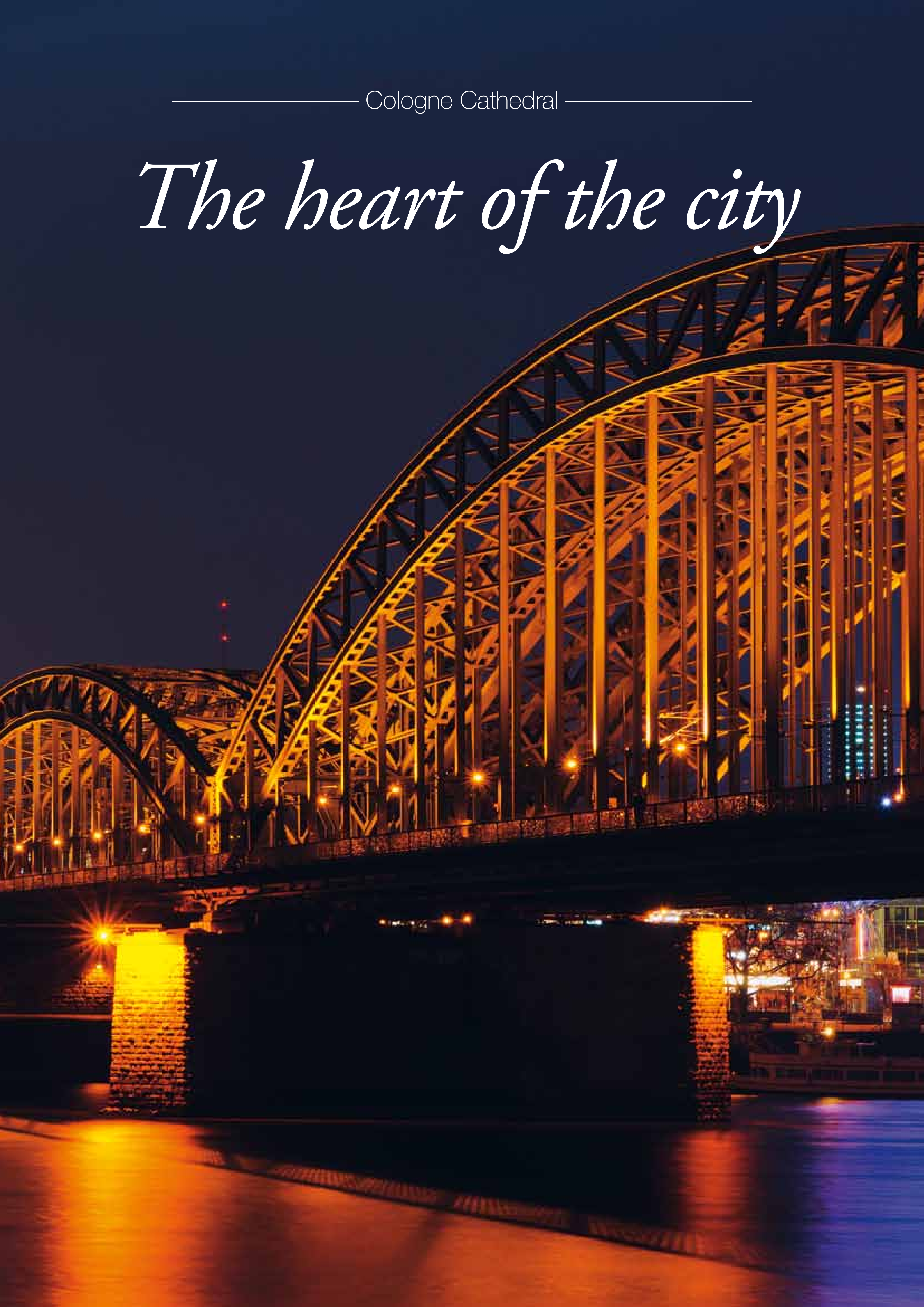
**Website:**
www.schlossbruehl.de

*"This beautifully preserved rococo architecture is something we must protect for future generations. We can draw experience and tradition from our knowledge of history."*

Markus Bärenfänger,
Spokesman of the Board of Managing Directors,
VR-Bank Rhein-Erft eG

Karl-Heinz Nolte, member banks representative, WGZ BANK
Christoph Kaminski, member of the Board of Managing Directors, VR-Bank Rhein-Erft eG
Markus Bärenfänger, Spokesman of the Board of Managing Directors, VR-Bank Rhein-Erft eG
(from left to right)

# *The heart of the city*



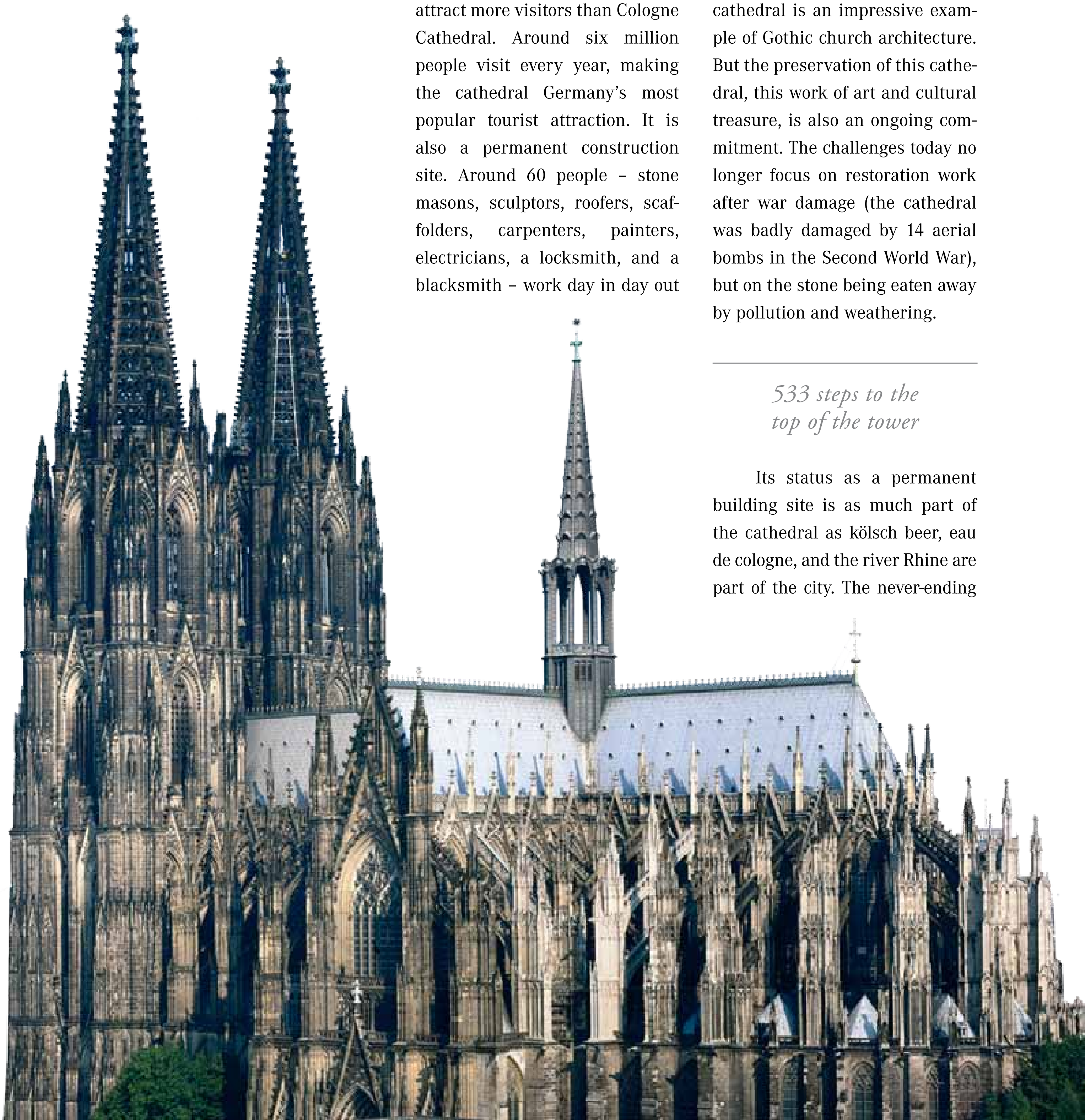
**It is the third-tallest church in the world, the most-visited attraction in Germany, and the heart of the Rhineland: Cologne Cathedral. The history of this UNESCO World Heritage site is as rich and colorful as the people and the businesses that you find in the region.**

There are few churches and cathedrals in the world that attract more visitors than Cologne Cathedral. Around six million people visit every year, making the cathedral Germany's most popular tourist attraction. It is also a permanent construction site. Around 60 people – stone masons, sculptors, roofers, scaffolders, carpenters, painters, electricians, a locksmith, and a blacksmith – work day in day out to ensure the cathedral remains in excellent condition.

Exactly 157 meters and 38 centimeters in height and with capacity for 4,000 visitors, the cathedral is an impressive example of Gothic church architecture. But the preservation of this cathedral, this work of art and cultural treasure, is also an ongoing commitment. The challenges today no longer focus on restoration work after war damage (the cathedral was badly damaged by 14 aerial bombs in the Second World War), but on the stone being eaten away by pollution and weathering.

## *533 steps to the top of the tower*

Its status as a permanent building site is as much part of the cathedral as kölsch beer, eau de cologne, and the river Rhine are part of the city. The never-ending



building works are proof that the cathedral is dear to the heart of locals and visitors from all over the world. Many of them brave the energy-sapping climb of 533 steps to the top of the tower. Cologne Cathedral is also an excellent example of how much time, money, and effort is required for the preservation of a World Heritage site.

Nothing highlights the global interest in Germany's leading cathedral more emphatically than its World Heritage designation, which was granted by UNESCO in 1996. At one time during the intervening years, however, its status was severely jeopardized. The city's plans to erect four high-rise buildings on the opposite bank of the Rhine were strongly opposed by the guardians of World Heritage.

In 2004 the cathedral was placed on the red list of 'World Heritage Sites in Danger'. The city of Cologne recognized the danger, however, and put a stop to the construction of the large-scale tower blocks around Deutz station.

## *A centuries-long break in construction work*

The site on which the cathedral now stands was where the first Christians had assembled in Cologne during the late Roman period. Their church was then replaced by several more, each one larger than the last.

The cathedral was already the principal church of the Archbishop of Cologne but when the reliquaries of the Three Wise Men were brought to Cologne in 1164 it became one of the most important pilgrimage churches anywhere in Europe, which called for a new architectural design. Before work could begin on the new Gothic cathedral in 1248, however, the old Carolingian cathedral had to be demolished in stages.

Work on the cathedral in Cologne continued until around 1530, before lack of money and interest forced construction to be halted. A makeshift roof was erected above the nave. In 1794 the troops of the French Revolution swept into Cologne. The Archbishop and cathedral chapter fled and for a number of years the cathedral served secular needs, including as a warehouse. In 1801 it was reconsecrated as a church.

Building work recommenced in 1842. The two transept facades were completed in 1864, followed by the towers in 1880. The drawn-out history of Cologne Cathedral explains why it features such a unique mix of architectural periods, beginning with the Gothic of the 13th century and ending for a time at least with the Neo-Gothic some six centuries later. Without the city's residents, however, Cologne Cathedral would probably never have been completed. Neither the money that King Friedrich Wilhelm IV of Prussia intended to contribute nor the cathedral tax was anywhere near enough to cover the staggering costs of construction. A cathedral lottery was launched to raise the necessary funds. It was called 'collected premiums' to disguise its gambling nature and was a resounding success: More than 320,000 tickets were sold. The net proceeds from the first draw came to 177,000 taler. Between 1842 and

1880 a sum of more than 6.6 million taler was raised, equivalent to almost one billion euros in today's money.

To this day the Cathedral of St Peter is the cathedral of the Archbishop of Cologne and the principal church of the Cologne archdiocese and therefore an important spiritual center. Every day it holds five masses. Each year the remains of the Three Wise Men, preserved in a golden shrine, are visited by many thousands of Christians from around the world.

## *A bank with local roots*

Cologne Cathedral is both a landmark and a cultural focal point for the 430 or so employees of Kölner Bank eG, which was founded in 1867. With 27 branches spread right across the city, the bank is one of Cologne's

major financial partners for private individuals and small and medium-sized enterprises. Around 90,000 of the city's residents hold a Kölner Bank eG account and receive advice on their financial affairs from its staff. Kölner Bank eG is also one of the biggest cooperative banks anywhere in Germany, with total assets of 2.3 billion and more than 50,000 members. "Firmly rooted in the region, steeped in tradition but always open for new things and for change – we have all this in common with our city's most famous landmark," say members of the Board of Managing Directors Bruno Hollweger and Klaus Müller, summing up the similarities between the bank and the cathedral.

**Website:**
www.koelner-dom.de

*"Firmly rooted in the region, steeped in tradition but always open for new things and for change – we have all this in common with our city's most famous landmark."*

Bruno Hollweger and Klaus Müller,
Board of Managing Directors, Kölner Bank eG

Karl-Heinz Moll,
member of the Board of Managing Directors, WGZ BANK
Klaus Müller and Bruno Hollweger,
members of the Board of Managing Directors, Kölner Bank eG
Dirk Laufer,
member banks representative, WGZ BANK
(from left to right)

# *Emblem of the Ruhr*


Zollverein

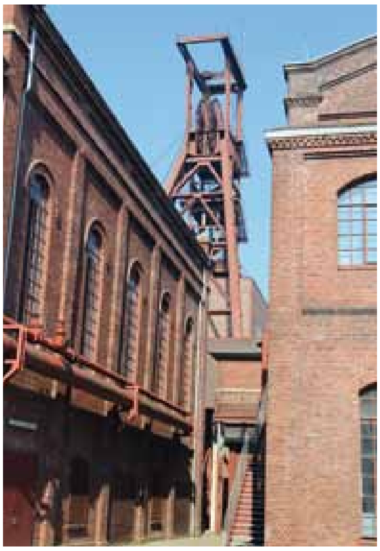
became a high-output industrial complex in which much of the work was mechanized. Forty years later, in 1972, Shaft XII reached what would be its deepest point of almost 1,000 meters. Day in day out, as many as 8,000 miners worked in shifts to extract more than 23,000 tonnes of raw coal, approximately four times as much as the average pit in the region.

*240 million tonnes of coal extracted*

**When the Zollverein colliery closed in 1986 it marked the end of Essen's time as the largest mining city in Europe. But it was also a beginning. The former pitworks and coking plant are now an emblem for the ongoing transformation of the Ruhr. At the end of 2001 the site was granted UNESCO World Heritage status, ensuring the area's industrial roots will remain an enduring presence.**

The colliery's architect, Fritz Schupp, showed great foresight when in 1929 he made the following comment: "We have to recognize that industry, with its mighty structures, is no longer a disruptive element in our cityscape and in the landscape but a symbol of labor, a municipal monument that every citizen should show visitors with at least as much pride as their public buildings."

Schupp could hardly have imagined back then that the Zollverein's time as a working mine would one day come to an end. On February 1, 1932 the wheels on the pithead frame above the new Shaft Hall XII cranked into motion for the very first time. On that February day, the Essen colliery that had been opened in the mid-19th century



Between 1851 and 1986 a total of 240 million tonnes of coal was mined at the Zollverein. In all those years, the colliery became a home and place of work for around 600,000 people. However, the increasing difficulty of extracting the coal and, more importantly, a rapidly worsening sales market put paid to the gargantuan industrial complex in the 1980s. On December 23, 1986 all the remaining pitworks were closed. The Zollverein was the last of a total of 291 mines in Essen, once the biggest mining city in Europe, to cease operation. Only the coking plant continued to be used, before it too was closed in 1993.

Local industry and political bodies wasted no time in deciding on what to do next with the colliery: Showing great foresight, they decided that the Zollverein mine and coking plant were to become an emblem of the

transformation and modernization of the Ruhr region.

Even though the Ruhr valley still has some way to go on its journey of rejuvenation, there is no doubt that this particular objective has been achieved. All the positive developments at the Zollverein over the past 30 years can ultimately be traced back to the decision made on December 16, 1986, one week before the colliery closed, to place the ensemble under a heritage protection order and thus save it from demolition.

Since that time the Zollverein mine and coking plant have become one of the most attractive forums in Europe for culture and leisure as well as education and commerce. Every year, approximately 1.5 million people visit the 100-hectare site, which is home to event venues, restaurants, and the Red Dot Design Museum. The latter features around 2,000 exhibits from some 45 countries and is the largest exhibition of contemporary design anywhere in the world.

## *Form follows function*

The colliery was made a UNESCO World Heritage site in 2001, further boosting its popularity. “The Zollverein XII Coal Mine Industrial Complex is an exceptional industrial monument by virtue of the fact that its buildings are outstanding examples of the application of the design concepts of the Modern Movement in architecture in a wholly industrial context.” These were among the reasons given by the UNESCO committee for the inclusion of the Zollverein mine on the World Heritage list – the first and so far only site in the Ruhr region to have been granted this honor.

The architecture remains a feature to this day, with the buildings arranged symmetrically along two axes. In accordance with the Bauhaus principle ‘form follows function’, each of the 20 buildings fulfilled a different part of the coal production process.

And the development of the Zollverein is continuing apace: In the coming years further changes will be made to the World Heritage site as part of the initiative Zollverein 2020! The Zollverein Foundation, under its CEO, Hermann Marth, is playing the leading role in the ongoing transformation of this historical industrial complex.

Two major new projects were launched in the Shaft 1/2/8 quarter in 2014: The first will see the design faculty of the Folkwang University of the Arts move into a purpose-built facility on the site of the old materials store by summer 2017. The second project is the opening of a new hotel by the end of 2017. And the area's growing reputation as a destination for events is also in line for a further boost: The new Grand Hall Zollverein, where the compressors and suction units were once found, is scheduled to open in late 2016 and will be one of the biggest event venues in the Ruhr.

Another important milestone is the construction of a new office complex that will accommodate around 220 employees of the RAG foundation and RAG company, which manage the mine's perpetual obligations. Autumn 2017 is the scheduled move-in date.

All these developments prove that the region's economic, social, and cultural life and, in particular, life at the "world's most iconic colliery" has not ended with the demise of coal but has simply undergone a dramatic change.

"Facilitating this ongoing transformation, which has its financial challenges, is one of the top priorities for the region's cooperative banks," says Heinz-Georg Anschott, Chief Executive Officer of GENO BANK ESSEN eG. His bank, which he leads together with his fellow member of the Board of Managing Directors, Henning Wichart, can also look back on a proud history. Founded in 1886, GENO BANK ESSEN currently has 41,000 customers, more than 21,000 members, and total assets of over  1 billion.

**Website:** www.zollverein.de

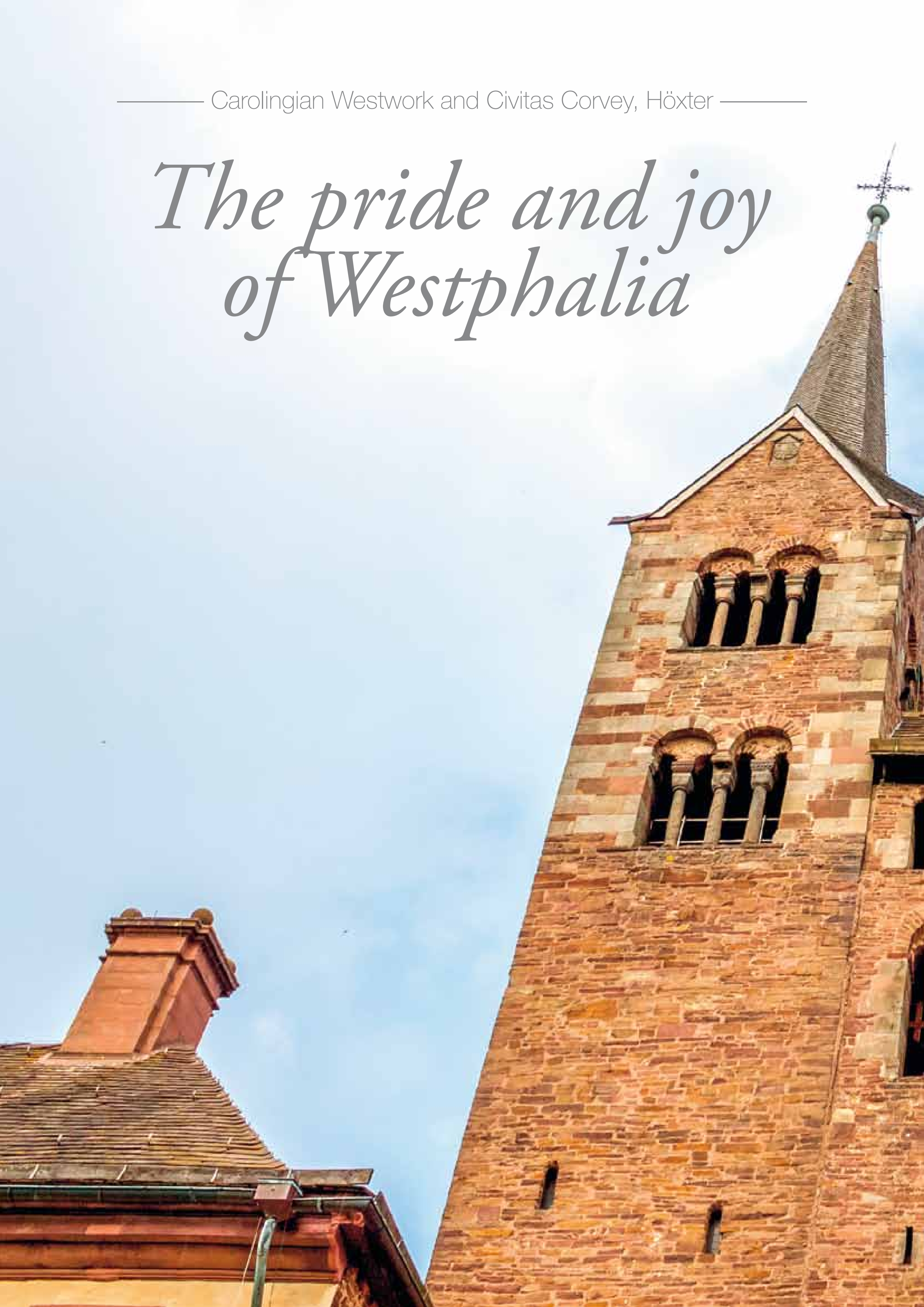
*"Facilitating the ongoing transformation of the Ruhr region, which has its financial challenges, is one of the top priorities for the region's cooperative banks."*

Heinz-Georg Anschott,
Chief Executive Officer, GENO BANK ESSEN eG

Henning Wichart, member of the Board of Managing Directors, GENO BANK ESSEN eG
Hermann Marth, CEO, Zollverein Foundation
Heinz-Georg Anschott, Chief Executive Officer, GENO BANK ESSEN eG
Bernhard Holtmann, divisional manager, member banks, WGZ BANK
(from left to right)

Carolingian Westwork and Civitas Corvey, Höxter

# The pride and joy of Westphalia



**It has withstood the centuries, survived the Thirty Years' War, and is one of the last vestiges of Carolingian architecture from the 9th century: the UNESCO World Heritage Carolingian Westwork and Civitas Corvey in Höxter. This abbey that was once independent from all territorial lordship bar that of the Emperor alone has proved to be as strong, steadfast, and successful as the people and economy of Westphalia itself.**

Understated is a word that is often used to describe the Westphalian people. And it can also be applied to the westwork of Corvey, located on the Weser river in the present-day town of Höxter. Modest, plain, and protective on the outside, but noble, majestic, and full of dignity on the inside, the building is one the last vestiges of Carolingian architecture from the 9th century. Large parts of the medieval structure remain intact and in June 2014 it was added to the list of UNESCO World Heritage sites.

The UNESCO committee gave the following justification for its decision: "The Westwork

of Corvey in Höxter on the River Weser is one of the few Carolingian structures of which the main parts have been preserved, and the only example of a westwork building from that time still standing. It combines innovation and references to ancient models at a high level. As a building type it has considerably influenced western ecclesiastical Romanesque and Gothic architecture."

The former Benedictine abbey was the 39th property to be added to the list of World Heritage sites in Germany – and the first in the Westphalian part of the federal state of North Rhine-Westphalia. For Corvey and for the surrounding Weserbergland and Westphalia regions, World Heritage status will bring greater attention and visitor numbers and raise the profile of the entire area.

Some 1,200 years ago Corvey Abbey represented a quantum leap in architecture. “But it was much more than that, and so it is high time that the site joins the ranks of outstanding sites of cultural heritage,” says Germany’s Minister for Foreign Affairs, Dr. Frank-Walter Steinmeier. “Corvey is one of those places that makes us aware of where we come from, on whose shoulders we are standing and where mankind made the huge leaps forward that have become part of our common identity.”

As an imperial monastery, Corvey was one of the most influential abbeys in Franconia. A life of faith and evangelism was practiced here on a bow in the Weser river. The foundations of the Carolingian abbey church were laid in the year that the abbey itself was established in 822: It was to be a triple-naved basilica with a square chancel and adjoining chapel. The basilica was finally consecrated in 844 after undergoing several transformations and extensions.

## *Mixed fortunes during the 30 Years’ War*

Between 873 and 885 a three-tower structure was built that in the 12th century was converted to the twin-tower facade that stands to this day. In subsequent centuries the westwork underwent several more transformations. The late-Gothic spires were added in around 1600 under Prince Abbot Theodor von Beringshausen (1585 to 1616). Sadly the Carolingian church and the adjoining abbey buildings were not spared the devastation wrought by the Thirty Years’ War. The church was demolished in 1665, only to be replaced a few years later by today’s baroque structure. In 1699, under Prince Abbot Florenz von dem Felde, Corvey began to be rebuilt as both a Benedictine abbey and baroque residence, which is why from the beginning of the 18th century it was also known as Corvey Palace.

These turbulent times were much kinder to the magnificent westwork. Despite having undergone many changes down the centuries, it still provides an authentic insight into the original architecture. An inscription dating from the time that the abbey was founded refers to Civitas Corvey, the ‘city’ contained within the old abbey walls near the westwork. Historians have discovered that Corvey was of great

political, spiritual, and economic importance in the Christian world of the time.

In its heyday from the 9th to the 12th century, the Benedictine Abbey of Corvey was a beacon, a milestone in Europe's conversion to Christianity and the emergence of the Occident as we know it today.

## *Home of 'hidden champions'*

To this day the East Westphalia-Lippe region plays an important role within Germany, not least because of its economy. A large number of export-focused SMEs are based here, including several 'hidden champions'. Many of them rely on the expert banking services of Volksbank Paderborn-Höxter-Detmold eG, which is the number one local cooperative bank in East Westphalia-Lippe. The bank is not only a regional giant but is also one of the biggest cooperative financial institutions in Germany: It has more than 230,000 customers, well over 100,000 members, total assets of almost 5 billion, 860 employees, and nearly 90 sites. "The turbulent history of the westwork and Civitas Corvey teach us how important it is to act in accordance with values. Core values, whether cultural or economic, will stand the test of time," says Rudolf Jäger, member of the Board of Managing Directors of Volksbank Paderborn-Höxter-Detmold eG.

**Website:**
www.schloss-corvey.de

*"The turbulent history of the westwork and Civitas Corvey teach us how important it is to act in accordance with values. Core values, whether cultural or economic, will stand the test of time."*

Rudolf Jäger,
member of the Board of Managing Directors, Volksbank Paderborn-Höxter-Detmold eG

Josef Risse and Josef Kowalski, members of the Council of the Church of St Stephen and St Vitus in Corvey
Dr. Hans-Bernd Krismanek, parish dean
Rudolf Jäger, member of the Board of Managing Directors, Volksbank Paderborn-Höxter-Detmold eG
Michael Kleist, member banks representative, WGZ BANK
(from left to right)

# Cooperative values in human resources activities

**Cooperative values not only provide the cornerstones of our business model, they also infuse our entire corporate culture. They form part of our corporate philosophy and are put into practice, guiding our day-to-day activities. Under the banners 'Taking the lead together', 'We actively seek collaboration', and 'We operate sustainably', traditional cooperative values such as solidarity, partnership, and a focus on local roots are integrated into the corporate objectives of WGZ BANK. These values are also reflected in our employer brand 'Closer'. One of the objectives of our HR strategy is therefore to ensure that these cooperative values continue to be embodied in the personal experience of both customers and employees – just as they have been at WGZ BANK for more than 130 years.**

## Working environment

### Control over working hours

In 2015, the HR department and the employees' council jointly initiated new company agreements covering the recording of working hours and the use of flexitime. The introduction of a traffic-light model allows all employees to manage their own working hours independently, depending on the volume of work required. During busy periods, employees may – within certain bands – accumulate working hours in credit, which they are then specifically encouraged to use up flexibly and as soon as possible in quieter periods. Initial analyses have shown that this new way of managing working hours has been well received and employees are using up working hours credits by taking time off promptly significantly more than under the previous arrangements.

### Focus on health

Remaining healthy leads to wellbeing and efficiency. For many years now, occupational health management at WGZ BANK has included a large number of internal opportunities for sport, relaxation, and massage, and the range was extended again in the year under review. Outside the bank, a WGZ BANK team participated for the first time in the Düsseldorf Stadtradeln cycling event, covering an impressive 8,986km over three weeks and achieving a respectable 7th place. Among the healthcare activities provided by WGZ BANK in 2015, the colon cancer screening program was particularly appreciated by staff. Around 500 employees and their family members made the most of this opportunity supported by the bank.

**Ties that bind**

The cooperative virtues of solidarity and partnership regularly come to the fore at WGZ BANK, particularly on those special occasions in a working life, such as long-service anniversaries or milestone birthdays for age fifty and beyond. Despite the pressures of day-to-day activities, we are happy to devote time to employees celebrating these events because automatic long-term employee commitment and loyalty is now very much a thing of the past. We also include WGZ BANK retirees in these activities alongside current employees. Joint excursions for former employees in the Rhineland and Westphalia are a long-established tradition. For example, on August 10, 2015, 66 retirees of WGZ BANK went on a trip to the Zollverein Coal Mine Industrial Complex in Essen and were able to experience this UNESCO World Heritage site at first hand.

## Professional development in line with cooperative values

**Skills model**

Employees and managers rightly expect today's employers to support them in their personal development, an important component of which is lifelong skills training and enhancement. Most of this professional development takes place as part of daily work in which individuals learn to cope with diverse and challenging tasks, a process for which the employees and managers also share responsibility. If they are to attain ambitious targets together, one of the key requirements is regular, appreciative feedback, which can then be used as the basis for constructive collaboration. Such collaboration must cover not only what is to be done, but also how it is to be achieved. How should this feedback occur? How can an individual's current level of personal development be ascertained and future potential be explored?

To enable these questions to be answered in a meaningful way, the senior management, the members of the employees' council, and the HR department have worked together in close cooperation to develop a skills model. This model describes seven core competencies relevant to the success of the bank: a focus on customers and sales, a focus on financial performance, specialist expertise, strategic expertise, strength in innovation and change, team leadership, and ability to collaborate. The bank's long tradition of cooperative values gives rise to other perspectives that need to be taken into consideration, namely virtues such as reliability, community spirit, and acceptance of responsibility. For this reason, these aspects have also had an impact on the design of the skills model and its various levels. Each skill level builds on the previous level and describes, specifically and succinctly, the requirements for the conduct and attitude of employees and managers. In this way, the use of the skills model specifically supports the dialog between employees and managers, within which an individual's current level of personal development can be determined both pragmatically and on a differentiated basis. This in turn then furnishes a clearly defined starting point and focus for the professional development of the individual concerned. The skills model can also assist in the recruitment process and in identifying talent or potential successors.

**Specific advancement of women**

One of the key professional development tasks at WGZ BANK is to nurture high-potential employees. Regardless of gender, our employees are supported in their individual career development using a needs-based and target-group-oriented approach. Since 2013, the existing development activities have been complemented by a program tailored to the specific requirements of women. In 2015, a further component was added to the special professional development offering and enhanced childcare support with the introduction of a network meeting, allowing female employees with high potential to obtain guidance regarding their future career path.

**Key professional development figures**

The total expense on skills training in 2015 amounted to €1,230,000 (2014: €1,060,000). The average training expense per employee in 2015 therefore amounted to €916 (2014: €818). Reasons for the increase in the training expense included the growth in regulatory requirements and the expansion of professional development in sales.

In 2015, we also invested €165,000 (2014: €151,000) in the further development of managers as part of the 270° feedback project. Taking into account these expenses, the professional development of managers accounted for 28 percent of total training costs (2014: 40 percent). This year-on-year decrease was attributable to the fact that fewer managers took part in special management seminars in 2015 compared with the previous year.

## Staff recruitment and support

### Vocational training and university marketing

True to the cooperative values of partnership and regionality, WGZ BANK focuses its trainee recruitment activities on North Rhine-Westphalia. In 2015, we stepped up our long-standing collaborative relationships with the Theodor-Fliedner-Gymnasium in Düsseldorf, the Gymnasium St. Mauritz in Münster and with the Universities of Duisburg-Essen and Münster. We also presented ourselves as an employer of choice to prospective graduates at the Absolventenkongress in Cologne and at the graduate job fairs held at the Universities of Düsseldorf and Münster. To make contact with prospective candidates for vocational training at the bank, we attended the Einstieg, Horizon, and Vocatium school careers fairs in Cologne, Münster, and Düsseldorf respectively. A number of young people have found their way to WGZ BANK via these routes and are now permanent members of our team.

Another important cornerstone of the strategy to recruit trainees is our range of high-quality internships and student employee opportunities, which we can use to attract and retain young graduates at an early stage.

Corporate social responsibility at WGZ BANK also forms part of our marketing activities. For example, we help to provide career guidance for some 250 young people at four Düsseldorf schools as part of the Berufsnavigator program at the schools concerned. The program consists of a scientifically evaluated system that identifies skills and offers vocational guidance. At the one-day Berufsnavigator event, the participants complete a number of modules, such as a self-assessment, third-party assessment, and strengths profile. At the end, they can compare their personal skills profile electronically against more than 300 job profiles.

Social responsibility was also demonstrated by our vocational trainees and trainees on our integrated study and work experience program. As part of a community involvement day at a Düsseldorf childcare center, they helped the children, who are aged between two and six, tidy up the grounds after the winter and introduce some fresh, bright colors by planting flowers.

**Trainees at WGZ BANK**

In the year under review, 30 young people joined our trainee programs to begin their careers. The 2015 intake included seven general banking, seven trainees on our integrated study and work experience program, i.e. trainees who are simultaneously undertaking studies at the FOM University of Economics & Management in Düsseldorf and undergoing Chamber of Industry and Commerce banking training, and one information technology trainee. The other academic trainees comprised eight general management and seven specialist management trainees.

In January, nine trainees passed their final banking examinations at the Chamber of Industry and Commerce, where a further trainee also passed his information technology examinations. All the trainees were then transferred to permanent salaried positions at the bank. In February, our first two trainees on our integrated study and work experience program graduated with bachelor's degrees and were also given permanent contracts. Out of all the trainees, ten general management trainees and four specialist management trainees found suitable positions at WGZ BANK on completion of their training programs.

**WGZ BANK as an employer**

WGZ BANK has successfully maintained its position in the market since 1884. What is the secret of this success and what kind of individual is the right person for us? Three new corporate films attempt to provide answers to these questions by offering an insight into day-to-day activities at WGZ BANK and the tasks involved. Once again, cooperative values are at the heart of the story. Sustainability and collaboration are what set WGZ BANK apart, whether in its dealings with customers, employees, or resources. We are looking for individuals who share our values, who are happy to take on responsibility and contribute their skills to our organization.

## A strong team

At the end of 2015, WGZ BANK had 1,109 full-time employees (end of 2014: 1,081) and 229 part-time employees (end of 2014: 211), including 39 trainees (end of 2014: 31). The total number of employees was therefore 1,338.

# Sustainability at WGZ BANK

**There were once again plenty of negative headlines in the financial sector in 2015, with manipulation of interest rates, aiding and abetting of tax evasion, and legal disputes to the fore. This unsettles customers and banks suffer a massive loss of reputation. The calls for financial institutions to become more socially and environmentally responsible are becoming louder, with sustainability coming under the spotlight.**

As a cooperative institution, WGZ BANK has long held the firm belief that economic, social, and environmental objectives must be consistent with each other. In our view, one of the key requirements to achieve this is that we must be close to the customer, both geographically and personally. At all times, we focus on maintaining fair, partnership-based relationships with our customers with the objective of attaining mutual, long-term success.

For many years now, this self-image has been reflected in WGZ BANK's corporate philosophy. Other rules and regulations at the bank, such as the code of ethics and conduct developed in 2013, underscore the customer-focused advisory and relationship management approach. The code of ethics and conduct lays down a framework in which giving preference to the bank at the expense of customer interests is not tolerated. WGZ BANK's corporate philosophy and code of ethics and conduct together form a binding set of rules to ensure that the conduct of all employees toward customers, business partners, and colleagues is based on integrity.

In 2015, principles for corporate banking at WGZ BANK were drawn up on the basis of the existing guidelines and then approved by the Board of Managing Directors. These principles describe the core values we apply when dealing with our own corporate customers and when acting in cooperation with our member banks and their customers. The principles are also important in syndicated business involving third parties.

The new corporate banking principles at WGZ BANK confirm that we adopt a holistic relationship management approach and do not pursue product sales. Pricing must be competitive, appropriate to the expense involved, and adjusted in line with risk. The customer benefits from transparent contractual information: Terms and conditions, including those for credit facilities, are stated openly; there are no hidden payments to third parties.

These and other internal regulations safeguard the quality of corporate governance. Responsible corporate governance together with other topic areas are the subject of numerous sustainability ratings.

For some years now, the three independent sustainability rating agencies – oekom research, Sustainalytics, and imug – have been assessing the sustainability performance of WGZ BANK.

## Sustainability ratings for WGZ BANK

Independent sustainability rating agencies assess the extent to which the economic activities of businesses are sustainable. Three prestigious sustainability rating agencies (oekom research, Sustainalytics, and imug) regularly assess WGZ BANK and have judged the bank to have above-average social and environmental performance.

Oekom corporate rating for the WGZ BANK Group: Prime investment status – grade C

Sustainalytics rating for WGZ BANK: Score of 71

imug rating for WGZ BANK: Uncovered Bonds: neutral (CC)

In February 2015, the WGZ BANK Group was again awarded prime status by oekom research in its corporate ratings. This status is awarded by oekom research to those organizations that meet the minimum sector-specific requirements and are found to be among the leaders in their sector when the corporate ratings are assessed. The prime logo demonstrates that the bank has been adjudged to be above average in terms of environmental and corporate social responsibility.

## Sustainability-related financing and services

### Lending business

WGZ BANK only extends loans when there is a good balance between environmental, social, and financial factors. All loan applications are therefore reviewed in terms of the environmental and socio-economic impact of the planned investment as well as from the perspective of the long-term financial stability of the business model and the integrity of the shareholders and management team.

The review of loan applications is based on the internal sustainability principles for lending. These are derived from the ten principles of the UN Global Compact covering the areas of human rights, labor standards, the environment, and anti-corruption. WGZ BANK has been participating in this program, which is the world's foremost voluntary initiative in the area of corporate social responsibility, since as long ago as 2008.

WGZ BANK's sustainability principles also generally ban the financing of transactions linked to:

- breaches of human rights (particularly exploitative child labor and human trafficking);
- military goods, specifically weaponry and arms deals outside NATO or in areas of tension if the proportion of production or supply outside NATO is substantial;
- pornography and similar sectors, such as prostitution;
- betting and gambling sector, apart from prize-linked savings account schemes that include a charitable donation because they have a positive business model from a sustainability perspective.

Compliance with the sustainability principles is reviewed quarterly as part of the credit risk management system at WGZ BANK. In 2015, these reviews did not reveal any breaches of the principles whatsoever.

The sustainability principles for lending are continuously checked to ensure that they are up to date and are modified, if required. WGZ BANK is a member of the Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (VfU) [German Association for Environmental Management and Sustainability in Financial Institutions] and is actively involved in sharing information on sustainability in the financial sector. In April 2015, WGZ BANK hosted the VfU forum 'ESG issues in lending business'. Around 30 sustainability experts and credit analysts from banks and insurance companies took part.

verein für umweltmanagement
und nachhaltigkeit
in finanzinstituten e.v.

**Finance for renewable energy projects**

By offering its own loans and adopting a leading position in brokering appropriate development programs, the Volksbanken Raiffeisenbanken cooperative financial network is making a key contribution to ensuring that the transformation to renewable energy sources in Germany is a success. For its part, WGZ BANK, in its role as a cooperative central institution and as a commercial and trading bank, is also making a noticeable contribution to the funding of this transition. In 2015, it financed a total of 30 renewable energy projects, comprising 25 wind power and three photovoltaic projects, together with one biomass and one network financing project.

The volume of new business reached a record level of €337 million in the year under review, compared with €226 million in 2014 and €300 million in 2013. A volume of €74.7 million was placed with a total of twelve member banks. Over the past six years, the renewable energies portfolio has increased tenfold from €100 million to €1,000 million.

The 30 renewable energy projects financed by WGZ BANK in 2015 comprised 85 plants with a total rated output of 212.5 megawatts. Of these installations, the wind turbines alone are capable of providing more than 100,000 households with clean electricity. In the future, a further 4,650 households will be supplied with electricity from the three photovoltaics projects financed by the bank, which have a total rated output of 18.826 megawatts.

WGZ BANK expects demand in the renewable energies segment to remain strong in 2016. This forecast is justified on the basis of the current legislative framework and the intention of the North Rhine-Westphalia state government to achieve a significant increase in the proportion of electricity generated from renewable energies. The amendment to the German Renewable Energy Sources Act (EEG), which is currently passing through the legislative process, will include a requirement to issue invitations to tender for all wind projects that receive a building permit after December 31, 2016. This instrument creates the possibility of controlling the volume of additional wind turbines in the same way that photovoltaics have been controlled. As the expansion in the use of renewable energies has advanced more rapidly than intended by the German government, WGZ BANK experts believe that the number of projects in the market will decline from mid-2017 onward.

**Greater demand for development loans to support environmental measures**

The number of development loans brokered by WGZ BANK increased substantially in 2015, driven primarily by the volume of capital investment in renewable energies and energy efficiency. Besides the finance provided for wind turbines, the other main target for commercial development loans was the energy-efficient restructuring of production facilities. In the retail banking sector, investment was concentrated particularly on planning new builds so that they are as energy-efficient as possible from the very beginning and on renovating existing buildings or apartments on an environmentally friendly basis.

WGZ BANK's development finance business in conjunction with the housing construction programs run by Germany's KfW development bank (the two programs focusing on energy-efficient renovation of buildings and construction of new buildings to the German 'Effizienzhaus' or 'Passivhaus' sustainability standards) significantly exceeded the levels achieved in 2014 with the total number of applications reaching 7,996 (up by 2.5 percent) and the total volume increasing to €650.9 million (up by 15.0 percent).

There was also a further year-on-year increase in the bank's business involving the two KfW environmental programs for companies (KfW-Umwelt (environment) and KfW-Energieeffizienz (energy efficiency)): Total applications reached 122 (up by 13.0 percent) with a total volume of €115.6 million (up by 18.7 percent). Businesses use these subsidies to finance projects aimed at significantly improving the environmental position – for example, by saving on materials or avoiding waste water – or at substantially enhancing energy efficiency, for example by using better technology.

The contraction in demand for photovoltaic installations in the last few years as a result of the gradual reduction of the feed-in tariff stabilized again in relation to the development loans brokered as part of the KfW-Erneuerbare Energien (renewable energies) program: The 1,215 development loans brokered in 2015 equated to an increase of 11.5 percent. The wind turbine development business also forming part of this development program likewise grew substantially with the value of applications reaching €327.6 million, a year-on-year rise of 138.5 percent.

The performance of the cooperative banks in North Rhine-Westphalia was just as strong in the market for KfW's largest commercial development programs in terms of numbers of loans: KfW-Unternehmerkredite (company loans) and KfW-Programme Erneuerbare Energien (funding for renewable energies). The cooperative banks continued to maintain their position as leaders in this market in the year under review.

As at December 31, 2015, the share of the market for the KfW-Erneuerbare Energien programs was 40 percent. In the case of the KfW environmental development programs for businesses – KfW-Umwelt and KfW-Energieeffizienz – the cooperative financial network accounted for the highest share of the market in North Rhine-Westphalia at 42 percent. The local cooperative banks in North Rhine-Westphalia also hold a dominant 72 percent share of the market in the KfW-Unternehmerkredit development programs, which provide loans to support general capital investment by SMEs. These significant market shares are testimony to the expertise that the local cooperative banks are able to place at the disposal of their customers in this important area of business.

**Favorable financing terms due to low interest rates on development loans**

Beyond the development loans for environmental projects, development programs run by the federal and state governments in Germany continue to prove highly attractive to investors. In 2015, investors were able to benefit from historically low interest rates and secure favorable rates for long periods. Along with its member banks, WGZ BANK actively helps companies and retail investors to select appropriate development loans and processes the associated applications.

Overall, WGZ BANK once again significantly exceeded the figures it had achieved for development loan applications in the previous year. The volume of applications for public-sector loans brokered and processed by the local cooperative banks in conjunction with WGZ BANK rose by 25.1 percent to almost €3.0 billion. The number of applications was also at a high level and increased by 9.0 percent year on year (25,545 processed applications in WGZ BANK's territory).

The total volume of the development lending portfolio grew by 1.9 percent to €13.9 billion, a new record level. The bulk of this portfolio comprises loans to customers of our member banks; the remainder is accounted for by development loans to WGZ BANK's own corporate customers.

The trends in applications in 2015 can be broken down by commercial, agriculture, and house-building segments. The number of applications for commercial finance declined by 10.8 percent to 3,885 although the volume rose sharply by 31.8 percent to €1.44 billion. A significant proportion of these applications – albeit with a downward trend – continued to be accounted for by development loans related to renewable energies (photovoltaics, wind power, biomass, heat grids) as well as to other environmentally-related capital investment.

There was a sharp increase in the demand for development programs aimed at business start-ups. Specifically, the bank processed 1,699 applications for business start-up and consolidation support in 2015, up by 8.8 percent compared with 2014. The volume amounted to €279.0 million, an increase of 32.0 percent.

Following the decline in the use of development program loans from Landwirtschaftliche Rentenbank in 2014, this business registered significant gains again in 2015. The drivers were financing under the LR-Energie vom Land (energy from the land) program, which supports capital investment to generate, store, and distribute bioenergy, and a special liquidity support program for livestock farmers, which once again stimulated additional demand from farmers at the end of 2015. Overall, the number of applications in 2015 grew by 20.3 percent to 2,812, with total volume increasing by 21.0 percent to €402.3 million.

The performance of the house-building development finance business with retail customers also significantly exceeded the level achieved in 2014. Growth was particularly strong in the housing programs for energy efficiency projects and in the KfW-Wohneigentumsprogramm (home ownership). The development programs for retail customers are particularly attractive because of their extremely low interest rates fixed over long periods. The cooperative banks in WGZ BANK's territory brokered a total of 18,848 house-building development loan applications in 2015, equating to year-on-year growth of 12.6 percent. The total volume of these development programs rose by 18.8 percent to €1.1 billion.

A key objective of WGZ BANK is to sustain, and ideally continue to consolidate, the market-leading position and substantial degree of expertise held by the Volksbanken Raiffeisenbanken cooperative financial network in this important area of finance. WGZ BANK therefore supports its member banks by offering information, advice, and training. It also provides appropriate information materials for development loan advisory meetings with corporate and retail customers. Additionally, WGZ BANK development advisors are available for joint financing meetings.

Together with the BVR, WGZ BANK and DZ BANK have created a component for use in advisory and relationship management approaches as part of the corporate customer marketing concept. This component is referred to as the 'energy efficiency customer approach strategy' and is complemented by the VR-EffizienzKredit marketing campaign. Local cooperative banks can use this strategy to position themselves as a provider of impetus for energy efficiency projects, offering their corporate customers and potential new customers guidance when faced with the vast array of development options. SMEs are the primary target group in this strategy. In meetings with them, the corporate customer advisor can introduce ideas on how to use energy and resources efficiently. This will help the business cut costs and increase competitiveness. Environment-oriented approaches cover improvements to buildings, machinery, and inhouse production processes.

The aim is also to help corporate customers find an experienced energy consultant and apply for advisory and capital investment subsidies and/or reduced-interest development loans. The energy consultant identifies weaknesses in the business and draws up proposals for realizing potential efficiency gains. The customized financing arrangements are provided by the member bank. Where required, WGZ BANK development loan advisors will assist the local cooperative bank concerned with the implementation of the customer approach strategy.

Five years ago, WGZ BANK launched a development award known as the No. 1 VR Development Bank of the Year prize to recognize particularly successful development business activities. The prize is awarded to the three member banks (in their respective size categories) that have submitted the most development loan applications to the development banks through WGZ BANK. The winners of the development award in 2015 were Raiffeisenbank Kehrig eG, Volksbank Halle/West eG, and Volksbank Rietberg eG. This prize emphasizes the key role of the local cooperative banks as the first port of call for customers seeking tailored, affordable capital investment finance in all segments.

**Finance for social-purpose real estate and green buildings**

The proportion of WGZ BANK's real estate finance projects that had a sustainability aspect increased slightly to 11.75 percent as at December 31, 2015 compared with 10.37 percent at the end of 2014. The portfolio of sustainability-related real estate finance includes social-purpose real estate (retirement and care homes, assisted living facilities, schools, universities, children's daycare centers, and hospitals) and 'green buildings' that meet the highest efficiency and environmental standards.

## Corporate environmental protection

In the year under review, corporate environmental management activities again reduced resource consumption and carbon dioxide emissions at WGZ BANK.

In 2015, WGZ BANK managed to cut its electricity consumption for the sixth year in succession. Usage was down by a total of 183,301 kilowatt-hours, equating to a year-on-year reduction of 3.1 percent. The energy savings were mainly attributable to more efficient use of building technology.

District heating consumption rose by 81,600 kilowatt-hours or 2.1 percent in the reporting year. As the weather has a significant impact on district heating consumption, a weather-based adjustment needs to be applied to the figures. After adjustment, district heating consumption actually fell from 2014 to 2015 by 510,848 kilowatt-hours, corresponding to a decrease of 10.8 percent.

Water consumption at WGZ BANK fell by 678 cubic meters or 4.4 percent in 2015, the fifth annual reduction in a row. One of the contributing factors was the use of intelligent water pumps. In addition, efforts to raise awareness among employees led to even greater care in the use of this precious commodity. Consumption savings were achieved particularly in the bank's own staff cafeteria and kitchens.

Paper consumption in 2015 was down by 7,368 kilograms, which equated to a decline of 15.6 percent. This improvement was largely down to the optimization of the printer concept: Device types were standardized, multifunction products were set up centrally, and the overall number of printers was reduced. The fall in paper consumption meant that the amount of toner used by the bank also declined markedly.

The amount of recyclable waste dropped by 27,875 kilograms (13.4 percent) in 2015, but the volume of non-recyclable waste was held at the same level as in 2014, helped by regular checks on the actual fill levels of non-recyclable waste containers.

The further cut in electricity consumption combined with additional improvements made by the contracted energy suppliers so that their energy mix included a greater proportion of renewable energies led to a reduction of 264,906 kilograms in the bank's carbon dioxide emissions in 2015, equating to a year-on-year decrease of 9.9 percent. WGZ BANK therefore significantly exceeded its target of reducing its operations-related carbon dioxide emissions by 5 percent each year in the period 2015 to 2017.

## Environmental data

| | Unit | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Electricity consumption | kWh | 5,666,276 | 5,849,577 | 6,654,755 |
| per employee | kWh | 4,516 | 4,842 | 5,588 |
| District heating consumption | kWh | 4,002,700 | 3,921,100 | 5,260,500 |
| per employee | kWh | 3,190 | 3,246 | 4,417 |
| Water consumption | $m^3$ | 14,706 | 15,384 | 17,435 |
| per employee | $m^3$ | 11.7 | 12.7 | 14.6 |
| Paper consumption | kg | 39,998 | 47,366 | 52,724 |
| per employee | kg | 31.9 | 39.2 | 44.3 |
| Recyclable waste | kg | 180,475 | 208,350 | 215,980 |
| per employee | kg | 144 | 172 | 181 |
| Non-recyclable waste | kg | 72,796 | 72,796 | 109,194 |
| per employee | kg | 58 | 60 | 92 |
| $CO_2$ emissions | kg | 2,402,501 | 2,667,407 | 3,147,699 |
| per employee | kg | 1,914.7 | 2,208.1 | 2,642.9 |

In 2015, WGZ BANK successfully obtained ECOPROFIT re-certification. WGZ BANK has been an active member of the City of Düsseldorf's ECOPROFIT Club since as long ago as 2012 and therefore benefits from the opportunity to regularly swap experiences with other companies. ECOPROFIT is a Germany-wide project to promote environmental management in companies and municipal establishments. It helps businesses and organizations use their resources more efficiently, minimize operational risk, safeguard jobs, and improve competitiveness. ECOPROFIT's activities are focused, in particular, on saving energy, improving energy efficiency, and encouraging the use of renewable energies. While these activities contribute to reducing carbon emissions, they also help to maintain jobs, strengthen the economic performance of businesses, and improve the quality of life for all.

WGZ BANK also successfully completed the prescribed energy audit in 2015. Such energy audits had to be carried out in entities that are not SMEs by December 5, 2015 under the Energy Efficiency Directive 2012/27/EU, which required mandatory application of this provision in member states.

ÖKOPROFIT®
Düsseldorf 2015
Rezertifizierter Betrieb

## Corporate citizenship

WGZ BANK contributes to society as a proactive and responsible corporate citizen. Its ongoing commitment provides impetus for economic, cultural, and social development in its home region. In 2015, it gave some €860,000 in support of social and arts projects in the region.

### Culture

Since 2010, WGZ BANK has been principal sponsor of Deutsche Oper am Rhein’s opera company as well as its acclaimed ballet ensemble under star choreographer Martin Schläpfer. The support was renewed at the start of 2016 for a further three seasons.

The opera company is committed to developing and training young members of its opera studio. In one of the activities, particularly talented young singers have the opportunity to take part in a masterclass with internationally recognized performers. The class lasts one to two weeks and concludes with a public concert at which the singers can demonstrate their capabilities. WGZ BANK once again hosted one of these concerts in 2015.

Billed as ‘vitalizing the Ruhr area’, the Ruhr Piano Festival runs from mid-April to late July every year and comprises a diverse range of events featuring classical and jazz music, recitals, chamber and orchestral concerts, masterclasses, and *lieder* evenings. Audiences have the chance to listen to some of the world's outstanding performers, including up-and-coming young talent. WGZ BANK has been a sponsoring partner of the Ruhr Piano Festival since 1996.

**Art**

WGZ BANK established its art collection back in 1984, focusing on contemporary art with particular links to its home region. Alongside the collection, WGZ BANK has been holding exhibitions since 2004 to promote the latest works from young graduates and *Meisterschüler* (master students) from the Düsseldorf Arts Academy and the Academy of Fine Arts Münster.

WGZ BANK has adopted a professional collection management system with a long-term focus on the two key areas of the collection itself and artist promotion. The strategic concept underlying WGZ BANK's art collection is to provide employees, the general public and, not least, future generations with an insight into contemporary art, especially the evolution of modern art since the 1980s. In the autumn of 2015, WGZ BANK hosted a sponsored exhibition with the title 'Ferocious and gentle', the bank's seventh such exhibition to date in its 'Contemporary Art' series. Held in WGZ BANK's large convention hall in Düsseldorf, the exhibition comprised a total of 136 works produced by 14 talented young artists from the Academy of Fine Arts Münster. A comprehensive exhibition catalog provided information on the artists and their works, comprising paintings, graphic art, sculpture, and photography. The general public is given free entry to these exhibitions promoting young artists and the events have attracted steadily increasing numbers of visitors. As in previous years, WGZ BANK employees were able to attend a preview and were also offered tours of the exhibition. On the day prior to the opening proper, employees were given exclusive access to the exhibition, with artists and curators in attendance.

**Initiative prize**

WGZ BANK and the North Rhine-Westphalia newspapers in the Funke media group (Westdeutsche Allgemeine Zeitung (WAZ), Neue Ruhr / Neue Rhein-Zeitung (NRZ), Westfälische Rundschau (WR), and Westfalenpost (WP)) awarded the NRW initiative prize for the eighth time in 2015. With total prize money of €30,000, this award is aimed at predominantly family-run small and medium-sized enterprises in North Rhine-Westphalia. Awards were made for outstanding contributions in the categories 'Green technology and environmental protection' and 'Corporate social responsibility'.

First prize went to Bochum-based defakto GmbH for its exceptional level of corporate citizenship. The company offers various projects for training the long-term unemployed and helping them to find jobs. These initiatives based on drama education methods form part of an integration program known as Arbeit, Rat & Tat (ART) (work, help and advice) and are operated in a successful collaboration with job centers run by the German Federal Employment Agency. The ART projects have been designed for various social groups. Their special feature is the production of a play, which is then performed before potential employers.

Second place went to Buhl-Paper-Form GmbH based in Burbach, which was particularly outstanding in the category 'Green technology and environmental protection'. This family business produces molded fiber products from waste paper and offers customized packaging solutions for companies in almost all industries. Production is environmentally friendly because recycled paper is used and no binding agents or chemicals are added. Buhl also has very energy-efficient production facilities that have been modified to cut energy consumption and carbon dioxide emissions considerably.

Essen-based company Knappmann GmbH & Co. Garten- und Landschaftsbau KG was awarded third prize for its corporate citizenship. Together with five other landscape gardening and design firms, the company founded ecoverde Essen GmbH, which has been a wholly owned subsidiary of Knappmann since 2011. The objective of ecoverde is to enable people with disabilities to obtain employment in the primary labor market and work alongside people without disabilities. Today, six individuals with physical disabilities or learning difficulties work at Knappmann's sites or at their own sites under the guidance of non-disabled staff. There are now six ecoverde integration businesses in North Rhine-Westphalia with over disabled 40 employees.

**Ruhr Initiative Group**

Since 1996, WGZ BANK has been an active member of the Ruhr Initiative Group, an association of around 70 leading commercial organizations. The objective of the Ruhr Initiative Group is to promote growth in the Ruhr area, enhance its competitiveness, and strengthen its future viability. Back in the 1990s, the group launched the 'Dialog mit der Jugend' (Dialog with young people) project to give young people an insight into the world of business and this has now developed into a key component of the curriculum at many schools. Before the young people meet business leaders, the discussions, which form part of an integrated content approach, are prepared as efficiently as possible in advance through visits to the school. WGZ BANK has been taking part in the 'Dialog mit der Jugend' project for around ten years.

In 2015, around 70 seniors from the high schools Carl-Humann-Gymnasium in Essen, Gesamtschule Mülheim-Saarn in Mülheim an der Ruhr, and Evangelische Gesamtschule in Gelsenkirchen-Bismarck discussed topical business and financial issues with Dr. Christian Brauckmann, a member of the Board of Managing Directors of WGZ BANK. Topics covered included the possible consequences of the Greek elections for the countries in the eurozone (such as a debt haircut), the ECB's bond-purchase program, and other consequences of the financial crisis. The challenges faced by the banking industry in the form of the persistently low interest rates and excessive regulation were also discussed. The participants also showed particular interest in the responsibilities of a member of the Board of Managing Directors and the range of job and training opportunities offered by WGZ BANK. To conclude the event, an equity market strategist at WGZ BANK gave the seniors a detailed insight into the work of a capital markets analyst.

sozialgenial
Schüler engagieren sich in Nordrhein-Westfalen
Eine Initiative der WGZ BANK Die Initiativbank

**sozialgenial**

Since 2009, WGZ BANK has supported the 'sozialgenial. Schoolchildren get involved' initiative. The 'Aktive Bürgerschaft' foundation, a competence center for civic engagement, sponsors the initiative. In this project, young people learn that it pays off – both for society and the individual – to stand up for social causes, show personal initiative, and take shared responsibility. The sozialgenial initiative also promotes education and work opportunities for young people. The concept is based on the principle of service learning, a modern approach that gives schoolchildren the opportunity to combine traditional studies with social responsibility. Since the start of the initiative in September 2009, 66,400 schoolchildren from 552 schools have taken part in 1,750 sozialgenial projects. The participants help senior citizens, read stories to children in preschool, or get involved in environmental protection work with nature conservation organizations. At school, they combine their civic engagement with topics covered in subjects such as politics, German, or biology.

The sozialgenial project aims for a broad-based impact and allows schools to make the most of their regional ties and their individuality. The project promotes the incorporation of service learning into the curriculum and encourages teachers to implement their plans independently. The North Rhine-Westphalia Ministry of Education and Training actively supports the initiative by including it in its list of suitable projects and recommends to school principals and teachers that they participate.

A sozialgenial creative workshop was held in September 2015, enabling teachers, school principals, and school social workers to share information on how schools could further improve the implementation of service learning and best incorporate it into their organizations. WGZ BANK hosted this event, which was also attended by member of the Board of Managing Directors Dr. Christian Brauckmann.

**WGZ BANK Foundation**

The WGZ BANK Foundation, which was established in 2009, focuses on promoting the economic, socio-political, and vocational education of young people as well as supporting training and professional development in economic sciences.

Since 2011, the foundation has aided the Leuphana summer academies, an investment that helps schoolchildren, particularly those requiring additional educational support, to prepare for an apprenticeship or training scheme. This outstanding project run by Leuphana University in Lüneburg offers young people in their final years of secondary school a three-week summer camp plus one year of follow-up support in their home town provided by students. The summer academies are a shining example of putting into practice the fundamental cooperative principle of helping people to help themselves. The aim is for the young people to be able to successfully apply for a training position or job.
A summer academy for young people in the Neuwied region was launched in 2015. The sponsors are the WGZ BANK Foundation and its long-term partner, the Neuwied Employment Agency. In the year under review, the Essen Employment Agency was also persuaded of the merits of the training project. Close collaboration between the WGZ BANK Foundation and the employment agency meant that a summer academy could be offered in the Ruhr area for the first time. The project also attracted a further sponsor in GENO BANK ESSEN.

In the follow-up phases, the young participants regularly meet with their supervisors in small groups and attend workshops on how to handle finances. The workshops involve a game, providing the participants with a fun way of learning why a responsible approach to money is important, both for themselves and the economy. Real life is simulated in various scenarios involving a car dealership, real estate agent, or employment agency. The participants learn to budget with their income and savings using a monthly income and expenditure account.

In 2015, and for the fifth year in succession, the WGZ BANK Foundation invited entries for its sponsorship prize, this year under the tagline 'Strength from knowledge – initiatives that open doors'. Through the prize, the foundation supports the projects of schools, fundraising organizations, local foundations, and other educational initiatives that aim to improve education in socio-political and economic subject areas. The projects are nominated by local cooperative banks in the Rhineland and Westphalia.

First prize went to Der Ziegenmichel e. V., an organization based in Gelsenkirchen, for its initiative 'We do not intend to forget', nominated by Volksbank Ruhr Mitte eG. In this project, Der Ziegenmichel each year takes young people aged between 15 and 18 to visit Buchenwald and Auschwitz on memorial trips lasting a number of days. To foster a sense of responsibility for the project, the young people are involved in the organization of the trips. The content of the trips is prepared in advance to ensure that there is a detailed engagement with the events of the Third Reich. The participants also document the experience together, using art or other media. For example, in 2012 they produced a booklet and a film about Auschwitz, and in 2013 a photographic art project about Buchenwald. The documentation is publicly presented after the trip, allowing the young participants to give their impressions and express their emotions and fears. This approach, combined with discussions between the participants and other people of the same age, is intended to have a multiplier effect, preventing the events of the Third Reich from being forgotten.

The Gymnasium Schloß Neuhaus was awarded second prize for its 'Little guide to etiquette' initiative, having been nominated by Volksbank Paderborn-Höxter-Detmold eG. The 'Little guide to etiquette' came about as a project in 2014 as part of the teaching of law at the school. To make unwritten laws such as ethics, morals, customs, and good behavior more meaningful, they are given a practical dimension to complement the teaching from a theoretical perspective. The project comprises three elements: a competition for all classes in the school, a 30-minute etiquette guide for parents and children, and a 'Be polite' day. The project not only helps to convey subject knowledge but also nurtures values, thereby contributing to the development of a young person's personality. Furthermore, it fosters engagement by young people within their school community and encourages them to assume responsibility.

Third prize was awarded to the 'Training mentors' project nominated by GENO BANK ESSEN eG. This initiative provides mentors each year for young people in year nine at five secondary schools in Essen with the objective of helping them make the transition from school to work until their training is completed. The mentors give their time voluntarily and, among other things, attend seminars to receive intensive preparation for the role. Mentors, teachers, trainers, and the project managers at the sponsoring organization work in close collaboration while the young people are at school and in vocational training. More than 500 mentoring arrangements with over 200 volunteer mentors have been set up since 2000. More than 60 percent of the young people involved have successfully completed their training or will do so in the near future.

**Raiffeisen Association**

The objective of the German Friedrich Wilhelm Raiffeisen Association, which was founded in 2012 with a considerable degree of support from WGZ BANK, is to maintain the intellectual legacy of Friedrich Wilhelm Raiffeisen and to promote the cooperative principle and interpret it for the modern age. Werner Böhnke, chairman of the Supervisory Board of WGZ BANK, is the association's chairman. Three years after it was founded, the Raiffeisen Association has over 250 members, around two thirds of whom are legal entities such as local cooperative banks, companies, and associations.

A particular highlight among a wide variety of activities in 2015 was the gala event held on March 16 in Berlin, at which the cooperative principle was honored as part of the country's intangible cultural heritage. The certificate was presented by Monika Grütters, Federal Government Commissioner for Culture and the Media. The committee of experts acknowledged "the importance of the cooperative principle as a model of civic self-help, self-management, and self-responsibility that is based on cooperation, nondenominational, and open to all interested parties". According to the committee, this principle opened up new opportunities for social involvement to broad sections of the population and to this very day has shown itself to be a very dynamic and influential concept. The ceremony also included presentation of the necessary application documents for the next stage, namely inclusion of the cooperative principle in UNESCO's Representative List of the Intangible Cultural Heritage of Humanity. UNESCO will make its final decision in the autumn of 2016.

In May 2015, the Raiffeisen Association published the second edition of its Raiffeisen Heritage Trail booklet, which provides tourist and historical information accompanied by an insightful overview of the life and work of Friedrich Wilhelm Raiffeisen in the region. In June 2015, the Raiffeisen Association also appeared for the first time at the banking conference of the German local cooperative banks held in Berlin.

## WGZ BANK Group

WGZ BANK Group business volume in 2015: €90.9 billion

Member banks 2015 combined total assets: €198 billion

Number of members in 2015: 3.1 million

### WGZ BANK
Die Initiativbank

**WGZ BANK** has been the central institution to what are now 182 local cooperative banks in Germany's Rhineland and Westphalia regions since 1884. It also has a tradition as a partner to small and medium-sized enterprises in the Rhineland and Westphalia regions and offers tailored financial services to its corporate customers. For capital market partners (banks, institutional customers, major corporate customers), WGZ BANK is a service provider in the money market and in the trading of foreign exchange and derivatives, and also takes an active part in the business of issuing securities and undertaking syndicated transactions. In addition, WGZ BANK acts as a bridge to the international markets for its German local cooperative banks.

**Branches**

| | | |
|---|---|---|
| **WGZ BANK** Düsseldorf | **WGZ BANK** Koblenz | **WGZ BANK** Münster |

### WL BANK

**WL BANK** is the largest subsidiary of WGZ BANK. As a highly competitive mortgage bank, it acts as a strategic partner to the local cooperative banks, the housing sector, and commercial investors, offering a comprehensive range of products for these customer groups. WL BANK is also the center of expertise for public-sector customers within the WGZ BANK Group.

### WGZ Immobilien +Treuhand

**WGZ Immobilien + Treuhand GmbH** is a wholly-owned subsidiary of WGZ BANK. Its real estate services encompass advice and operational support for local authorities, the private sector, and companies in the cooperative financial network in the areas of site development, surveying, and the management and marketing of real estate.

### WGZ BANK
Ireland plc

**WGZ BANK Ireland plc**, headquartered in Dublin, is a wholly-owned subsidiary of WGZ BANK. It is predominantly involved in international capital markets business.

## Domestic long-term equity investments

**Bausparkasse Schwäbisch Hall AG**

**Börse Düsseldorf AG**

**CardProcess GmbH**

**Deutscher Genossenschafts-Verlag eG**

**DZ BANK AG**
**Deutsche Zentral-Genossenschaftsbank**

**Fiducia & GAD IT AG**

**Münchener Hypothekenbank eG**

**paydirekt GmbH**

**R+V Versicherung AG**

**Service-Direkt Telemarketing**
**Verwaltungsgesellschaft mbH**

**Union Investment Group**

**VR-BankenService GmbH**

**VR Consultingpartner GmbH**

**VR Corporate Finance GmbH**

**VR Equitypartner GmbH**

**VR ImmoConsult GmbH**

**VR-LEASING AG**

**VR Mittelstandskapital**
**Unternehmensbeteiligungs AG**

**VR-NetWorld GmbH**

**VR VertriebsService GmbH**

## Foreign long-term equity investments

**DZ PRIVATBANK S.A.**
Strassen, Luxembourg

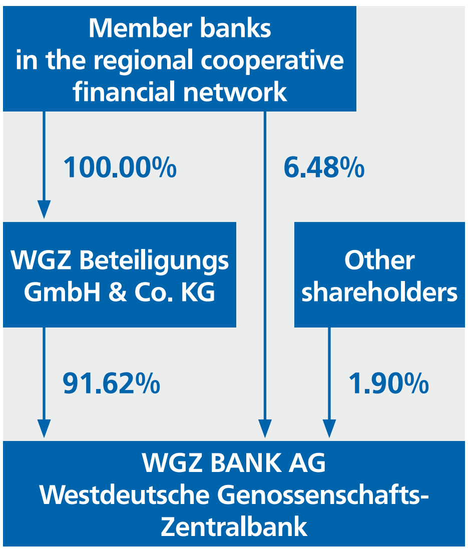
# 2015 management report of WGZ BANK and the WGZ BANK Group

## I. Introduction

Besides WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, the **WGZ BANK Group** consists of WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, and WGZ BANK Ireland plc, Dublin, plus two further subsidiaries. The main operating segments in which the WGZ BANK Group offers products and services are member banks, corporate customers, capital market partners & trading, real estate customers, and public-sector customers.

The parent company WGZ BANK and the member banks constitute the regional cooperative financial network. The member banks are the 182 local cooperative banks in North Rhine-Westphalia, Koblenz, and Trier. One of the main strategic objectives of WGZ BANK is promoting and increasing the competitiveness of the member banks, which are both its customers and its shareholders. WGZ BANK has branches at its Düsseldorf headquarters and in Koblenz and Münster, from where it serves the member banks and other customers.

For the most part, the affiliated member banks have pooled their shareholdings in WGZ BANK in WGZ Beteiligungs GmbH & Co. KG, Düsseldorf. This equity investment company's sole purpose is the management and acquisition of WGZ BANK shares for the member banks. It is obliged to promote the commercial interests of its shareholders – the member banks – and to assist WGZ BANK in fulfilling its duties as set out in its Articles of Association. WGZ BANK's share capital remains unchanged at €714.34 million. The shareholder structure of WGZ BANK as at December 31, 2015 was as follows:



## II. Business activities

**WGZ BANK**

As an initiative-led institution, WGZ BANK sees itself – through the prism of its cooperative banking remit to provide development finance – as a driving force in the development of innovative products, services, and technological processes.

WGZ BANK acts as the central institution for its affiliated local cooperative banks, providing traditional central institution functions in funding business, investment business, payments processing, corporate banking, securities business with customers, and the arrangement of public-sector development loans in its role as a decentralized partner.

Own-account investing activities with the member banks were heavily influenced by the continuing phase of low interest rates and the further growth in regulatory requirements. Despite the customer lending business continuing to flourish, our affiliated institutions' rising liquidity levels meant that they stepped up their investments of cash at WGZ BANK, particularly in the very short maturity bands. WGZ BANK made a conscious decision not to pass on negative market interest rates to this customer group in the year under review. Despite challenging economic conditions, there was an encouraging rise in trading volumes for own-account investing. The volume of investment in own-account investment funds also increased year on year. In the lending business, the level of early repayments for refinancing loans was comparable with the level in 2014. However, the total volume of lending to our member banks held steady compared with the previous year. Demand for our advisory and support services in the area of strategic bank management was very strong. The number of banks concluding an advisory agreement with us for managing their own-account investments rose significantly. In autumn 2015, WGZ BANK conducted its regular survey of the member banks to gauge their satisfaction with its products and services. The affiliated institutions indicated that they were highly satisfied with WGZ BANK overall as well as with the products and services offered and the quality of advice provided.

Payments processing continues to be one of the fastest changing areas of the banking industry. Firstly, this is due to the pace of innovation driven by relentless technological progress in a multimedia world. Secondly, optimization initiatives are required in order to meet the European Commission's high expectations regarding security, reliability, standardization (i.e. the Single Euro Payments Area or SEPA) and, not least, very low prices in the payments processing business.

In 2015, WGZ BANK's payments processing division again successfully dealt with these challenges. Following the smooth migration to the SEPA standards in 2014, WGZ BANK and the local cooperative banks together implemented SEPA Cards Clearing (SCC) without any disruptions.

WGZ BANK made a considerable contribution to the design, development, and market launch of paydirekt, a new payment method for e-commerce transactions. The merchants that participated in the pilot phase were very satisfied with paydirekt, which enables convenient yet extremely secure payment transactions at the virtual point of sale. Nearly all the local cooperative banks in WGZ BANK's territory now offer this product.

WGZ BANK also impressed small and medium-sized corporate customers with its products and services. Corporate customers continue to attach a great deal of importance to the security, reliability, and efficiency of payments processing. One of the major projects in relation to corporate customers that WGZ BANK supported was an international corporate banking initiative.

Handling over 1.4 billion transactions, WGZ BANK remained one of the leading providers of payments processing services in Germany in 2015. The technical infrastructure for the processing of SEPA payments and non-SEPA international payments, which was developed jointly with the cooperative computing center FIDUCIA & GAD IT AG, provided the degree of automation necessary to handle this huge volume while keeping errors to a minimum.

WGZ BANK's payments processing division believes it is well equipped to deal with future challenges, such as those presented by the highly topical trend of digitization.

Despite the many global uncertainties, small and medium-sized enterprises enjoyed good economic conditions overall in 2015. In addition to low energy prices, which reduced companies' costs considerably, the stable job market gave consumer spending a particular boost. Moreover, the weak euro supported export-focused companies in their business with countries outside Europe. Overall, these positive trends outweighed the slowdown in other countries' economies, particularly the emerging markets of China, Russia, and Brazil.

Demand for loans did not receive any stimulus in 2015, and the policy of low interest rates pursued by the European Central Bank (ECB) did not provide any incentives for companies. Many SMEs funded capital investments from their own cash flow and holdings of cash, which we believe are at their highest ever levels. Furthermore, companies are still reluctant to commit to large-scale capital expenditure in view of subdued business forecasts. WGZ BANK's survey of SMEs in autumn 2015 found that sentiment among SMEs was deteriorating again.

Nevertheless, WGZ BANK was able to expand its corporate banking business and gain market share in 2015 – as did the cooperative financial network as a whole. The total volume of corporate lending rose by more than €600 million (increase of 7.5 percent) to €8.8 billion as at the end of 2015. There were also open commitments of €3.2 billion. The foundations for further growth, underpinned by a needs-based, collaborative partnership, have been laid for 2016.

Capital spending by SMEs, particularly on renewable-energy and energy-efficiency projects, led to a sharp rise in the volume of development loans brokered in 2015. Low interest rates, combined with the advantages offered by development loans, also provided a significant boost to the house-building and agricultural segments. As a result, the volume of development loans brokered by the local cooperative banks together with WGZ BANK rose to just short of €3.0 billion, a rise of 25.1 percent compared with 2014. The number of applications processed in WGZ BANK's territory increased by a substantial 9.0 percent to 25,545.

WGZ BANK has always actively helped its member banks with advising on relevant projects involving government-funded loans in order to identify the best products for investors from among the development loans available. This can be seen from the Volksbanken Raiffeisenbanken cooperative financial network's large share of this market. The local cooperative banks, together with WGZ BANK, are, for example, the market leader in North Rhine-Westphalia in the KfW development bank's largest programs for companies in terms of numbers of loans, namely KfW-Unternehmerkredite (company loans) and KfW-Programme für Erneuerbare Energien (funding for renewable energies).

WGZ BANK's development lending volume grew by 1.9 percent to €13.9 billion in 2015.

A number of changes affecting development programs, particularly those for funding private house-building, were announced in spring 2016. However, it can be assumed that these changes will not have any major impact on the generally positive outlook for development programs going forward. This year, for example, WGZ BANK will be sharing its knowledge and media with its member banks in the area of energy efficiency in companies as part of a Germany-wide campaign spearheaded by the BVR that aims to highlight the cooperative financial network's expertise in what is a particularly important issue for companies.

In 2015, WGZ BANK once again successfully acted as a trading bank and corporate bank for its customers despite the challenging markets and central banks' continued policies of low interest rates.

Existing customer relationships were strengthened and new ones were established. It is becoming ever more important to treat partners as equals and to show fairness and respect in order to develop a long-term relationship.

The dominant theme among investors and partners in the capital markets was the increasingly critical situation brought about by low interest rates, growing volatility in the markets caused by political and economic tension around the world and, not least, the rising number of regulatory requirements. Against this backdrop, portfolio diversification and progressive internationalization became more important.

WGZ BANK was able to assist its customers in this regard by providing secondary market liquidity and by supporting various primary market issues. Successful support for a number of benchmark issues is proof positive of WGZ BANK's placing power with German and international investors.

Customer business on electronic trading platforms – for both equity trading and bond trading – was expanded significantly. The number of customer transactions in foreign exchange trading and on the EUREX reached record highs in the reporting period.

WGZ BANK provided ongoing support to the cooperative banks in their securities business with customers, helping them with their competitive positioning. The focus was on signing up new custody account customers and pursuing a multichannel strategy.

Our member banks acquired over 20,000 custody accounts in 2015, an increase of 20 percent on the encouraging corresponding figure reported in 2014. The additional custody accounts generated a volume of approximately €1.4 billion, a rise of around 3.6 percent that outstripped the growth recorded in the previous year of 1.31 percent.

There was a further increase in transactions in 2015. The rise in online brokerage orders was disproportionately strong, with some 35 percent of the total volume of transactions settled through VR-ProfiBroker (2014: 30 percent).

WGZ BANK offers extensive custody services and custodian bank services to banks and institutional clients. Besides managing direct customers' custody accounts, WGZ BANK also performs a custodian bank function for open-ended securities funds and real estate funds and for closed-end physical asset funds in accordance with the German Capital Investment Code (KAGB). Highly specialized add-on services, such as preparing customized asset reports based on various risk calculations and key figures, round off the portfolio that WGZ BANK offers as a professional provider of custody services and custodian bank services.

At the end of 2015, WGZ BANK was the custodian bank for investment fund assets totaling €30.2 billion in 19 mutual and 73 special funds from 14 different fund management companies.

WGZ BANK enters into transactions with related parties in the course of its business activities. All of these were agreed on an arm's-length basis.

**Companies in the WGZ BANK Group**

The largest subsidiary in the WGZ BANK Group is **WL BANK**, which has four sites. It is a partner to the local cooperative banks, particularly in the long-term real-estate loans business. The mainstay of this real-estate finance business is residential property. In line with the WGZ BANK Group's firm focus on the customer, WL BANK is the main account manager for public-sector customers. It predominantly looks after local authority loans business but also public-private partnership projects. WL BANK has access to favorable funding options thanks to its maximum AAA rating from credit rating agency Standard & Poor's for its mortgage Pfandbriefe and public-sector Pfandbriefe.

WGZ BANK uses its network of other subsidiaries to provide its different customer groups with the services they need. **WGZ BANK Ireland plc** conducts the international capital markets business and is the competence center for asset-backed securities (ABSs) within the WGZ BANK Group.

**VR Corporate Finance GmbH**, Düsseldorf, a joint venture with DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK), Frankfurt am Main, provides additional services for small and medium-sized corporate customers, including advice on mergers and acquisitions, structuring, and acquisition finance plus help with finding investors.

Real estate activities in the key areas of site development, structural engineering, surveying, and facility management are carried out by companies in the **WGZ Immobilien + Treuhand Group**.

**Phoenix Beteiligungsgesellschaft mbH**, Düsseldorf, holds long-term equity investments of WGZ BANK.

## III. Business performance of WGZ BANK

The German economy proved robust in 2015, with gross domestic product (GDP) advancing by 1.7 percent. This growth was mainly driven by consumer spending, which was buoyed by lower energy prices and a favorable situation in the German job market. At 2.68 million, the number of unemployed people was below the very low level seen in 2014. The German job market thus sustained its steady upward trend in 2015. Despite increasing economic activity and higher wages and salaries, consumer prices in Germany rose by just 0.3 percent in 2015. Companies in Germany were therefore operating in a strong economic environment last year.

The banking industry continued to be dominated by the negative-interest-rate environment in 2015. Having set a negative interest rate for deposit facilities for the first time in 2014, the ECB lowered the rate even further in 2015 to minus 0.3 percent. In March 2015, the ECB began a bond-buying program that it had announced in January 2015 and, since then, has purchased bonds with a volume of €60 billion each month with the stated aim of bringing the rate of inflation in the eurozone closer to the target of 2 percent. In this regard, the financial performance of the banking industry was again adversely affected by the ECB's expansionary monetary policy and the resulting negative interest rates in 2015. On a positive note, equity markets and bond markets continued to benefit from the ECB's monetary policies in the reporting year whereas the euro depreciated further against the US dollar. Although the banking industry experienced favorable conditions in the capital markets overall, it faced further challenges from growing competition in the retail and corporate banking businesses and the arrival in the financial services sector of competitors from outside the industry. Non-banks increased their foothold in the market for payments processing services, putting yet more pressure on banks' traditional business models and thus making digitization of the banking business an even bigger priority in 2015.

WGZ BANK nevertheless performed well given the aforementioned challenging environment. In fact, it exceeded the very good net income for the year that it had reported in 2014. The main reasons for this encouraging result were the increase in current income and a year-on-year improvement in net allowances for losses on loans and advances brought about by considerable net fair value gains on securities in the liquidity reserve and net fair value gains on loans and advances.

**Results of operations and appropriation of profits**

WGZ BANK's net income in 2015 was satisfactory overall and higher than expected, particularly in light of the operating environment, which remains challenging. We again improved upon what had already been a good result in the previous year. At 48.4 percent, the cost/income ratio remained below the strategic target of 50 percent. The cost/income ratio is the ratio of administrative expenses to the sum of net interest income (including current income), net fee and commission income, net trading income, and other net operating income.

Net interest income came to €165.1 million, a year-on-year fall of €7.9 million. The decrease stemmed from lower early-redemption penalties and the general environment of low interest rates. However, current income from long-term equity investments and shares in affiliated companies increased significantly, climbing by €21.3 million to €137.1 million. Current income increased by a total of €10.9 million due, above all, to larger distributions from Union Asset Management Holding AG and DZ BANK AG. Income from profit transfers totaled €24.2 million, a rise of €10.4 million compared with the prior year. The main reason for this was the year-on-year increase in the allocation of tax from WL BANK, which is reported under profit transfers.

Net fee and commission income came to €110.0 million, a year-on-year decline of €6.5 million. This decrease is due, in particular, to the reclassification to other net operating income/expense of current income and expense from non-trading index credit derivatives pursuant to the new version of IDW AcP BFA 1 in conjunction with IDW AcP BFA 6.

Net trading income amounted to €90.7 million in 2015, which was up on the previous year (2014: €80.5 million) despite challenging economic conditions. No further addition to the reserves pursuant to section 340e of the German Commercial Code (HGB) was necessary in 2015 because the minimum reserves required under the HGB had been reached (2014: addition of €10.0 million).

Administrative expenses fell by 0.5 percent to €238.8 million in 2015. Staff expenses went down by 2.1 percent. Whereas wages and salaries rose due to hiring and salary increases under collective bargaining agreements, other staff expenses decreased as a result of lower expenses for bonuses and reduced liabilities for annual leave and time off in lieu. By contrast, other administrative expenses grew by 1.0 percent to €108.1 million. The average number of employees went up by 36 to 1,278 in 2015. Depreciation expense on property, plant, and equipment and amortization expense on intangible assets amounted to €9.5 million, which was slightly higher than in 2014.

Including the other net operating expense of €9.6 million (2014: €2.1 million), WGZ BANK's operating profit before allowances for losses on loans and advances rose by €10.9 million to €254.5 million. This increase was predominantly attributable to higher current income and profit transfers as well as to an increased level of net trading income.

The level of net allowances for losses on loans and advances improved by a further €9.1 million year on year, representing an overall reduction of €77.3 million in the level of net allowances. Whereas the net amount of fair value gains and losses on securities in the liquidity reserve deteriorated slightly compared with 2014, when there had been reversals of impairment losses, net reversals had a positive effect on the fair value gains and losses on loans and advances.

WGZ BANK generated a net loss from other business of €65.7 million. Of this amount, €75.0 million was attributable to a write-down on the long-term equity investment in DZ PRIVATBANK S.A. and €2.4 million to a write-down on the long-term equity investment in VR Corporate Finance GmbH. A positive contribution totaling €18.3 million stemmed from the sale of some of the shares in R+V Versicherung AG and disposal of the long-term equity investment in Heinsberger Volksbank Aktiengesellschaft in connection with its merger with Raiffeisenbank Heinsberg eG to form Volksbank Heinsberg eG. Fair value gains and losses on securities in the banking book amounted to a net loss of €2.6 million.

After taking into account a tax expense of €91.3 million, net income climbed by €8.3 million year on year to €174.8 million. From net income, the Board of Managing Directors and the Supervisory Board have added €35.0 million to the reserves provided for by the Articles of Association and €20.3 million to other revenue reserves. In addition, the Board of Managing Directors and the Supervisory Board propose to the Annual General Meeting that, of WGZ BANK's reported distributable profit of €119.5 million, €64.3 million be appropriated to pay a standard dividend of €5.00 and a bonus dividend of €4.00 for each of the 7,143,400 no-par-value shares and the remaining €55.2 million be added to other revenue reserves.

As at the balance sheet date, WGZ BANK's total capital ratio pursuant to the Capital Requirements Regulation (CRR) was 17.8 percent (December 31, 2014: 17.9 percent) and its Tier 1 capital ratio was unchanged year on year at 14.3 percent. Taking account of both the appropriation of profits already implemented and the proposed appropriation, WGZ BANK's regulatory own funds amounted to €3.5 billion. This resulted in a total capital ratio for WGZ BANK pursuant to the CRR of 19.1 percent and a Tier 1 capital ratio of 15.3 percent.

The net income reported in 2015 is proof positive of the sustained success of WGZ BANK's business model, even in an exceptionally difficult market environment.

The forecasts made in 2014 are compared with actual business performance in the Outlook section.

**Balance sheet**

The total assets of WGZ BANK fell to €47.8 billion, a decrease of €0.5 billion compared with December 31, 2014.
As had been done for the first time in 2014, derivatives held for trading purposes were netted on a counterparty-specific basis as at December 31, 2015, provided they were concluded under master agreements together with a credit support annex (CSA) with daily exchange of collateral. The netting gives a picture of financial circumstances. For each counterparty, the netting encompasses both the carrying amount of the derivatives and the collateral shown under receivables or liabilities. Similarly, the scope of netting for over-the-counter (OTC) derivatives concluded with the same central clearing partner has been extended to include the collateral.

At €15.4 billion, loans and advances to affiliated banks were largely unchanged compared with December 31, 2014. Loans and advances to other banks totaled €4.6 billion, a year-on-year rise of €1.4 billion. The increase related to loans and advances with maturities of up to three months and to those with maturities of one year or more. Compared with the end of 2014, loans and advances to customers advanced by €0.6 billion to €9.1 billion, primarily in connection with the increase in loans and advances with maturities of more than one year and more than five years.

As at December 31, 2015, WGZ BANK's securities portfolio was slightly larger than it had been a year earlier, increasing by €0.4 billion or 4.8 percent to €8.9 billion. Whereas holdings of bonds from public-sector issuers contracted by €0.3 billion, holdings of bonds from other issuers grew by €0.7 billion. Financial assets held for trading stood at €6.7 billion as at December 31, 2015, a year-on-year decrease of €2.8 billion or 29.7 percent. The reduction predominantly related to bonds, sale and repurchase agreements, and currency derivatives classified as trading securities. The carrying amount of long-term equity investments and paid-up shares in cooperatives plus shares in affiliated companies went down by 2.8 percent to €2.6 billion. This decrease was due, in particular, to write-downs on the long-term equity investment in DZ PRIVATBANK S.A.

In interbank business, deposits from affiliated banks stood at €10.1 billion as at December 31, 2015 and had therefore barely changed from a year earlier. Compared with the end of 2014, deposits from other banks advanced by €1.9 billion or 11.4 percent to €18.6 billion. The increase was attributable, above all, to liabilities repayable within three months and those repayable after more than five years. Amounts owed to other depositors decreased by €1.5 billion to €4.7 billion compared with December 31, 2014.

Debt certificates including bonds declined by €0.6 billion to €6.8 billion. The reason for this contraction was that maturities of debt certificates including bonds were not fully offset by new issues in 2015.

Financial liabilities held for trading were down by €0.3 billion to €2.7 billion as at December 31, 2015.

WGZ BANK's liquidity remained at a comfortable level throughout the reporting period.

## IV. Business performance in the WGZ BANK Group

WGZ BANK's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The group's business performance is influenced predominantly by WGZ BANK and WL BANK, which together make up more than 95 percent of the group's total unconsolidated assets. Individual companies are reported on an unconsolidated basis.

**Financial performance of the group**

In 2015, the WGZ BANK Group's operating profit, which is an important financial KPI for the WGZ BANK Group, rose by 12.6 percent to €346.6 million year on year and was therefore significantly higher than the forecast for 2015. This can primarily be attributed to the positive level of net allowances for losses on loans and advances and a year-on-year improvement in gains and losses on investments. Significantly higher income taxes caused profit after taxes to fall to €201.0 million in 2015, compared with €234.3 million in 2014. Given the challenging market conditions that continued to prevail, this result is satisfactory overall.

The WGZ BANK Group's net interest income including current income from shares and other variable-yield securities and income from long-term equity investments went up by 4.1 percent to €535.4 million. Of this increase, €14.5 million was attributable to current income. Including current income, net interest income advanced by €1.8 million at WGZ BANK and by €5.7 million at WL BANK. The net interest income of WGZ BANK Ireland plc decreased by €4.3 million to €12.2 million.

Net allowances for losses on loans and advances were in positive territory in 2015. They amounted to €10.0 million in the WGZ BANK Group, representing a year-on-year improvement of €33.1 million. This positive trend is mainly accounted for by WGZ BANK, where net allowances for losses on loans and advances improved by €27.7 million compared with 2014.

The net fee and commission income earned by the WGZ BANK Group came to €53.4 million, down by €15.4 million on the previous year. This income statement item decreased as a result of a sharp rise in fees and commissions paid in connection with WL BANK's real-estate loans business. The substantial growth in the volume of new agency and brokerage business caused fee and commission expense to rise by €17.0 million. WGZ BANK's net fee and commission income, on the other hand, was €0.8 million higher than in 2014.

Under IFRS, gains and losses on trading activities in the WGZ BANK Group – which also comprise the marking-to-market of derivatives plus financial instruments voluntarily recognized at fair value – equated to a gain of €141.8 million, a significant year-on-year decrease of €70.1 million. The large gain reported in 2014 had been pushed up by a further easing of the sovereign debt crisis and the uptrend in financial markets. The following table provides an overview of the WGZ BANK Group's exposure to securities of sovereign and subsovereign issuers in Portugal, Ireland, Italy, Greece, and Spain:

| **Dec. 31, 2015<br>€ million** | Notional amount | Cost | Carrying amount (IFRS)[1] | Fair value[1] | Impairment |
|---|---|---|---|---|---|
| **At amortized cost** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ireland | 25.0 | 24.7 | 25.6 | 30.4 | 0.0 |
| Italy | 40.0 | 40.3 | 40.9 | 48.3 | 0.0 |
| Portugal | 45.0 | 45.0 | 46.2 | 52.4 | 0.0 |
| Spain | 269.0 | 269.7 | 278.2 | 326.5 | 0.0 |
| **Total** | **379.0** | **379.7** | **390.9** | **457.6** | **0.0** |
| **Available for sale** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ireland | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Italy | 52.0 | 55.5 | 73.1 | 73.1 | 0.0 |
| Portugal | 160.0 | 141.1 | 179.4 | 179.4 | 0.0 |
| Spain | 55.0 | 53.6 | 69.4 | 69.5 | 0.0 |
| **Total** | **267.0** | **250.2** | **321.9** | **322.0** | **0.0** |
| **Fair value option** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | |
| Ireland | 95.0 | 105.0 | 134.0 | 134.1 | |
| Italy | 642.8 | 646.6 | 857.7 | 857.7 | |
| Portugal | 90.0 | 88.2 | 95.7 | 95.6 | |
| Spain | 223.2 | 221.3 | 243.0 | 243.0 | |
| **Total** | **1,051.0** | **1,061.1** | **1,330.4** | **1,330.4** | |
| **Total** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ireland | 120.0 | 129.7 | 159.6 | 164.5 | 0.0 |
| Italy | 734.8 | 742.4 | 971.7 | 979.1 | 0.0 |
| Portugal | 295.0 | 274.3 | 321.3 | 327.4 | 0.0 |
| Spain | 547.2 | 544.6 | 590.6 | 639.0 | 0.0 |
| **Total** | **1,697.0** | **1,691.0** | **2,043.2** | **2,110.0** | **0.0** |

[1] Carrying amounts and fair values incl. accrued interest.

| Dec. 31, 2014<br>€ million | Notional amount | Cost | Carrying amount (IFRS)[1)] | Fair value[1)] | Impairment |
|---|---|---|---|---|---|
| **At amortized cost** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ireland | 25.0 | 24.7 | 25.6 | 30.9 | 0.0 |
| Italy | 40.0 | 40.3 | 40.9 | 48.3 | 0.0 |
| Portugal | 45.0 | 45.0 | 46.2 | 52.5 | 0.0 |
| Spain | 304.0 | 304.7 | 313.9 | 367.9 | 0.0 |
| **Total** | **414.0** | **414.7** | **426.6** | **499.6** | **0.0** |
| **Available for sale** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ireland | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Italy | 72.0 | 75.9 | 97.1 | 97.1 | 0.0 |
| Portugal | 210.0 | 190.6 | 233.2 | 233.2 | 0.0 |
| Spain | 95.0 | 92.2 | 124.8 | 124.8 | 0.0 |
| **Total** | **377.0** | **358.7** | **455.1** | **455.1** | **0.0** |
| **Fair value option** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | |
| Ireland | 95.0 | 105.0 | 134.8 | 134.8 | |
| Italy | 1,068.3 | 1,110.6 | 1,338.1 | 1,338.1 | |
| Portugal | 135.0 | 133.4 | 143.9 | 143.9 | |
| Spain | 569.5 | 564.2 | 605.6 | 605.6 | |
| **Total** | **1,867.8** | **1,913.2** | **2,222.4** | **2,222.4** | |
| **Total** | | | | | |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ireland | 120.0 | 129.7 | 160.4 | 165.7 | 0.0 |
| Italy | 1,180.3 | 1,226.8 | 1,476.1 | 1,483.5 | 0.0 |
| Portugal | 390.0 | 369.0 | 423.3 | 429.6 | 0.0 |
| Spain | 968.5 | 961.1 | 1,044.3 | 1,098.3 | 0.0 |
| **Total** | **2,658.8** | **2,686.6** | **3,104.1** | **3,177.1** | **0.0** |

1) Carrying amounts and fair values incl. accrued interest.

As at December 31, 2015, the notional amount of the portfolio of securities of sovereign and subsovereign issuers in Portugal, Ireland, Italy, Greece, and Spain was €961.8 million lower than it had been a year earlier. The WGZ BANK Group therefore maintained its strategy of winding down the non-German sovereign portfolio in 2015.

Gains and losses arising on hedging transactions amounted to a loss of €8.0 million in the reporting period (2014: loss of €24.6 million) and mainly related to portfolio hedge accounting used by WL BANK.

Gains and losses on investments improved from a loss of €132.6 million in 2014 to a loss of €108.9 million in 2015. The net loss on investments was primarily the result of impairment losses of €94.7 million at DZ PRIVATBANK S.A. and an impairment loss of €6.0 million on the long-term equity investment in VR Corporate Finance. Gains and losses on investments were also adversely affected by expenses resulting from the repurchase of liabilities of €48.4 million. By contrast, there was a gain of €13.9 million on the disposal of shares in R+V Versicherung AG.

The WGZ BANK Group's administrative expenses rose by €9.1 million to €305.2 million in 2015. This increase was mainly attributable to other administrative expenses and was primarily the result of paying a contribution into the European Single Resolution Fund for the first time in the reporting year.

The average number of employees in the group increased from 1,593 to 1,676.

Including the other net operating income of €2.6 million (2014: expense of €27.3 million), the WGZ BANK Group reported an operating profit before taxes of €346.6 million (2014: €307.9 million).

Income taxes and other taxes totaled €145.6 million in the reporting year (2014: €73.6 million).

After taxes, the WGZ BANK Group's net profit for the year was €201.0 million (2014: €234.3 million).

The forecasts made in 2014 are compared with actual business performance in the Outlook section.

**Consolidated balance sheet**

As at the end of 2015, the WGZ BANK Group's total assets stood at €89.8 billion, a year-on-year decrease of €5.1 billion. The volume of business, which comprises total assets and contingent liabilities, fell by €5.0 billion to €90.9 billion.

The group's loans and advances to banks were down by €1.8 billion to €21.1 billion as at December 31, 2015. The bulk of this decrease was attributable to WL BANK and was caused by, among other factors, a reduction in promissory note loans and collateral. Loans and advances to customers advanced by €1.5 billion to €39.2 billion, a rise that was largely accounted for by WL BANK.

The portfolio of financial assets held for trading contracted by €3.0 billion to €7.0 billion. This was mainly due to the €2.6 billion decrease in financial assets held for trading at WGZ BANK resulting, above all, from a decline in bonds classified as financial assets held for trading and a decline in interest-rate derivatives.

The long-term equity investments and securities portfolio item, which mainly consists of the securities portfolio, went down by €1.5 billion year on year to €20.2 billion. Although this portfolio grew by €0.3 billion at WGZ BANK, WL BANK's corresponding portfolio contracted by €1.9 billion. One of the reasons for the reduction at WL BANK was the strategic winding-down of the portfolio of securities of sovereign and subsovereign issuers in Portugal, Ireland, Italy, Greece, and Spain.

At €35.6 billion, deposits from banks were down by €1.4 billion year on year. This decrease was largely due to a drop in deposits from other banks at WL BANK. In the WGZ BANK Group, amounts owed to other depositors fell by €9.3 billion to €20.5 billion compared with December 31, 2014. Of this decrease, €1.5 billion was attributable to WGZ BANK and €0.6 billion to WL BANK. The decline at WGZ BANK mainly consisted of a sharp reduction in the fixed-term deposits recognized under amounts owed to other depositors.

Debt certificates including bonds increased slightly year on year, advancing by €0.1 billion to €21.3 billion as at December 31, 2015. A reduction of €0.6 billion at WGZ BANK was offset by a rise of €0.7 billion at WL BANK. The decrease at WGZ BANK was mainly attributable to the issued bonds reported under debt certificates including bonds, while the increase at WL BANK related to issued bearer mortgage Pfandbriefe.

The portfolio of financial liabilities held for trading contracted by €1.5 billion to €5.5 billion as at the reporting date. Of this decrease, which was largely caused by a fall in interest-rate derivative transactions, €1.0 billion was attributable to WGZ BANK and €0.5 billion to WL BANK.

Subordinated capital went down by 4.1 percent year on year to €0.7 billion, mainly as a result of an interest-rate-related decrease in subordinated bonds measured at fair value.

The group's equity increased by €0.2 billion to €4.1 billion. This rise is largely explained by the net profit reported for the year. Net non-operating income, which is an additional component of equity, amounted to €97.8 million and mainly related to the long-term equity investments in Visa Europe Ltd. and Union Investment Real Estate GmbH, the sale of which is planned for the first half of 2016. Corresponding effects will be recognized in profit or loss in the separate financial statements of WGZ BANK for 2016. As at the balance sheet date, the WGZ BANK Group's total capital ratio pursuant to the CRR was 15.9 percent (December 31, 2014: 14.8 percent) and its Tier 1 capital ratio was 14.6 percent (December 31, 2014: 13.6 percent). As the interim profit had already been included as at June 30, 2015 pursuant to article 26 (2) CRR, the total capital ratio and the Tier 1 capital ratio were essentially unchanged when the appropriation of profits already implemented and the proposed appropriation were taken into account.

The WGZ BANK Group's contingent liabilities grew by 4.2 percent to €1.1 billion. This change was predominantly attributable to a rise in contingent liabilities arising from guarantees and indemnity agreements.

**Financial position**

The liquidity situation of WGZ BANK and the WGZ BANK Group is stable and remains comfortable. Unencumbered collateral eligible for funding was available at all times as a liquidity buffer to cover the majority of the group's short-term liquidity requirements.

WGZ BANK's liquidity ratio pursuant to the German Liquidity Regulation (LiqV) stood at 2.14 as at December 31, 2015 and was thus well above the regulatory minimum of 1.0. The average ratio for the year was 2.35. This key figure expresses the ratio of cash to payment obligations. The WGZ BANK Group only borrowed funds under the ECB's open-market operations to a limited extent in 2015.

The WGZ BANK Group was able to meet its long-term funding requirements at all times by issuing unsecured bonds and promissory note loans and, in the case of WL BANK, by issuing Pfandbriefe. At group level, total sales in 2015 matched the planned funding volume. Further information on the WGZ BANK Group's liquidity situation can be found in the risk report.

The year-on-year changes in cash flows from operating activities, investing activities, and financing activities are shown in the statement of cash flows in the consolidated financial statements.

**Overall assessment**

WGZ BANK's net assets were largely unchanged year on year. The total assets of the WGZ BANK Group decreased, in particular owing to the reduction in WL BANK's assets. This reduction was deliberate and mainly related to the decrease in the portfolio of non-German securities and promissory note loans. The liquidity situation of WGZ BANK and the WGZ BANK Group remained comfortable during the reporting period. We regard the operating performance of WGZ BANK and the WGZ BANK Group in 2015 as satisfactory overall, especially when all the different aspects and influences are taken into account. Against a backdrop of challenging conditions in the banking industry, the WGZ BANK Group performed well in the reporting year and generated a satisfactory operating profit that exceeded our forecast for 2015. This business performance means WGZ BANK is able to distribute a generous dividend to its shareholders for 2015.

**Events after the balance sheet date**

There were no events of particular significance after the balance sheet date.

## V. Risk report

Risk can arise in the form of credit risk, market risk, liquidity risk, operational risk, and other risk. To control this risk, the WGZ BANK Group has established a comprehensive risk management system as an integral element of strategic bank management and of management of the group as a whole.

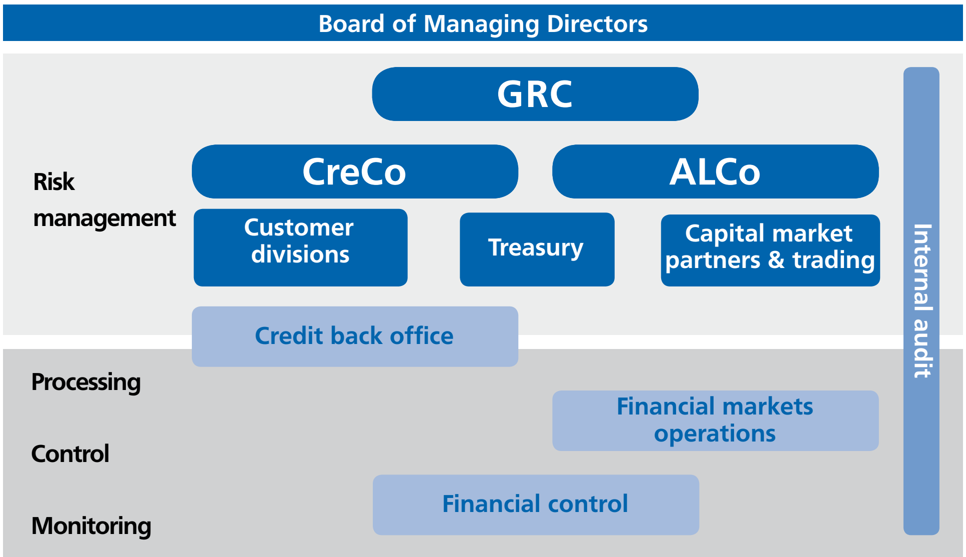
**Risk management system of the WGZ BANK Group**

The Board of Managing Directors of WGZ BANK bears **overall responsibility for the risk strategies and the risk management system of the WGZ BANK Group**. Below this level is the group risk committee (GRC), which consists of members of the Board of Managing Directors and divisional managers at WGZ BANK plus the senior management of the subsidiaries. While the group companies are responsible for their own risk management, the GRC coordinates and monitors the group's risk management activities and the advancement of risk management concepts and processes at group level. The main overarching elements of risk management in the group are therefore the group's risk strategy, the groupwide GRC, and regular risk reporting at group level on the risk-bearing capacity and changes in risk in respect of the main risk types.

WL BANK applies the waiver pursuant to section 2a of the German Banking Act (KWG) in conjunction with article 7 of the Capital Requirements Regulation (CRR) and therefore, as a domestic group company, does not apply the provisions regarding own funds, leverage ratio, risk-bearing capacity, large exposures, receivables from transferred credit risk, and disclosure at individual institution level pursuant to article 6 (1) and (5) CRR. Despite using the exempting provisions under the waiver, WL BANK – as a mortgage bank – continues to comply with the regulatory capital requirements in its internal management and operates its own risk management system aligned with the groupwide risk management methods of WGZ BANK.

The risk management systems of the companies in the WGZ BANK Group are tightly integrated with the risk management system at group level. The decentralized units receive centralized support in the form of methods and tools. These units' compliance with groupwide standards is also monitored centrally. Responsibility for day-to-day risk management is decentralized but subject to the stipulations of the parent company and lies with the group units in which the risk arises. Pursuant to section 25a (1a) KWG in conjunction with AT 4.5 of the Minimum Requirements for Risk Management (MaRisk), WL BANK is fully and consistently integrated into the risk management system – particularly strategic, planning, and risk-bearing-capacity processes – and the internal control system at group level. The structures, methods, and processes in the other subsidiaries are closely aligned with the parent company's risk management system and are set in consultation with the parent company. That is why risk management at WGZ BANK is the focus of this risk report.

Within the risk management system of the WGZ BANK Group and the individual group companies, risk management – in other words, actively influencing risk – is kept separate from other functions (back office and risk control). This separation of functions applies up to Board of Managing Directors level.




Below the Board of Managing Directors and alongside the GRC, there are two **committees** with central responsibility for managing the main risk categories at WGZ BANK. Both committees consist of members of the Board of Managing Directors and divisional managers. The asset liability committee (ALCo) is in charge of managing market risk and liquidity risk, while the credit committee (CreCo) is responsible for the centralized management of credit risk.

The decentralized units that assume and can influence risk are responsible for **day-to-day management of risk**. At WGZ BANK, the treasury and capital market partners & trading divisions are responsible for market risk. Credit risk is the responsibility of the following customer divisions: member banks, corporate customers, and capital market partners & trading. The credit back-office division is responsible for analyzing and monitoring credit risk from the lending business at individual transaction level and from long-term equity investments at WGZ BANK. If there is a long-term equity investment, the usual monitoring required in the lending business is carried out by the long-term equity investment management & client portfolio support department in the central services division. Within the treasury division, the active credit portfolio management (ACPM) unit holds management responsibility and P&L responsibility for the centralized and proactive management of credit risk in WGZ BANK's portfolio. To this end, ACPM assumes the material risk from the traditional customer lending business of the corporate customers and capital market partners & trading divisions. In addition, ACPM has its own exposures in the money markets and capital markets. The treasury division also manages liquidity risk. All of the decentralized units are responsible for managing their own operational and other risk. However, certain subrisks in these categories are primarily managed by central divisions, such as human resources, organization and operations, central services, and legal affairs.

The risk control function pursuant to AT 4.4.1 MaRisk is carried out by WGZ BANK's financial control and planning division. This function is headed up by the divisional manager for financial control and planning, who is also an executive vice president of WGZ BANK. As part of its risk control function, the financial control and planning division independently **quantifies, monitors**, and **communicates risk** and refines the methods used for these tasks. It also monitors credit risk in the WGZ BANK Group's portfolio. The various decision makers and the Board of Managing Directors are kept abreast of the risk position via daily, monthly, and quarterly reports.

The **internal audit** division, which forms part of the bank's internal control system, monitors the propriety and integrity of risk management on behalf of the Board of Managing Directors. Based on an audit plan focusing on the different risk aspects, internal audit regularly audits risk management, reports on its findings to the Board of Managing Directors, and tracks the elimination of any weaknesses identified.

In addition to the various centralized and decentralized organizational guidelines, a **group risk manual** sets out the responsibilities, processes, and methods for risk management in the WGZ BANK Group. Employees can access the manual via the intranet.

Risk management in the WGZ BANK Group and the individual group companies is subject to an **ongoing process of refinement**.

In 2015, WGZ BANK's watch list (a tool for the early detection of credit risk) was fundamentally revised and expanded, in terms of both its content and the underlying technology. A new format for reporting was also introduced. Revising the list has brought it into line with existing management tools at WGZ BANK and provided additional analytical options. Moreover, the technical enhancements have simplified the editing process and the preparation of reports.

Measurement of credit risk was also considerably expanded. Since the first quarter of 2015, borrowers that had previously not been covered are now included in the credit portfolio model. These borrowers are predominantly German public-sector borrowers (Federal Republic of Germany and the federal states including their development banks, local authorities, other loans and advances with a guarantee obligation). The exposure covered by the credit portfolio model therefore rose by the substantial figure of approximately €22 billion (an increase of around 32 percent). However, the credit risk ratios only went up slightly. The reason why the credit risk ratios only increased very modestly compared with the growth of the exposure was that the quality of these additional borrowers' portfolios is very good (excellent credit rating structure, low LGD ratios).

In addition, the project activities aimed at developing processes for estimating loss given default (LGD) were continued in 2015. As before, these activities are focusing on the corporates and real estate segments and will enable internal historical loss data for these segments to be collected systematically.

The calculation of migration risk was also extended in 2015. Previously, migration risk only related to loans and money market transactions, both of which are illiquid product types. To make risk measurement more comprehensive, the bank now calculates not only credit spread risk but also migration risk for liquid product types (bonds, promissory note loans).

WGZ BANK made changes in relation to market risk in 2014 and 2015 in view of the Capital Requirements Regulation (CRR I) and the clarifications made by the European Banking Authority (EBA) in the form of Regulatory Technical Standards (RTS) and Implementation Technical Standards (ITS). In particular, this included adapting the model change policy to Delegated Regulation (EU) 2015/942, extending the validation of the internal model, e.g. to hypothetical portfolios, and placing greater emphasis on policy rules in the validation concept.

In March 2015, the WGZ BANK Group launched the BCBS 239 project for effectively aggregating risk data and reporting on risk. The existing risk reporting processes were reviewed and the resulting analysis was used to develop new concepts in four areas of action: risk reports, IT architecture, data quality, and organization. Work on creating detailed concepts was completed on schedule in 2015. The implementation plan has since been drawn up, too. However, implementation has not yet begun due to the ongoing discussions about the merger with DZ BANK.

In 2015, WGZ BANK underwent two audits pursuant to article 12 of Council Regulation (EU) 1024/2013 and articles 143 to 146 of Regulation (EU) 468/2014 of the European Central Bank. These constituted an audit of risk management in the WGZ BANK Group and a follow-up audit of the IRB rating systems for real estate finance. The final reports on the two audits are not yet available.

**Risk strategy**

As the Board of Managing Directors for the group as a whole, the Board of Managing Directors of WGZ BANK defines a **groupwide risk strategy** that is binding on all group companies. The risk strategy describes the fundamental strategic approach to dealing with risk in the WGZ BANK Group. The subsidiaries flesh out the group strategy with their own strategies that are derived from, and are consistent with, the group strategy.

The material risks in the WGZ BANK Group are firstly the risk types specified in MaRisk: counterparty risk (credit risk), market risk, liquidity risk, and operational risk. In addition, the Board of Managing Directors of WGZ BANK defined reputational risk and equity investment risk as material risks for WGZ BANK and the WGZ BANK Group in 2015. A comprehensive annual risk inventory check is conducted to identify the material risks. Responsibility for formally defining the material risks for WGZ BANK and the WGZ BANK Group lies with the Board of Managing Directors. In February 2016, reputational risk was removed from the monitoring of material risks.

To contain and monitor risk and the associated concentrations of risk, the WGZ BANK Group has defined risk tolerances for all material risk types at all relevant management levels. These are decided upon by WGZ BANK's Board of Managing Directors for the group and the group companies. If necessary, they are specified in more detail by the group companies' senior management or committees or officers appointed for this role. The risk tolerances, which are both quantitative and qualitative, document the extent to which the senior management is willing to assume risk. A quantitative risk tolerance is any measurable value that is limited by a particular threshold. By contrast, qualitative limits tend to be based on content-related or structural requirements.

The utmost priority for risk management in the WGZ BANK Group is not exceeding the group's risk-bearing capacity, i.e. its ability to deal with risks that materialize using its own financial resources.

**Credit risk** is deliberately assumed in the WGZ BANK Group in order to generate income. The extent of credit risk is contained by imposing not only specific limits but also structural requirements, subportfolio limits, and overall portfolio limits. Structural requirements and subportfolio limits also help to limit concentrations of risk. Besides quantitative limits, minimum quality requirements (e.g. minimum ratings) also apply as an expression of risk tolerance. These requirements must be observed when assuming credit risk. Examples of limits are credit policies, country limits, a rules-based system for determining bank limits, and an operational framework for all transactions of the WGZ BANK Group that are exposed to credit risk. This operational framework is a central element of the management of the WGZ BANK Group's credit portfolio. It sets top-down limits for the expected shortfall for each asset class for the WGZ BANK Group as a whole and for the individual companies: WGZ BANK, WL BANK, and WGZ BANK Ireland plc. At WGZ BANK, this setting of limits within the credit portfolio framework is complemented by rules for additional KPIs, e.g. average probability of default and the proportion of non-performing loans. Moreover, the WGZ BANK Group has defined strategies for winding down some portfolios, predominantly those of WL BANK containing government bonds of European periphery countries as well as those of WGZ BANK Ireland plc containing securitizations, which comprise both old portfolios and portfolios of selective new investments.

The credit risk of a group company must remain within the risk limit defined by the group company's senior management in the context of its risk-bearing-capacity analysis. The limit set by the group company's senior management is capped by a sublimit that was defined by the WGZ BANK Board of Managing Directors for the group company on the basis of the credit risk limit for the group. This limit applies to default risk, migration risk, and the credit risk of borrowers in default.

Besides these limits based on the value at risk (VaR), mandatory country limits are defined for each country at group level and for the individual group companies.

The relevant members of the Board of Managing Directors and other decision-makers receive daily reports from the credit risk control department on the credit risk in WGZ BANK's overall portfolio and on compliance with the credit portfolio framework. The Board of Managing Directors has authority to adjust the limits, as does CreCo at subportfolio level. Within the specified requirements, and depending on their individual business strategy, the group companies further contain their credit risk and the related concentrations of risk by imposing structural requirements regarding the relevant regions, counterparty categories, and credit ratings.

**Market risk** is also deliberately assumed in the WGZ BANK Group in order to generate income. This risk is contained using VaR limits at group level and associated sublimits at individual institution level, some of which are also broken down by subportfolio and/or individual risk category. Market risk is also contained by restricting the possible risk types, markets, and products in the risk strategies of the group and the group companies. These steps also help to limit concentrations of risk.

The most important categories of market risk for the WGZ BANK Group are general interest-rate risk and spread risk. All banks in the group deliberately assume maturity transformation risk within the set limits in order to generate additional income. Another material type of market risk is credit spread risk arising from trading securities and the treasury portfolio. In addition, WGZ BANK and, to a limited extent, WGZ BANK Ireland plc assume currency risk. Equity risk is essentially only assumed by WGZ BANK.

The WGZ BANK Group divides its **liquidity risk** into short-term operational liquidity risk (ensuring it can meet its payment obligations at all times), long-term structural liquidity risk (ensuring long-term funding), and market liquidity risk (risk of not being able to reverse or close out transactions, or only being able to do so at a loss, due to insufficient market depth or due to market disruption). These types of liquidity risk primarily result from day-to-day banking activities. The first two types, however, can be assumed or accepted deliberately, for example to minimize the cost of obtaining liquidity or to generate additional income from liquidity maturity transformation.

The aim of day-to-day liquidity management in the individual group companies is to ensure they can meet their payment obligations at all times (in order to contain operational liquidity risk). In doing so, they have to comply with regulatory requirements. The parent company and group companies may also set additional internal limits that are stricter than the regulatory requirements. A liquidity buffer consisting of liquid securities, some of which must be eligible as collateral with central banks, also helps to ensure payment obligations can be met at all times.

The aim of managing structural liquidity risk is to ensure the funding of medium- and long-term assets, to continuously optimize funding costs, and to permanently safeguard funding sources. Analysis of funding sources also helps to limit concentrations of risk.

**Operational risk** is implicitly assumed with every banking-related activity. The WGZ BANK Group's risk strategy here is aimed exclusively at containing, minimizing, and transferring risk. Operational risk is not assumed deliberately in order to generate income.

The group companies contain and minimize operational risk primarily by defining responsibilities (taking separation of functions requirements into consideration) and processes in organizational handbooks. There are also emergency plans for certain events that are particularly risk-relevant. All of the group companies keep a close eye on IT security and, where relevant, activities that they have outsourced. To transfer risk, the group companies have taken out insurance policies for certain aspects of operational risk.

The WGZ BANK Group considers **other risk** to consist primarily of reputational risk and equity investment risk. Its approach for handling these two types of risk is to define responsibilities and processes. These processes ensure such risks can be identified and assessed and enable prompt mitigating action to be taken.

**Risk-bearing capacity**

The framework for **risk management throughout the group** is provided by regular risk reporting at group level showing the group's risk-bearing capacity and changes in risk in respect of the individual risk types. The risk-bearing-capacity analysis for the WGZ BANK Group covers WGZ BANK, WL BANK, and WGZ BANK Ireland plc.

Risk-bearing capacity is understood as the group's – and its individual group companies' – ability to deal with risks that materialize using its/their own financial resources. As part of the groupwide risk-bearing-capacity concept, the available internal capital is determined in the group companies and risk limits are defined at group level. These risk limits are then used to set sublimits for the group companies that are regularly compared against the risk potential. The capacity to assume risk must be ensured at group level and at individual institution level.

Under its risk-bearing-capacity concept, the WGZ BANK Group analyzes two different risk exposure scenarios: a going concern scenario and a maximum exposure scenario. The going concern scenario describes the situation in a negative normal year in which risks materialize beyond the extent that would constitute a normal year but do not jeopardize the company's ability to continue as a going concern. The potential risks to be analyzed are shown as VaR with a confidence level of 95 percent. In contrast, the maximum exposure scenario describes a situation in which the risks that materialize are so extreme that they jeopardize the company's ability to continue as a going concern. In this scenario, the risks are shown with a confidence level of 99.9 percent. The confidence level is derived from WGZ BANK's external rating. It also reflects the risk tolerance of the Board of Managing Directors. A holding period of one year applies in both exposure scenarios. The risk potential for operational risk is determined using the regulatory Basic Indicator Approach.

Available internal capital 1, which is assigned to the going concern scenario, comprises only funds that, if consumed, would not jeopardize the ability to continue as a going concern. Such funds are primarily hidden reserves. A particular focus here is to maintain a minimum level of regulatory own funds. The more broadly defined available internal capital 2, which is assigned to the maximum exposure scenario, comprises all funds that, if used up, would not jeopardize the fulfillment of the claims of non-subordinated lenders. It therefore includes the bulk of eligible own funds (including Tier 1 capital). Besides hidden reserves, available internal capital 2 also includes hidden liabilities.

Based on its attitude to risk, the Board of Managing Directors derives individual risk limits for credit risk, market risk, liquidity risk, operational risk, and reputational risk from each type of available internal capital. These limits provide the framework for a comprehensive system of more differentiated risk limits for credit risk, market risk, and liquidity risk that are defined by the responsible functions and committees at regular intervals, taking market trends into consideration.

The financial control and planning division submits a monthly report on risk-bearing capacity, the risk limits, and their current utilization to WGZ BANK's Board of Managing Directors for each of the material group companies and for the group as a whole. The reports also indicate whether the limits have been exceeded so that the Board of Managing Directors can make management decisions as necessary. There were no limit overruns at group level or individual institution level in 2015. In the maximum exposure scenario, WL BANK suffered a shortfall at individual institution level in terms of the risk coverage provided by available internal capital for the potential risk identified. There was no shortfall in the capacity to assume risk at group level.

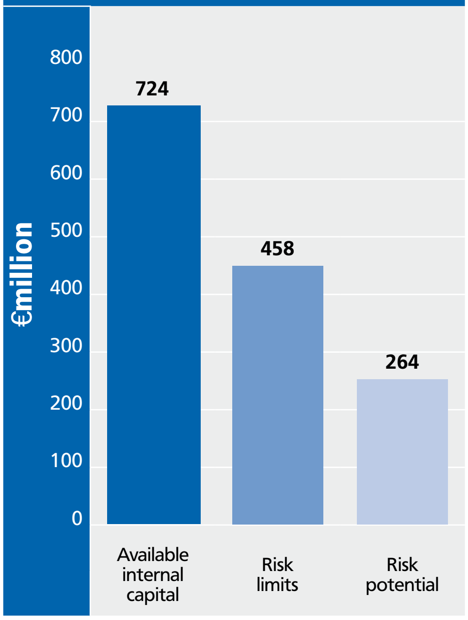
The Supervisory Board receives a condensed report on the group's risk-bearing capacity at all of its meetings.

The available internal capital, risk limits, and potential risks for the WGZ BANK Group were as follows as at December 31, 2015:

**Going concern scenario**

| € million | Dec. 31, 2015 | Highest value 2015 | Lowest value 2015 | subord.: Dec. 31, 2014 |
|---|---|---|---|---|
| **Available internal capital 1** | **723.8** | **723.8** | **603.1** | **593.7** |
| **Risk limits** | **457.5** | | | **452.0** |
| – Credit risk | 300.0 | 300.0 | 297.0 | 297.0 |
| – Market risk | 86.5 | 86.5 | 86.5 | 86.5 |
| – Liquidity risk | 15.0 | 15.0 | 14.5 | 14.5 |
| – Operational risk | 48.0 | 48.0 | 46.0 | 46.0 |
| – Reputational risk | 8.0 | 8.0 | 8.0 | 8.0 |
| **Risk potential** | **264.4** | | | **252.6** |
| – Credit risk | 174.1 | 188.6 | 174.1 | 179.0 |
| – Market risk | 38.9 | 65.0 | 29.4 | 25.8 |
| – Liquidity risk | 3.3 | 3.3 | 0.3 | 0.2 |
| – Operational risk | 41.9 | 41.9 | 41.3 | 41.3 |
| – Reputational risk | 6.2 | 6.2 | 6.2 | 6.2 |

**Risk-bearing capacity of the WGZ BANK Group in a going concern scenario as at Dec. 31, 2015**



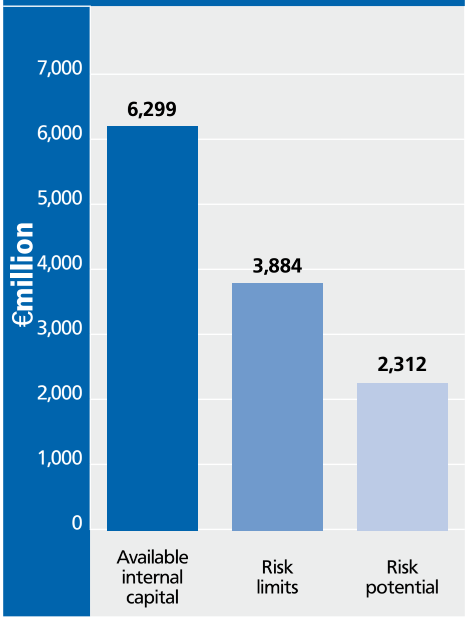

In the going concern scenario, there was an increase in available internal capital 1 on December 31, 2015 compared with the same date a year earlier.

The increase in risk potential in the going concern scenario over the course of the year was predominantly attributable to market risk. Liquidity risk and the value measured for operational risk also went up, whereas credit risk declined.

**Maximum exposure scenario**

| € million | Dec. 31, 2015 | Highest value 2015 | Lowest value 2015 | subord.: Dec. 31, 2014 |
|---|---|---|---|---|
| **Available internal capital 2** | **6,299.1** | **6,370.9** | **6,103.8** | **6,101.2** |
| **Risk limits** | **3,884.0** | | | **3,885.0** |
| – Credit risk | 2,000.0 | 2,000.0 | 1,975.0 | 1,975.0 |
| – Market risk | 1,727.0 | 1,737.0 | 1,727.0 | 1,737.0 |
| – Liquidity risk | 55.0 | 74.5 | 55.0 | 74.5 |
| – Operational risk | 88.0 | 88.0 | 85.0 | 85.0 |
| – Reputational risk | 14.0 | 14.0 | 13.5 | 13.5 |
| **Risk potential** | **2,312.0** | | | **2,264.0** |
| – Credit risk | 1,368.8 | 1,396.1 | 1,060.7 | 1,285.8 |
| – Market risk | 832.7 | 1,285.3 | 824.3 | 889.2 |
| – Liquidity risk | 20.5 | 20.5 | 0.0 | 0.0 |
| – Operational risk | 78.7 | 78.7 | 77.7 | 77.7 |
| – Reputational risk | 11.4 | 11.4 | 11.4 | 11.4 |

**Risk-bearing capacity of the WGZ BANK Group in a maximum exposure scenario as at Dec. 31, 2015**




The WGZ BANK Group's available internal capital 2 increased in 2015, mainly because of higher profit reserves.

The rise in risk potential in the maximum exposure scenario over the course of the year was predominantly attributable to credit risk and liquidity risk. The value measured for operational risk also went up, whereas market risk declined.

Based on the available internal capital and the risk potential, freely available internal capital amounted to €3,987.1 million in the maximum exposure scenario (December 31, 2014: €3,837.2 million) and €459.4 million in the going concern scenario (December 31, 2014: €341.2 million).

For details of the regulatory solvency requirements in the WGZ BANK Group and the own funds that are available to meet these requirements, please refer to the relevant disclosures in the notes.

### Stress tests

Stress testing is an integral element of risk management in the WGZ BANK Group. Along with numerous stress tests for specific types of risk, the WGZ BANK Group has a groupwide stress testing program for all types of risk. The program includes historical and hypothetical scenarios as well as reverse stress tests. Stress testing assesses exceptional yet plausible events that could occur (e.g. a severe economic downturn) and therefore supplements risk measurement in the risk-bearing-capacity analysis.

The impact on financial performance, capacity to assume risk, the regulatory Tier 1 capital ratio, the total capital ratio and, to some extent, the liquidity coverage ratio (LCR) is ascertained for each of the defined scenarios. The results of stress testing are critically examined, including from the perspective of the WGZ BANK Group's ability to sustain risk. The Board of Managing Directors receives reports on the results of the stress tests every quarter.

In 2015, the scenarios with the most severe impact on the WGZ BANK Group were those that assumed a substantial deterioration in the sovereign debt crisis, a repeat of the Lehman Brothers crisis, and a major Europe-wide recession. Cross-risk stress testing found that, in the crisis scenario 'deterioration in the sovereign debt crisis' and on the basis of the assumptions made for that scenario, the ability to sustain risk in the first maturity band was not assured.

### Credit risk

Credit risk is the most significant risk category. It comprises counterparty and migration risk from the lending business, counterparty and issuer risk from trading activities, country risk, and the credit risk of borrowers in default. The risk management systems and risk reporting for credit risk are designed to identify potential economic loss. As a result, they also encompass off-balance-sheet transactions, e.g. irrevocable loan commitments. Credit risk is assumed in all of the segments defined for the purposes of the segment information in the notes to the financial statements. The WGZ BANK Group's risk management in respect of credit risk is based on the credit risk strategy approved by the Board of Managing Directors and the specific credit policies for the customer segments and funding types. The GRC coordinates the management and monitoring of all credit risk across the group. At WGZ BANK, these functions are performed at a detailed level by the CreCo. Adhering to the defined guidelines and with support from the credit back-office division, the market divisions bear primary responsibility for managing their own subportfolios and monitoring individual transactions within these portfolios. At overall bank level, responsibility for managing the material subportfolios lies with ACPM, the active credit portfolio management unit. Lending and credit control are governed by rules set out in the organizational handbooks, with strict separation of front- and back-office functions.

**Credit risk from the lending business**

**Credit risk management at specific exposure level** is based on a credit approval process that includes a rating-based assessment of the creditworthiness of each customer and an assessment of the credit structure, sectoral risk, and country risk. If, taking account of the regulatory requirements, multiple borrowers are aggregated in a single borrower unit or in a group of connected clients, the creditworthiness and the total exposure of the unit or group are factored in.

Lending decisions in the risk-relevant lending business are reached on the basis of two votes (cast by the relevant customer division and the credit back-office division) as defined by the authorization rules, which are based on ratings and volume. Standardized processes and binding rules are applied to ensure that the carrying amounts of collateral are consistently measured and constantly reviewed.

All loans are subject to a process of continuous monitoring. A credit control check is conducted at least once a year and includes a review of the borrower's financial circumstances, an up-to-date evaluation of other information relevant to the lending decision, and updating of the borrower's credit rating. Permanent credit control is concerned with adherence to credit agreements, activities to identify risks at an early stage, and daily, IT-based monitoring of compliance with credit limits.

The main tools for early detection of lending exposures with a possibly heightened credit risk are the watch list plus other criteria that identify intensive exposures at an early stage. An important element of this process is the prompt involvement of the restructuring department in dealing with intensive loans that may subsequently become non-performing loans in the event that the credit rating worsens further. The aim is to efficiently manage intensive and non-performing loans by taking rapid corrective action in order to preserve value and minimize losses.

The market-independent restructuring department checks whether an allowance needs to be recognized for losses on the lending exposure identified as having a heightened risk.

**Counterparty and issuer risk from trading activities**

Daily **monitoring of credit risk and exposures from trading activities** at WGZ BANK, including IT-supported monitoring of limits, is the responsibility of the credit risk control department, part of the financial control and planning division. The credit risk from these activities is contained by limiting the exposures of each counterparty by product category, maturity, and risk type. Separate monitoring of banking book portfolios and trading book portfolios is conducted in respect of issuer risk. With regard to replacement risk on OTC derivatives, a distinction is made between transactions with bilateral collateral or that are cleared via a central counterparty and non-collateralized transactions.

The limits are imposed as part of the regular credit approval process to ensure that the total lending exposure of each single borrower unit is processed and monitored consistently by combining these limits with the other credit risks of the bank in the credit back-office division on a borrower-specific basis.

The relevant members of the Board of Managing Directors and other decision-makers receive daily reports on compliance with the limits. A monthly report provides a comprehensive presentation and analysis of the exposure from trading activities.

**Credit rating**

The basis for the approval, monitoring, and management process for credit risk is the customer's individual **credit rating** and the corresponding lending exposure. This involves analyzing different indicators of the customer's creditworthiness annually and on an ad-hoc basis to create a credit rating statement. To this end, the WGZ BANK Group's fundamental credit-rating analysis is supported by mathematical/statistical rating systems that are used as standard throughout the cooperative financial network to determine the probability of default and have been approved by the regulators for the internal ratings-based approach (IRBA).

The rating systems that have been approved for the IRBA are:

- VR rating for banks,
- VR rating for countries,
- VR rating for SMEs,
- VR rating for large and medium-sized companies,
- VR rating for major corporate customers,
- VR rating for commercial real estate finance – investors, building contractors, project developers, and house-building companies,

- VR rating for open-ended real estate funds (OIF),
- VR rating for retail-customer building loans,
- Rating for local and regional government (LRG),
- Rating for business customers, freelancers, and investors (GFI).

WGZ BANK has obtained approval to use the IRBA simple risk weighting (slotting approach) for specialized lending (project, equipment, and cash-flow finance).

The rating systems, which were developed in line with the requirements of the Solvency Regulation (SolvV) and CRR, use a standardized procedure to process data from annual financial statements and creditworthiness information (some of which is qualitative), supplemented by a qualified analysis process run by credit and sector experts.

The credit rating process results in the customer being assigned an individual **probability of default** (PD), which determines the rating class on the VR master scale. This individual default probability is then reflected in, among other things, the risk-adequate pricing of the loan. In addition, the default probabilities provide the main basis for analysis and management of the credit portfolio.

VR master scale:

| Rating class | Average default rate (%) | Default rate range (%) |
|---|---|---|
| 0A | 0.01 | ]0.0000–0.0165] |
| 0B | 0.02 | ]0.0165–0.0248] |
| 0C | 0.03 | ]0.0248–0.0331] |
| 0D | 0.04 | ]0.0331–0.0414] |
| 0E | 0.05 | ]0.0414–0.0580] |
| 1A | 0.07 | ]0.0580–0.0829] |
| 1B | 0.10 | ]0.0829–0.1243] |
| 1C | 0.15 | ]0.1243–0.1865] |
| 1D | 0.23 | ]0.1865–0.2797] |
| 1E | 0.35 | ]0.2797–0.4195] |
| 2A | 0.50 | ]0.4195–0.6293] |
| 2B | 0.75 | ]0.6293–0.9440] |
| 2C | 1.10 | ]0.9440–1.4159] |
| 2D | 1.70 | ]1.4159–2.1239] |
| 2E | 2.60 | ]2.1239–3.1858] |
| 3A | 4.00 | ]3.1858–4.7788] |
| 3B | 6.00 | ]4.7788–7.1681] |
| 3C | 9.00 | ]7.1681–10.7522] |
| 3D | 13.50 | ]10.7522–16.1283] |
| 3E | 30.00 | ]16.1283–100.0000] |

Besides the PD rating, another important factor in quantifying the credit risk is the loss given default (LGD). The loss rates specified by the CRR are generally used to calculate risk-weighted assets in the reporting system. WL BANK uses the LGD grading process for borrowers such as customers who are assessed using the VR rating systems for commercial real estate finance and retail-customer building loans for the purposes of retail business and using the GFI rating. The LGD grades of customers assigned to the IRBA asset class for retail business are also included in the IRBA-based calculation of capital requirements. However, for the purposes of internal risk management, in particular in the credit portfolio model, internal LGD estimates are used for the different asset classes and product groups. These estimates are largely derived from internal or external loss data using statistical models.

**Credit portfolio risk**

**Credit risk management at portfolio level** is predominantly based on the quarterly group-level credit risk report prepared by the financial control and planning division's credit risk control department. The report contains an overall view of credit risk broken down by relevant risk characteristics and concentrations of risk.

Further reports on portfolios and subportfolios are produced that analyze any portfolios that currently require observation and also contain in-depth information about special concentrations of risk. These reports, which appear at regular intervals or on an ad-hoc basis, are addressed to the Board of Managing Directors, the Supervisory Board's risk committee, and the divisional managers responsible for managing the portfolios. Management decisions are made by the GRC or CreCo.

One of the ways in which concentrations of counterparty risk are quantified is using the credit portfolio model. Concentrations are also shown using other statistical measurements, e.g. the Herfindahl-Hirschman Index. They are sometimes analyzed in more detail using stress scenarios. The analyses contained in the reports and any recommendations for action ensure that portfolio risk is identified at an early stage, enabling measures to be initiated in a prompt and targeted manner.

In the following tables relating to the WGZ BANK Group's credit portfolio, the allocation to a portfolio segment is based on the distinguishing features of the individual counterparty (legally independent borrower). Geographical segmentation is based on the home country of the borrower, unless the credit risk is attributable to a different country from a business perspective.

An overview of the composition of counterparty risk in the WGZ BANK Group, broken down by rating class, as at December 31, 2015 is provided in the following table:

| Credit rating | Range of default probability | Overall portfolio | | | | Year-on-year change |
|---|---|---|---|---|---|---|
| | | Dec. 31, 2015 | | Dec. 31, 2014 | | |
| | | Exposures + open commitments | Proportion (%) | Exposures + open commitments | Proportion (%) | |
| 0A–0E | 0.00%–0.06% | 52,313 | 56.6 | 50,213 | 54.5 | +2,101 |
| 1A–2A | 0.06%–0.63% | 33,635 | 36.4 | 35,164 | 38.2 | -1,529 |
| 2B–2E | 0.63%–3.19% | 5,612 | 6.1 | 5,673 | 6.2 | -61 |
| 3A–3E | 3.19%–100.00% | 511 | 0.6 | 697 | 0.8 | -186 |
| 4A–4E | 100.00% | 376 | 0.4 | 367 | 0.4 | +9 |
| Unrated | | 7 | 0.0 | 21 | 0.0 | -15 |
| **Total** | | **92,454** | **100** | **92,136** | **100** | **+318** |

Exposures + open commitments (€ million)

The table shows that the rating structure for counterparty risk in the WGZ BANK Group remains very good overall. Investment-grade rating classes (0A–0E and 1A–2A) continue to account for roughly 93 percent of the portfolio. The increase in the proportion of the portfolio made up of the 0A–0E rating classes and the decrease in the proportion of the portfolio made up of the 1A–2A rating classes were mainly due to adjustments to the rating system for commercial real estate customers in the housing companies subsegment. The rating classes 0D and 0E can now be awarded in this segment, which means various exposures have been upgraded from rating class 1A.

The breakdown by main asset class was as follows as at December 31, 2015:

| Credit rating | Range of default probability | Asset classes, as at Dec. 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Sovereigns | Specialized service providers in the cooperative financial network | Real estate finance | Corporates | Financials | ABSs | Total |
| 0A–0E | 0.00%–0.06% | 22,148 | 21,220 | 4,787 | 1,526 | 2,632 | | **52,313** |
| 1A–2A | 0.06%–0.63% | 2,756 | 2 | 18,216 | 8,775 | 3,528 | 358 | **33,635** |
| 2B–2E | 0.63%–3.19% | 461 | | 1,339 | 3,482 | 147 | 183 | **5,612** |
| 3A–3E | 3.19%–100.00% | 17 | 11 | 151 | 240 | 27 | 65 | **511** |
| 4A–4E | 100.00% | | | 112 | 233 | 32 | 0 | **376** |
| Unrated | | | 0 | 1 | 6 | 0 | | **7** |
| **Total** | | **25,382** | **21,233** | **24,605** | **14,262** | **6,366** | **606** | **92,454** |

Exposures + open commitments (€ million)

The salient features of the portfolio are explained in greater detail below from a concentration of risk perspective:

- Sovereigns: This asset class mainly reflects WL BANK's public-sector finance and local-authority business. It also includes the WGZ BANK Group's total exposure arising from public-sector bonds of European periphery countries (Portugal, Ireland, Italy, Greece, and Spain), which is held almost entirely by WL BANK. The WGZ BANK Group seized the opportunity presented by market conditions in 2015 to reduce the exposure to €1.7 billion, a substantial decrease of approximately €1 billion. This has markedly scaled back one of the WGZ BANK Group's major risk concentrations. Over the past five years, the exposure has therefore contracted by approximately €2.4 billion in total. A table showing a breakdown of this exposure is provided in the management report under 'Business performance'.

- Specialized service providers in the cooperative financial network: Credit exposure to member banks and other specialized service providers in the cooperative financial network is particularly significant to WGZ BANK due to its cash-pooling function as the central institution and the integration between the entities in the network.

- Real estate finance: The focus of the WGZ BANK Group's business means it is also heavily involved in real estate finance. The exposure was increased in the reporting year and now stands at roughly €24.6 billion (December 31, 2014: €21.9 billion). Customers in this segment are predominantly served by WL BANK (exposure of approximately €20.1 billion), while a smaller proportion is attributable to WGZ BANK (exposure of approximately €4.5 billion). The overall exposure relates almost exclusively to domestic business and is spread throughout Germany, although the largest proportion is accounted for by North Rhine-Westphalia. More than two thirds of the portfolio is residential real estate, with most of the remainder being commercial properties. The conservative standards applied in lending decisions are reflected in the portfolio's very good credit rating structure, with more than 90 percent being investment grade. Another key criterion for assessing the quality of the portfolio is the loan-to-mortgage value, which is the ratio of the loan amount to the mortgage lending value. The average exposure-weighted loan-to-mortgage value is just over 60 percent for the portfolio as a whole, which underlines the good collateralization situation. The proportion of loans with a loan-to-mortgage value of more than 80 percent was less than 20 percent.

The following table shows the breakdown of the WGZ BANK Group's Corporates asset class by sector:

| Sector | As at Dec. 31, 2015 | |
|---|---|---|
| | Exposures + open commitments | Proportion (%) |
| Energy supply | 1,897 | 13 |
| Wholesale | 1,197 | 8 |
| Food and animal feed manufacturing | 1,112 | 8 |
| Banking and insurance | 953 | 7 |
| Metal production and processing | 941 | 7 |
| Information and communications | 876 | 6 |
| Vehicle and engine manufacturing | 868 | 6 |
| Engineering | 809 | 6 |
| Chemicals manufacturing | 736 | 5 |
| Retail | 663 | 5 |
| Provision of services | 517 | 4 |
| Transport and warehousing | 405 | 3 |
| Pharmaceuticals manufacturing | 358 | 3 |
| Mining/non-metallic minerals | 333 | 2 |
| Other | 2,598 | 18 |
| Total | 14,262 | 100% |

Exposures + open commitments (€ million)

**Credit portfolio model**

WGZ BANK uses its proprietary **credit portfolio model** to measure and manage counterparty risk at portfolio level. This simulation-based model is based on the CreditMetrics™ method and looks at all default risk from the lending business and from trading activities.

In the credit portfolio model, defaults are simulated on the basis of risk units (obligors). An 'obligor' consists of legally independent borrowers that are connected to each other. It is formed in accordance with the regulatory requirements of the CRR governing the formation of a group of connected clients pursuant to article 4 (1) no. 39 CRR. This group is sometimes extended to include individual borrowers in accordance with WGZ BANK's internal regulations. Obligors provide the basis for managing and monitoring concentrations of individual risks.

The credit portfolio model provides information about the statistical loss distribution of the portfolio, from which the key risk indicators credit value-at-risk (CVaR) and expected shortfall (ESF) can be calculated for various confidence levels (95 percent and 99.9 percent) with a one-year risk horizon. The lower the cluster risks or correlations are between borrowers, the higher the diversification effects are that are taken into account in the model. ESF enables the overall risk to be broken down by individual borrower and can be aggregated in order to analyze the risk in subportfolios. This means that the figures generated by the portfolio model provide a solid foundation for portfolio-based management of concentration risk, which is carried out, in particular, on the basis of quarterly risk reporting. The findings of the credit portfolio model are used in the risk-bearing-capacity analysis at group level and individual institution level and in the setting of limits for counterparty risk at subportfolio level (credit portfolio framework).

The expected loss and credit value-at-risk figures for the WGZ BANK Group were as follows as at December 31, 2015:

| € million | Expected loss [1] | | Credit value-at-risk 95% [2] | |
|---|---|---|---|---|
| Asset classes | Dec. 31, 2015 | (%) | Dec. 31, 2015 | (%) |
| Corporates | 28.4 | 53 | 91.4 | 53 |
| Real estate finance | 11.2 | 21 | 29.1 | 17 |
| Financials | 2.7 | 5 | 9.2 | 5 |
| Sovereigns | 4.3 | 8 | 26.0 | 15 |
| Specialized service providers in the cooperative financial network | 2.4 | 4 | 14.2 | 8 |
| ABSs | 4.8 | 9 | 3.9 | 2 |
| **WGZ BANK Group** | **53.8** | | **174.1** | |
| of which WGZ BANK | 36.4 | | 127.1 | |

[1] In accordance with calculation method for internal risk management.
[2] Distribution of credit value-at-risk weighted by expected shortfall amount.

In 2015, there was a marked decrease in the key risk indicators expected loss (down by 11 percent) and credit value-at-risk with a confidence level of 95 percent (down by 6 percent). The main reasons for this were the considerable contraction of the portfolio of public-sector bonds of European periphery countries (Portugal, Ireland, Italy, Greece, and Spain) and the complete elimination of the exposure at Volksbank Romania. This has markedly reduced or eliminated major risk concentrations of the WGZ BANK Group.

**Stress tests**

Credit risk stress tests are an integral element of the WGZ BANK Group's cross-risk stress testing and are carried out in addition to the various scenarios covered by the cross-risk stress tests. They relate to the Financials asset class and, based on the crisis in Iceland, analyze the impact of the simultaneous default of multiple banks in one country, assuming no government bailout is made. For each scenario, the potential impairment losses are calculated and compared with the relevant available internal capital. As at December 31, 2015, the required impairment loss calculated in the scenarios was considerably below the available internal capital for the going concern scenario.

**Country risk**

The WGZ BANK Group's system for measuring risk and for documenting, assessing, and managing **country risk** covers all countries except the Federal Republic of Germany.

Based on a system of country limits, all countries are now categorized as target countries, non-target countries, offshore countries, or excluded countries (negative list). Taking account of the risk-bearing capacity of the WGZ BANK Group, the credit back-office division calculates a risk-oriented guideline figure for each target country using the individually calculated default probability (based on the VR rating system for countries) and certain key economic figures.

This guidance figure is compared with the consolidated limit requirement of the market divisions and subsidiaries, providing the basis for discussion in the cross-divisional 'country limits' working group, in which WL BANK and WGZ BANK Ireland plc are also represented. The country limits working group draws up a proposal for the country limit, taking into account other quantitative and qualitative criteria examined by the credit back-office division as part of its country analysis. This proposal may not exceed the guidance figure by more than 25 percent; there is no lower limit for the proposal.

A ceiling has been defined for non-target countries, with the maximum individual limit for each country being measured using only the rating class. Moreover, concentration risk is avoided by setting structure limits.

Under the guidance of the credit back-office division, the country limits working group regularly reviews the country limits for target and non-target countries and presents its findings to the GRC so that it can reach a decision.

Daily monitoring of compliance with the system of country limits is conducted separately in the individual group companies WGZ BANK, WL BANK, and WGZ BANK Ireland plc. WGZ BANK's financial control and planning division aggregates the risks and it reports regularly on changes in country risk and utilization of the country limits in the WGZ BANK Group.

The system of country limits was expanded in 2015. A scaling factor for lower-risk commercial international business was introduced and the maturity band for buyer credits was extended.

The financial control and planning division reports regularly on changes in country risk and on compliance with country limits.

The following table shows the regional distribution of counterparty risk by country group as at December 31, 2015:

| Region | Overall portfolio | | | | |
|---|---|---|---|---|---|
| | Dec. 31, 2015 | | Dec. 31, 2014 | | |
| | Exposures + open commitments | Proportion (%) | Exposures + open commitments | Proportion (%) | Year-on-year change |
| **Germany** | **78,528** | **85** | **77,460** | **84** | **+1,068** |
| **Europe** | **10,806** | **12** | **11,970** | **13** | **-1,164** |
| *– Portugal, Ireland, Italy, Greece, Spain* | *2,853* | *3* | *3,821* | *4* | *-968* |
| *– European Monetary Union (excl. Portugal, Ireland, Italy, Greece, Spain)* | *4,446* | *5* | *4,543* | *5* | *-97* |
| *– Other EU countries* | *1,630* | *2* | *1,814* | *2* | *-184* |
| *– Rest of western Europe* | *1,551* | *2* | *1,287* | *1* | *+264* |
| *– Rest of eastern Europe* | *325* | *0* | *504* | *1* | *-180* |
| **Rest of world** | **2,351** | **3** | **1,896** | **2** | **+456** |
| *– North America* | *1,546* | *2* | *1,164* | *1* | *+382* |
| *– Oceania* | *419* | *0* | *483* | *1* | *-64* |
| *– Latin America* | *172* | *0* | *85* | *0* | *+86* |
| *– Asia* | *148* | *0* | *98* | *0* | *+50* |
| *– Middle East* | *40* | *0* | *34* | *0* | *+7* |
| *– Africa* | *26* | *0* | *32* | *0* | *-6* |
| **Supranational** | **769** | **1** | **810** | **1** | **-41** |
| **Total** | **92,454** | **100** | **92,136** | **100** | **+318** |

Exposures + open commitments (€ million)

**Allowances for losses on loans and advances**

**Allowances for losses on loans and advances** are recognized in line with expectations regarding likely defaults in the credit portfolio.

**Specific loan loss allowances** are recognized for all loans for which there are measurable indications of impairment, making it likely that the bank will probably suffer a material default. The credit back-office division holds primary responsibility for recognizing specific loan loss allowances and coordinating processes. Regular, systematic credit checks are carried out to calculate the allowances required on an ongoing basis. Specific loan loss allowances are recognized for defaults, while provisions are recognized for off-balance-sheet obligations. Active risk management keeps allowances for losses on loans and advances in check. Above all, intensive restructuring support is provided in order to minimize default in the credit portfolio.

**General loan loss allowances** are an estimate of the inherent losses in the credit portfolio owing to imponderables and uncertainties in calculating defaults. The estimates exclude those lending exposures for which specific loan loss allowances have already been recognized. General loan loss allowances (in accordance with HGB) for latent credit risk in respect of loans and advances are measured using a forward-looking process based on credit structure data (expected loss). Under IFRS however, portfolio loan loss allowances in the consolidated financial statements continue to be based on the loss identification period (LIP), the loss given default (LGD), and the probability of default (PD).

**Country risk loan loss allowances** are recognized for lending exposures in countries whose financial or political situation – owing to transfer risk or currency conversion risk – give rise to serious doubt that borrowers there will be able to meet their contractual repayment obligations. General loan loss allowances and provisions are recognized in respect of country risk. The calculation is based on the individual exposure and adjusted for various defined influencing factors (including maturity, collateral, and rating class). This ultimately results in the basis of measurement for the country risk loan loss allowances. The general loan loss allowances for country risk are determined on the basis of various credit-rating-related carrying amounts.

In 2015, WGZ BANK again adhered to the strict standards in its **risk provisioning policy** and fully covered all acute and latent risk. Net allowances for losses on loans and advances reported in the separate financial statements were in positive territory at €4.9 million as at December 31, 2015. This figure primarily comprised all changes to specific loan loss allowances, general loan loss allowances, and country risk loan loss allowances that had an impact on the income statement. At group level, net allowances for losses on loans and advances were also in positive territory and amounted to a net figure of €10.0 million. This figure included changes to specific and portfolio loan loss allowances affecting the income statement plus provisions for off-balance-sheet lending business. For details of the changes in allowances for losses on loans and advances in 2015, please refer to the information and breakdown provided in the notes.

**Market risk**

Only the capital market partners & trading division (trading book) and treasury division (banking book), in their capacity as the divisions with responsibility for day-to-day risk management at WGZ BANK, are permitted to assume market risk. Within the scope of its management responsibility, the ALCo at WGZ BANK uses the risk limit for market risk defined by the Board of Managing Directors to specify differentiated risk limits for the trading book and banking book. These limits are mandatory for the operational managing units. The divisional manager for capital market partners & trading splits the limit for the trading book between the interest rates – currency, equities, and derivatives departments. ALCo splits the limit for the banking book between general interest-rate, spread, currency, and equity risk. Within these aspects of market risk, spread risk represents the counterparty-related specific risks. In addition, the Board of Managing Directors defines a warning limit in respect of market risk for scenario analyses and stress tests for extreme market changes for the overall portfolio, which comprises the trading book and the banking book. ALCo divides this limit between the trading book and the banking book. Some stress tests are calculated on either a daily or monthly basis. Essentially, hypothetical scenarios (such as a sharp rise in yield curves and credit spreads) or historical scenarios (such as the collapse of Lehman Brothers in 2008) are calculated. Ongoing monitoring is performed by the financial control and planning division's market risk control department.

Daily **reports** on the market risk situation are prepared for decision-makers. These reports also contain statements on limit/warning limit utilization and, in the event of limits being exceeded, form part of the escalation process. A summarized overview plus detailed analysis of the risk and earnings situation are provided in the monthly reports submitted to the bank's decision-makers and Board of Managing Directors. The daily and monthly reports also help to identify risks at an early stage.

**Market risk in the trading book**

WGZ BANK is the only entity in the WGZ BANK Group with a trading book.

**Trading book exposures** of WGZ BANK are marked to market or marked to model each day based on independent data sources. Measurement adjustments are calculated each month in accordance with prudent valuation (CRR). Market risk in the trading book is calculated daily from the individual end-of-day positions using the parametric variance-covariance model developed by WGZ BANK on the basis of the **value-at-risk** method. A confidence level of 95 percent and a holding period of one day are used for internal management purposes.

The regulators have approved WGZ BANK's risk measurement model as an **internal model** as defined by the CRR for calculating the capital requirements for general interest-rate risk (including the sector/rating approach for credit spread risk), general and specific equity risk, currency risk, the total currency exposure, volatility risk, theta risk, and commodity risk. This approval also extends to calculating the risk amount for potential crises. The surcharge factor for determining the capital charges for the capital requirements pursuant to article 366 CRR was set to zero by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] at the end of 2005 and confirmed most recently in 2014.

The internal model and its parameters are continually adjusted to changes in the market and business performance. The model's parameters are calculated recursively using exponential weighting, which enables lengthy historical periods to be analyzed for risk factors. The weighting was based on an effective historical observation period of at least one year, as required by article 365 CRR. The parameters for the risk amount for potential crises are calculated from an uninterrupted twelve-month period with equal weighting, also in line with CRR requirements. The period selected is reviewed regularly and, if required, on an ad-hoc basis.

The average potential risk amount (VaR) with a confidence level of 99 percent and a holding period of ten days for the year was €8.92 million with a minimum value of €2.79 million and a maximum value of €27.92 million. As at December 31, 2015, the risk amount stood at €5.07 million.

The average risk amount for potential crises (stressed VaR) with a confidence level of 99 percent and a holding period of ten days for the year was €3.72 million with a minimum value of €2.57 million and a maximum value of €11.35 million. As at December 31, 2015, the risk amount for crises stood at €3.03 million. The potential risk amount is larger than the risk amount for crises because of the current environment of low interest rates. In these market conditions, the modeling of relative interest-rate changes implemented in the internal model for interest-rate risk means that the potential risk amount is inflated by what are small interest-rate changes in absolute terms but large changes in relative terms. There have been no historical periods in which such relatively large changes in interest rates have occurred.

**Backtesting** is carried out daily to review the forecasting quality of the calculated value-at-risk for market risk. This involves comparing hypothetical changes in fair value (clean backtesting) and actual changes in fair value (dirty backtesting) against the calculated potential risk amount (VaR with a confidence level of 99 percent and a holding period of one day). Regulatory clean backtesting revealed one instance of the forecast risk value being exceeded in 2015. From January 14, 2015 to January 15, 2015, the clean backtesting result of minus €5.3 million significantly exceeded the VaR forecast of minus €1.0 million. The dirty backtesting result of minus €4.8 million also exceeded the VaR forecast on that day. The reason for the forecast being exceeded was the Swiss National Bank's unexpected decision to abandon the minimum exchange rate of CHF 1.20 per euro. This exchange rate subsequently experienced extreme swings. Dirty backtesting also found that the VaR forecast was exceeded from December 15, 2015 to December 16, 2015, although this was not caused by market risk. Instead, it was entirely due to a sharp rise in the probability of default of a counterparty and the resulting increase in the CVA markdown that is taken into account in dirty backtesting. Besides daily backtesting, statistical tests and analysis are conducted at least once a year to verify the adequacy of the internal model.

For internal management purposes, risk in the trading book is also shown as VaR with a confidence level of 95 percent and a holding period of one day, broken down into interest-rate risk, spread risk, equity risk, currency risk, and volatility risk. The values-at-risk were as follows in 2015:

| VaR 95 percent, 1 day<br>€ million | Minimum value | Maximum value | Mean value | Value as at Dec. 31, 2015 |
|---|---|---|---|---|
| Interest-rate risk | 0.52 | 4.61 | 1.49 | 0.77 |
| Spread risk | 1.08 | 1.98 | 1.48 | 1.38 |
| Equity risk | 0.02 | 0.59 | 0.11 | 0.09 |
| Currency risk | 0.04 | 0.23 | 0.13 | 0.11 |
| Volatility risk | 0.04 | 0.13 | 0.07 | 0.07 |

Scenario analyses for extreme market changes **(crisis scenarios/stress tests)** are conducted every day. The stress tests include both historical and hypothetical stress tests and are calculated for the entire trading book and for selected subportfolios. The stress test warning limit was raised from €75 million to €90 million on April 14, 2015 and was not exceeded on any day during the year. Maximum utilization was 96 percent of the warning limit then in place of €75 million.

Stress tests help to identify **concentrations of risk**. These occur when a small number of risk factors can potentially produce large losses. The stress test warning limit is therefore a means of containing concentrations of risk. Furthermore, the monthly reports include extensive qualitative descriptions that enable concentrations of risk to be identified.

**Market risk in the banking book**

Among the market risks in the banking book, the most significant ones are **general interest-rate risk** (risk resulting from a change in the swap/Bund interest-rate curve) and **spread risk** (risk resulting from the change in issuer-specific interest-rate curves). The treasury portfolio contains high-risk assets and liabilities resulting from customer business on the one hand and treasury's own portfolio on the other. Depending on its assessment of the opportunities and risks, ALCo specifies target ranges for the treasury committee each month in respect of the risks to be assumed within the banking book's market risk limits. The treasury committee's short-term strategic decisions must be within these ranges. Day-to-day management is the responsibility of the treasury division.

Risk is measured daily using WGZ BANK's internal model and in accordance with the **value-at-risk** method. Correlations within the banking book and between the banking and trading books are taken into account. In addition, various crisis scenarios/stress tests are calculated for all types of market risk each day. The impact of an ad-hoc interest-rate increase of one percentage point, the effects of a twist/shift of the swap and Bund interest-rate curves, and the impact of the interest-rate shocks defined by the regulators (plus or minus 200 basis points) are also calculated daily for interest-rate risk in the banking book. Simulation calculations are also produced for ALCo meetings that show the effects of various interest-rate scenarios on gains or losses under the mark-to-market/mark-to-model methods and on the income statement.

The values at risk for general interest-rate risk and spread risk (excluding the banking book) were as follows at WGZ BANK during the course of 2015:

| VaR 95 percent, 1 day<br>€ million | Minimum value | Maximum value | Mean value | Value as at Dec. 31, 2015 |
|---|---|---|---|---|
| General interest-rate risk | 0.32 | 8.26 | 2.01 | 2.45 |
| Spread risk (excl. banking book) | 1.31 | 2.98 | 2.01 | 2.49 |

Owing to uncertainties surrounding interest rates, interest-rate risk exposure remained cautious throughout 2015. The VaR limit for general interest-rate risk of €4.5 million was exceeded on 23 days in 2015; the VaR for spread risk (excluding the banking book), which is relevant to risk-bearing capacity, was well below the VaR limit of €6 million at all times. As at December 31, 2015, the spread risk in the banking book came to €0.53 million (VaR 95 percent, one day). It is not taken into consideration in operational management although it is in the maximum exposure scenario for the risk-bearing-capacity analysis.

Currency risk and equity risk were of minor significance during 2015. The average utilization of the equities VaR limit of €1 million over the year was €0.29 million (maximum: €0.72 million; minimum: €0.08 million). The average utilization of the currency VaR limit of €0.5 million over the year was €0.09 million (maximum: €0.16 million; minimum: €0.03 million).

The average utilization of treasury's overall VaR limit of €12 million was €8.89 million in 2015 (maximum: €23.70 million; minimum: €4.08 million). The limit was exceeded on a total of 47 days due to a method-related temporary exaggeration of the risk disclosure caused by the sudden interest-rate rise in the second quarter of 2015 from a very low level. In November 2015, WGZ BANK submitted a preliminary request to the ECB for approval for switching the distribution of the interest-rate-risk factors to a normal distribution. This is so that negative interest rates at the short and medium end of the yield curve can be handled correctly in risk measurement. The application for approval was submitted to the ECB in January 2016; an on-site audit was conducted by Deutsche Bundesbank in February 2016.

The defined stress tests (hypothetical and historical scenarios) are applied to the trading portfolio, the treasury portfolio, and the overall portfolio. Each day, a total of eight market risk stress tests (not including the cross-risk stress tests) are applied to the overall trading and treasury portfolio. During 2015, the scenario involving a hypothetical, significant widening of credit spreads gave the worst result.

The warning limit for the overall portfolio was raised from €250 million to €300 million on March 17, 2015. Derived from this limit, a warning limit of €210 million was defined for the treasury portfolio on April 14, 2015.

The former €250 million warning limit defined for the overall portfolio was exceeded on two days. The €300 million warning limit was exceeded again on four days for method-related reasons in connection with the observed rise in interest rates.

The results for the interest-rate shocks defined by the regulators (plus or minus 200 basis points) were also far below the specified threshold of 20 percent of liable capital on each working day.

**Market risk in the WGZ BANK Group**

All banks in the **WGZ BANK Group** assume **market risk** and take responsibility for doing so. The subsidiaries' risk measurement and management methods are closely based on those of the parent company. In addition to monthly reporting on risk-bearing capacity, WGZ BANK's financial control and planning division reports to the WGZ BANK Board of Managing Directors each quarter on the market risk of the individual group companies and of the group as a whole. It also provides daily and monthly reports in respect of WL BANK.

The values at risk for general interest-rate risk and spread risk were as follows at WL BANK and WGZ BANK Ireland plc during the course of 2015:

**WL BANK:**

| VaR 95 percent, 1 day<br>€ million | Minimum value | Maximum value | Mean value | Value as at Dec. 31, 2015 |
|---|---|---|---|---|
| General interest-rate risk | 0.10 | 0.72 | 0.37 | 0.37 |
| Spread risk (excl. cover assets) | 1.94 | 8.06 | 4.96 | 1.94 |

**WGZ BANK Ireland plc:**

| VaR 95 percent, 1 day<br>€ million | Minimum value | Maximum value | Mean value | Value as at Dec. 31, 2015 |
|---|---|---|---|---|
| General interest-rate risk | 0.05 | 0.71 | 0.30 | 0.69 |
| Spread risk | 1.83 | 2.93 | 2.27 | 1.92 |

**Liquidity risk**

Liquidity risk is the risk of not being able to fully meet current or future payment obligations at the time they fall due **(operational liquidity risk)**, not being able to obtain sufficient liquidity at the expected conditions when required **(structural liquidity risk)**, or not being able to reverse or close out transactions, or only being able to do so at a loss, due to insufficient market depth or due to market disruption **(market liquidity risk)**.

**Market liquidity risk** is monitored using the tools for managing market risk, in particular scenario calculations for unusual fluctuations in market prices and for the default of a large market participant. The management of market liquidity risk falls within the remit of those responsible for managing the relevant portfolios.

At WGZ BANK, the treasury division is responsible for the day-to-day management of **operational and structural liquidity risk**. The general parameters and medium- to long-term positioning are decided upon by the higher-level ALCo.

The treasury division's liquidity management/funding department **ensures operational liquidity (short-term liquidity)**, i.e. ensures that payment obligations can be met from day to day. It analyzes the inflows and outflows of liquidity expected over the course of the day. The financial control and planning division assists the liquidity management/funding department by providing detailed daily analysis of the current liquidity position. The analyses showed that WGZ BANK always had ample liquidity over 2015 as a whole. A substantially larger liquidity buffer than the anticipated outflows of liquidity on the following day was made available at all times.

Liquidity gaps and excesses of liquidity are always offset by means of appropriate arrangements by the liquidity management/funding department, in particular to avoid unwanted accumulation of negative daily liquidity balances. Negative daily liquidity balances are contained and monitored on a daily basis using graduated warning limits. Adjustment of the warning limits is linked to the amount of funding available through central banks. The warning limits for managing operational liquidity were not exceeded in 2015.

**Changes in the daily liquidity balance in 2015**

| € million | Minimum value | Maximum value | Mean value | Value as at Dec. 31, 2015 |
|---|---|---|---|---|
| **Daily liquidity balance** | **–1,972** | **1,886** | **65** | **458** |
| Warning limit 1 | –3,759 | –4,694 | –4,237 | –3,820 |
| Warning limit 2 | –4,698 | –5,867 | –5,296 | –4,775 |
| Warning limit 3 | –5,638 | –7,040 | –6,356 | –5,729 |

An extensive stress test is used to monitor operational liquidity risk over the next seven and 30 days. A bank-related stress scenario, a scenario caused by the market, and a scenario combining both causes are used to stress-test the inflows and outflows of liquidity. These are limited using a liquidity buffer conforming to MaRisk, the scope of which is also based on various stress scenarios. The liquidity buffer remaining after application of each scenario is presented to the Board of Managing Directors as part of group risk reporting on market risk, liquidity risk, and operational risk. Throughout 2015, the stress-tested liquidity buffer was significantly larger than the stress-tested net outflow of liquidity over the subsequent seven and 30 days.

The equity and liabilities on WGZ BANK's balance sheet are mainly euro-denominated deposits from member banks in the form of overnight deposits, time deposits, and promissory note loans as well as WGZ BANK bearer bonds predominantly held by member banks. Moreover, the deposits from banks reported under equity and liabilities are dominated by development loans borrowed from development banks and passed on to member banks. The main sources of funding at WL BANK are bearer bonds and Pfandbriefe. WGZ BANK Ireland plc predominantly obtains its funding by raising time deposits and entering into sale and repurchase agreements, primarily with the parent company.

**Structural liquidity (medium- and long-term liquidity) is managed** on the basis of the funding matrices that are available each day and that are supplemented with modeled liquidity outflows from global limits, modeled current account/time deposits, and a delta-weighted cash flow for the group's own callable securities issues. With global limits, a notional customer-specific maturity date is assumed. Future cash flows are computed for swaps using forward curves; floaters in the lending business are recalculated each time the conditions are adjusted. The maturity structure derived from the cash flows serves as the basis for differentiated liquidity gap analyses.

Structural liquidity risk is calculated on the basis of maturity-related spread premiums (liquidity spreads) on the interest-rate curve, which simulate an increase in current funding costs. A potential rise in liquidity spreads is calculated both idiosyncratically and using market-driven factors.

In the idiosyncratic scenario, it is assumed that the funding costs go up by 50 and 67 basis points while the interest rate for the investment of liquidity falls by 3.5 basis points. The additional funding costs are then discounted to net present value and, using a warning limit, are contained and monitored on a daily basis.

WGZ BANK uses risk measurement based on market data to calculate liquidity value-at-risk (LVaR). This computes a potential spread increase between WGZ BANK's rating-based funding curve and the euro swap curve with a confidence level of 95 percent and a holding period of one day. This increase is compared against WGZ BANK's current funding requirements, and the potential additional interest-rate cost is calculated.

If a future liquidity gap appears to be emerging, WGZ BANK eliminates the shortfall by placing its own issues and/or raising the internal transfer prices for liquidity. At WGZ BANK and WL BANK, the LVaR with a confidence level of 95 percent and a holding period of ten days ranged between €0 and €3.42 million throughout 2015, which meant there was only low structural liquidity risk. At WGZ BANK Ireland plc, the LVaR with a confidence level of 95 percent and a holding period of ten days ranged between €0 and €0.4 million, amounting to €0.4 million as at December 31, 2015.

To ensure a **liquidity buffer** for unexpected cash outflows, WGZ BANK holds securities and bonds eligible as collateral with central banks in its treasury and trading portfolios. Besides these securities, public-sector loans that are eligible as collateral with central banks (credit claims submission procedure) are also taken into consideration.

**Changes in the liquidity buffer in 2015**

| € million | Minimum value | Maximum value | Mean value | Value as at Dec. 31, 2015 |
|---|---|---|---|---|
| **Liquidity obtainable from central banks ('liquidity buffer')** | **6,558** | **11,336** | **9,355** | **8,928** |

The banks in the WGZ BANK Group have a large portfolio of unencumbered securities eligible as collateral with central banks. The portfolio of WGZ BANK, which is shown in the table above, ranged between €6,558 million and €11,336 million in 2015. During the same period, WL BANK's portfolio eligible as collateral with the ECB – exclusive of cover funds – ranged between €240 million and €1,153 million, while the portfolio at WGZ BANK Ireland plc ranged between €1,081 million and €2,114 million.

For the purposes of managing **liquidity risk attaching to foreign currency exposures,** WGZ BANK assumes that all of the foreign currencies being analyzed can be converted without restriction. There is no issuing activity in foreign currencies. Instead, the risk is eliminated using currency swaps.

A **report** on the key risk indicators for structural and operational liquidity is prepared daily, enabling unscheduled changes to be identified as soon as possible and incorporated into management activities quickly. The special process to be followed in the event of the warning limits being exceeded is defined in writing in escalation procedures. The results of all scenario calculations were below the defined warning limits at all times in 2015.

Monthly reports provide the liquidity management/funding department with information about stress scenarios and other key figures relevant to liquidity, including the amount of liquidity buffer and the diversification of funding and liquidity use (avoidance of concentrations of risk). The Board of Managing Directors is notified of the WGZ BANK Group's liquidity situation on a quarterly basis as part of group risk reporting on market risk, liquidity risk, and operational risk.

Further information about WGZ BANK's liquidity situation is also provided by the **liquidity ratio pursuant to the Liquidity Regulation (LiqV)**. In 2015, this ratio ranged from 2.00 to 2.64 and was therefore well above the regulatory minimum of 1.0 at all times. The corresponding figure for WL BANK was between 1.62 and 11.89 in 2015.

WGZ BANK has business continuity plans in place for **liquidity crises** that were drawn up by the treasury division and have been agreed with the financial control and planning division. The plans distinguish between bank-specific crises and systemic crises. A bank-specific crisis is a crisis at WGZ BANK or one of its direct business partners while the market as a whole continues to operate normally. A systemic crisis is a liquidity crisis that affects all the providers and recipients of liquidity in the market. It is generally assumed that, in the event of a crisis, WGZ BANK would have better funding options than other banks owing to its role as a cooperative central institution.

The **subsidiaries** WL BANK and WGZ BANK Ireland plc are responsible for managing their own liquidity risk within the limits set by the WGZ BANK Board of Managing Directors, with overall coordination being performed by the GRC (liquidity risk is insignificant in the other subsidiaries). The method they use for structural liquidity risk is the same as that of the parent company. To support liquidity management in the WGZ BANK Group, the financial control and planning division submits quarterly reports on liquidity risk to the WGZ BANK Board of Managing Directors, the GRC, and WGZ BANK's treasury division.

**Operational risk**

The WGZ BANK Group understands **operational risk** to be potential future events with a negative impact on the group resulting from the inadequacy or failure of internal processes, people, or systems or as a consequence of external events. This definition extends to legal risk but not strategic risk or reputational risk.

**Management of operational risk** in the WGZ BANK Group has been decentralized at group company level and within the individual divisions of WGZ BANK. At WGZ BANK, the following divisions with central responsibility use their specialist knowledge to provide assistance with the management of the different types of operational risk: human resources (HR risk), legal affairs (legal risk), and organization and operations (risk related to buildings, technology, and IT systems). The subsidiaries can also call on these divisions if required. Responsibilities are set out in guidelines applicable to the overall bank and in the divisions' task distribution plans.

WGZ BANK has an emergencies handbook with division-specific emergency plans and associated business continuity plans for particular business-critical events (e.g. attack, building fire, failure of mission-critical IT systems, loss of key service providers).

A written set of procedural rules helps to limit **operational risk in business processes**. These rules contain authorization guidelines, process descriptions, and task allocation plans for all material business lines and processes, including the related internal control system.

Management of **personnel-related operational risk** includes regular planning so that the divisions have the necessary number and quality of staff available. The quality of staff is ensured by careful recruitment processes and by providing employees with ongoing skills training tailored to their tasks and individual needs. All activities are closely coordinated between the various divisions and human resources. Key HR figures such as staff turnover are calculated on a regular basis in order to identify adverse trends at an early stage so that prompt action can be taken.

The organization and operations division is in charge of managing **IT-related operational risk** at WGZ BANK. A comprehensive set of rules governs the procurement of hardware & software and the development and implementation of software. The rules are based on the IT strategy and focus on compliance with defined security standards. The running of the material IT applications has been outsourced to the GAD cooperative data center in Münster, which has the necessary backup systems, disaster recovery plans, and business continuity plans. A number of IT applications run in WGZ BANK's secure computer rooms. Physically separate backup systems are located in another, fully equipped alternative data center in a separate area of the building. Alternative workstations have also been set up in a separate area of the building that can be used temporarily for trading and trading back-office processes. Business continuity plans are in place for all critical processes in case they fail.

To contain risk associated with the **outsourcing of material activities and processes**, guidelines applicable to the overall bank define a standardized framework for dealing with existing and planned outsourcing. The core aspects of minimizing risk related to the outsourcing of material activities and processes are a detailed risk analysis and the preparation of contingency plans.

Besides the emergency handbook and division-specific business continuity plans, WGZ BANK has set up special crisis teams to contain **risk resulting from external events**. These teams are called up and take the necessary action in accordance with a defined procedure. The bank has taken out typical insurance policies as protection against any financial consequences of external events.

WGZ BANK primarily safeguards against **legal risk** by using standardized, legally validated contracts and forms that are updated on an ongoing basis in accordance with developments in the legal system. In all other cases, WGZ BANK's legal affairs division formulates or checks the drafting of contracts. This division also represents WGZ BANK in the event of unavoidable legal disputes. Provisions and contingent liabilities have been recognized for the WGZ BANK Group's legal risk, which is not of material significance.

The aforementioned arrangements for containing operational risk similarly apply in the **group companies**. For some aspects of their IT operations, they use external service providers. They obtain assistance from central functions of WGZ BANK – mainly the legal affairs and human resources divisions – in respect of other risk types.

Coordinated by the financial control and planning division, a structured **self-assessment** covering WGZ BANK, WL BANK and, for the first time in 2015, WGZ BANK Ireland plc is conducted each year to identify and assess existing operational risk. Once the self-assessment is complete, the Board of Managing Directors of WGZ BANK receives a report on the results. There were no particular abnormalities in the risk situation last year.

A **central loss database** documents any loss resulting from operational risk. The Board of Managing Directors of WGZ BANK is notified of the situation regarding loss from operational risk in the WGZ BANK Group on a quarterly basis as part of group risk reporting on market risk, liquidity risk, and operational risk. It receives ad-hoc reports in the event of special occurrences of loss. In 2015, the quarterly reports were expanded to include reporting on early-warning indicators for risk arising from major outsourcing operations in the WGZ BANK Group and reporting on staffing and technical/organizational resources.

**Reputational risk**

At WGZ BANK, reputational risk is defined as the risk of a loss of reputation – i.e. a deterioration in how stakeholders perceive the bank – owing to negative occurrences relating to the bank's reputation in connection with its general business activities. WGZ BANK takes 'reputation' to mean the WGZ BANK Group's external image – i.e. how it is regarded by the general public – in terms of its performance, expertise, integrity, and trustworthiness.

Reputational risk is generally managed on a decentralized basis and is the responsibility of the divisions and subsidiaries of WGZ BANK. It is the duty of every employee in the WGZ BANK Group to identify possible reputational risk and to protect the group from such risk.

The WGZ BANK Group manages reputational risk by taking both a preventive and a reactive approach to risk management. Preventive risk management involves managing risks before they occur, i.e. anticipating events that could harm the group's reputation. The aim of preventive risk management is to identify and implement suitable processes, checks, and measures in order to reduce the probability of events occurring that could have a significant impact on reputation.

In addition, WGZ BANK has drawn up a code of ethics and conduct that is binding on the entire WGZ BANK Group as well as comprehensive sets of rules governing sustainability, environmental protection within the company, complaints management, recognition of and respect for human rights, equal treatment of female and male employees, and fair working conditions that are designed to avoid damage to the group's reputation, among other objectives. The steps taken to prevent fraud also help to avoid reputational risk.

A self-assessment covering WGZ BANK, WL BANK, and WGZ BANK Ireland plc is conducted each year to identify and evaluate reputational risk. There is also regular group-level reporting on losses arising from reputational risk.

**Equity investment risk**

At WGZ BANK, **equity investment risk** is considered to be the risk arising from its long-term equity investments, e.g. no dividend payment, a drop in the enterprise value of the long-term equity investments, or write-downs to the carrying amount of an investment.

WGZ BANK's long-term equity investments are essentially focused on companies in the cooperative financial network in order to foster and consolidate cooperation within the network. The long-term equity investments held by the other group companies are insignificant owing to their small carrying amounts.

Risk in the portfolio of long-term equity investments is managed by the long-term equity investment management & client portfolio support department in the central services division at WGZ BANK. A thorough process of credit control and creditworthiness checks on the investee company is conducted before entering into long-term equity investments. The credit rating of existing long-term equity investments is reviewed regularly. The limits for long-term equity investments are incorporated into the limits for the overall lending relationship with the individual company or individual group.

**Opportunities**

Within the WGZ BANK Group, WGZ BANK acts as the central institution for its affiliated member banks, providing traditional central institution functions in funding business, investment business, payments processing, corporate banking, securities business with customers, and the arrangement of public-sector development loans in its role as a decentralized partner. The largest subsidiary is WL BANK, which broadens the range of services provided by the WGZ BANK Group – especially in long-term real estate business. As the global economy is expected to remain stable, the WGZ BANK Group has the opportunity to draw benefit from its conservative risk policy and maintain risk expense at a low level. Other opportunities are presented by further reversals of impairment losses on the WGZ BANK Group's sovereign portfolio, which is largely recognized at fair value, provided that the sovereign debt crisis continues to ease. Finally, favorable conditions in the real estate business open up the opportunity for above-average growth in lending business within this segment.

## VI. Main features of the internal control and risk management system in the accounting process

WGZ BANK's operational and organizational structure is thoroughly documented in the OrgPortal, which is updated on an ongoing basis. It contains organization charts, task allocation plans, authorization guidelines, and procedural guidelines (process descriptions, process diagrams, other rules). Applying the principle of separation of functions, the overall bank's organizational structure is split into customer divisions, product divisions, back-office divisions, and central services and operational divisions. The compliance, money-laundering prevention, and data protection functions report directly to the Board of Managing Directors. Clear authorization rules and job descriptions define responsibilities and accountability.

Besides measures related to the organizational structure, procedural measures also help to ensure an effective internal control system. The finance division carries out its day-to-day accounting work and prepares internal monthly accounts as well as the quarterly, half-year, and annual financial statements in accordance with HGB based on the cooperative financial network's accounting policies. The key features of the internal control system are the double-checking principle and prompt validation of figures thanks to close cooperation between the finance division and financial control and planning, the involvement of the relevant divisions, and continuous reconciliation of the general ledger and subledgers. Period-end closing work is documented transparently and the statutory record retention periods are observed.

The finance division is involved in the new product process pursuant to MaRisk, ensuring the process is shown correctly in the accounts.

The bank uses the RWB product (accounting system for banks) for its accounting processes. Data from the operational business lines in the ZIS software package is transferred to RWB directly. Business data from the upstream trading/processing systems and other feeder systems is transferred to RWB via the NIV product (standardization and integration process). Production operations take place in the data center of our network partner FIDUCIA & GAD IT AG. Standard software is also used alongside proprietary software, some of which was developed on the basis of Microsoft Office applications. The proprietary software is subject to a regulated software development process, documented in detail, and categorized by risk relevance. Rules for accessing ZIS and the other applications have been clearly defined in accordance with employees' authorization levels.

**Consolidated financial reporting process**

WGZ BANK's finance division is responsible for preparing the consolidated financial statements including the combined management report. However, the segment information is compiled by WGZ BANK's financial control and planning division. The reports are prepared on the basis of data taken from the separate financial statements of the individual subsidiaries included in the consolidated financial statements in accordance with the standardized group accounting guidelines. This data is captured using a groupwide reporting tool and is sent to WGZ BANK's finance division after being audited by the subsidiary's auditor. The material subsidiaries' separate financial statements and IFRS reconciliations are based on an internal control system comparable to that of the parent company. Within the finance division, the data is imported into and processed in IDL WinKons, the standard software used by the group. After determining and carrying out the necessary consolidation steps, the division prepares the consolidated financial statements. The processes and individual process steps as well as the checks to be performed are set out in process descriptions and the bank's OrgPortal. These checks ensure that the descriptions and information provided in the financial statements follow International Financial Reporting Standards. In particular, they include checks for accuracy and completeness, IT-supported checks, and a variety of validation analyses and investigations carried out throughout the preparation phase by the responsible staff and managers. The finance division requests the data and information it requires from the consolidated subsidiaries to prepare the combined management report for WGZ BANK and the WGZ BANK Group. It then compiles the reports after validating the data and information.

**Internal audit**

The internal audit division at WGZ BANK conducts regular and ad-hoc audits from a risk perspective, particularly in relation to the effectiveness and adequacy of risk management in general and of the internal control system specifically. It reports directly to the Board of Managing Directors. Internal audit is responsible for auditing and evaluating all processes and activities of the bank and its branches. As it also acts as the group's internal audit function, it performs the same tasks for the subsidiaries of WGZ BANK.

## VII. Outlook

The global economy saw modest expansion in 2015, although the pace of growth slowed over the course of the year. This was mainly due to economic momentum tailing off in commodity-exporting emerging markets and developing countries, where growth was held back by the sharp drops in many commodity prices. By contrast, industrialized countries benefited from the developments in the commodity markets in 2015. Falling energy prices brought relief for companies and consumers alike, thereby boosting both domestic demand and consumer demand. Moreover, the improved situation in the job markets in industrialized countries such as the United States led to a moderate upturn. However, the eurozone was unable to make full use of these trends and grew at a slower rate than the United States. Although the ECB's expansionary monetary policy was accompanied by a further depreciation of the euro, which made eurozone companies more internationally competitive, the unresolved structural problems prevented faster growth.

The German economy proved robust again in 2015, generating growth of 1.7 percent. This moderate economic upturn was mainly fueled by increased domestic demand in 2015, in turn boosted by higher consumer spending against a backdrop of lower oil prices and higher employment in Germany. Unemployment fell to 2.68 million people in December 2015, the lowest level in 24 years. Consumer spending was also stimulated by the sharp rise in government spending as a consequence of the arrival of increasing numbers of refugees. The rate of inflation in Germany dropped to 0.3 percent, not least because of the falling energy prices. In the eurozone too, the inflation rate of 0.2 percent in December 2015 remained well below the ECB's target of 2 percent. To bring inflation back closer to the 2.0 percent target, the ECB stepped up its expansionary monetary policy by cutting the deposit rate for banks from minus 0.2 percent to minus 0.3 percent and extending the end of the bond-purchase program by six months, from September 2016 to March 2017.

In 2016, global economic growth is expected to accelerate slightly compared with 2015. The World Bank's latest estimate is expansion of 2.9 percent, while the prediction for economic output of the ifo Institute of Economic Research is even higher at 3.5 percent. Momentum is likely to come mainly from industrialized countries as their economic growth will probably be boosted by generally low inflationary pressure and further improvements in the labor market. On the flip side, the pace of expansion in emerging markets is expected to be on a par with 2015, not least due to the slowdown in China's economic growth and the anticipated deterioration in funding conditions. For the eurozone, the ifo Institute of Economic Research forecasts robust growth of 1.7 percent, underpinned by increasing employment in the eurozone and higher domestic demand. Germany's economy is also expected to see expansion of economic activity, with Deutsche Bundesbank predicting a 1.8 percent rise in GDP for 2016. This forecast is based on the assumption that growth will primarily be fueled by consumer spending, which in turn should benefit from low unemployment, decreased energy costs, and wage increases.

Conditions in the banking industry will remain challenging in 2016. In view of the ECB's decision in March 2016 to again step up its expansionary monetary policy, a major shift in interest-rate policy is not expected in 2016. This means that banks' profitability will continue to be dented by low interest rates. Regulatory requirements will also continue to increase in 2016, and the implementation of new statutory and regulatory requirements will lead to additional expense for the banking industry. In connection with the introduction of European banking union, the Single Resolution Board (SRB) took over responsibility at the start of 2016 for the resolution and restructuring of banks subject to direct supervision by the ECB. The finance for resolution measures comes from the Single Resolution Fund (SRF), for which the SRB is collecting contributions for the first time in 2016. In Germany, the contributions to the SRF collected in 2015 on the basis of the European regulations had an adverse impact on the German banking industry to the tune of €1.58 billion. The contributions are expected to reach a similar total in 2016.

The challenges described above will also affect WGZ BANK. We will be paying very close attention to the increasing volume of regulation and the low level of interest rates. Despite these difficult conditions, WGZ BANK will adhere even more firmly to the course that it has adopted and continue to focus on working effectively with its member banks and customers. We are confident of being able to successfully overcome the challenges.

The following presentation of segment performance relates to the WGZ BANK Group as a whole.

The low-interest-rate environment was clearly reflected in the member banks customer segment in 2015. WGZ BANK did not pass on the negative market interest rate to its member banks, even though they increased their investments of cash in short maturity bands at WGZ BANK because of sustained rises in liquidity. On the other hand, the low interest rates pushed up member banks' demand for asset management support services and for advisory services in connection with managing their own-account investing. Digitization was a major theme in the member banks segment in 2015. In addition to the introduction of paydirekt, an online payment system, interaction with the member banks via digital channels was expanded and WGZ BANK supported the digital networking of the member banks.

In 2016, WGZ BANK will continue to be a complete solution provider for its member banks, offering tailored services, products, and advice. We will also progressively expand our range of products and services, while remaining firmly focused on our own high quality standards and our customers' satisfaction. Operating profit in the member banks customer segment amounted to €15.1 million in 2015, which was slightly more than in 2014 and significantly above our budgeted figure. This was attributable to net interest income being higher than expected and to lower administrative expenses. We have budgeted for a sharp fall in the segment's operating profit in 2016, primarily because administrative expenses are likely to go up.

The corporate customer segment will continue to be characterized by fierce competition in 2016. Competition is expected to rise particularly strongly in the SME customer group because the appeal of this segment will remain high, not least due to positive effects from economic growth and the good funding conditions available for SMEs. Nevertheless, we and the member banks intend to further increase the volume of lending. We will use our innovative strength and great adaptability to ensure we meet customers' growing requirements, which mainly result from the increasing internationalization of this customer group and from digitization. Raising the satisfaction of our customers will again be the basis for our commercial success in 2016 and remains our utmost priority.

The segment's operating profit for 2015 of €116.4 million represented a significant year-on-year improvement and was markedly higher than we had forecast. This rise is due, above all, to the positive contribution to profits from allowances for losses on loans and advances in 2015. We are expecting net allowances for losses on loans and advances to normalize in 2016 and therefore anticipate – even after factoring in continued sales success – that the segment's profit will fall markedly.

European capital markets benefited significantly from the announcement of the ECB's bond-purchase program in the first few months of 2015. This was followed by price corrections in the summer when concerns about Greece remaining in the eurozone flared up again. The markets were also unsettled by the slowdown in China's economic growth. We believe that international capital markets will remain highly volatile in 2016 – as the first few weeks of trading this year have already demonstrated. However, the capital market partners & trading segment will also be characterized by increased customer demands and a steady rise in regulatory requirements in 2016.

The strong volatility that has been increasingly observed in the capital markets in recent years and that we also expect to see in 2016 means that planning in the capital market partners & trading segment remains challenging. That is why we are again taking a cautious approach in our forecast for this segment's operating profit. In 2015, operating profit amounted to €55.5 million, which was substantially higher than our budgeted figure. Based on our conservative planning assumptions and the challenging conditions in the capital markets, we expect the segment's operating profit to be significantly lower in 2016.

In 2015, the real estate segment was dominated by various trends in the real estate market and continued to benefit from the favorable conditions created by low interest rates. There was an increasing shift in demand toward urban areas (reurbanization) in the reporting year. The sustainability of buildings and the energy consumption of real estate were two of the factors that gained importance in investment decisions. But there was also growing demand for new housing concepts, such as microapartments. Given the favorable economic conditions in our real estate segment, we intend to continue to expand our real estate business in 2016. However, we expect competition in this segment to intensify further.

At €36.6 million, this segment's operating profit was down slightly year on year and significantly lower than our forecast for 2015. This was largely due to a sharp rise in fees and commissions paid in connection with lending business, which in turn was caused by the volume of new business significantly exceeding the forecast. As we expect net interest income to rise in this segment as a result of our plan to progressively increase the volume of business, we anticipate that the segment's operating profit will go up substantially in 2016.

Local-authority business, which is the responsibility of WL BANK within the WGZ BANK Group, has been reported in the new public-sector customers segment since 2015. In 2014, local-authority business was still reported in the treasury segment, contributing €13.5 million to its operating profit. The operating profit of the public-sector customers segment increased significantly compared with 2014, reaching €21.0 million in 2015. We forecast that the segment's operating profit will go up slightly in 2016.

Overall, the treasury and investment segments performed significantly better than predicted in 2015 (excluding the effect of remeasurements of long-term equity investments). This was again due to reversals of impairment losses on WL BANK's sovereign portfolio. Because we anticipate that this income will return to normal levels, we do not expect these segments to perform as well in 2016 overall and therefore believe a sharp drop in operating profit is likely (excluding the effect of remeasurements of long-term equity investments).

In view of our expectations in terms of our segments' performance and our cautious estimates for the markets, we anticipate that the WGZ BANK Group's financial performance will decline slightly in 2016. In particular, we predict that net allowances for losses on loans and advances will normalize, having benefited from Germany's benign economic environment in 2015. Based on our expected financial performance in 2016, we forecast a cost/income ratio of slightly below the 50 percent mark for the WGZ BANK Group. We also expect the WGZ BANK Group's funding situation and liquidity situation to be on a par with 2015.

The analysis of the individual segments essentially also applies to the performance of WGZ BANK. However, the real estate segment relates only to WL BANK. In view of the performance of the segments described above and our conservative planning, we expect WGZ BANK's financial performance to return to a normal level in 2016 compared with the very good level achieved in 2015. In particular, we expect the high net fair value gains on securities in the liquidity reserve and the net fair value gains on loans and advances recognized in 2015 to decline significantly in 2016. Despite the aforementioned challenging conditions facing the banking industry in 2016, we are confident of being able to achieve a satisfactory financial performance for WGZ BANK.

**Intended merger of WGZ BANK and DZ BANK**

On November 19, 2015, WGZ BANK and DZ BANK announced that they would be merging to become a joint cooperative central institution. The preparations for the integration of the two banks have made good progress since then. The planned start date for the merged institution is August 1, 2016.

The transaction is structured as a merger by way of acquisition, with the assets of WGZ BANK being transferred to DZ BANK as the acquiring legal entity. In return, the shareholders of WGZ BANK will be granted shares in DZ BANK as part of a capital increase. The exchange ratio will be based on the enterprise valuation of the two institutions.

The planned merger of the two banks will create a joint cooperative central institution focused on its member banks and customers. It will offer its owners significant strategic and business benefits and also open up new opportunities to generate earnings and growth for the primary institutions, the specialized service providers in the cooperative financial network, and the joint central institution. Merging the two central institutions represents the first important step toward establishing a cooperative holding structure.

Specific planning in terms of the financial performance of the joint cooperative central institution will be drawn up as the project progresses. The temporary restructuring expenses resulting from the integration will be offset by the synergies that materialize over time, thereby improving the earnings power of the joint central institution.

Düsseldorf, March 23, 2016
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

| | | |
|---|---|---|
| Hans-Bernd Wolberg<br>– Chief Executive Officer – | Uwe Berghaus | Dr. Christian Brauckmann |
| Karl-Heinz Moll | Michael Speth | |

# Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law and the Articles of Association and continuously monitored WGZ BANK's management team. It was always able to fully ascertain the bank's current situation from the reports and explanations provided by the Board of Managing Directors at their joint meetings. In addition, the Supervisory Board and the Board of Managing Directors held in-depth discussions on particularly important projects and the strategy of WGZ BANK. The planned merger of WGZ BANK and DZ BANK as the first step toward establishing a holding structure for the superstructure of the cooperative financial network featured heavily in the Supervisory Board's deliberations.

The Board of Managing Directors provided the Supervisory Board with regular, timely, and in-depth reports – both written and verbal – on business performance and material transactions. At the Supervisory Board's six regular meetings, the Board of Managing Directors presented detailed information about the progress of business at WGZ BANK and in the WGZ BANK Group as well as about significant loan and investment exposures, planning, the risks assumed, risk management, and major projects.

At its meeting on November 18, 2015, the Supervisory Board was informed of the content of the Memorandum of Understanding that had been unanimously approved by the Boards of Managing Directors of WGZ BANK and DZ BANK and signed by them and by the chairmen of the Supervisory Boards on November 10, 2015. This Memorandum of Understanding sets out the fundamental agreements on the merger of the two cooperative central institutions as part of the implementation of the planned new structure. At its ordinary meeting on December 11, 2015, the Supervisory Board unanimously approved the Memorandum of Understanding.

During the year under review, the committees established by the Supervisory Board regularly held meetings at which they discussed and adopted resolutions. Each committee chairman reported on the committees' work during the regular Supervisory Board meetings.

Following the audit committee's preliminary audit, on which the committee's chairman provided a report, the Supervisory Board itself reviewed the 2015 annual financial statements and management report of WGZ BANK and the WGZ BANK Group as well as the proposal for the appropriation of profit. There were no grounds for complaint. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was elected as the auditor by the Annual General Meeting on June 23, 2015, audited the annual financial statements of WGZ BANK and the WGZ BANK Group, including the bookkeeping system, and issued an unqualified opinion.

Representatives of the auditors attended both the Supervisory Board meeting held on May 4, 2016 to adopt the financial statements and the preparatory meeting held by the audit committee on April 18, 2016 so that they could report in detail on the findings of their audit.

The Supervisory Board did not raise any objections following the concluding findings of its review and it noted the outcome of the audit of the financial statements with approval. It approved the annual financial statements of WGZ BANK and the WGZ BANK Group on this basis. The financial statements have therefore been adopted.

The Supervisory Board also approved and agreed to the Board of Managing Directors' proposal for the appropriation of profit.

The Supervisory Board would like to thank the members of the Board of Managing Directors and the employees of WGZ BANK for their great dedication and their achievements last year.

Düsseldorf, May 4, 2016
The Supervisory Board

Werner Böhnke
– Chairman of the Supervisory Board –

# WGZ BANK annual financial statements for 2015

| ASSETS | € million | € million | € million | Dec. 31, 2014 € million | | |
|---|---|---|---|---|---|---|
| **1. Cash and cash equivalents** | | | | | | |
| a) Cash on hand | | 1.6 | | | 1.5 | |
| b) Balances with central banks | | 245.4 | **247.1** | | 246.9 | 248.4 |
| *of which:* | | | | | | |
| *with Deutsche Bundesbank* | | *245.4* | | | *246.9* | |
| | | | | | | |
| **2. Loans and advances to banks** | | | | | | |
| a) Repayable on demand | | 788.5 | | | 1,225.7 | |
| b) Other loans and advances | | 19,196.9 | **19,985.4** | | 17,277.9 | 18,503.6 |
| *of which:* | | | | | | |
| *to affiliated banks* | *15,378.6* | | | *15,336.0* | | |
| | | | | | | |
| **3. Loans and advances to customers** | | | **9,062.5** | | | 8,509.3 |
| *of which:* | | | | | | |
| *secured by mortgages on real estate* | *2,404.1* | | | *2,391.9* | | |
| *local authority loans* | *607.8* | | | *645.1* | | |
| | | | | | | |
| **4. Bonds and other fixed-income securities** | | | | | | |
| a) Money market instruments | | | | | | |
| aa) from public-sector issuers | - | | | - | | |
| *of which:* | | | | | | |
| *eligible as collateral at Deutsche Bundesbank* | - | | | - | | |
| ab) from other issuers | - | - | | - | - | |
| *of which:* | | | | | | |
| *eligible as collateral at Deutsche Bundesbank* | - | | | - | | |
| b) Bonds | | | | | | |
| ba) from public-sector issuers | 3,659.2 | | | 3,931.5 | | |
| *of which:* | | | | | | |
| *eligible as collateral at Deutsche Bundesbank* | *3,648.0* | | | *3,900.8* | | |
| bb) from other issuers | 5,215.0 | 8,874.2 | | 4,537.8 | 8,469.3 | |
| *of which:* | | | | | | |
| *eligible as collateral at Deutsche Bundesbank* | *3,556.6* | | | *3,247.3* | | |
| c) Own bonds | | 3.3 | **8,877.5** | | - | 8,469.3 |
| *Par value* | *3.0* | | | - | | |
| | | | | | | |
| **5. Shares and other variable-yield securities** | | | **0.8** | | | 0.7 |
| | | | | | | |
| Carried forward: | | | **38,173.3** | | | 35,731.3 |

| EQUITY AND LIABILITIES | € million | € million | **€ million** | Dec. 31, 2014 € million | | |
|---|---|---|---|---|---|---|
| **1. Deposits from banks** | | | | | | |
| a) Repayable on demand | | 6,966.0 | | | 6,230.6 | |
| b) With agreed maturity or notice period | | 21,773.4 | **28,739.4** | | 20,647.7 | 26,878.3 |
| *of which:* | | | | | | |
| *from affiliated banks* | *10,129.9* | | | *10,177.4* | | |
| **2. Amounts owed to other depositors** | | | | | | |
| a) Savings deposits | | - | | | - | |
| b) Other amounts owed to other depositors | | | | | | |
| ba) Repayable on demand | 3,095.6 | | | 3,149.0 | | |
| bb) With agreed maturity or notice period | 1,638.9 | 4,734.6 | **4,734.6** | 3,105.1 | 6,254.1 | 6,254.1 |
| **3. Debt certificates including bonds** | | | | | | |
| a) Bonds issued | | 6,808.9 | | | 7,414.5 | |
| b) Other debt certificates | | - | **6,808.9** | | - | 7,414.5 |
| *of which:* | | | | | | |
| *commercial paper* | - | | | - | | |
| *own acceptances and promissory notes outstanding* | - | | | - | | |
| **3a. Trading securities** | | | **2,731.2** | | | 2,979.2 |
| **4. Trust liabilities** | | | **3.0** | | | 3.7 |
| *of which:* | | | | | | |
| *trust loans* | *3.0* | | | *3.7* | | |
| **5. Other payables** | | | **108.8** | | | 163.7 |
| **6. Deferred income and accrued expenses** | | | **49.9** | | | 49.5 |
| **7. Provisions** | | | | | | |
| a) Provisions for pensions and other post-employment benefits | | 129.3 | | | 120.0 | |
| b) Provisions for taxes | | 33.1 | | | 88.0 | |
| c) Other provisions | | 99.9 | **262.2** | | 94.3 | 302.3 |
| **8. Subordinated liabilities** | | | **740.3** | | | 740.1 |
| **9. Profit-sharing rights** | | | **-** | | | - |
| *of which:* | | | | | | |
| *maturing within two years* | - | | | - | | |
| **10. Fund for general banking risks** | | | **829.1** | | | 829.1 |
| *of which:* | | | | | | |
| *fund under section 340e (4) HGB* | *58.4* | | | *58.4* | | |
| Carried forward: | | | **45,007.3** | | | 45,614.5 |

| ASSETS | € million | € million | € million | Dec. 31, 2014 € million | |
|---|---|---|---|---|---|
| Brought forward: | | | **38,173.3** | | 35,731.3 |
| **5a. Trading securities** | | | **6,745.8** | | 9,592.3 |
| **6. Long-term equity investments and paid-up shares in cooperatives** | | | | | |
| a) Long-term equity investments | | 1,826.9 | | 1,900.5 | |
| *of which:* | | | | | |
| *in banks* | *702.6* | | | *778.3* | |
| *in financial services institutions* | *27.9* | | | *27.9* | |
| b) Paid-up shares in cooperatives | | 2.6 | **1,829.5** | 4.8 | 1,905.3 |
| *of which:* | | | | | |
| *in local cooperative banks* | *2.0* | | | *2.0* | |
| *in financial services institutions* | - | | | - | |
| **7. Shares in affiliated companies** | | | **789.1** | | 789.1 |
| *of which:* | | | | | |
| *in banks* | *625.9* | | | *625.9* | |
| *in financial services institutions* | - | | | - | |
| **8. Trust assets** | | | **3.0** | | 3.7 |
| *of which:* | | | | | |
| *trust loans* | *3.0* | | | *3.7* | |
| **9. Intangible assets** | | | **20.1** | | 16.9 |
| **10. Property, plant and equipment** | | | **44.3** | | 45.5 |
| **11. Other assets** | | | **117.9** | | 108.1 |
| **12. Prepaid expenses and accrued income** | | | **45.7** | | 58.9 |
| **Total assets** | | | **47,768.7** | | 48,251.1 |

| EQUITY AND LIABILITIES | € million | € million | **€ million** | Dec. 31, 2014 € million | | |
|---|---|---|---|---|---|---|
| Brought forward: | | | **45,007.3** | | | 45,614.5 |
| **11. Equity** | | | | | | |
| a) Subscribed capital | | 714.3 | | | 714.3 | |
| b) Capital reserves | | 597.0 | | | 597.0 | |
| c) Revenue reserves | | | | | | |
| ca) Statutory reserve | 354.0 | | | 354.0 | | |
| cb) Reserves provided for by the Articles of Association | 239.0 | | | 204.0 | | |
| cc) Other revenue reserves | 737.6 | 1,330.6 | | 659.1 | 1,217.1 | |
| d) Distributable profit | | 119.5 | **2,761.4** | | 108.2 | 2,636.6 |
| **Total equity and liabilities** | | | **47,768.7** | | | 48,251.1 |
| **1. Contingent liabilities** | | | | | | |
| a) Contingent liabilities arising from rediscounted bills | - | | | - | | |
| b) Liabilities under guarantees and indemnity agreements | 2,604.3 | | | 3,395.2 | | |
| c) Liability arising from assets pledged as security for third-party liabilities | 105.0 | 2,709.3 | | 105.0 | 3,500.2 | |
| **2. Other obligations** | | | | | | |
| Irrevocable loan commitments | | 3,957.2 | | | 3,651.3 | |

| EXPENSES | € million | € million | **€ million** | 2014 € million | | |
|---|---|---|---|---|---|---|
| **1. Interest expense** | | | **617.0** | | | 704.4 |
| *of which:* | | | | | | |
| *positive interest on banking business* | *6.2* | | | | | |
| **2. Fee and commission expenses** | | | **142.9** | | | 105.0 |
| **3. General and administrative expenses** | | | | | | |
| a) Staff expenses | | | | | | |
| aa) Wages and salaries | 102.4 | | | 103.3 | | |
| ab) Social security, post-employment and other employee benefit expenses | 18.8 | 121.2 | | 20.6 | 123.9 | |
| *of which:* | | | | | | |
| *post-employment benefit expenses* | *4.7* | | | *7.1* | | |
| b) Other administrative expenses | | 108.1 | **229.3** | | 107.1 | 230.9 |
| **4. Amortization and write-downs on intangible assets, and depreciation and write-downs on property, plant and equipment** | | | **9.5** | | | 9.1 |
| **5. Other operating expenses** | | | **29.1** | | | 11.6 |
| **6. Allowances for and write-downs on losses on loans and advances and certain securities, and additions to provisions for losses on loans and advances** | | | **-** | | | - |
| **7. Addition to fund for general banking risks** | | | **-** | | | - |
| **8. Write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets** | | | **61.7** | | | 4.4 |
| **9. Expenses from the transfer of losses** | | | **0.8** | | | 27.4 |
| **10. Extraordinary expenses** | | | **3.2** | | | 36.2 |
| **11. Income taxes** | | | **93.9** | | | 75.2 |
| **12. Other taxes not included under item 5** | | | **-2.6** | | | 2.2 |
| **13. Net income for the year** | | | **174.8** | | | 166.4 |
| **Total expenses** | | | **1,359.6** | | | 1,372.8 |

| INCOME | € million | € million | € million | 2014 € million | |
|---|---|---|---|---|---|
| **1. Interest income from** | | | | | |
| a) Lending and money market business | | 626.0 | | 709.2 | |
| *of which:* | | | | | |
| *negative interest on lending and money market business* | *-1.4* | | | | |
| b) Fixed-income securities and book-entry securities | | 156.0 | **782.1** | 168.2 | 877.4 |
| *of which:* | | | | | |
| *negative interest on fixed-income securities* | - | | | | |
| **2. Current income from** | | | | | |
| a) Shares and other variable-yield securities | | 0.0 | | 0.0 | |
| b) Long-term equity investments and paid-up shares in cooperatives | | 112.8 | | 101.9 | |
| c) Shares in affiliated companies | | - | **112.8** | - | 101.9 |
| **3. Income from profit-pooling, profit-transfer and partial profit-transfer agreements** | | | **24.2** | | 13.8 |
| **4. Fee and commission income** | | | **252.9** | | 221.5 |
| **5. Net trading income** | | | **90.7** | | 80.5 |
| **6. Income from the reversal of write-downs on losses on loans and advances and certain securities, and from the reversal of provisions for losses on loans and advances** | | | **77.3** | | 68.2 |
| **7. Income from the reversal of write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets** | | | **-** | | - |
| **8. Other operating income** | | | **19.5** | | 9.5 |
| **9. Extraordinary income** | | | **-** | | - |
| **Total income** | | | **1,359.6** | | 1,372.8 |
| **1. Net income for the year** | | | **174.8** | | 166.4 |
| **2. Profit brought forward from 2014** | | | **-** | | - |
| | | | **174.8** | | 166.4 |
| **3. Additions to revenue reserves** | | | | | |
| a) To statutory reserve | | - | | - | |
| b) To reserves provided for by the Articles of Association | | 35.0 | | 33.3 | |
| c) To other revenue reserves | | 20.3 | **55.2** | 24.9 | 58.2 |
| **4. Distributable profit** | | | **119.5** | | 108.2 |

# I. Basis of preparation

The annual financial statements of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK), which is entered in the commercial register of the Düsseldorf local court under HRB 52363, have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the Statutory Order on the Accounts of Banks and Financial Services Institutions (RechKredV). The annual financial statements also comply with the provisions of the German Stock Corporation Act (AktG) and the Articles of Association of WGZ BANK. WGZ BANK has made use of available options to include disclosures in the notes to the financial statements rather than on the balance sheet and income statement.

# II. Accounting policies

The accounting policies applied in 2015 were essentially the same as those used in 2014. The recognition and measurement of protection seller positions on equity indices was adjusted in line with the requirements in the new version of IDW AcP BFA 1. From now on, the income from and expenses on these transactions is shown as other net operating income/expense instead of as net fee and commission income.

As in WGZ BANK's internal management accounting system, internal interest-rate derivative transactions between the trading and non-trading portfolios are recognized and measured in the same way as external transactions, but are reported on a net basis under the relevant balance sheet items.

Expenses arising in connection with investments are offset against the corresponding investment income; likewise, fair value gains and losses on the measurement of loans and advances and the securities in the liquidity reserve, including repurchased own issues, are reported as a net figure.

Starting in the year under review, negative interest is disclosed on a net basis under interest income for loans and advances and under interest expense for liabilities. Negative interest had not been incurred on a significant scale in 2014.

Liabilities and contingent liabilities are only recognized on the balance sheet if a review of the relevant risk situation shows that the occurrence of a loss is highly probable. The risk that a liability will crystallize is assessed in the same way as the assessment of credit risk on loans and advances. In order to cover specific risks arising from guarantees, indemnity agreements, and irrevocable loan commitments, the bank recognizes provisions of an appropriate amount and reduces the liabilities shown on the balance sheet by a corresponding sum.

The balance sheet is prepared with the inclusion of a partial appropriation of the net income for the year.

## Fixed assets

Assets used to support business operations over the long term are measured in accordance with the rules applicable to fixed assets. Intangible assets are carried at cost and, where applicable, reduced by amortization based on estimated useful life. Similarly, property, plant and equipment is measured at cost and, if depreciable, reduced by depreciation based on the estimated useful life of the asset concerned. Shares in affiliated companies, other long-term equity investments, and paid-up shares in cooperatives are carried at the lower of cost and fair value.

Bonds and other fixed-income securities intended to be held to maturity are recognized at the lower of cost and nominal amount. Within these portfolios, securities with a total carrying amount of €165.0 million (excluding pro rata interest) are not recognized at the lower fair value of €162.2 million because WGZ BANK does not expect the impairment to be permanent given the excellent credit ratings of the securities concerned and the information available to the bank at the present time.

## Current assets

Cash and cash equivalents are stated at their nominal amounts; loans and advances to banks and customers, other loans and advances, and other non-trading assets are carried at their principal amounts. Differences between the principal amount and the amount disbursed are recognized under prepaid expenses or deferred income (depending on the nature of the difference) and apportioned pro rata over the term of the loan.

As dictated by prudent business practice, adequate allowances are recognized for losses on loans and advances to banks and customers that could arise in connection with all identifiable individual and country risks. Latent credit risk in respect of these loans and advances is taken into account in the form of general loan loss allowances. General loan loss allowances for latent credit risk are determined on the basis of credit structure data (expected loss). WGZ BANK also recognizes non-tax-deductible allowances for general banking risks as permitted by section 340f HGB.

Securities in the liquidity reserve are recognized and measured strictly at the lower of cost and fair value. Fair values are determined by reference to current market prices or by using valuation methods based on the latest data for market parameters, such as yield curves, spreads, and volatility. Securities with a nominal value of €187.7 million within the overall securities portfolio and a portion of credit derivatives (in which WGZ BANK is the protection seller) with a nominal value of €82.5 million are recognized together with credit derivatives in which WGZ BANK is the protection buyer as micro-hedges in order to hedge issuer default risk. Hedge effectiveness is achieved by closely matching hedged items and hedging instruments in terms of credit risk and maturity. In application of section 254 HGB, gains and losses on measurement of specific hedged items and hedging instruments are initially recognized in accordance with the HGB imparity principle, i.e. unrealized losses are recognized, but any unrealized gains are not recognized. Fair value gains and losses on hedges are recognized on the balance sheet under other assets up to a maximum amount of the gains and losses on hedged items, the amount recognized as at December 31, 2015 being €3.9 million. Non-trading credit derivatives in which WGZ BANK is the protection buyer and for which hedge accounting is not applied along with non-trading protection-seller transactions are measured individually and in accordance with the HGB imparity principle as required by IDW AcP BFA 1. Like guarantees, non-trading protection-seller transactions for individual exposures are subject to an evaluation of the necessity for loss allowances. The transactions are shown under contingent liabilities or, in the case of loss allowances being recognized, under other provisions.

### Liabilities

Liabilities are recognized at the settlement amount. Differences between notional amounts and amounts disbursed are recognized under prepaid expenses or deferred income (depending on the nature of the difference) and apportioned pro rata over the term of the liability. Capital-related bonds, in which interest payments or repayments of principal are not solely subject to interest-rate risk, are recognized at their nominal amounts, with any related options being recognized and measured separately.

### Provisions

Provisions are recognized at the settlement amount. Provisions for pensions and other post-employment benefits include future changes in wages, salaries, and pension benefit payments; other provisions include future changes in prices and costs. Pension provisions are calculated using the projected unit credit method based on actuarial principles, the key parameters being a discount rate of 3.89 percent, annual growth in wages and salaries of 3.0 percent, an annual increase in pension benefits of 2.0 percent, and an annual employee turnover rate of 5.0 percent. The calculations use the 2005 G mortality tables published by Professor Klaus Heubeck. Based on the requirements of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Public Auditors in Germany] set out in its accounting principle IDW AcP HFA 30, no. 65, a discount rate of 3.89 percent is used. This discount rate was forecast on the basis of the discount rates published by Deutsche Bundesbank up to September 30, 2015 and based on the assumption that current market conditions would continue unchanged until December 31, 2015. In accordance with section 253 (2) sentence 2 HGB, this discount rate equates to the average market interest rate for the past seven years published by Deutsche Bundesbank for an assumed residual maturity of 15 years. The option to extend the period for which the average was calculated from seven years to ten years was not used.

No requirement to recognize a provision arises from the measurement of interest-linked contracts in the banking book (non-trading) at present value taking into account closure costs, administrative expenses, and risk costs within the meaning of IDW AcP BFA 3. All on-balance-sheet and off-balance-sheet interest-linked financial instruments that are not trading securities are measured on the basis of the bank classification documented in internal risk management. Transactions without fixed repayment agreements are included in the calculation using modeled fictional maturity dates. Suitable money market and capital market rates are used to calculate the closure costs of surplus amounts with different maturity dates. Administrative expenses are determined using contribution margins relating to individual transactions and using cost-center accounting. Risk costs are included on the basis of the future losses expected for the residual maturities.

Other provisions that are recognized for more than one year are discounted using the average market interest rate over the preceding seven years for matching maturities as specified by section 253 (2) sentence 1 HGB. Other provisions are recognized at an adequate level and factor in contingent liabilities and anticipated losses.

### Deferred taxes

As permitted by section 274 (1) sentence 2 HGB, WGZ BANK elects not to recognize excess deferred tax assets (largely resulting from the non-tax-deductible allowances for general banking risks in accordance with section 340f HGB) after offsetting against deferred tax liabilities. If the excess deferred tax assets were to be recognized, they would be measured on the basis of a tax rate of 31.4 percent.

## Trading securities

Trading securities comprise bonds and other fixed-income securities, shares and other variable-yield securities, promissory notes, registered bonds, fixed-term foreign currency deposits (placed and accepted), bonds issued (largely investment certificates), and derivatives such as interest-rate, currency, credit, and equity derivatives including internal interest-rate derivatives arranged between trading securities and the banking book. The internal criteria for the classification of financial instruments as trading securities are unchanged on those applied in 2014.

Financial instruments held as trading securities are measured at fair value in accordance with section 340e (3) HGB. Fair value gains and losses are reduced by a value-at-risk adjustment of €8.0 million (based on a confidence level of 99 percent, a holding period of 10 days, with volatilities and correlations computed recursively over an observation period of more than 250 days). The value-at-risk adjustment, which is determined with the help of mathematical models, describes the potential loss from a risk exposure and is based on regulatory requirements specified in the German Solvency Regulation (SolvV). The fair values of the financial instruments are determined by reference to current market prices or by using generally accepted valuation models and methods based on the latest data for market parameters, such as yield curves, spreads, and volatility. Unsecured, positive fair values are adjusted for credit risk on the basis of probabilities of default for the counterparties involved. The computation of fair values is consistent with the valuation models used in the internal risk management system.

Derivatives held for trading purposes had been netted on a counterparty-specific basis for the first time in 2014, provided they were concluded under master agreements together with a credit support annex (CSA) with daily exchange of collateral. The netting gives a picture of financial circumstances. For each counterparty, the netting encompasses both the carrying amount of the derivatives and the collateral shown under receivables or liabilities. Similarly, the scope of netting for over-the-counter (OTC) derivatives concluded with the same central clearing partner has been extended to include the collateral. Positive fair values originally reported under financial assets held for trading of €1.2 billion, negative fair values originally reported under financial liabilities held for trading of €2.8 billion, and the corresponding collateral shown under receivables of €1.7 billion and liabilities of €0.1 billion were netted in total in 2015.

In addition to realized gains and losses and fair value gains and losses, the net trading income includes fee and commission income, net interest income, and dividend income in connection with trading assets and trading liabilities – adjusted for imputed funding and investment interest – together with gains and losses arising from currency translation.

An addition pursuant to section 340e (4) HGB to the fund for general banking risks pursuant to section 340g HGB is included in the figure reported for net trading income.

## Currency translation

Transactions denominated in foreign currency are translated in accordance with section 256a HGB in conjunction with section 340h HGB. Fixed assets denominated in foreign currency are translated into euros at the rate prevailing on the date of purchase. Receivables and payables denominated in foreign currency, together with any anticipated spot transactions, are translated at the reference rates specified by the European Central Bank (ECB) or the open market middle rates on the balance sheet date or the last trading day. Currency risk arising in connection with banking book on-balance-sheet transactions denominated in foreign currency is passed on to trading securities by means of internal transactions, regardless of the residual maturity of the underlying transaction. The foreign currency positions are treated and managed as independent trading securities irrespective of their origin (trading book or banking book). Given these arrangements, all banking book on-balance-sheet transactions denominated in foreign currency are classified as specifically covered within the meaning of section 340h HGB and the gains and losses from currency translation are recognized in net trading income in accordance with section 340e (3) HGB. Currency forwards are measured at the forward rates prevailing on the balance sheet date. Anticipated currency option transactions are measured using generally accepted, standardized option pricing models (mainly Garman-Kohlhagen).

# III. Balance sheet disclosures – assets –

| | € million | Dec. 31, 2014 € million |
|---|---|---|
| **Loans and advances to banks** | | |
| Breakdown by residual maturity: | | |
| Repayable on demand | 788.5 | 1,225.8 |
| Up to three months | 2,777.9 | 1,661.7 |
| Between three months and one year | 1,509.0 | 1,388.2 |
| Between one year and five years | 6,208.0 | 5,938.8 |
| More than five years | 8,702.0 | 8,289.1 |
| Total | 19,985.4 | 18,503.6 |
| of which attributable to: | | |
| Affiliated banks | 15,378.6 | 15,336.0 |
| DZ BANK AG Deutsche Zentral-Genossenschaftsbank | 32.1 | 5.3 |
| Affiliated companies | 2,808.7 | 1,190.3 |
| Other long-term investees and investors | 73.2 | 107.3 |
| **Loans and advances to customers** | | |
| Breakdown by residual maturity: | | |
| Up to three months | 907.5 | 957.1 |
| Between three months and one year | 747.8 | 858.1 |
| Between one year and five years | 3,682.6 | 3,266.9 |
| More than five years | 3,025.7 | 2,715.8 |
| No fixed maturity | 698.9 | 711.4 |
| Total | 9,062.5 | 8,509.3 |
| of which attributable to: | | |
| Affiliated companies | 61.2 | 63.7 |
| Other long-term investees and investors | 102.0 | 89.2 |
| **Bonds and other fixed-income securities** | | |
| Listed on a stock exchange | 7,970.9 | 7,667.1 |
| Not listed on a stock exchange | 906.7 | 802.2 |
| Marketable | 8,877.5 | 8,469.3 |
| of which attributable to: | | |
| Securities maturing in subsequent year | 530.0 | 551.8 |
| Affiliated companies | - | 0.0 |
| Other long-term investees and investors | 25.6 | 25.6 |
| Securities subject to sale and repurchase agreements (repos) | 619.3 | 11.4 |

| | € million | Dec. 31, 2014 € million |
|---|---|---|
| **Shares and other variable-yield securities** | | |
| of which: | | |
| Listed on a stock exchange | 0.0 | 0.0 |
| Not listed on a stock exchange | - | - |
| Marketable | 0.0 | 0.0 |
| **Trading securities** | | |
| Derivatives | 2,135.4 | 2,574.2 |
| Receivables | 1,799.1 | 2,471.1 |
| Bonds and other fixed-income securities | 2,809.0 | 4,546.4 |
| Shares and other variable-yield securities | 10.3 | 7.3 |
| Value-at-risk adjustment | -8.0 | -6.7 |
| Total | 6,745.8 | 9,592.3 |
| of which attributable to: | | |
| Affiliated companies | 1,042.0 | 1,231.5 |
| Other long-term investees and investors | 201.8 | 185.7 |
| Foreign currencies | 1,945.1 | 1,961.0 |
| Securities pledged as collateral | 340.6 | 316.0 |
| **Long-term equity investments and paid-up shares in cooperatives** | | |
| of which: | | |
| Listed on a stock exchange | - | - |
| Not listed on a stock exchange | 2.4 | 3.4 |
| Marketable | 2.4 | 3.4 |
| **Shares in affiliated companies** | | |
| of which: | | |
| Listed on a stock exchange | - | - |
| Not listed on a stock exchange | - | - |
| Marketable | - | - |
| **Trust assets** | | |
| Loans and advances to banks | 3.0 | 3.7 |
| Loans and advances to customers | - | - |

| | Dec. 31, 2014 | |
|---|---|---|
| | **€ million** | € million |
| **Intangible assets** | | |
| Purchased concessions, | | |
| industrial and similar rights | | |
| and assets, including licenses | | |
| for such rights and assets | **14.6** | 14.3 |
| Payments in advance | **5.5** | 2.6 |
| Total | **20.1** | 16.9 |
| **Property, plant and equipment** | | |
| Land and buildings used | | |
| for own operations | **38.6** | 41.0 |
| Office furniture and equipment | **5.7** | 4.5 |
| Total | **44.3** | 45.5 |
| **Other assets** | | |
| Entitlements from long-term equity | | |
| investments and affiliated companies | **51.4** | 40.6 |
| Premiums on other option purchases | **11.8** | 5.2 |
| Tax assets | **31.8** | 41.1 |
| - of which relating to | | |
| corporation tax credits | **26.0** | 38.1 |
| Adjustment relating to | | |
| hedge accounting | **3.9** | 1.4 |
| Other | **19.1** | 19.8 |
| Total | **117.9** | 108.1 |
| **Prepaid expenses and accrued income** | | |
| of which attributable to: | | |
| Premiums on loans and advances | **20.0** | 24.6 |
| Discounts on liabilities | **2.4** | 2.9 |
| Upfront payments on interest-rate | | |
| derivatives | **19.0** | 28.0 |

| | Dec. 31, 2014 | |
|---|---|---|
| | **€ million** | € million |
| **Subordinated assets** | | |
| are included in: | | |
| Other loans and advances to banks | **90.8** | 90.8 |
| - of which attributable to affiliated | | |
| companies | **90.0** | 90.0 |
| Bonds and other | | |
| fixed-income securities | **0.0** | 40.0 |
| Trading securities | **6.0** | 20.9 |
| **Assets denominated in** | | |
| **foreign currency** | | |
| with a value equivalent to | **2,632.1** | 2,504.5 |

# IV. Balance sheet disclosures – equity and liabilities –

| | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| **Deposits from banks** | | |
| Breakdown by residual maturity: | | |
| Repayable on demand | **6,966.0** | 6,230.6 |
| Up to three months | **2,481.5** | 1,177.5 |
| Between three months and one year | **1,842.5** | 2,337.6 |
| Between one year and five years | **7,127.6** | 7,263.5 |
| More than five years | **10,321.8** | 9,869.1 |
| Total | **28,739.4** | 26,878.3 |
| of which attributable to: | | |
| Affiliated banks | **10,129.9** | 10,177.4 |
| DZ BANK AG Deutsche Zentral-Genossenschaftsbank | **250.5** | 59.7 |
| Affiliated companies | **739.7** | 49.7 |
| Other long-term investees and investors | **1,388.3** | 1,417.8 |
| **Amounts owed to other depositors** | | |
| Breakdown by residual maturity: | | |
| Repayable on demand | **3,095.6** | 3,149.0 |
| Up to three months | **1,233.0** | 2,592.9 |
| Between three months and one year | **121.1** | 137.8 |
| Between one year and five years | **58.4** | 87.9 |
| More than five years | **226.5** | 286.5 |
| Total | **4,734.6** | 6,254.1 |
| of which attributable to: | | |
| Affiliated companies | **160.9** | 134.2 |
| Other long-term investees and investors | **151.5** | 60.3 |
| **Debt certificates including bonds** | | |
| a) Bonds issued | **6,808.9** | 7,414.5 |
| b) Other debt certificates | | |
| Breakdown by residual maturity: | | |
| Up to three months | **-** | - |
| Between three months and one year | **-** | - |
| Between one year and five years | **-** | - |
| More than five years | **-** | - |
| Total | **6,808.9** | 7,414.5 |
| of which attributable to: | | |
| Bonds issued maturing in subsequent year | **933.0** | 1,155.5 |
| Affiliated companies | **-** | - |

A disproportionate amount of time, effort, and expense would be required to determine disclosures on debt certificates including bonds in respect of other long-term investees and investors. For this reason, no such disclosures have been made.

| | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| **Trading securities** | | |
| Derivatives | **727.3** | 1,063.8 |
| Liabilities | **1,425.9** | 1,257.5 |
| Debt certificates including bonds | **578.0** | 657.9 |
| Total | **2,731.2** | 2,979.2 |
| of which attributable to: | | |
| Affiliated companies | **110.8** | 142.4 |
| Other long-term investees and investors | **194.1** | 247.2 |
| Foreign currencies | **1,618.0** | 2,054.8 |
| **Trust liabilities** | | |
| Deposits from banks | **3.0** | 3.7 |
| **Other payables** | | |
| Transfer of losses from affiliated companies | **0.8** | 27.4 |
| Accrued interest for subordinated liabilities | **12.4** | 12.4 |
| Variation margin | **-** | - |
| Premiums on other option sales | **4.2** | 0.3 |
| Other | **91.4** | 123.6 |
| Total | **108.8** | 163.7 |
| **Deferred income and accrued expenses** | | |
| Premium on bonds issued | **32.7** | 36.2 |
| Discounts on loans and advances | **14.5** | 11.1 |
| Other | **2.7** | 2.2 |
| Total | **49.9** | 49.5 |
| **Other provisions** | | |
| Staff-related | **26.6** | 27.5 |
| For losses on loans and advances | **50.0** | 50.0 |
| For anticipated losses in connection with derivatives | **7.5** | 2.5 |
| Other | **15.8** | 14.3 |
| Total | **99.9** | 94.3 |

| | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| **Subordinated liabilities** | **740.3** | 740.1 |
| of which attributable to: | | |
| Affiliated companies | - | - |
| Other long-term investees and investors | **15.0** | 15.0 |
| Expenses incurred in connection with subordinated liabilities | **36.3** | 31.2 |

As at December 31, 2015, the subordinated liabilities comprised 54 registered promissory note loans, four bearer bonds, and one registered bond with a conversion right. WGZ BANK took up subordinated liabilities totaling €0.2 million during the year under review. In the event of insolvency, the capital will only be repaid after all amounts due to non-subordinated creditors have first been settled. In respect of the registered bond with a conversion right that was issued in 2014 with a nominal value of €128.0 million, there will be an option of voluntary conversion by the creditors or mandatory conversion by the issuer after the end of December 3, 2019. One unit can be converted into 110 shares. The bond has a coupon of 5.0 percent. Early redemption by the issuer is possible at any time if necessary for regulatory reasons. There are no other plans or agreements to convert these liabilities into equity; there are no other early redemption obligations. The total amount of subordinated liabilities includes not only the aforementioned registered bond with a conversion right but also another bond, the value of which exceeds 10 percent of the total amount. This bond is a subordinated bearer bond with a value of €95.4 million and a coupon of 2.3 percent, and will mature in 2021. The remaining subordinated liabilities have original maturities of between 10 and 20 years with an average coupon of 5.82 percent.

| | | |
|---|---|---|
| **Profit-sharing rights** | - | - |

WGZ BANK did not issue any new profit-sharing rights in the year under review.

| | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| **Equity** | | |
| Subscribed capital | | |
| Balance as at January 1, 2015 | **714.3** | 649.4 |
| Additions | **0.0** | 64.9 |
| Balance as at December 31, 2015 | **714.3** | 714.3 |
| | | |
| Capital reserves | | |
| Balance as at January 1, 2015 | **597.0** | 369.7 |
| Additions | **0.0** | 227.3 |
| Balance as at December 31, 2015 | **597.0** | 597.0 |
| | | |
| Revenue reserves | | |
| Statutory reserve | **354.0** | 354.0 |
| Reserves provided for by Articles of Assoc. | **239.0** | 204.0 |
| of which: addition from net income for year | **35.0** | 33.3 |
| Other revenue reserves | **737.6** *) | 659.1 |
| of which: addition from distributable profit for prior year | **58.2** | 33.9 |
| of which: addition from net income for year | **20.3** | 24.9 |
| | **1,330.6** | 1,217.1 |
| | | |
| Distributable profit | **119.5** | 108.2 |
| of which: from profit brought forward | - | - |
| | | |
| Total | **2,761.4** | 2,636.6 |

*) Before the addition from the net income for 2015 in accordance with the proposed appropriation of profits.

WGZ BANK's subscribed capital comprises share capital of €714,340,000.00. It is divided into 7,143,400 registered no-par-value shares (subject to transfer restrictions), each with an imputed share of the capital amounting to €100.00. At the Annual General Meeting of WGZ BANK on June 24, 2014, the existing authorization to increase capital in return for capital contributions was cancelled and the Board of Managing Directors was authorized, subject to the approval of the Supervisory Board, to increase the share capital of WGZ BANK until June 24, 2019 on one or more occasions by a total of up to €200,000,000.00 by issuing new shares in return for capital contributions. In order to fulfill the conversion rights and/or conversion obligations relating to the convertible bond that was issued, the Board of Managing Directors was also authorized, at the suggestion of the Board of Managing Directors and Supervisory Board, to increase the share capital by up to €35,717,000.00 on a conditional basis by issuing up to 357,170 new, registered no-par-value shares. Article 6 of the Articles of Association of WGZ BANK was amended to reflect the resolutions on authorized capital and conditional capital.

| | Dec. 31, 2015 € million | Dec. 31, 2014 € million |
|---|---|---|
| **Liabilities denominated in foreign currency** | | |
| with a value equivalent to | **2,780.6** | 3,163.7 |
| **Assets transferred as collateral** | | |
| In connection with deposits from banks: | | |
| Receivables assigned to cover liabilities related to funds designated for special purposes | **14,236.6** | 13,643.8 |
| In connection with amounts owed to other depositors: | | |
| Pledged as collateral for open-market operations, exchange-traded forward transactions, and in relation to collateral agreements as part of OTC trading business | **4,074.4** | 3,679.1 |
| **Contingent liabilities** | | |
| Arising from guarantees and indemnity agreements | **2,604.3** | 3,500.2 |
| Arising from assets pledged as security for third-party liabilities | **105.0** | 105.0 |
| **Other obligations** | | |
| Irrevocable loan commitments to banks | **1,473.9** | 1,414.6 |
| Irrevocable loan commitments to customers | **2,483.3** | 2,236.7 |

After reviewing the risk situation in connection with guarantees and indemnity agreements, WGZ BANK is not currently expecting any of these contingent liabilities to crystallize. Provisions in an appropriate amount have been recognized for specific risks associated with liabilities reported below the line on the balance sheet, and the items below the line have been reduced accordingly.

# V. Income statement disclosures

### Income from profit-pooling, profit-transfer and partial profit-transfer agreements

This line item contains corporation tax and trade tax gains allocated to the tax groups amounting to €19.1 million. Correspondingly, this amount is included under income taxes.

### Other net operating income

Other net operating income included a negative amount of €11.1 million arising from the unwinding of the discount in connection with the measurement of provisions for pensions and other post-employment benefits. For the first time, it also included an expense of €13.8 million from the measurement of protection seller positions on equity indices in accordance with the requirements of the new version of IDW AcP BFA 1 in conjunction with IDW AcP BFA 6. The corresponding income was €11.1 million. These effects had been included in net fee and commission income in 2014.

### Expenses from the transfer of losses

The expenses from the transfer of losses comprise €0.6 million related to Impetus Bietergesellschaft mbH and €0.1 million related to Phoenix Beteiligungsgesellschaft mbH.

### Write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets

Of this line item, €75.0 million was attributable to a write-down of DZ PRIVATBANK S.A. and €2.4 million to a write-down of VR Corporate Finance GmbH. Income from disposals of long-term equity investments amounted to €18.3 million in 2015. A write-down of €4.9 million was recognized on 50 percent of the nominal value of a bond of HETA Asset Resolution AG. From now on, the bond will be recognized under other assets.

### Net extraordinary income

The extraordinary expenses resulted from exchange-rate changes in connection with the disposal of Volksbank Romania S.A. in 2015.

# VI. Other financial obligations and letters of comfort

### Other financial obligations

WGZ BANK is a member of the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks]. This scheme comprises a guarantee fund and a guarantee network. As a participant in the guarantee network, WGZ BANK has entered into a guarantee obligation, the value of which is ten times the basic contribution to the guarantee fund (€47.5 million). In addition, a contribution guarantee has been made to BVR Institutssicherung GmbH (BVR-ISG) in accordance with section 7 of the declaration of accession and general undertaking made in respect of BVR-ISG's bank-related protection scheme. This guarantee relates to the annual contributions required to reach the target volume as well as the payment obligations, special contributions, and special payments to be made if the available funds are not sufficient to compensate the depositors of a CRR bank belonging to the bank-related protection scheme following a compensation event, and the obligations to replace financial resources used for funding measures. Furthermore, WGZ BANK made an irrevocable payment commitment to the Bundesanstalt für Finanzmarktstabilisierung (FMSA) [Federal Agency for Financial Market Stabilization] after the bank's application to furnish collateral in partial settlement of the contribution to the bank levy was accepted by FMSA. Other contingencies and commitments that do not appear on the balance sheet are not material to any assessment of the financial position of WGZ BANK. Such contingencies and commitments relate to balancing arrangements in collateral pooling agreements, liability obligations under Articles of Association, and liability up to a certain level in connection with shares in cooperatives.

### Letters of comfort

Subject to the exclusion of political risk, WGZ BANK has given undertakings that it will ensure WL BANK Westfälische Landschaft Bodenkreditbank and WGZ BANK Ireland plc will be able to meet their obligations.

# VII. Derivatives

| COUNTERPARTY STRUCTURE | Positive fair values € million |
|---|---|
| OECD central governments and stock exchanges | 169.3 |
| OECD banks | 2,426.7 |
| OECD financial services institutions | 25.6 |
| Other companies, private individuals | 267.9 |
| Non-OECD central governments | - |
| Non-OECD banks | - |
| Non-OECD financial services institutions | - |
| Total | 2,889.5 |

The positive fair values reflect the maximum counterparty risk as at the balance sheet date. They are the total of all positive contract fair values and exclude any offsetting of negative contract fair values, deduction of collateral, or weighting based on credit rating. As at the balance sheet date, the loan equivalent exposure (LEQ) calculated in accordance with the regulatory provisions of the Capital Requirements Regulation (CRR) and relevant to counterparty risk amounted to €3,217 million. After factoring in credit rating weightings, this represents approximately 4 percent of the positions subject to capital charges as defined by the CRR.

WGZ BANK has entered into the transactions listed in the following table for the most part in order to hedge fluctuations in interest rates, exchange rates or other types of changes in market prices as part of its trading activities. The listed transactions also include some of the transactions used to hedge interest-rate and exchange-rate fluctuations in connection with general banking business.

| PRODUCT STRUCTURE AND NOMINAL AMOUNT | Nominal amount by time to maturity Up to 1 year € million | 1–5 years € million | > 5 years € million | Total € million | Fair value Negative € million | Positive € million |
|---|---|---|---|---|---|---|
| **Interest-linked contracts** | **9,257.2** | **33,341.7** | **34,907.3** | **77,506.3** | **2,781.1** | **2,211.9** |
| of which attributable to: | | | | | | |
| OTC products | | | | | | |
| Interest-rate swaps (same currency) | 8,190.0 | 32,224.1 | 33,323.6 | 73,737.7 | 2,726.5 | 2,182.7 |
| Interest-rate options – call | 208.5 | 233.0 | 750.0 | 1,191.5 | - | 28.9 |
| Interest-rate options – put | 373.5 | 774.3 | 833.8 | 1,981.6 | 54.0 | 0.1 |
| Exchange-traded products | | | | | | |
| Interest-rate futures | 485.3 | 110.2 | - | 595.5 | 0.6 | 0.2 |
| **Currency-linked contracts** | **56,719.3** | **1,538.1** | **-** | **58,257.4** | **494.4** | **558.4** |
| of which attributable to: | | | | | | |
| OTC products | | | | | | |
| Forward forex transactions | 56,383.6 | 1,519.2 | - | 57,902.7 | 491.6 | 556.0 |
| Forex options – call | 181.8 | 9.5 | - | 191.3 | 0.8 | 1.6 |
| Forex options – put | 153.9 | 9.5 | - | 163.4 | 2.0 | 0.8 |
| **Share-/index-linked contracts** | **146.5** | **311.6** | **281.3** | **739.4** | **59.6** | **4.2** |
| of which attributable to: | | | | | | |
| OTC products | | | | | | |
| Share/index swaps | 2.0 | 270.5 | 267.5 | 539.9 | 52.2 | 2.0 |
| Share/index options – call | 9.0 | - | 6.9 | 15.9 | - | 2.2 |
| Share/index options – put | 42.0 | 26.4 | 6.9 | 75.3 | 4.2 | - |
| Exchange-traded products | | | | | | |
| Share/index futures | 28.5 | 0.1 | - | 28.6 | 0.1 | 0.0 |
| Share/index options – call | - | - | - | - | - | - |
| Share/index options – put | 65.1 | 14.6 | - | 79.7 | 3.2 | - |
| **Other contracts** | **462.0** | **3,235.8** | **886.6** | **4,584.4** | **147.7** | **115.1** |
| of which attributable to: | | | | | | |
| OTC products | | | | | | |
| Cross-currency swaps *) | 21.9 | 1,103.2 | 836.3 | 1,961.4 | 104.7 | 91.8 |
| Credit default swaps – protection buyer | 253.4 | 1,110.5 | 36.9 | 1,400.8 | 40.0 | 7.3 |
| Credit default swaps – protection seller | 186.7 | 1,022.1 | 13.3 | 1,222.1 | 3.0 | 15.9 |
| Forward securities transactions | - | - | - | - | - | - |
| Exchange-traded products | | | | | | |
| Precious metal futures | - | - | - | - | - | - |
| **Total for all contracts** | **66,585.1** | **38,427.2** | **36,075.2** | **141,087.5** | **3,482.8** | **2,889.5** |
| of which attributable to: | | | | | | |
| OTC products | 66,006.3 | 38,302.2 | 36,075.2 | 140,383.7 | 3,479.0 | 2,889.3 |
| Exchange-traded products | 578.8 | 125.0 | - | 703.8 | 3.8 | 0.2 |
| Contingency risks assumed in connection with credit default swaps | 572.1 | 1,101.4 | 17.5 | 1,691.1 | 0.3 | 21.8 |

*) Cross-currency swaps contain contracts that swap variable interest rates for fixed ones, variable interest rates for variable ones, and fixed interest rates for fixed ones.

The following table shows a list of derivatives not recognized at fair value where such derivatives are not subject to hedge accounting in accordance with section 254 HGB. The derivatives in this case are assigned to the banking book and are measured strictly at the lower of cost and market.

| PRODUCT STRUCTURE AND NOMINAL AMOUNT | Nominal amount by time to maturity | | | | Fair value | |
|---|---|---|---|---|---|---|
| | Up to 1 year € million | 1–5 years € million | > 5 years € million | Total € million | Negative € million | Positive € million |
| **Interest-linked contracts** | **32.3** | **-** | **-** | **32.3** | **0.1** | **0.1** |
| of which attributable to: | | | | | | |
| OTC products | | | | | | |
| Interest-rate swaps (same currency) | - | - | - | - | - | - |
| Exchange-traded products | | | | | | |
| Interest-rate futures | 32.3 | - | - | 32.3 | 0.1 | 0.1 |
| **Other contracts** | **32.6** | **353.1** | **-** | **385.7** | **0.1** | **3.7** |
| of which attributable to: | | | | | | |
| OTC products | | | | | | |
| Credit default swaps – protection buyer | 5.7 | 45.0 | - | 50.7 | 0.0 | 1.0 |
| Credit default swaps – protection seller | - | 308.1 | - | 308.1 | - | 2.7 |
| Forward securities transactions | - | - | - | - | - | - |
| Exchange-traded products | | | | | | |
| Share/index futures | 26.9 | - | - | 26.9 | 0.0 | - |
| **Total for all contracts** | **64.9** | **353.1** | **-** | **418.0** | **0.2** | **3.8** |
| of which attributable to: | | | | | | |
| OTC products | 5.7 | 353.1 | - | 358.7 | 0.0 | 3.7 |
| Exchange-traded products | 59.2 | - | - | 59.2 | 0.1 | 0.1 |

# VIII. Statement of changes in fixed assets

| INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT | Intangible assets € million | Land and buildings € million | Office furniture and equipment € million |
|---|---|---|---|
| Cost | 50.4 | 91.9 | 36.5 |
| Additions | 8.4 | - | 3.1 |
| Reclassifications | - | - | - |
| Disposals | -5.5 | - | 0.0 |
| Cumulative amortization/depreciation | -33.2 | -53.4 | -33.9 |
| Carrying amounts as at the balance sheet date | 20.1 | 38.6 | 5.7 |
| Amortization/depreciation expense in the year under review | 5.2 | 2.4 | 1.9 |

| INVESTMENTS | Long-term securities € million | Long-term equity investments and paid-up shares in cooperatives € million | Shares in affiliated companies € million |
|---|---|---|---|
| Cost | 806.3 | 1,747.5 | 789.1 |
| Changes (net) | -49.4 | 82.0 | 0.0 |
| Carrying amounts as at the balance sheet date | 756.9 | 1,829.5 | 789.1 |

The changes in the carrying amount of investments are reported on a net basis in accordance with section 34 (3) sentence 2 RechKredV.

# IX. List of shareholdings

| NAME AND REGISTERED OFFICE | | Shareholding (%) | Equity in the most recent year for which figures are available € million | Net profit/loss € million |
|---|---|---|---|---|
| **a) Affiliated companies** | | | | |
| 1. WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster | *1) | 90.92 | 355.1 | *2) |
| 2. WGZ BANK Ireland plc, Dublin, Ireland | *1) | 100.00 | 365.0 | 29.5 |
| 3. WGZ Immobilien + Treuhand GmbH, Münster | | 100.00 | 1.3 | *2) |
| 4. WGZ Immobilien + Management GmbH, Münster | | 100.00 | 0.0 | *2) |
| 5. Phoenix Beteiligungsgesellschaft mbH, Düsseldorf | | 100.00 | 108.3 | *2) |
| 6. IMPETUS Bietergesellschaft mbH, Frankfurt am Main | *6) | 100.00 | 54.1 | *2) |
| 7. GENO-Beteiligungsgesellschaft mbH, Düsseldorf | | 100.00 | 1.1 | 0.0 |
| **b) Other companies** | | | | |
| 1. DZ Holding GmbH & Co. KG, Neu-Isenburg | *3) | 36.42 | 1,550.2 | 38.0 |
| 2. Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall | *1) | 15.00 | 1,812.3 | *4) |
| 3. R+V Versicherung AG, Wiesbaden | *1) | 15.04 | 2,058.7 | *4) |
| 4. Union Asset Management Holding AG, Frankfurt am Main | *1) | 17.72 | 639.2 | 274.9 |
| 5. Union Investment Real Estate GmbH, Hamburg | *1) | 5.50 | 115.8 | 63.7 |
| 6. VR-LEASING AG, Eschborn | *1) | 16.54 | 211.1 | *4) |
| 7. VR Corporate Finance GmbH, Düsseldorf | | 50.00 | 2.1 | -0.2 |
| 8. VR Equitypartner GmbH, Frankfurt am Main | | 22.00 | 69.1 | 7.1 |
| 9. VR Mittelstandskapital Unternehmensbeteiligungs AG, Düsseldorf | | 20.00 | 13.3 | 0.5 |
| 10. DZ PRIVATBANK S.A., Strassen, Luxembourg | *1) | 19.04 | 673.7 | 45.5 |
| 11. Service-Direkt Telemarketing Verwaltungsgesellschaft mbH, Weinheim | | 32.83 | 5.5 | 0.3 |
| 12. CardProcess GmbH, Karlsruhe | *1) | 10.10 | 31.3 | 1.3 |
| 13. Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mbH -Treufinanz-, Düsseldorf | | 33.14 | 2.7 | -0.2 |
| 14. Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in Nordrhein-Westfalen mbh -KBG-, Neuss | | 23.60 | 1.7 | 0.2 |
| 15. GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG, Nidderau | *5) | 32.10 | 56.4 | -1.7 |
| 16. GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG, Nidderau | *5) | 31.61 | 75.0 | 5.5 |
| 17. GMS Management und Service GmbH, Nidderau | *5) | 33.33 | 0.1 | 0.0 |

*1) Long-term equity investments in large corporations and publicly listed companies where the investment equates to more than 5 percent of voting rights.
*2) The net profit/loss has been transferred to WGZ BANK.
*3) The company has a shareholding of 6.64 percent in DZ BANK AG held on behalf of WGZ BANK.
*4) Profit transfer agreement with DZ BANK AG.
*5) Indirect investment via IMPETUS Bietergesellschaft mbH.
*6) The company holds shares in GAF 1 and 2 and GMS on behalf of WGZ BANK.

# X. Other disclosures

## Disclosure pursuant to section 20 AktG

In accordance with section 20 (4) AktG, WGZ Beteiligungs GmbH & Co. KG, Düsseldorf, submitted notification in a letter dated October 5, 2005 that it held a direct controlling interest in WGZ BANK.

## Members of the Supervisory Board and the Board of Managing Directors

**Supervisory Board**

| | |
|---|---|
| Werner Böhnke, *Chairman* | Bank Director (ret.) |
| Franz Lipsmeier, *Deputy Chairman* | Full-time member of the Board of Managing Directors of Volksbank Delbrück-Hövelhof eG |
| Peter Bersch | Full-time member of the Board of Managing Directors of Volksbank Bitburg eG |
| Martin Eul | Full-time member of the Board of Managing Directors of Dortmunder Volksbank eG |
| Uwe Goldstein | Full-time member of the Board of Managing Directors of Raiffeisenbank Frechen-Hürth eG |
| Ludger Hünteler | Employee of WGZ BANK |
| Manfred Jorris | Employee of WGZ BANK |
| Ina Maßmann | Employee of WGZ BANK |
| Herbert Pfennig | Full-time member of the Board of Managing Directors of Deutsche Apotheker- und Ärztebank eG |

**Board of Managing Directors**

| | |
|---|---|
| Hans-Bernd Wolberg, *Chief Executive Officer* | Full-time member of the Board of Managing Directors |
| Uwe Berghaus | Full-time member of the Board of Managing Directors |
| Dr. Christian Brauckmann | Full-time member of the Board of Managing Directors |
| Karl-Heinz Moll | Full-time member of the Board of Managing Directors |
| Michael Speth | Full-time member of the Board of Managing Directors |

## Mandates held by the members of the Board of Managing Directors and employees on the statutory supervisory bodies of major corporations

**Board of Managing Directors of WGZ BANK**

| | |
|---|---|
| **Hans-Bernd Wolberg** | |
| Group companies: | |
| WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster | Chairman of the Supervisory Board |
| Other major corporations: | |
| Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall | Member of the Supervisory Board |
| DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main | Member of the Supervisory Board |
| | |
| **Uwe Berghaus** | |
| Other major corporations: | |
| VR-LEASING AG, Eschborn | Deputy Chairman of the Supervisory Board |
| | |
| **Dr. Christian Brauckmann** | |
| Other major corporations: | |
| Fiducia & GAD IT AG, Frankfurt am Main | Member of the Supervisory Board |
| | |
| **Karl-Heinz Moll** | |
| Group companies: | |
| WGZ BANK Ireland plc, Dublin, Ireland | Chairman of the Board of Directors |
| Other major corporations: | |
| DZ PRIVATBANK (Schweiz) AG, Zurich, Switzerland | Deputy Chairman of the Board of Directors |
| DZ PRIVATBANK S.A., Strassen, Luxembourg | Deputy Chairman of the Supervisory Board |
| Union Asset Management Holding AG, Frankfurt am Main | Deputy Chairman of the Supervisory Board |
| R+V Versicherung AG, Wiesbaden | Member of the Supervisory Board |
| | |
| **Michael Speth** | |
| Group companies: | |
| WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster | Member of the Supervisory Board |
| Other major corporations: | |
| BAG Bankaktiengesellschaft, Hamm | Member of the Supervisory Board |

**Employees of WGZ BANK**

| | |
|---|---|
| **Rolf Hermes** | |
| Group companies: | |
| WGZ BANK Ireland plc, Dublin, Ireland | Member of the Board of Directors |
| | |
| **Peter Tenbohlen** | |
| Other major corporations: | |
| Deutsche WertpapierService Bank AG, Frankfurt am Main | Member of the Supervisory Board |

## Total remuneration of the members of decision-making bodies

A total amount of €113 thousand was paid to the members of the Supervisory Board in the form of remuneration and attendance fees. The equivalent amount paid to the members of the Advisory Council was €211 thousand. The total remuneration granted to the members of the Board of Managing Directors in the year under review in return for the fulfillment of their responsibilities was €4.430 million. A sum of €2.714 million was paid to former members of the Board of Managing Directors and their surviving dependants. The provision for pensions and post-employment benefits in respect of this group of persons amounts to €28.933 million, which covers all the associated obligations in full.

## Loans and advances to members of decision-making bodies

No loans or advances had been made to members of decision-making bodies as at the balance sheet date.

## Average number of employees

| | Female | Male | Total |
|---|---|---|---|
| Düsseldorf | 476 | 696 | 1,172 |
| Koblenz | 6 | 13 | 19 |
| Münster | 28 | 59 | 87 |
| | 510 | 768 | 1,278 |
| Staff in vocational training and management trainees | 7 | 14 | 21 |

## Auditor fees

The total fees invoiced by the independent auditor, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, have not been disclosed as permitted by section 285 no. 17 HGB. Please refer to the disclosures in the consolidated financial statements of WGZ BANK for the relevant information.

Düsseldorf, March 22, 2016
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

# Audit opinion (translation)

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and the management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, for the financial year from January 1 to December 31, 2015 (the management report having been combined with the group management report). The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and the supplementary provisions of the Articles of Association are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 German Commercial Code (HGB) and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements, and combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with German principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 24, 2016
**PricewaterhouseCoopers Aktiengesellschaft**
**Wirtschaftsprüfungsgesellschaft**

| | |
|---|---|
| Mark Maternus | pp Michael Meteling |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, and the management report, which is combined with the group management report, includes a fair review of the development and performance of the business and the position of WGZ BANK AG, together with a description of the principal opportunities and risks associated with the expected development of WGZ BANK AG."

Düsseldorf, March 22, 2016
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

# WGZ BANK consolidated financial statements for 2015 in accordance with International Financial Reporting Standards

# I. Consolidated balance sheet

| ASSETS | Note | Dec. 31, 2015 € million | Dec. 31, 2014 € million | Change (%) |
|---|---|---|---|---|
| 1. Cash and cash equivalents | 7, 32 | 249.6 | 249.8 | -0.1 |
| 2. Loans and advances to banks | 8, 33 | 21,052.1 | 22,837.8 | -7.8 |
| 3. Loans and advances to customers | 8, 33 | 39,155.1 | 37,621.0 | 4.1 |
| 4. Allowances for losses on loans and advances | 9, 34 | -176.4 | -176.5 | -0.1 |
| 5. Fair value changes of the hedged items in portfolio hedges of interest-rate risk | 6, 35 | 316.8 | 496.6 | -36.2 |
| 6. Derivatives used for hedging (positive fair values) | 6, 36 | 633.6 | 716.2 | -11.5 |
| 7. Financial assets held for trading | 10, 37 | 6,970.4 | 10,012.8 | -30.4 |
| 8. Long-term equity investments and securities portfolio | 11, 38 | 20,230.7 | 21,681.7 | -6.7 |
| 9. Companies accounted for using the equity method | 12, 39 | 879.8 | 980.0 | -10.2 |
| 10. Intangible assets | 14, 40 | 22.0 | 18.6 | 18.3 |
| 11. Property, plant and equipment | 14, 40 | 57.2 | 58.7 | -2.6 |
| 12. Tax assets | 15, 41 | 30.7 | 39.7 | -22.7 |
| 13. Deferred tax assets | 15, 41 | 234.1 | 279.2 | -16.2 |
| 14. Other assets | 16, 42 | 57.3 | 57.5 | -0.3 |
| 15. Non-current assets and disposal groups classified as held for sale | 24, 43 | 81.5 | 0.0 | ****** |
| Total assets | | 89,794.5 | 94,873.1 | -5.4 |

| EQUITY AND LIABILITIES | Note | Dec. 31, 2015 € million | Dec. 31, 2014 € million | Change (%) |
|---|---|---|---|---|
| 1. Deposits from banks | 8, 44 | 35,626.1 | 37,070.9 | -3.9 |
| 2. Amounts owed to other depositors | 8, 44 | 20,450.1 | 22,554.5 | -9.3 |
| 3. Debt certificates including bonds | 17, 44 | 21,337.6 | 21,238.7 | 0.5 |
| 4. Fair value changes of the hedged items in portfolio hedges of interest-rate risk | 6, 45 | 221.6 | 272.0 | -18.5 |
| 5. Derivatives used for hedging (negative fair values) | 6, 46 | 1,372.6 | 1,633.5 | -16.0 |
| 6. Financial liabilities held for trading | 10, 47 | 5,545.8 | 7,004.0 | -20.8 |
| 7. Provisions | 18, 19, 48 | 311.9 | 306.8 | 1.7 |
| 8. Tax liabilities | 15, 49 | 33.2 | 74.7 | -55.6 |
| 9. Deferred tax liabilities | 15, 49 | 0.0 | 0.0 | 0.0 |
| 10. Other liabilities | 16, 50 | 59.9 | 81.1 | -26.1 |
| 11. Subordinated capital | 20, 51 | 738.4 | 769.7 | -4.1 |
| 12. Equity | 22, 52 | 4,097.3 | 3,867.2 | 6.0 |
| Subscribed capital | | 714.3 | 714.3 | 0.0 |
| Capital reserves | | 597.0 | 597.0 | 0.0 |
| Retained earnings | | 2,508.7 | 2,394.5 | 4.8 |
| Convertible bond | | 97.6 | 97.6 | 0.0 |
| Revaluation reserve | | -25.2 | -47.4 | -46.8 |
| Revaluation reserve for non-current assets and disposal groups classified as held for sale | | 69.4 | 0.0 | ****** |
| Other reserves recognized via other comprehensive income | | 13.6 | 11.0 | 23.6 |
| Distributable profit attributable to the group | | 119.5 | 108.2 | 10.4 |
| Non-controlling interests | | 2.4 | -8.0 | > 100.0 |
| Total equity and liabilities | | 89,794.5 | 94,873.1 | -5.4 |

# II. Consolidated income statement

| | Note | € million | 2014<br>€ million | Change (%) |
|---|---|---|---|---|
| 1. Interest income | 53 | **2,124.8** | 2,221.0 | -4.3 |
| 2. Interest expense | 53 | **1,589.4** | 1,706.7 | -6.9 |
| 3. Net interest income | 53 | **535.4** | 514.3 | 4.1 |
| 4. Allowances for losses on loans and advances | 54 | **10.0** | -23.1 | > 100.0 |
| 5. Net interest income after allowances for losses on loans and advances | | **545.4** | 491.2 | 11.0 |
| 6. Fee and commission income | | **235.1** | 193.8 | 21.3 |
| 7. Fee and commission expenses | | **181.7** | 125.0 | 45.4 |
| 8. Net fee and commission income | 55 | **53.4** | 68.8 | -22.4 |
| 9. Gains and losses arising on hedging transactions | 56 | **-8.0** | -24.6 | -67.5 |
| 10. Gains and losses on trading activities | 57 | **141.8** | 211.9 | -33.1 |
| 11. Gains and losses on investments | 58 | **-108.9** | -132.6 | -17.9 |
| 12. Profit/loss from companies accounted for using the equity method | 59 | **25.5** | 16.6 | 53.6 |
| 13. Administrative expenses | 60 | **305.2** | 296.1 | 3.1 |
| 14. Other net operating income/expense | 61 | **2.6** | -27.3 | > 100.0 |
| 15. Operating profit/loss | | **346.6** | 307.9 | 12.6 |
| 16. Income taxes | 62 | **145.9** | 72.7 | > 100.0 |
| 17. Other taxes | 62 | **-0.3** | 0.9 | > 100.0 |
| 18. Net profit/loss | | **201.0** | 234.3 | -14.2 |
| 19. Net profit/loss attributable to non-controlling interests | | **9.0** | 5.3 | 69.8 |
| 20. Net profit/loss after profit/loss attributable to non-controlling interests | | **192.0** | 229.0 | -16.2 |

# III. Statement of comprehensive income

| | 2015<br>€ million | 2014<br>€ million |
|---|---|---|
| **Net profit/loss** | **201.0** | **234.3** |
| **Balance of income and expenses recognized in other comprehensive income** | **97.8** | **12.9** |
| **Amounts not reclassified to the income statement** | **2.7** | **-32.6** |
| **Change in retained earnings** | **2.3** | **-29.2** |
| Remeasurements of the net liability in connection with defined benefit plans | 3.3 | -42.5 |
| Deferred taxes | -1.0 | 13.3 |
| **Change in other reserves recognized via other comprehensive income** | **0.4** | **-3.4** |
| Income and expenses with associates recognized in other comprehensive income | 0.8 | -4.8 |
| Deferred taxes | -0.4 | 1.4 |
| **Amounts reclassified to the income statement** | **95.1** | **45.5** |
| **Change in revaluation reserve** | **92.9** | **38.4** |
| Unrealized gains and losses on available-for-sale financial instruments | 34.5 | 50.5 |
| Unrealized gains and losses on held-for-sale financial instruments | 70.5 | 0.0 |
| Deferred taxes | -9.6 | -13.0 |
| Gains and losses reclassified to the income statement following the sale of available-for-sale financial instruments | -0.4 | 0.0 |
| Deferred taxes | 0.1 | 0.0 |
| Reclassification to the income statement of gains and losses arising from impairment losses/reversals of impairment losses on available-for-sale financial instruments | -2.5 | 1.2 |
| Deferred taxes | 0.3 | -0.3 |
| **Change in other reserves recognized via other comprehensive income** | **2.2** | **7.1** |
| Income and expenses with associates recognized in other comprehensive income | 1.4 | 8.2 |
| Deferred taxes | 0.8 | -1.1 |
| **Total comprehensive income/loss** | **298.8** | **247.2** |
| of which: | | |
| Shareholders of WGZ BANK | **288.4** | 240.0 |
| Non-controlling interests | **10.4** | 7.2 |

The total comprehensive income/loss for the WGZ BANK Group comprises the income and expenses recognized in both the income statement and other comprehensive income. The tax effects relating to the individual components of income and expenses recognized in other comprehensive income are shown in note 61.

# IV. Statement of changes in equity

| **2014** **€ million** | Note | Sub-scribed capital | Capital reserves | Retained earnings | Convert-ible bond | Revaluation reserve for available-for-sale financial instruments | Revaluation reserve for held-for-sale financial instruments | Other reserves recognized via other compre-hensive income[1] | Distrib-utable profit attribut-able to the group | Equity before non-con-trolling interests | Non-con-trolling inter-ests | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at Jan. 1, 2014** | | **649.4** | **369.7** | **2,268.7** | **0.0** | **-83.4** | **0.0** | **7.3** | **76.7** | **3,288.4** | **-15.3** | **3,273.1** |
| Net profit/loss | | | | | | | | | 229.0 | 229.0 | 5.3 | 234.3 |
| Other comprehen-sive income/loss | 22 | | | -28.8 | | 36.1 | | 3.7 | | 11.0 | 1.9 | 12.9 |
| **Total comprehen-sive income/loss** | | | | **-28.8** | | **36.1** | **0.0** | **3.7** | **229.0** | **240.0** | **7.2** | **247.2** |
| Appropriation to retained earnings | 22 | | | 154.6 | | | | | -154.6 | 0.0 | | 0.0 |
| Dividends paid | 53 | | | | | | | | -42.9 | -42.9 | | -42.9 |
| Capital increase | | 64.9 | 227.3 | | | | | | | 292.2 | | 292.2 |
| Issue of convertible bond | | | | | 97.6 | | | | | 97.6 | | 97.6 |
| Other | | | | | | -0.1 | | | | -0.1 | 0.1 | 0.0 |
| **Balance as at Dec. 31, 2014** | | **714.3** | **597.0** | **2,394.5** | **97.6** | **-47.4** | **0.0** | **11.0** | **108.2** | **3,875.2** | **-8.0** | **3,867.2** |

| **2015** **€ million** | Note | Sub-scribed capital | Capital reserves | Retained earnings | Convert-ible bond | Revaluation reserve for available-for-sale financial instruments | Revaluation reserve for held-for-sale financial instruments | Other reserves recognized via other compre-hensive income[1] | Distrib-utable profit attribut-able to the group | Equity before non-con-trolling interests | Non-con-trolling inter-ests | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at Jan. 1, 2015** | | **714.3** | **597.0** | **2,394.5** | **97.6** | **-47.4** | **0.0** | **11.0** | **108.2** | **3,875.2** | **-8.0** | **3,867.2** |
| Net profit/loss | | | | | | | | | 192.0 | 192.0 | 9.0 | 201.0 |
| Other comprehen-sive income/loss | 22 | | | 2.2 | | 22.2 | 69.4 | 2.6 | | 96.4 | 1.4 | 97.8 |
| **Total comprehen-sive income/loss** | | | | **2.2** | | **22.2** | **69.4** | **2.6** | **192.0** | **288.4** | **10.4** | **298.8** |
| Changes due to IAS 8 | | | | -18.3 | | | | | | -18.3 | | -18.3 |
| Appropriation to retained earnings | 22 | | | 130.7 | | | | | -130.7 | 0.0 | | 0.0 |
| Dividends paid | 53 | | | | | | | | -50.0 | -50.0 | | -50.0 |
| Other | | | | -0.4 | | | | | | -0.4 | | -0.4 |
| **Balance as at Dec. 31, 2015** | | **714.3** | **597.0** | **2,508.7** | **97.6** | **-25.2** | **69.4** | **13.6** | **119.5** | **4,094.9** | **2.4** | **4,097.3** |

[1] Relates to differences from currency translation and changes in equity (recognized in other comprehensive income) in connection with investments accounted for using the equity method.

Further disclosures can be found in notes 22 and 51. From an economic perspective, the subordinated capital of €738.4 million (December 31, 2014: €769.7 million) should be included as part of equity.

# V. Statement of cash flows

| | Note | € million | 2014 € million |
|---|---|---|---|
| **Net profit/loss** | | **201.0** | 234.3 |
| Non-cash items included in net profit/loss and reconciliation to cash flows from operating activities | | | |
| Allowances and reversal of allowances for losses on loans and advances, impairment losses and reversal of impairment losses on loans and advances, additions and reversals on provisions for losses on loans and advances | 34, 53 | 6.2 | 24.6 |
| Amortization/depreciation, impairment losses, and reversal of impairment losses on property, plant and equipment, intangible assets and investments | 40, 59 | 10.5 | 10.4 |
| Gains and losses on the disposal of property, plant and equipment, intangible assets and investments | 27, 57 | -17.0 | -1.0 |
| Changes in other non-cash items | | 124.0 | 23.8 |
| Other adjustments (net) | 17, 41, 48 | 168.7 | -2,313.2 |
| Subtotal | | 493.4 | -2,021.1 |
| **Changes in assets and liabilities from operating activities after adjustment for non-cash transactions** | | | |
| Loans and advances to banks | 8, 33 | 1,785.7 | 128.7 |
| Loans and advances to customers | 8, 33 | -1,534.3 | -614.2 |
| Financial assets held for trading | 10, 37 | 3,042.4 | -1,814.3 |
| Other assets from operating activities | 3, 6, 9, 14, 16, 25, 35, 36, 40, 42 | 165.9 | -667.8 |
| Deposits from banks | 8, 43 | -1,444.8 | 1,097.7 |
| Amounts owed to other depositors | 8, 43 | -2,104.4 | 643.1 |
| Financial liabilities held for trading | 10, 46 | -1,458.2 | 2,133.4 |
| Debt certificates including bonds | 17, 43 | 98.8 | -1,551.2 |
| Other liabilities from operating activities | 3, 6, 16, 19, 20, 25, 44, 45, 47, 49 | -326.9 | 860.3 |
| Interest and dividends received | 52 | 2,124.0 | 2,220.0 |
| of which dividends from companies accounted for using the equity method | 12, 39, 58 | -23.7 | 21.0 |
| Interest paid | 52 | -1,589.4 | -1,706.7 |
| Income taxes paid | 15, 41, 48, 61 | -142.9 | -9.1 |
| **Cash flows from operating activities** | | **-890.7** | -1,301.2 |
| Proceeds from the sale of investments | 11, 38, 57 | 2,123.5 | 4,903.7 |
| Payments for the purchase of investments | 11, 38, 57 | -1,148.1 | -4,138.5 |
| Payments for the purchase of property, plant and equipment | 13, 40 | -3.6 | -3.0 |
| **Cash flows from investing activities** | | **971.8** | 762.2 |
| Dividends paid | 51 | -50.0 | -42.9 |
| Proceeds from capital increase/convertible bond paid into consolidated equity | 51 | 0.0 | 389.8 |
| Changes in subordinated capital | 20, 50 | -31.3 | 123.5 |
| **Cash flows from financing activities** | | **-81.3** | 470.4 |
| **Cash and cash equivalents as at December 31, 2014** | | **249.8** | 318.4 |
| Cash flows from operating activities | | -890.7 | -1,301.2 |
| Cash flows from investing activities | | 971.8 | 762.2 |
| Cash flows from financing activities | | -81.3 | 470.4 |
| **Cash and cash equivalents as at December 31, 2015** | | **249.6** | **249.8** |

# VI. Notes

## Basis of preparation

WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank has prepared its consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) and their interpretations (IFRIC) laid down by the IFRS Interpretations Committee, as adopted by the European Union (EU). In addition, national regulations as determined by section 315a (1) HGB have been applied. Financial reporting complies with the German Transparency Directive Implementing Act (TUG) pursuant to section 37v of the German Securities Trading Act (WpHG). This legislation requires capital-market-oriented parent companies to prepare an annual financial report comprising the consolidated balance sheet, the consolidated income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows, the notes, and, as an integral component, segment information. The group management report, which is additionally required pursuant to section 315a HGB in conjunction with section 315 HGB, also includes the report on the opportunities and risks of future development (risk report). The statutory representatives of the parent company are required to issue a responsibility statement pursuant to section 297 (2) sentence 4 in conjunction with section 315 (1) sentence 6 HGB. The figures in WGZ BANK's consolidated financial statements are stated in millions of euros.

## Key sources of estimation uncertainty

Application of the accounting policies specified under IFRS provisions requires the accounting entity to make a large number of estimates and assumptions that are forward-looking and that, by their very nature, may differ from the circumstances that actually materialize at a later point. Assumptions and estimates are necessary mainly in determining fair values for derivatives and also in applying valuation models for financial instruments that are not listed in an active market, measuring allowances for losses on loans and advances, calculating pension provisions, other provisions including provisions resulting from the tax audit, and budgeting in relation to the recoverability of deferred tax assets. All estimates and assumptions are regularly reviewed. They are based on historical experience and/or forecasts regarding the occurrence of future events that appear to be reasonable from the perspective of prudent business practice, given the prevailing circumstances. Financial reporting in the WGZ BANK Group is based on the principle that the business will continue in existence as a going concern.

## Accounting policies and changes in accounting estimates (IAS 8)

The separate financial statements of the entities included in the consolidated financial statements have been prepared using uniform accounting policies applicable to the entire WGZ BANK Group and are based on the same reporting date as that used by the parent company.

The switch to OIS discounting for the measurement of interest-rate swaps, which has now become the industry standard, and adjustments to estimates for distribution assumptions in the valuation model led to an expense of €25.1 million in 2015 that was recognized under gains and losses on trading activities.

The sharp fall in interest rates made it necessary to adjust the valuation model for swaptions, particularly with regard to the estimate of the distribution assumption for interest-rate changes. This resulted in an expense of €7.0 million recognized under gains and losses on trading activities.

In order to improve the presentation of financial performance, a breakdown of gains and losses on trading activities is provided in note 56. Firstly, the held-for-trading financial assets and liabilities pursuant to IAS 39.9 (a) are listed. The fair value gains and losses on financial instruments designated as at fair value through profit or loss upon initial recognition pursuant to IAS 39.9 (b) are shown separately, as are the financial derivatives assigned to them. The prior-year figures have been restated accordingly. Another way in which presentation has been improved is that, from 2015, unwinding effects from loan provisions are listed within interest expense in note 53, whereas in 2014 they had been netted with other unwinding amounts and shown in interest income.

Starting in the reporting year and in accordance with IAS 32.23, an obligation arising from the control and profit transfer agreement between WGZ BANK and WL BANK is recognized as a financial liability equivalent to the value of the repurchase amount totaling €18.3 million. Under this obligation, the minority shareholders have the right at the end of the term of the agreement to sell their shares in return for payment of the amount of compensation defined in the agreement. The adjustment was made against retained earnings and was carried out prospectively.

### (1) Basic principles

Financial reporting in the WGZ BANK Group is based on the principle that the business will continue in existence as a going concern. Income and expenses are recognized under the accrual method, i.e. they are recognized in the period to which they relate from a financial perspective. Dividends are recognized when they are received. An asset is only recognized if it is probable that the future economic benefits will accrue to the company and if the cost of the asset can be reliably measured. A liability is recognized on the balance sheet if it is probable that there will be an outflow of resources in order to meet a present obligation and the settlement amount can be reliably measured.

### (2) International Financial Reporting Standards applied

All standards and interpretations subject to mandatory application in the year under review have been applied, provided that they are relevant to WGZ BANK.

*Relevant standards and interpretations*

The consolidated financial statements of WGZ BANK for the year ended December 31, 2015 are based on the IASB framework and on the following IAS/IFRS standards and SIC/IFRIC interpretations:

| | |
|---|---|
| IAS 1 | Presentation of Financial Statements |
| IAS 2 | Inventories |
| IAS 7 | Statement of Cash Flows |
| IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 | Events after the Reporting Period |
| IAS 12 | Income Taxes |
| IAS 16 | Property, Plant and Equipment |
| IAS 17 | Leases |
| IAS 18 | Revenue |
| IAS 19 | Employee Benefits |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates |
| IAS 23 | Borrowing Costs |
| IAS 24 | Related Party Disclosures |
| IAS 28 | Investments in Associates and Joint Ventures |
| IAS 32 | Financial Instruments: Presentation |
| IAS 34 | Interim Financial Reporting |
| IAS 36 | Impairment of Assets |
| IAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| IAS 38 | Intangible Assets |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| IFRS 3 | Business Combinations |
| IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRS 8 | Operating Segments |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 13 | Fair Value Measurement |
| IFRIC 2 | Members' Shares in Co-operative Entities and Similar Instruments |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 14 | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |
| IFRIC 21 | Levies |

*Standards and interpretations that were not applicable*

The following standards and interpretations were not relevant: IAS 11, 20, 26, 27, 29, 33, 34, 40, and 41; IFRS 1, 2, 4, and 6; SIC 7, 10, 15, 21, 25, 27, 29, 31, and 32; IFRIC 1, 4, 5, 6, 7, 10, 12, 13, 15, 16, 17, 18, 19, and 20.

*Initial application of standards and interpretations*

No standards or interpretations were applied for the first time in 2015.

*Standards and interpretations adopted by the EU but not yet applied*

The following accounting standards and interpretations have been published or amended by the IASB and adopted by the EU, but were not yet required to be applied in the year under review:

- Disclosure Initiative (Amendments to IAS 1)

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and 38)

- Bearer Plants (Amendments to IAS 16 and IAS 41)

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

- Equity Method in Separate Financial Statements (Amendments to IAS 27)

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

- Annual Improvements to IFRSs: 2010–2012 Cycle
  - IFRS 2: Share-based Payment
  - IFRS 3: Business Combinations
  - IFRS 8: Operating Segments
  - IAS 16: Property, Plant and Equipment
  - IAS 24: Related Party Disclosures
  - IAS 37: Provisions, Contingent Liabilities and Contingent Assets
  - IAS 38: Intangible Assets
  - IAS 39: Financial Instruments: Recognition and Measurement

- Annual Improvements to IFRSs: 2011–2013 Cycle
  - IFRS 3: Business Combinations
  - IFRS 13: Fair Value Measurement
  - IAS 40: Investment Property

- Annual Improvements to IFRSs: 2012–2014 Cycle
  - IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7: Financial Instruments: Disclosures
  - IAS 19: Employee Benefits
  - IAS 34: Interim Financial Reporting.

The amendments to IAS 1 published by the IASB in December 2014 and adopted by the EU in December 2015 provide clarification on the materiality of the presentation of line items on the balance sheet and in the statement of comprehensive income, the statement of cash flows, and the statement of changes in equity and for disclosures in the notes. Immaterial information should not be disclosed, even if other standards explicitly stipulate their disclosure. Requirements for the presentation of subtotals, the structure of the notes to the financial statements, and disclosures about accounting policies have been added to IAS 1 and existing requirements have been clarified. There is also clarification on presentation in the statement of comprehensive income of the share of other comprehensive income/loss attributable to long-term equity investments that are accounted for using the equity method.

The amendments to IAS 16 and IAS 38 published by the IASB in May 2014 relate to the correct depreciation methods for property, plant and equipment and amortization methods for intangible assets.

The amendments to IAS 16 and IAS 41 published by the IASB in June 2014 relate to the accounting treatment of bearer plants and are therefore not relevant to WGZ BANK.

The amendments to IAS 19, which were published by the IASB in November 2013 and adopted by the EU in December 2014, are designed to clarify the accounting treatment of employee contributions set out in the formal terms of a defined benefit plan if the contributions are linked to length of service. This does not have any material impact on the consolidated financial statements of WGZ BANK.

The amendments to IAS 27, which were published by the IASB in August 2014 and adopted by the EU in December 2015, allow entities to use the equity method pursuant to IAS 28 to account for investments in subsidiaries, joint ventures, and associates in their IFRS separate financial statements.

The amendments to IFRS 11, which were published by the IASB in May 2014 and adopted by the EU in November 2015, clarify the accounting treatment of acquisitions of interests in joint operations that constitute a business.

In December 2013, the IASB published the Annual Improvements to IFRSs: 2010–2012 Cycle, which were adopted by the EU in December 2014 and affect the following standards:

IFRS 2 governs the accounting of share-based payments. The amendments to IFRS 2 amend the definitions of 'vesting conditions' and 'market condition'. The now separate definitions of 'performance condition' and 'service condition' are provided in appendix A.

IFRS 3 has been amended by removing the reference to 'other applicable IFRSs' and making reference only to contingent consideration that is incurred during a business combination and meets the definition of a financial instrument. Contingent consideration that is classified as an asset or liability must be measured at fair value.

The amendments to IFRS 8 clarify which information must be disclosed in order to identify the reportable segments included in an aggregation of operating segments into reportable segments. A reconciliation must be provided for amounts that are included in the financial information reported regularly to the chief operating decision-maker in the entity.

The amendments to IAS 24 extend the term 'related parties' such that an entity is related to its reporting entity if the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The amendments to IAS 39 result from the amendments to IFRS 3 and state that a financial asset or financial liability must be recognized at fair value through profit or loss if it is a contingent consideration in connection with a business combination pursuant to IFRS 3.

The amendments to IAS 16 and IAS 38, which were published by the IASB in May 2014, clarify the correct methods for the depreciation of property, plant and equipment and amortization of intangible assets. In particular, they assess whether revenue-based methods for calculating the depreciation of property, plant and equipment and the amortization of intangible assets are appropriate. The EU adopted the amendments in December 2015.

In December 2013, the IASB published the Annual Improvements to IFRSs: 2011–2013 Cycle, which affect the following standards:

The amendments to IFRS 3 relate to the scope of what meets the definition of a business combination. The amendments to IFRS 3 refer to the exception in IFRS 13, paragraph 48, which only applies to financial assets, financial liabilities, and other contracts. Entities can measure the fair value using market participants' measurement of the net risk position as at the valuation date.

The amendments to IFRS 13 govern the exception for portfolios in IFRS 13 paragraph 13 and clarify that it encompasses all contracts accounted for in accordance with IAS 39, regardless of whether they meet the definition of a financial asset or financial liability pursuant to IAS 32.

The amendments to IAS 40 require an independent check of the relevant criteria in IFRS 3 and IAS 40 when assessing a transaction in order to ascertain whether the definition of investment property pursuant to IAS 40 and the definition of a business combination pursuant to IFRS 3 are both met.

In September 2014, the IASB published the Annual Improvements to IFRSs: 2012–2014 Cycle, which were adopted by the EU in December 2015 and affect the following standards:

The amendments to IFRS 5 are designed to clarify the rules in IFRS 5 that apply when reclassifying assets from held for sale to held for distribution.

The amendments to IFRS 7 relate to servicing contracts. A continuing involvement as defined by IFRS 7 is established in the case of servicing contracts if the selling entity retains some of the opportunities or risks arising from the receivables sold. Clarification is also provided that the amendments to IFRS 7 do not give rise to any explicit, mandatory disclosures in interim reports.

The amendments to IAS 19 relating to the discount rate for the defined benefit obligation for employees are based on the yields that are achieved on the reporting date for high-quality, fixed-interest corporate bonds. In illiquid markets, the market yields for government bonds are used for these corporate bonds.

The amendments to IAS 34 specify the precise disclosures to be included in the notes to interim financial statements.

*Standards and interpretations not yet adopted by the EU and not yet applied*

The following standards published or amended by the IASB have not yet been adopted by the EU and therefore do not yet need to be applied:

- IFRS 9: Financial Instruments
- IFRS 14: Regulatory Deferral Accounts
- IFRS 15: Revenue from Contracts with Customers
- IFRS 16: Leases
- Investment Entities – Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Sales or Contributions of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7).

The final version of IFRS 9 Financial Instruments: Classification and Measurement was published by the IASB in July 2014 and replaces IAS 39. IFRS 9 contains amended requirements for classifying and measuring financial assets plus a new expected loss impairment model. The standard also contains rules on hedge accounting. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2018 financial year. The impact of IFRS 9 on the WGZ BANK Group will be examined as part of an implementation project and is still impossible to predict at the moment.

IFRS 14, which was published by the IASB in January 2014, enables an entity preparing IFRS consolidated financial statements pursuant to IFRS 1 for the first time to continue accounting for regulatory deferral accounts using the same (national) accounting principles as before for rate-regulated activities. Subject to incorporation into EU law, first-time adoption is likely to be from 2016.

IFRS 15 was published by the IASB in May 2014 and amended in September 2015. The objective of the standard is, above all, to harmonize the existing IFRS requirements, which are not very extensive, with the US GAAP requirements, which are very detailed and include industry-specific provisions. This will improve the transparency and comparability of financial information. Subject to incorporation into EU law, first-time adoption is likely to be from 2018. It is not expected to have a material impact on the financial statements of the WGZ BANK Group in view of the nature of the WGZ BANK Group's business activities.

The IASB published IFRS 16 in January 2016. IFRS 16 clarifies the principles for recognizing, measuring, and presenting leases as well as for disclosing them in the notes to the financial statements. Subject to incorporation into EU law, first-time adoption is likely to be in 2019.

The amendments to IFRS 10, IFRS 12, and IAS 28 clarify firstly that the exemption from the obligation to prepare consolidated financial statements pursuant to IFRS 10.4(a) also applies to parent companies that are themselves subsidiaries of investment entities. Furthermore, the standard setter has clarified that investment entities must also measure subsidiaries at fair value if these subsidiaries meet the criteria defining an investment entity themselves and provide investment-related services. Finally, clarification is provided that a non-investment entity that consolidates an investment entity as an associate or joint venture using the equity method is permitted to retain the fair value measurement of subsidiaries applied by the associate or joint venture. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2016 financial year.

In September 2014, the IASB published amendments to IFRS 10 and IAS 28 clarifying that the extent of the gain or loss recognized for transactions with an associate or joint venture depends on whether the assets sold or contributed constitute a business. Incorporation of the amendments into EU law and their application date have been postponed indefinitely.

The amendments to IAS 12 proposed by the IASB in January 2016 clarify the treatment of deferred tax assets for unrealized losses. Write-downs to a lower market value owing to changes to the market interest rate lead to temporary differences when debt instruments are measured at fair value but, for tax purposes, are measured at cost. This applies irrespective of whether the holder expects to hold the debt instrument until maturity or whether the holder intends to sell it. It is also clarified that the carrying amount of an asset does not form the upper limit for the estimate of the probable future taxable profit. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2017 financial year.

The amendments to IAS 7 published by the IASB in January 2016 are aimed at providing the users of annual financial statements with better information about changes in an entity's debt. Entities are therefore obliged to provide disclosures about their financing activities (with the exception of components of equity) and their liquidity. The amendments stipulate the disclosure of changes impacting on cash and of changes resulting from the acquisition or disposal of companies. Exchange-rate-related changes and fair value changes must also be disclosed. Subject to their incorporation into EU law, the amendments to IAS 7 are required to be adopted from the 2017 financial year.

### (3) Scope of consolidation

As at December 31, 2015, the four following companies continued to be included in the consolidated financial statements in addition to WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank:

| | Shareholding (%) |
|---|---|
| WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster | 90.92 |
| WGZ BANK Ireland plc, Dublin, Ireland | 100.00 |
| IMPETUS Bietergesellschaft mbH, Frankfurt am Main | 100.00 |
| Phoenix Beteiligungsgesellschaft mbH, Düsseldorf | 100.00 |

A long-term equity investment is fully consolidated if WGZ BANK has power over it, has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The reporting date for all fully consolidated entities is December 31, 2015.

All transactions with related parties have been entered into on an arm's-length basis.

WL BANK AG Westfälische Landschaft Bodenkreditbank is a subsidiary of WGZ BANK AG in which third parties hold material interests. Besides WGZ BANK AG, its shareholders are local cooperative banks (4.46 percent) and the Westfälische Landschaft Foundation (4.62 percent). Apart from in respect of the assets lodged as collateral (see note 67), there are no relevant restrictions (stipulated by the Articles of Association, contracts, or regulatory requirements) on the ability to gain access to, or use, the group's assets or to pay the group's liabilities. The following table contains disclosures pursuant to IFRS 12 relating to non-controlling interests:

| NAME AND REGISTERED OFFICE | WL BANK AG, Münster 2015 | 2014 |
|---|---|---|
| Non-controlling interests (corresponding to share of voting rights) | **9.08%** | 9.08% |
| | **€ million** | € million |
| Profit of the non-controlling interests | **10.4** | 7.2 |
| Accumulated non-controlling interests | **2.4** | -8.0 |
| Dividends allocated to non-controlling interests | **0.4** | 0.4 |
| Assets[1] | **3,672.6** | 3,893.3 |
| Liabilities[1] | **3,670.2** | 3,901.4 |
| Revenue[1] | **19.3** | 13.0 |
| Other comprehensive income[1] | **1.4** | 1.9 |
| Total comprehensive income[1] | **10.4** | 7.3 |
| Cash flow[1] | **0.0** | -0.6 |

[1] Before elimination of intragroup transactions.

In the WGZ BANK Group, relationships with unconsolidated structured entities exist in the form of investments in structured products issued by these entities. As a rule, the structured entities securitize loans as asset-backed, fixed-rate, and tradable securities whose repayment is tied to the change in credit risk of the securitization. The entities obtain funding by issuing various securities tranches. The WGZ BANK Group has primarily invested in senior tranches. The structured products are mainly residential mortgage-backed securities (RMBSs), collateralized debt obligations (CDOs), and asset-backed securities (ABSs). They are recognized under the long-term equity investments and securities portfolio item with a carrying amount of €607.2 million. These unconsolidated structured entities accounted for €2.4 million of net interest income, €16.3 million of net fair value gains, and €3.5 million of net losses on investments. The maximum downside risk is €607.2 million and equates to the carrying amount. The aggregate volume issued by all unconsolidated structured entities with which the WGZ BANK Group has a relationship amounts to €50,746.3 million.

### (4) Procedures of consolidation

According to IFRS 10, a subsidiary exists if the group is exposed to variable returns from its relationship with the entity and has the ability to affect those returns through its power over the entity.

The acquisition of subsidiaries is accounted for using the acquisition method from the point at which control is obtained. At this point, the assets and liabilities are remeasured. Any difference between the cost of the investment and the value of the remeasured proportion of equity attributable to the acquirer must either be recognized as goodwill under intangible assets or, if the difference is a negative amount, recognized in profit or loss after a further review of the fair values. Goodwill must be tested for impairment once a year. Currently, no goodwill is reported on WGZ BANK's consolidated balance sheet because, as permitted by the rules, the bank has retained the netting of goodwill and reserves relating to acquisitions before the transition to IFRS. As part of the consolidation process, any holdings in group companies attributable to third parties are reported separately within equity as non-controlling interests. Subsidiaries sold during the course of a year are recognized in the consolidated income statement until the date of disposal.

A joint venture is a contractual agreement between two or more partners in relation to an economic activity that gives both parties a right to the net assets. Joint ventures are accounted for using the equity method (unless they are not material) and reported under companies accounted for using the equity method. Again, as in the case of acquisitions of subsidiaries, any goodwill is determined on the acquisition date. The carrying amount of an investment is tested for impairment if there is any cause to suspect impairment.

An associate is an entity over which the group can exercise significant influence, but that is neither a subsidiary nor a joint venture. Associates are accounted for using the equity method (unless they are not material) and reported under companies accounted for using the equity method. Again, as in the case of acquisitions of subsidiaries, any goodwill is determined on the acquisition date. The carrying amount of an investment is tested for impairment if there is any cause to suspect impairment.

Loans, advances, other receivables, deposits, other liabilities, contingent liabilities, intercompany gains and losses, income and expenses between the entities included in the consolidation are eliminated. If required, deferred taxes at country-specific tax rates are recognized for remeasurement and consolidation adjustments recognized in profit or loss.

**(5) Classification of financial instruments**

Under IAS 39, all financial instruments must be recognized on the balance sheet and measured according to their classification. The following describes the classifications selected in the WGZ BANK Group:

- Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments for which there is no active market. These assets are measured at amortized cost. Premiums and discounts are recognized in profit or loss under net interest income over the term of the liability using the effective interest method.

- Held-for-trading financial assets and financial liabilities

In addition to primary instruments held for trading purposes in pursuit of short-term gain (such as interest-bearing securities, shares, and promissory notes), this category also includes derivatives that are not categorized as hedging instruments. These instruments are measured at fair value through profit or loss. Fair value gains and losses are reported under gains and losses on trading activities. Interest, dividends, fees, and commissions related to held-for-trading financial instruments are also recognized under gains and losses on trading activities.

- Held-to-maturity financial assets

This category consists of non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity and for which there is an active market. Assets in this category are measured at amortized cost using the effective interest method in which premiums and discounts are allocated over the life of the financial asset concerned and recognized in profit or loss under net interest income.

- Available-for-sale financial assets

This category comprises several individually designated portfolios held by WGZ BANK Ireland plc comprising ABSs, a portfolio of bonds held by WL BANK, and all non-derivative financial assets that have not been allocated to any of the other aforementioned categories. In particular, this category includes unlisted long-term equity investments in addition to interest-bearing securities, shares, and promissory notes. These financial instruments are measured at fair value, both on acquisition and subsequently. Exceptions are unlisted equity instruments for which a fair value cannot be reliably determined. These equity instruments are measured on acquisition, and subsequently, at cost net of any necessary impairment losses. Fair value gains and losses are recognized in other comprehensive income under the change in the revaluation reserve after taking into account deferred taxes. Interest and dividends related to available-for-sale financial assets are recognized in net interest income.

- Other financial liabilities

This category includes all other financial liabilities that are not held for trading or voluntarily measured at fair value. They are measured at amortized cost. Premiums and discounts are recognized in profit or loss under net interest income over the term of the liability using the effective interest method.

- Exercising the fair value option

Under IAS 39, a financial instrument can be voluntarily measured at fair value and any changes in fair value recognized in profit or loss in order to avoid or significantly reduce an accounting mismatch. Accordingly, the WGZ BANK Group exercises this fair value option for loans, money market transactions (particularly those denominated in foreign currency), and debt certificates including bonds that would otherwise be measured at amortized cost. If this approach were not taken, an accounting mismatch would arise from these transactions in conjunction with derivatives and securities that have to be measured at fair value in accordance with IAS 39.

Voluntary measurement at fair value in profit or loss is also possible if there is a documented strategy for the management and measurement of changes in the value of a portfolio of financial instruments based on fair value and information determined on this basis is forwarded directly to the Board of Managing Directors. This involves specific portfolios of securities that do not form part of financial assets held for trading, that are managed on the basis of fair value, and whose performance is regularly reported to the decision-making bodies.

Thirdly, fair value measurement can be used if the financial instrument includes one or more embedded derivatives requiring bifurcation. The fair value option has therefore been applied to promissory notes and registered securities that do not form part of financial assets held for trading, debt certificates including bonds, and issued promissory notes and registered securities that represent structured products, provided that the embedded derivatives require bifurcation.

The financial instrument concerned continues to be reported under its original item. Fair value gains and losses are reported under gains and losses on trading activities. Interest income, dividend income, and interest expense in connection with financial instruments voluntarily measured at fair value are reported in net interest income.

- Reclassifications

As a result of the amendments to IAS 39 and IFRS 7 issued in October 2008 and then adopted by the EU, financial instruments (with the exception of derivatives) that are held for trading and are no longer intended to be sold or repurchased in the near future may in rare circumstances be reclassified. The sovereign debt crisis, which led to the disappearance of active markets in individual segments and to a substantial widening of credit spreads, was considered to be one such circumstance. Financial assets originally held for trading may be reclassified to available-for-sale financial assets, held-to-maturity financial assets, or loans and receivables, provided that the assets satisfy the criteria for the categories concerned. Financial instruments in the category available-for-sale financial assets that currently could already be reclassified to held-to-maturity financial assets if there were a corresponding intention to retain the asset concerned can now also be reclassified to loans and receivables if there is a positive intention and ability to hold the financial instruments for the foreseeable future or to maturity and the criteria for the loans and receivables category are satisfied on the date of reclassification. Financial instruments for which the fair value option has been exercised may not be reclassified. Information on financial instruments reclassified in WGZ BANK's consolidated financial statements can be found in note 26.

**(6) Recognition and measurement of financial instruments**

A financial instrument is recognized on the balance sheet when a group company becomes a party to the contractual arrangements for the financial instrument concerned. In the WGZ BANK Group, financial assets are recognized on the settlement date. This does not include derivatives, which are all recognized on the trade date. Where a financial instrument is recognized on the settlement date, the change in fair value between the trade date and the settlement date must be reported in the income statement if the instrument in question is designated as at fair value through profit or loss. If it is categorized as available for sale, the change is recognized in other comprehensive income. In other categories, the change in fair value is disregarded. On initial recognition, a financial instrument is measured at its fair value. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Subsequent measurement of financial instruments recognized at fair value in the WGZ BANK Group is based on the existing three-level hierarchy specified in IFRS 13.72. In this hierarchy, the best evidence of the fair value of the financial instrument is deemed to be the quoted price in an active market. If no transactions took place on the balance sheet date, the last available price prior to the balance sheet date should be used subject to possible adjustments if there have been changes in general parameters. If there is no active market for the financial instrument, the fair value should be derived using valuation methods based on the most recent transactions involving one and the same financial instrument between knowledgeable, willing parties in arm's-length transactions or otherwise based on a comparison with the latest fair value for another, largely identical financial instrument. If this is not possible either, the fair value is determined by using generally accepted industry-standard valuation models. As far as possible, these models use observable market data as the basis for the valuation.

In the WGZ BANK Group, the fair value of listed financial instruments is based first and foremost on market prices (Level 1 input as defined by IFRS 13.72). In the case of financial instruments that are not listed or that are traded in illiquid markets, the present value method or other suitable valuation model is used for subsequent measurement of the instrument. The fair value of interest-rate swaps is determined on the basis of present values of cash flows discounted using up-to-date swap curves. Options are measured with variants of generally accepted option pricing models, depending on the underlying instrument involved (the main models being Black-Scholes, Garman-Kohlhagen). The fair value of credit derivatives is measured using the probability of default for reference assets based on credit spreads. Financial instruments that are repayable on demand, i.e. cash on hand and current-account balances, are recognized at their nominal amounts.

If the lack of market liquidity as a consequence of the sovereign debt crisis is still creating a situation in which quoted prices for affected financial instruments do not represent appropriate evidence of fair value, these prices cannot be used. The criterion used for determining whether a market is inactive includes, in particular, a substantial widening of the bid/offer spread, unusual price movements and low trading volumes, or low-frequency price updates. As at the balance sheet date, this was the case for one security with a volume of €20 million. This bond, for which there is only an inactive market, is valued by means of a present-value model (DCF method). The discount rates used are based on the risk-free yield curve on the balance sheet date and a risk-adjusted premium. In this case, the fair value calculated was assigned to Level 3.

Certain structured products for which there was no active market on the balance sheet date have also been valued using DCF methods provided by external valuation agencies (Moody's Wall Street Analytics, ABSnet). Decisions as to whether markets are inactive are made on the basis of analyses and assessments by units familiar with the markets and then verified and confirmed by senior management. These analyses and assessments show that there have been inactive markets since 2007 or 2008 for CDOs, RMBSs, and ABSs held by the WGZ BANK Group, and these financial instruments have in the meantime been valued using appropriate models. The methods used for the valuation are described in valuation guidelines. The structured products held as at December 31, 2015 are largely valued on the basis of non-observable parameters (Level 3 input as defined by IFRS 13.72). The non-observable input parameters used to estimate the future cash flows (adjusted for defaults) include liquidity spreads, redemption forecasts, and assumptions about the probability and financial impact of defaults. Fair values determined in this way are verified via internal control structures and validated by comparing the instruments against products with similar terms. A sensitivity analysis is also conducted based on the discount rates used.

The present-value method (DCF method) and all other valuation models applied in the WGZ BANK Group that largely rely on input factors directly or indirectly observable in the market are classified as Level 2 inputs as defined by IFRS 13.72; otherwise, methods are classified as Level 3. Quantitative disclosures on valuations in accordance with the three-level fair value measurement hierarchy are presented in note 28.

### Impairment of financial assets

WGZ BANK accounts for identifiable credit risks in respect of loans and advances by recognizing specific and portfolio loan loss allowances in an appropriate amount. Provisions are recognized to cover the credit risk arising in connection with off-balance-sheet transactions (loan commitments and guarantees). At every balance sheet date, tests are conducted on the basis of uniform groupwide standards to establish whether there is objective evidence indicating any impairment of financial assets. Objective evidence of impairment is deemed to be a situation in which a debtor is facing significant financial difficulties or is at increased risk of insolvency.

Allowances for losses on loans and advances are recognized as a separate line item on the assets side of the consolidated balance sheet but as a negative item. The allowances for losses on loans and advances and the provisions recognized in the year in question are reported in the consolidated income statement under allowances for losses on loans and advances. Irrecoverable loans and advances are written off immediately in profit or loss. Any receipts relating to loans and advances previously impaired are also recognized in profit or loss. If an allowance for losses on loans and advances has already been recognized, this allowance is utilized if a loan or advance cannot be recovered.

In the case of loans recognized at amortized cost, the amount of the specific loan loss allowance to be recognized in profit or loss is derived from the difference between the carrying amount and the present value of the estimated future cash flows. Cash flows from the recovery of any collateral that has been furnished are also included. Changes to the estimated recoverable amount based on new circumstances result in the recognition of an adjustment in profit or loss to the allowances for losses on loans and advances. The amortized cost must not be exceeded as a consequence of any such adjustments. If an allowance has been recognized for a loan or advance, interest income is no longer recognized on the basis of the contractual terms and conditions or the amounts received; instead, interest income is determined and recognized on the basis of the present value of the asset by unwinding the discount at the next balance sheet date.

Portfolio loan loss allowances are recognized for impairment of loans and advances identified at the balance sheet date where such impairment cannot be individually identified and allocated owing to a number of imponderables. Country risk relating to lending exposures in regions with serious transfer risks or currency conversion risks is factored into the allowances for losses on loans and advances at both specific and portfolio levels.

In the case of debt instruments classified as available-for-sale financial assets, the objective evidence sought by impairment tests is the same as that for loans and advances. If such evidence of impairment exists, the cumulative unrealized loss recognized in other comprehensive income is reclassified to profit or loss. If the impairment ceases to exist in subsequent periods as a result of a change in circumstances, the impairment loss recognized in profit or loss is reversed.

Impairment losses are recognized for securities classified as held-to-maturity financial instruments and for securities reclassified to loans and receivables under the IAS 39 exemptions issued by the IASB in October 2008 provided that there is appropriate objective evidence of impairment on the balance sheet date. A loss equivalent to the difference between the carrying amount of the asset and the present value of the estimated future cash flows is recognized in the income statement under gains and losses on investments.

Equity instruments classified as available-for-sale financial assets are assumed to be permanently impaired if there has been a significant deterioration in the financial and legal circumstances of the entity concerned. Any increase in the fair value of such equity instruments following the recognition of an impairment loss must be recognized in other comprehensive income rather than in profit or loss. Increases in the fair value of equity instruments following recognition of an impairment loss are not recovered where the equity instruments are measured at cost because their fair value can no longer be reliably determined.

■ Hedge accounting

To complement the use of the fair value option, the WGZ BANK Group applies fair value hedge accounting to hedge the exposure to changes in fair value associated with assets and liabilities reported on the balance sheet. Hedging activities focus on the hedging of interest-rate risk using interest-rate swaps as the hedging instrument. For each individual hedge, IAS 39 requires evidence demonstrating whether the hedge is suitable, both retrospectively and prospectively, for eliminating a substantial proportion of the risk inherent in the hedged item (assessment of hedge effectiveness).

WGZ BANK only applies micro-hedge accounting. The measurement of a hedged item reflects changes in fair value attributable to the hedged risk. These changes in fair value are recognized in profit or loss under gains and losses arising on hedging transactions in the same way as the changes in fair value for the derivatives. The adjustment of the hedged item's carrying amount that this entails (hedge adjustment) is amortized over time through net interest income. The interest-rate swaps used for hedging are measured at fair value and reported as a separate item on the balance sheet under derivatives used for hedging, either on the assets side or liabilities side depending on whether the fair values are positive or negative. Hedged items comprise loans and advances, promissory notes, or issued bearer bonds measured at amortized cost.

Portfolio hedge accounting is also used for a portfolio at WL BANK to hedge interest-rate risk. The changes in fair value for the hedged items attributable to the hedged risk and the changes in fair value for the hedges relating to this portfolio are recognized in the income statement under gains and losses arising on hedging transactions. On the balance sheet, the fair values of the derivatives used for hedging and the adjustment of the carrying amounts for the hedged items in portfolio hedges attributable to the hedged risk are reported under separate items, on either the assets side or the liabilities side as appropriate. The adjustments to carrying amounts are amortized through net interest income. The portfolio consists of the following hedged items: Pfandbriefe, local authority loans, mortgage loans, and securities not categorized as held to maturity. It also includes hedging instruments, which are exclusively interest-rate swaps.

■ Financial guarantee contracts

In accordance with IAS 39, a financial guarantee contract is defined as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the applicable terms of a debt instrument. The obligation is initially recognized at fair value on the date the offer of the financial guarantee contract is accepted. At the inception of the contract, this fair value is often nil if the obligation is balanced out by the premium; subsequent measurement may result in the recognition of a provision, where appropriate.

■ Embedded derivatives

Under IAS 39, derivatives embedded in financial instruments must be bifurcated from the host contract and accounted for separately if the economic risks of the embedded derivative are not closely related to those of the host contract. On the other hand, bifurcation is not permitted if there are close economic links. If various risk factors mean that bifurcation is necessary, the derivative must then be recognized at fair value. No bifurcation is necessary if the entire instrument is recognized at fair value through profit or loss. The WGZ BANK Group regularly applies the fair value option for these types of financial instruments with embedded derivatives. The entire, non-bifurcated instrument is therefore recognized as a financial asset or financial liability at fair value through profit or loss.

**(7) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and balances with central banks. Balances must be recognized at amortized cost.

**(8) Loans and advances to banks and customers, deposits from banks, amounts owed to other depositors**

Loans and advances to banks and customers, deposits from banks, and amounts owed to other depositors must be recognized at amortized cost unless they are hedged items in a fair value hedge or the fair value option has been exercised. These items are reported on a net basis if this is supported by a right to offsetting that is enforceable at any time.

**(9) Allowances for losses on loans and advances**

Allowances for losses on loans and advances, comprising both specific and portfolio loan loss allowances, are reported as a separate line item on the assets side of the consolidated balance sheet and as a deduction from the loans and advances to banks and loans and advances to customers.

**(10) Financial assets/financial liabilities held for trading**

Financial assets held for trading and financial liabilities held for trading include all derivatives that meet the definition in IAS 39 unless the derivatives form part of a fair value hedge. Financial assets held for trading also include financial instruments classified as such, i.e. mainly fixed-income securities and promissory notes. All these assets and liabilities are recognized at fair value.

**(11) Long-term equity investments and securities portfolio**

All non-trading bonds and all other fixed-income securities, shares and other variable-yield securities, long-term equity investments, and shares in subsidiaries that are not consolidated because they are of minor significance are reported under the long-term equity investments and securities portfolio item. However, material investments in associates and joint ventures are reported under companies accounted for using the equity method. Assets not listed on a stock exchange and whose fair value cannot be reliably determined are recognized at cost net of any necessary impairment losses. The latter assets comprise, in particular, investments in entities in the cooperative financial network. Securities classified as held-to-maturity financial instruments and securities reclassified to loans and receivables under the IAS 39 exemptions issued by the IASB in October 2008 are also recognized at amortized cost.

The other financial assets reported under this item are recognized at fair value. Changes in fair value are recognized (after taking into account deferred taxes) under changes in the revaluation reserve in other comprehensive income unless the financial instruments form part of a hedge or the fair value option has been exercised.

**(12) Companies accounted for using the equity method**

Material associates and joint ventures are accounted for using the equity method. If there are indications of impairment as specified by IAS 39, the impairment loss requirement is determined in accordance with IAS 36.

**(13) Securities lending, sale and repurchase agreements (repos)**

In the case of securities lending, the lender continues to bear the market risk because the borrower is under an obligation to return the same type, quality, and quantity of securities to the lender. The lender continues to enjoy the current income and any pre-emptive rights during the period of lending. As the lender therefore continues to retain substantially all the risks and rewards, the securities are deemed not to have been derecognized. Conversely, borrowed securities are not recognized on the balance sheet.

The sale and repurchase agreements (repos) entered into by entities in the WGZ BANK Group are exclusively genuine repos. In genuine repos, the securities are not derecognized because the buyer is under an obligation to sell back the securities and the seller is under an obligation to buy them, rather than there simply being an entitlement on either side. The original seller continues to enjoy the current income and any pre-emptive rights during the period of the transaction. The risks and rewards therefore remain with the original seller.

Cash collateral received or furnished as part of these transactions is reported as a deposit or loan/advance (including interest). The securities continue to be measured on the basis of their classification in accordance with IAS 39.

**(14) Non-financial assets**

Intangible assets include internally generated software, recognized in an amount equivalent to the directly assignable development costs, purchased software and, in particular, works of art. These assets are measured at amortized cost. Software is amortized over three years on a straight-line basis. Works of art are generally not amortized or depreciated because they are assumed to have an indefinite useful life.

Property, plant and equipment includes land and buildings that are largely used by WGZ BANK itself and office furniture and equipment. Property, plant and equipment as well as investment property is measured at amortized cost. Investment property is real estate held for the purposes of generating rental income and/or capital appreciation. Buildings are depreciated on a straight-line basis over a useful life of 25 to 50 years; office furniture and equipment is depreciated over a useful life of three to ten years, again on a straight-line basis.

Depreciation and amortization expenses are reported under administrative expenses on the income statement. If there are any indications of impairment, impairment losses are recognized to reduce the carrying amount to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Gains or losses on disposal are recognized under other net operating income.

**(15) Income tax assets and liabilities**

Current and deferred income tax assets and liabilities are each reported separately under assets or liabilities as appropriate. Tax assets and liabilities are netted if there is an enforceable legal right to offsetting in such cases and the assets and liabilities relate to the same tax authority. Furthermore, current income taxes can only be offset if there is an intention to settle on a net basis.

Current income tax assets and liabilities are determined at the prevailing tax rates that apply to the payment to be made to the tax authorities or the refund to be received. The changes in these items relating to the income statement are reported under the income taxes line item.

Deferred taxes are recognized using the balance sheet liability method as specified by IAS 12. This method focuses on the appropriate reporting of the amount of future tax assets and liabilities. Measurement differences between the tax base and carrying amounts under IFRS are multiplied by the income tax rate that is expected to be in force when the differences reverse in the future. Deferred taxes are measured on the basis of tax regulations in force or enacted as at the balance sheet date. If there are changes to the tax rate, existing deferred taxes are restated with a one-time adjustment. As specified by IAS 12, deferred taxes are not discounted. Adjustment amounts are posted to either the income statement or other comprehensive income, depending on how the deferred taxes concerned were originally posted. Deferred tax assets are recognized in respect of loss carryforwards if it is sufficiently probable that the group company in question will generate enough taxable income in subsequent periods to allow the loss carryforwards to be utilized.

Deferred tax assets are reviewed at every balance sheet date to establish whether they should be written down. This review requires management assumptions about the level of future taxable profit as well as other positive and negative variables. The actual utilization of deferred tax assets depends on whether there are opportunities to generate taxable profit in the future at levels that would enable the entity concerned to utilize tax loss carryforwards or temporary differences.

There could be a requirement to reduce the total amount recognized in respect of deferred tax assets if future taxable income and profits turn out to be lower than forecast or are reduced as part of group planning or if changes in tax legislation limit the use of tax loss carryforwards or tax reliefs in terms of either timing or amount. Conversely, the total amount recognized for deferred tax assets may need to be increased if future taxable income and profits prove to be greater than expected.

## (16) Other assets/liabilities

Other assets/liabilities relate, in particular, to trade receivables and payables, receivables and payables relating to taxes other than income tax, prepaid expenses/accrued income, and deferred income/accrued expenses. Other liabilities also include interest liabilities in connection with subordinated capital and deductions from salaries to be paid over to the relevant authorities. All these items are recognized at amortized cost.

## (17) Debt certificates including bonds

The debt certificates including bonds item comprises bonds issued and other transferable liabilities, provided that these liabilities are not subordinated. These financial instruments are measured at amortized cost or, if the fair value option has been exercised, at fair value.

## (18) Provisions for pensions and other post-employment benefits

The pension provisions relate to defined benefit commitments within the meaning of IAS 19. The present value of the obligations in connection with these commitments is determined by independent actuaries in accordance with IAS 19 using the projected unit credit method, factoring in future increases in salaries and pension benefit payments, and taking into account forecasts regarding staff turnover. Generally accepted biometric data is used as the basis for estimating average life expectancy. The discount rate used to discount future payment obligations is the market interest rate for risk-free long-term bonds with a maturity equivalent to that of the defined benefit obligations. Actuarial gains and losses are recognized directly in consolidated equity under retained earnings. The return on plan assets is assumed to correspond to the interest rate used for the accounting of the obligations and is offset against the interest cost on the obligations in profit or loss.

## (19) Other provisions

Other provisions are recognized for present legal and constructive obligations in the amount of the obligation that is expected to crystallize, provided that the payment requirement is probable and will lead to an outflow of resources. The timing or amount of the obligation is uncertain. The scope of the obligations can be estimated reliably. Provisions are only recognized in respect of obligations outside the group. Non-current provisions are discounted. Provisions for the costs of litigation and legal redress in respect of pending legal disputes consist of the expected litigation costs and provisions for the obligation. The latter are determined according to the progress of the individual proceedings and the likelihood of a successful outcome as predicted by the mandated attorney or the bank's legal department. The legal department assesses the legal risks arising from redress, if necessary in consultation with external legal experts. These risks form the basis for recognizing an appropriate provision or contingent liability.

## (20) Subordinated capital

Subordinated liabilities and profit-sharing rights issued by the WGZ BANK Group are reported under subordinated capital. Following initial recognition at cost, these items are recognized at amortized cost unless the fair value option is voluntarily selected. Accordingly, premiums and discounts are recognized in profit or loss under net interest income using the effective interest method. The leveraged portion of the convertible bond that was issued in 2014 with a conversion right for the debtor, and which is accounted for as a compound financial instrument, is also recognized under subordinated capital.

## (21) Trust activities

Trust activities in connection with the management or placement of assets for the account of third parties are not reported on the balance sheet. Fees and commissions relating to trust activities are recognized under net fee and commission income.

## (22) Equity

Subscribed capital comprises the share capital of WGZ BANK. The premium achieved on the issuance of shares, i.e. the amount received in excess of the par value, is reported as capital reserves. Retained earnings comprise the statutory reserve, reserves provided for by the Articles of Association, and other reserves recognized from net profit. Actuarial gains and losses arising on defined benefit obligations are also reported under retained earnings. The equity portion of the convertible bond that was issued in 2014 with a conversion right for the debtor, and which is accounted for as a compound financial instrument, is also recognized under equity. Revaluation reserves relate to the fair value gains and losses on available-for-sale financial assets (net of deferred taxes). Other reserves recognized via other comprehensive income comprise changes reported in other comprehensive income and currency translation relating to companies accounted for using the equity method. Non-controlling interests consist of shares in the equity of subsidiaries held by third parties.

### (23) Currency translation

Monetary assets and liabilities denominated in foreign currency are translated into euros at the balance sheet date in accordance with IAS 21 and any differences recognized in profit or loss. Carrying amounts are translated using the reference rate published by the European Central Bank on the balance sheet date. Gains and losses are recognized under gains and losses on trading activities. Long-term equity investments whose fair value cannot be reliably determined, property, plant and equipment, and intangible assets acquired in foreign currency are translated into euros on the date of acquisition. Income and expenses denominated in foreign currency are translated at the relevant transaction rates. Unsettled forward transactions are measured at the forward rate on the balance sheet date. Currently, the WGZ BANK Group only consolidates annual financial statements of companies in which the functional currency is the euro.

### (24) Non-current assets and disposal groups classified as held for sale

A non-current asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and there is a very high probability of a sale. IFRS 5 sets out a number of criteria in this regard that must be satisfied including that appropriate management decisions must have been made and completion of a sale must be expected within one year from the date on which the asset or disposed group is classified in this category. Non-current assets and disposal groups classified as held for sale are generally measured at the lower of carrying amount and fair value less costs to sell, whereby the carrying amounts of the assets and liabilities included in disposal groups are, except in the assessment of this lower amount, updated in accordance with the relevant IFRSs (although this does not include depreciation/amortization, which is not permitted). These assets and disposal groups are reported as separate items on the balance sheet.

## Financial instruments disclosures

### (25) Analysis of financial assets and liabilities

| ASSETS AS AT DEC. 31, 2015<br>€ million<br>Measurement category | Amortized cost | | | Fair value | | | Hedging instruments | Financial instruments outside IFRS 7 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Classification category | Loans and receivables | Available-for-sale financial instruments[1] | Held-to-maturity financial instruments | Financial instruments held for trading | Available-for-sale financial instruments | Fair value option | | | |
| Cash and cash equivalents | 249.6 | | | | | | | | 249.6 |
| Loans and advances to banks | 19,188.0 | | | | | 1,864.1 | | | 21,052.1 |
| Loans and advances to customers | 31,881.6 | | | | | 7,273.5 | | | 39,155.1 |
| Specific loan loss allowances | -148.1 | | | | | | | | -148.1 |
| Financial assets held for trading | | | | 6,970.4 | | | | | 6,970.4 |
| Long-term equity investments and securities portfolio | 56.0 | 1,017.0 | 2,040.9 | | 588.1 | 16,523.7 | | | 20,225.7 |
| Other financial instruments | 317.7 | | | | | | 633.6 | | 951.3 |
| **Financial instruments total** | **51,692.9** | **1,017.0** | **2,040.9** | **6,970.4** | **588.1** | **25,661.3** | **633.6** | **0.0** | **88,456.1** |

| LIABILITIES AS AT DEC. 31, 2015<br>€ million<br>Measurement category | Amortized cost | Fair value | | Hedging instruments | Financial instruments outside IFRS 7 | Total |
|---|---|---|---|---|---|---|
| Classification category | Other financial liabilities | Financial instruments held for trading | Fair value option | | | |
| Deposits from banks | 30,357.5 | | 5,268.6 | | | 35,626.1 |
| Amounts owed to other depositors | 13,830.2 | | 6,619.9 | | | 20,450.1 |
| Debt certificates including bonds | 14,421.9 | | 6,915.7 | | | 21,337.6 |
| Financial liabilities held for trading | | 5,545.8 | | | | 5,545.8 |
| Subordinated capital | 403.1 | | 335.3 | | | 738.4 |
| Other financial instruments | 221.6 | | | 1,372.6 | 233.4 | 1,827.6 |
| **Financial instruments total** | **59,234.3** | **5,545.8** | **19,139.5** | **1,372.6** | **233.4** | **85,525.6** |

[1] Equity instruments for which a fair value cannot be reliably determined. They are therefore measured at cost.

| ASSETS AS AT DEC. 31, 2014<br>€ million<br>Measurement category | Amortized cost | | | Fair value | | | Hedging instruments | Financial instruments outside IFRS 7 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Classification category | Loans and receivables | Available-for-sale financial instruments[1] | Held-to-maturity financial instruments | Financial instruments held for trading | Available-for-sale financial instruments | Fair value option | | | |
| Cash and cash equivalents | 249.8 | | | | | | | | 249.8 |
| Loans and advances to banks | 20,960.8 | | | | | 1,877.0 | | | 22,837.8 |
| Loans and advances to customers | 29,974.6 | | | | | 7,646.4 | | | 37,621.0 |
| Specific loan loss allowances | -146.9 | | | | | | | | -146.9 |
| Financial assets held for trading | | | | 10,012.8 | | | | | 10,012.8 |
| Long-term equity investments and securities portfolio | 78.3 | 1,031.2 | 2,162.6 | | 860.3 | 17,549.3 | | | 21,681.7 |
| Other financial instruments | 497.1 | | | | | | 716.2 | | 1,213.3 |
| **Financial instruments total** | **51,760.6** | **1,031.2** | **2,162.6** | **10,012.8** | **860.3** | **27,072.7** | **716.2** | **0.0** | **93,469.5** |

| LIABILITIES AS AT DEC. 31, 2014<br>€ million<br>Measurement category | Amortized cost | Fair value | | Hedging instruments | Financial instruments outside IFRS 7 | Total |
|---|---|---|---|---|---|---|
| Classification category | Other financial liabilities | Financial instruments held for trading | Fair value option | | | |
| Deposits from banks | 30,952.2 | | 6,118.7 | | | 37,070.9 |
| Amounts owed to other depositors | 15,052.9 | | 7,501.6 | | | 22,554.5 |
| Debt certificates including bonds | 13,759.0 | | 7,479.7 | | | 21,238.7 |
| Financial liabilities held for trading | | 7,004.0 | | | | 7,004.0 |
| Subordinated capital | 422.9 | | 346.8 | | | 769.7 |
| Other financial instruments | 272.0 | | | 1,633.5 | 233.3 | 2,138.8 |
| **Financial instruments total** | **60,459.0** | **7,004.0** | **21,446.8** | **1,633.5** | **233.3** | **90,776.6** |

[1] Equity instruments for which a fair value cannot be reliably determined. They are therefore measured at cost.

The difference between the carrying amount of financial liabilities that were voluntarily classified as at fair value through profit or loss (and included interest components) and the amount that the WGZ BANK Group had to pay when due was €1,054.5 million (December 31, 2014: €1,757.7 million).

## (26) Reclassification of financial instruments

| | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| **Financial assets reclassified from 'held for trading' to 'loans and receivables':** | | |
| Amount of assets reclassified in the reporting period | **0.0** | 0.0 |
| Carrying amount of assets reclassified in the reporting period | **0.0** | 0.0 |
| Carrying amount of reclassified assets (cumulative) | **56.0** | 78.3 |
| Fair value of assets reclassified in the reporting period | **0.0** | 0.0 |
| Fair value of all reclassified assets (cumulative) | **55.2** | 75.3 |
| For assets reclassified in the reporting period:<br>Fair value gains and losses recognized in the income statement | **0.0** | 0.0 |
| For assets reclassified in the reporting period:<br>Fair value gains and losses recognized in the income statement (previous year) | **0.0** | 0.0 |
| For reclassified assets:<br>Notional fair value gains and losses[1] | **1.2** | 3.7 |
| For reclassified assets:<br>Gains and losses actually recognized in the income statement | **0.5** | 0.5 |

[1] As if no reclassification had taken place.

The reclassifications were carried out in 2008 as a result of the financial crisis. The reclassification of financial instruments held for trading enabled WGZ BANK to avoid the recognition of changes in the fair value of these financial instruments under gains and losses on trading activities that would otherwise have been necessary since that time.

### (27) Income statement analysis

| CLASSIFICATION CATEGORY | Fair value option € million | Financial instruments held for trading € million | Available-for-sale financial instruments € million | Held-to-maturity financial instruments € million | Loans and receivables € million | Other financial liabilities € million |
|---|---|---|---|---|---|---|
| Net gains/losses | 70.8 | 71.0 | 14.2 | 0.0 | 9.5 | 0.0 |
| Net gains/losses, 2014 | 1,044.2 | -832.3 | -34.4 | 0.0 | -0.5 | 0.0 |

The net gains and losses comprise fair value gains and losses and gains and losses on disposals for the assets and liabilities in each classification category together with interest and dividends related to held-for-trading financial assets and financial liabilities. Of the net gains and losses in connection with the fair value option, assets accounted for losses of €592.9 million (2014: gains of €1,861.9 million) and liabilities for gains of €663.7 million (2014: losses of €817.7 million). In the available-for-sale financial instruments category, gains of €105.0 million (2014: gains of €50.5 million) were recognized in other comprehensive income, whereas gains of €2.9 million (2014: losses of €1.2 million) were recognized under gains and losses on investments in profit or loss. Net gains and losses for the loans and receivables category are recognized in allowances for losses on loans and advances. If securities are assigned to this category, they are reported under gains and losses on investments. Net gains and losses for financial instruments classified as held to maturity are also recognized under gains and losses on investments.

The amounts reported as net interest income and net fee and commission income are not included in the net gains and losses.

Financial assets measured at amortized cost were subject to impairment losses of €47.4 million (2014: €24.5 million). These impairment losses were related to loans and advances. However, no impairment was identified for held-to-maturity financial instruments. No loss allowances were recognized for securities in the loans and receivables category in the reporting period, as had also been the case in the previous year. No loss allowances were recognized in the year under review for available-for-sale financial assets measured at fair value (2014: €1.2 million) and no reversals of impairment losses were recognized for these assets either (2014: €0.0 million). In addition, the loss allowances specified in the statement of changes in non-current assets under long-term equity investments must be taken into account in both years.

Net interest income and net fee and commission income generated in connection with financial assets and financial liabilities not measured at fair value through profit or loss is shown in the following table:

| | € million | 2014 € million |
|---|---|---|
| **Financial assets** | | |
| Interest income | **1,487.1** | 1,514.6 |
| Fee and commission expenses | **43.1** | 28.1 |
| **Financial liabilities** | | |
| Interest expense | **998.4** | 1,219.4 |
| Fee and commission income | **10.1** | 12.3 |

Fee and commission income of €0.1 million (2014: €0.1 million) and fee and commission expenses of less than €0.1 million (2014: €0.1 million) were recognized as part of trust activities.

## (28) Fair value of financial instruments

The following table shows a comparison between carrying amounts and fair values of financial instruments.

| ASSETS | € million | | Dec. 31, 2014 € million | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash equivalents | 249.6 | 249.6 | 249.8 | 249.8 |
| Loans and advances to banks | 21,052.1 | 21,131.2 | 22,837.8 | 22,941.6 |
| Loans and advances to customers | 39,007.0 | 42,071.5 | 37,474.1 | 40,986.6 |
| Derivatives used for hedging (positive fair values) | 633.6 | 633.6 | 716.2 | 716.2 |
| Financial assets held for trading | 6,970.4 | 6,970.4 | 10,012.8 | 10,012.8 |
| Long-term equity investments and securities portfolio[1] | 19,213.7 | 19,344.0 | 20,650.5 | 20,797.8 |
| Other financial instruments | 312.7 | 312.7 | 497.1 | 497.1 |
| **Financial instruments total** | **87,439.1** | **90,713.0** | **92,438.3** | **96,201.9** |

| LIABILITIES | | | | |
|---|---|---|---|---|
| Deposits from banks | 35,626.1 | 35,863.9 | 37,070.9 | 37,418.8 |
| Amounts owed to other depositors | 20,450.1 | 22,383.1 | 22,554.5 | 24,929.6 |
| Debt certificates including bonds | 21,337.6 | 21,670.6 | 21,238.7 | 21,786.9 |
| Derivatives used for hedging (negative fair values) | 1,372.6 | 1,372.6 | 1,633.5 | 1,633.5 |
| Financial liabilities held for trading | 5,545.8 | 5,545.8 | 7,004.0 | 7,004.0 |
| Subordinated capital | 738.4 | 789.5 | 769.7 | 833.5 |
| Other financial instruments | 455.0 | 455.0 | 505.3 | 505.3 |
| **Financial instruments total** | **85,525.6** | **88,080.5** | **90,776.6** | **94,111.6** |

[1] Excluding equity instruments for which a fair value cannot be reliably determined.

The following table lists financial instruments for which a fair value cannot be reliably determined and companies that are accounted for using the equity method. The instruments concerned are largely investments within the cooperative financial network (not listed on a stock exchange). The only way a fair value could be established for these investments would be through specific sale negotiations. WGZ BANK has no intention of disposing of them. The instruments are measured at cost less any necessary impairment losses. Long-term equity investments with a total carrying amount of €29.4 million were sold, generating book gains of €20.5 million. No long-term equity investments had been sold in 2014.

| CARRYING AMOUNT | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| Shares in unlisted corporations | **1,253.4** | 1,371.3 |
| Interests in partnerships | **640.8** | 634.7 |
| Paid-up shares in cooperatives | **2.6** | 5.2 |
| **Total** | **1,896.8** | 2,011.2 |

The following summary shows the valuation methods used in the WGZ BANK Group for financial instruments measured at fair value and assets measured at amortized cost:

| FINANCIAL ASSETS AT FAIR VALUE AS AT DEC. 31, 2015 € million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 0.0 | 1,864.1 | 0.0 | 1,864.1 |
| Loans and advances to customers | 0.0 | 7,266.4 | 7.1 | 7,273.5 |
| Derivatives used for hedging (positive fair values) | 0.0 | 633.6 | 0.0 | 633.6 |
| Financial assets held for trading | 2,331.8 | 4,638.3 | 0.3 | 6,970.4 |
| Long-term equity investments and securities portfolio | 14,051.9 | 2,525.7 | 534.2 | 17,111.8 |
| **Total financial assets measured at fair value** | **16,383.7** | **16,928.1** | **541.6** | **33,853.4** |

| FINANCIAL ASSETS AT AMORTIZED COST AS AT DEC. 31, 2015 € million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 0.0 | 19,267.1 | 0.0 | 19,267.1 |
| Loans and advances to customers | 0.0 | 34,440.7 | 357.3 | 34,798.0 |
| Long-term equity investments and securities portfolio[1)] | 2,134.3 | 42.8 | 55.1 | 2,232.2 |
| **Total financial assets measured at amortized cost** | **2,134.3** | **53,750.6** | **412.4** | **56,297.3** |
| | | | | |
| **Total financial assets** | **18,518.0** | **70,678.7** | **954.0** | **90,150.7** |

[1)] Excluding equity instruments for which a fair value cannot be reliably determined.

| FINANCIAL LIABILITIES AT FAIR VALUE AS AT DEC. 31, 2015<br>€ million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Deposits from banks | 0.0 | 5,158.8 | 109.8 | 5,268.6 |
| Amounts owed to other depositors | 0.0 | 6,619.9 | 0.0 | 6,619.9 |
| Debt certificates including bonds | 103.0 | 6,812.7 | 0.0 | 6,915.7 |
| Derivatives used for hedging (negative fair values) | 0.0 | 1,372.6 | 0.0 | 1,372.6 |
| Financial liabilities held for trading | 39.9 | 5,505.9 | 0.0 | 5,545.8 |
| Subordinated capital | 0.0 | 335.3 | 0.0 | 335.3 |
| **Total financial liabilities measured at fair value** | **142.9** | **25,805.2** | **109.8** | **26,057.9** |

| FINANCIAL LIABILITIES AT AMORTIZED COST AS AT DEC. 31, 2015<br>€ million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Deposits from banks | 0.0 | 30,595.3 | 0.0 | 30,595.3 |
| Amounts owed to other depositors | 0.0 | 15,763.2 | 0.0 | 15,763.2 |
| Debt certificates including bonds | 0.0 | 14,754.9 | 0.0 | 14,754.9 |
| Subordinated capital | 0.0 | 454.2 | 0.0 | 454.2 |
| **Total financial liabilities measured at amortized cost** | **0.0** | **61,567.6** | **0.0** | **61,567.6** |
| | | | | |
| **Total financial liabilities** | **142.9** | **87,372.8** | **109.8** | **87,625.5** |

| FINANCIAL ASSETS AT FAIR VALUE AS AT DEC. 31, 2014 € million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 0.0 | 1,877.0 | 0.0 | 1,877.0 |
| Loans and advances to customers | 0.0 | 7,641.7 | 4.7 | 7,646.4 |
| Derivatives used for hedging (positive fair values) | 0.0 | 716.2 | 0.0 | 716.2 |
| Financial assets held for trading | 3,439.0 | 6,573.8 | 0.0 | 10,012.8 |
| Long-term equity investments and securities portfolio | 14,587.4 | 3,141.0 | 681.2 | 18,409.6 |
| **Total financial assets measured at fair value** | **18,026.4** | **19,949.7** | **685.9** | **38,662.0** |

| FINANCIAL ASSETS AT AMORTIZED COST AS AT DEC. 31, 2014 € million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 0.0 | 21,064.6 | 0.0 | 21,064.6 |
| Loans and advances to customers | 0.0 | 32,994.9 | 345.3 | 33,340.2 |
| Long-term equity investments and securities portfolio | 2,281.2 | 29.9 | 77.1 | 2,388.2 |
| **Total financial assets measured at amortized cost** | **2,281.2** | **54,089.4** | **422.4** | **56,793.0** |
| | | | | |
| **Total financial assets** | **20,307.6** | **74,039.1** | **1,108.3** | **95,455.0** |

| FINANCIAL LIABILITIES AT FAIR VALUE AS AT DEC. 31, 2014 € million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Deposits from banks | 0.0 | 6,006.0 | 112.7 | 6,118.7 |
| Amounts owed to other depositors | 0.0 | 7,501.6 | 0.0 | 7,501.6 |
| Debt certificates including bonds | 105.9 | 7,373.8 | 0.0 | 7,479.7 |
| Derivatives used for hedging (negative fair values) | 0.0 | 1,633.5 | 0.0 | 1,633.5 |
| Financial liabilities held for trading | 26.1 | 6,977.9 | 0.0 | 7,004.0 |
| Subordinated capital | 0.0 | 346.8 | 0.0 | 346.8 |
| **Total financial liabilities measured at fair value** | **132.0** | **29,839.6** | **112.7** | **30,084.3** |

| FINANCIAL LIABILITIES AT AMORTIZED COST AS AT DEC. 31, 2014 € million | Quoted market prices in an active market (Level 1) | Valuation methods, observable market parameters (Level 2) | Valuation methods, non-observable market parameters (Level 3) | Total |
|---|---|---|---|---|
| Deposits from banks | 0.0 | 31,300.1 | 0.0 | 31,300.1 |
| Amounts owed to other depositors | 0.0 | 17,428.0 | 0.0 | 17,428.0 |
| Debt certificates including bonds | 0.0 | 14,307.2 | 0.0 | 14,307.2 |
| Subordinated capital | 0.0 | 486.7 | 0.0 | 486.7 |
| **Total financial liabilities measured at amortized cost** | **0.0** | **63,522.0** | **0.0** | **63,522.0** |
| | | | | |
| **Total financial liabilities** | **132.0** | **93,361.6** | **112.7** | **93,606.3** |

During the course of the year under review, there were changes within the valuation methods in accordance with the three-level hierarchy. These changes are shown in the following overview together with their impact on net profit/loss:

| ASSETS RECONCILIATION AS AT DEC. 31, 2015 € million | Loans and advances to banks | Loans and advances to customers | Derivatives used for hedging (positive fair values) | Financial assets held for trading | Long-term equity investments & securities portfolio | Total |
|---|---|---|---|---|---|---|
| **Level 1** | **0.0** | **0.0** | **0.0** | **2,331.8** | **14,051.9** | **16,383.7** |
| *of which still in Level 2 as at Dec. 31, 2014* | 0.0 | 0.0 | 0.0 | 395.8 | 367.0 | 762.8 |
| *of which still in Level 3 as at Dec. 31, 2014* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Level 2** | **1,864.1** | **7,266.4** | **633.6** | **4,638.3** | **2,525.7** | **16,928.1** |
| *of which still in Level 1 as at Dec. 31, 2014* | 0.0 | 0.0 | 0.0 | 0.0 | 152.4 | 152.4 |
| *of which still in Level 3 as at Dec. 31, 2014* | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| **Level 3** | | | | | | |
| Fair value at start of period | 0.0 | 4.7 | 0.0 | 0.0 | 681.2 | 685.9 |
| Acquisition – fair value on addition | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 | 1.7 |
| Switch to Level 3 – fair value on addition | 0.0 | 6.2 | 0.0 | 0.3 | 0.0 | 6.5 |
| Fair value on derecognition (disposal) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (maturity/redemption) | 0.0 | -1.2 | 0.0 | 0.0 | -171.8 | -173.0 |
| Fair value on derecognition (switch to Level 1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (switch to Level 2) | 0.0 | -1.7 | 0.0 | 0.0 | 0.0 | -1.7 |
| Total gains/losses for financial instruments in Level 3 | 0.0 | -2.6 | 0.0 | 0.0 | 24.8 | 22.2 |
| of which held as at the balance sheet date | 0.0 | -0.4 | 0.0 | 0.0 | 20.0 | 19.6 |
| Change in fair value/payment against net interest income | 0.0 | 0.0 | 0.0 | 0.0 | -0.3 | -0.3 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 |
| Change in fair value/payment against gains and losses on trading activities | 0.0 | -2.6 | 0.0 | 0.0 | 13.3 | 10.7 |
| of which held as at the balance sheet date | 0.0 | -0.4 | 0.0 | 0.0 | 12.3 | 11.9 |
| Change in fair value/payment against gains and losses on investments | 0.0 | 0.0 | 0.0 | 0.0 | -0.5 | -0.5 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in fair value against revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 12.3 | 12.3 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 7.8 | 7.8 |
| **Fair value at period end** | **0.0** | **7.1** | **0.0** | **0.3** | **534.2** | **541.6** |
| **Total fair values for financial assets** | | | | | | **33,853.4** |

| ASSETS RECONCILIATION AS AT DEC. 31, 2014 € million | Loans and advances to banks | Loans and advances to customers | Derivatives used for hedging (positive fair values) | Financial assets held for trading | Long-term equity investments & securities portfolio | Total |
|---|---|---|---|---|---|---|
| **Level 1** | **0.0** | **0.0** | **0.0** | **3,439.0** | **14,587.4** | **18,026.4** |
| *of which still in Level 2 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 63.3 | 853.9 | 917.3 |
| *of which still in Level 3 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Level 2** | **1,877.0** | **7,641.7** | **716.2** | **6,573.8** | **3,141.0** | **19,949.7** |
| *of which still in Level 1 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 37.0 | 142.9 | 179.9 |
| *of which still in Level 3 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Level 3** | | | | | | |
| Fair value at start of period | 0.0 | 3.8 | 0.0 | 0.0 | 661.8 | 665.6 |
| Acquisition – fair value on addition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Switch to Level 3 – fair value on addition | 0.0 | 0.5 | 0.0 | 0.0 | 90.0 | 90.5 |
| Fair value on derecognition (disposal) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (maturity/redemption) | 0.0 | -3.1 | 0.0 | 0.0 | -99.4 | -102.5 |
| Fair value on derecognition (switch to Level 1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (switch to Level 2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total gains/losses for financial instruments in Level 3 | 0.0 | 3.5 | 0.0 | 0.0 | 28.8 | 32.3 |
| of which held as at the balance sheet date | 0.0 | 3.5 | 0.0 | 0.0 | 25.9 | 29.4 |
| Change in fair value/payment against net interest income | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | -0.2 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | -0.2 |
| Change in fair value/payment against gains and losses on trading activities | 0.0 | 3.5 | 0.0 | 0.0 | 13.9 | 17.3 |
| of which held as at the balance sheet date | 0.0 | 3.5 | 0.0 | 0.0 | 11.3 | 14.8 |
| Change in fair value/payment against gains and losses on investments | 0.0 | 0.0 | 0.0 | 0.0 | -0.8 | -0.8 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | -0.8 | -0.8 |
| Change in fair value against revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 15.9 | 15.9 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 15.5 | 15.5 |
| **Fair value at period end** | **0.0** | **4.7** | **0.0** | **0.0** | **681.2** | **685.9** |
| **Total fair values for financial assets** | | | | | | **38,662.0** |

| LIABILITIES RECONCILIATION AS AT DEC. 31, 2015<br>€ million | Deposits from banks | Amounts owed to other depositors | Debt certificates including bonds | Derivatives used for hedging (negative fair values) | Financial liabilities held for trading | Sub-ordinated capital | Total |
|---|---|---|---|---|---|---|---|
| **Level 1** | **0.0** | **0.0** | **103.0** | **0.0** | **39.9** | **0.0** | **142.9** |
| *of which still in Level 2 as at Dec. 31, 2014* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which still in Level 3 as at Dec. 31, 2014* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Level 2** | **5,158.8** | **6,619.9** | **6,812.7** | **1,372.6** | **5,505.9** | **335.3** | **25,805.2** |
| *of which still in Level 1 as at Dec. 31, 2014* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which still in Level 3 as at Dec. 31, 2014* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Level 3** | | | | | | | |
| Fair value at start of period | 112.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 112.7 |
| Issuance – fair value on addition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Switch to Level 3 – fair value on addition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (maturity/redemption) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (switch to Level 1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (switch to Level 2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total gains/losses for financial instruments in Level 3 | -2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -2.9 |
| of which held as at the balance sheet date | -2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -2.9 |
| Change in fair value/payment against net interest income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in fair value/payment against gains and losses on trading activities | -2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -2.9 |
| of which held as at the balance sheet date | -2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -2.9 |
| Change in fair value/payment against gains and losses on investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in fair value against revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Fair value at period end** | **109.8** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **109.8** |
| **Total fair values for financial liabilities** | | | | | | | **26,057.9** |

| LIABILITIES RECONCILIATION AS AT DEC. 31, 2014<br>€ million | Deposits from banks | Amounts owed to other depositors | Debt certificates including bonds | Derivatives used for hedging (negative fair values) | Financial liabilities held for trading | Sub-ordinated capital | Total |
|---|---|---|---|---|---|---|---|
| **Level 1** | **0.0** | **0.0** | **105.9** | **0.0** | **26.1** | **0.0** | **132.0** |
| *of which still in Level 2 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which still in Level 3 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Level 2** | **6,006.0** | **7,501.6** | **7,373.8** | **1,633.5** | **6,977.9** | **346.8** | **29,839.6** |
| *of which still in Level 1 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which still in Level 3 as at Dec. 31, 2013* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Level 3** | | | | | | | |
| Fair value at start of period | 109.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 109.8 |
| Issuance – fair value on addition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Switch to Level 3 – fair value on addition | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (maturity/redemption) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (switch to Level 1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value on derecognition (switch to Level 2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total gains/losses for financial instruments in Level 3 | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 |
| of which held as at the balance sheet date | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 |
| Change in fair value/payment against net interest income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in fair value/payment against gains and losses on trading activities | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 |
| of which held as at the balance sheet date | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 |
| Change in fair value/payment against gains and losses on investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in fair value against revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which held as at the balance sheet date | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Fair value at period end** | **112.7** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **112.7** |
| **Total fair values for financial liabilities** | | | | | | | **30,084.3** |

The market data on which the measurements are based is taken from the relevant primary markets to which WGZ BANK has access. The relevant market for the equities traded by WGZ BANK is the Xetra exchange or, in exceptional cases, the local regional stock exchange. Exchange-traded derivatives are measured at their market price or on the basis of their market price. The interbank market is the primary market for all other products. Measurement is based on interbank prices or typical, transparent market data from the interbank market. Mid-market pricing is used for the measurement on the basis of typical mid-market rates.

Given the mainly positive changes in the market liquidity for different types of bonds, a volume of around €0.8 million was switched from Level 2 input to Level 1 input, and roughly €0.2 million from Level 1 input to Level 2 input, during the year under review. Changes at Level 3 are attributable to additions following changes to market estimates, positive valuation effects, and, above all, to repayments. Total fair value gains of €9.9 million (2014: €16.3 million) were recognized in profit or loss for securities valued with Level 3 inputs. There are no obvious reasonable alternative valuation methods for these securities that would produce significantly different results.

The financial instruments held by the WGZ BANK Group that are not traded on an active market and that are valued with a valuation method not solely based on observable market parameters are predominantly structured securities, along with southern European subsovereign bonds and, on a small scale, loans and advances to customers. The management decides at its discretion precisely which unobservable parameters are used in the valuation, selecting appropriate values from a range of possible alternative measurements according to the prevailing market conditions. Changes during the reporting period were caused by repayments and by additions following changes to the valuation method as a result of changes to market estimates. The following table contains a sensitivity analysis that was carried out for structured securities measured at fair value where measurement was not based on observable measurement parameters (Level 3 input as defined by IFRS 13.72). Current market conditions make it difficult to forecast changes in credit spreads. The table therefore shows the impact of a widening of the credit spread for ABSs both by 50 basis points and by 100 basis points as well as the impact of a 50 percent reduction in early repayments.

| Dec. 31, 2015 | Fair value € million | Fair value with spread + 50bp € million | Fair value with spread + 100bp € million | Early repayment decline of 50% € million |
|---|---|---|---|---|
| ABSs (excluding expected recovery rate) | 517.1 | 505.9 | 495.2 | 513.0 |
| ABSs (including expected recovery rate) | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **517.1** | | | |
| **Dec. 31, 2014** | | | | |
| ABSs (excluding expected recovery rate) | 666.1 | 651.8 | 638.1 | 659.6 |
| ABSs (including expected recovery rate) | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **666.1** | | | |

A 20bp widening of the spread would reduce the fair value of the subsovereign bonds by €0.1 million. The market value of the loans and advances measured at fair value that are assigned to Level 3 would decrease by €0.1 million if the spread widened by 50bp. The bandwidth of the credit spreads on which the measurement of Level 3 assets was based was 19 to 1,530 basis points.

## Nature and scope of risks arising from financial instruments

The following disclosures cover the risks arising in connection with financial instruments, the origin of such risks, existing risk exposures, the objectives, strategies, and methods involved in the management of these risks, and the measurement of these risks. Please also refer to the risk report within the management report.

### (29) Maximum credit risk and credit quality

| MAXIMUM CREDIT RISK AND COLLATERAL | Maximum credit risk € million | (%) | Risk-mitigating collateral € million | (%) | Maximum credit risk Dec. 31, 2014 € million | (%) | Risk-mitigating collateral Dec. 31, 2014 € million | (%) |
|---|---|---|---|---|---|---|---|---|
| **Loans and advances to** | **60,207.2** | **60.3** | **21,019.3** | **98.7** | **60,458.8** | **60.2** | **19,092.2** | **97.0** |
| banks | 21,052.1 | 21.1 | 476.9 | 2.2 | 22,837.8 | 22.7 | 681.6 | 3.5 |
| customers | 39,155.1 | 39.2 | 20,542.4 | 96.5 | 37,621.0 | 37.5 | 18,410.6 | 93.5 |
| **Financial assets held for trading** | **6,970.4** | **7.0** | **272.9** | **1.3** | **10,012.8** | **10.0** | **600.2** | **3.0** |
| Bonds and other fixed-income securities | 2,731.4 | 2.7 | 0.0 | 0.0 | 4,380.6 | 4.4 | 0.0 | 0.0 |
| Shares and other variable-yield securities | 10.3 | 0.0 | 0.0 | 0.0 | 7.3 | 0.0 | 0.0 | 0.0 |
| Promissory notes | 68.3 | 0.1 | 0.0 | 0.0 | 144.1 | 0.1 | 0.0 | 0.0 |
| Money market placements denominated in foreign currency | 689.9 | 0.7 | 0.0 | 0.0 | 807.3 | 0.8 | 0.0 | 0.0 |
| Derivatives | 3,470.5 | 3.5 | 272.9 | 1.3 | 4,673.5 | 4.7 | 600.2 | 3.0 |
| **Hedging instruments** | **633.6** | **0.6** | **0.0** | **0.0** | **716.2** | **0.7** | **0.0** | **0.0** |
| **Fair value changes of the hedged items in portfolio hedges of interest-rate risk** | **316.8** | **0.3** | **0.0** | **0.0** | **496.6** | **0.5** | **0.0** | **0.0** |
| **Long-term equity investments and securities portfolio** | **20,230.7** | **20.3** | **0.0** | **0.0** | **21,681.7** | **21.6** | **0.0** | **0.0** |
| Bonds and other fixed-income securities | 19,208.9 | 19.3 | 0.0 | 0.0 | 20,646.9 | 20.6 | 0.0 | 0.0 |
| Shares not qualifying as long-term equity investments | 4.8 | 0.0 | 0.0 | 0.0 | 3.6 | 0.0 | 0.0 | 0.0 |
| Investment fund units | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-term equity investments | 1,017.0 | 1.0 | 0.0 | 0.0 | 1,031.2 | 1.0 | 0.0 | 0.0 |
| **Companies accounted for using the equity method** | **879.8** | **0.9** | **0.0** | **0.0** | **980.0** | **1.0** | **0.0** | **0.0** |
| **Contingent liabilities** | **1,068.8** | **1.1** | **0.0** | **0.0** | **1,026.0** | **1.0** | **0.0** | **0.0** |
| **Less assigned credit derivatives that mitigate the credit risk** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Loan commitments** | **9,697.3** | **9.7** | **0.0** | **0.0** | **5,275.5** | **5.3** | **0.0** | **0.0** |
| **Allowances for losses on loans and advances** | **-224.0** | **-0.2** | **0.0** | **0.0** | **-221.9** | **-0.2** | **0.0** | **0.0** |
| **Total** | **99,780.6** | **100.0** | **21,292.2** | **100.0** | **100,425.7** | **100.0** | **19,692.4** | **100.0** |

WGZ BANK holds collateral in the form of mortgages on real estate, pledged loans and advances, assigned receivables, guarantees, together with pledged custody accounts and other accounts as security for financial assets. Collateral for loans and advances may only be recovered in the event of default. Mortgage-related collateral is predominantly supplied for loan commitments. As at the balance sheet date, WGZ BANK had not recognized any assets acquired within the reporting period in connection with the recovery of collateral. This had also been the case at the end of 2014.

The quality of loans and advances is determined on the basis of internal rating systems. These systems comprise 20 rating categories (0A to 3E) for loans and advances not in default and five default categories (4A to 4E). The following table shows a summary of the loans and advances and bonds classified to each of the rating categories:

| | Probability of default (%) or classification criterion for loans and advances | Loans and advances to banks € million | Loans and advances to customers € million | Bonds € million | Loans and advances to banks Dec. 31, 2014 € million | Loans and advances to customers Dec. 31, 2014 € million | Bonds Dec. 31, 2014 € million |
|---|---|---|---|---|---|---|---|
| **Not impaired** | | | | | | | |
| Rating 0A to 0E | 0.00–0.06 | 17,760.4 | 15,099.6 | 14,159.1 | 19,497.2 | 12,272.0 | 16,097.2 |
| Rating 1A to 1E | 0.06–0.42 | 2,723.1 | 17,254.2 | 6,490.9 | 2,887.8 | 18,898.7 | 6,838.5 |
| Rating 2A to 2E | 0.42–3.19 | 443.7 | 6,153.6 | 1,202.9 | 224.5 | 5,765.5 | 1,875.3 |
| Rating 3A to 3E | 3.19–100.00 | 33.3 | 352.2 | 82.4 | 150.6 | 319.5 | 203.7 |
| Rating 4A | More than 90 days overdue | 0.0 | 6.3 | 0.0 | 0.0 | 3.1 | 0.0 |
| Unrated | | 79.0 | 44.4 | 0.0 | 77.7 | 90.9 | 3.4 |
| Carrying amount | | 21,039.5 | 38,910.3 | 21,935.3 | 22,837.8 | 37,349.7 | 25,018.1 |
| **Impaired** | | | | | | | |
| Carrying amount before specific loan loss allowance | | 12.6 | 244.8 | 0.0 | 0.0 | 271.3 | 10.5 |
| of which rating 4B | Restructuring exposure | 12.6 | 127.4 | 0.0 | 0.0 | 153.1 | 10.5 |
| of which rating 4C | Exemption from interest | 0.0 | 2.0 | 0.0 | 0.0 | 9.2 | 0.0 |
| of which rating 4D | Insolvency | 0.0 | 1.1 | 0.0 | 0.0 | 1.3 | 0.0 |
| of which rating 4E | Compulsory winding-up | 0.0 | 114.3 | 0.0 | 0.0 | 107.7 | 0.0 |
| Unrated | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Specific loan loss allowance | | 0.0 | 148.1 | 0.0 | 0.0 | 146.9 | 1.1 |
| Carrying amount after specific loan loss allowance | | 12.6 | 96.7 | 0.0 | 0.0 | 124.4 | 9.4 |
| **Total** | | **21,052.1** | **39,007.0** | **21,935.3** | **22,837.8** | **37,474.1** | **25,027.5** |

Of the non-impaired loans and advances to customers measured at amortized cost, €22.6 million was up to 90 days past due as at the balance sheet date (December 31, 2014: €13.1 million).

## (30) Market risk

| TOTAL POTENTIAL MARKET RISK | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| Interest-rate risk | **10.8** | 4.9 |
| Equity risk | **0.8** | 0.1 |
| Spread risk | **4.8** | 5.2 |
| Other market risk | **0.4** | 0.3 |
| **Total (excluding correlation)** | **16.8** | 10.5 |

The potential market risk disclosed above is calculated with a parametric variance-covariance model on the basis of the value-at-risk method. This model has been approved by the regulators as an internal model. Taking into account historical price fluctuations and correlations, value-at-risk quantifies the maximum potential loss from future market fluctuations within a specified holding period and for a given probability (confidence level). The values presented in the above table are based on a confidence level of 95 percent and a holding period of one day. Other market risks primarily comprise volatility risk and currency risk.

## (31) Liquidity risk

| € million | Carrying amount | Total | Gross outflows < 3 months | 3 to 12 months | > 12 months |
|---|---|---|---|---|---|
| Deposits from banks | 35,626.1 | 35,626.8 | 10,258.7 | 2,686.5 | 22,681.6 |
| Amounts owed to other depositors | 20,450.1 | 20,450.1 | 4,634.8 | 645.0 | 15,170.3 |
| Debt certificates including bonds | 21,337.6 | 21,337.5 | 826.8 | 2,493.0 | 18,017.7 |
| Derivatives used for hedging (negative fair values) | 1,372.6 | 1,372.6 | 2.8 | 11.3 | 1,358.5 |
| Financial liabilities held for trading | 5,545.8 | 5,545.9 | 1,295.7 | 274.2 | 3,976.0 |
| of which derivatives | 4,583.2 | 4,583.2 | 408.6 | 235.9 | 3,938.7 |
| Subordinated capital | 738.4 | 738.4 | 10.3 | 10.2 | 717.9 |
| Other financial liabilities | 455.0 | 455.0 | 455.0 | 0.0 | 0.0 |
| Loan commitments | 0.0 | 9,697.3 | 9,697.3 | 0.0 | 0.0 |
| Contingent liabilities | 0.0 | 1,068.8 | 1,068.8 | 0.0 | 0.0 |
| **Total** | **85,525.6** | **96,292.4** | **28,250.2** | **6,120.2** | **61,922.0** |

| Dec. 31, 2014<br>€ million | Carrying amount | Total | Gross outflows < 3 months | 3 to 12 months | > 12 months |
|---|---|---|---|---|---|
| Deposits from banks | 37,070.9 | 37,072.9 | 11,325.3 | 3,994.0 | 21,753.6 |
| Amounts owed to other depositors | 22,554.5 | 22,554.5 | 6,205.4 | 654.7 | 15,694.4 |
| Debt certificates including bonds | 21,238.7 | 21,238.7 | 637.0 | 2,613.7 | 17,988.0 |
| Derivatives used for hedging (negative fair values) | 1,633.5 | 1,633.5 | 0.6 | 25.4 | 1,607.5 |
| Financial liabilities held for trading | 7,004.0 | 7,004.0 | 1,041.8 | 598.5 | 5,363.7 |
| of which derivatives | 5,987.1 | 5,984.5 | 213.9 | 413.7 | 5,356.9 |
| Subordinated capital | 769.7 | 769.7 | 12.5 | 0.0 | 757.2 |
| Other financial liabilities | 505.3 | 505.3 | 505.3 | 0.0 | 0.0 |
| Loan commitments | 0.0 | 5,275.5 | 5,275.5 | 0.0 | 0.0 |
| Contingent liabilities | 0.0 | 1,026.0 | 1,026.0 | 0.0 | 0.0 |
| **Total** | **90,776.6** | **97,080.1** | **26,029.4** | **7,886.3** | **63,164.4** |

The figures are based on contractually agreed cash flows. The WGZ BANK Group enjoyed ample long-term liquidity at all times in 2015. Further information can be found in the risk report within the management report.

## Balance sheet disclosures – ASSETS –

### (32) Cash and cash equivalents

| | € million | Dec. 31, 2014 € million |
|---|---|---|
| Cash on hand | **1.7** | 1.6 |
| Balances with central banks | **247.9** | 248.2 |
| **Total** | **249.6** | 249.8 |

### (33) Loans and advances

| | € million | Dec. 31, 2014 € million |
|---|---|---|
| **Loans and advances to banks** | | |
| Breakdown by residual maturity: | | |
| Repayable on demand | **3,702.0** | 4,595.5 |
| Up to three months | **800.6** | 1,214.9 |
| Between three months and one year | **1,723.3** | 2,205.5 |
| Between one year and five years | **6,143.9** | 6,207.5 |
| More than five years | **8,682.3** | 8,614.4 |
| **Total** | **21,052.1** | 22,837.8 |
| of which attributable to: | | |
| Affiliated banks | **15,596.3** | 15,596.1 |
| DZ BANK AG | **183.2** | 231.4 |
| Other long-term investees and investors | **73.2** | 105.5 |
| Associates | **0.8** | 56.8 |
| of which money market placements denominated in foreign currency | **0.0** | 1.0 |
| **Loans and advances to customers** | | |
| Breakdown by residual maturity: | | |
| Up to three months | **1,467.3** | 2,250.8 |
| Between three months and one year | **2,231.5** | 2,581.8 |
| Between one year and five years | **10,056.3** | 9,643.7 |
| More than five years | **24,656.6** | 23,116.5 |
| No fixed maturity | **743.4** | 28.2 |
| **Total** | **39,155.1** | 37,621.0 |
| of which attributable to: | | |
| Other long-term investees and investors | **102.1** | 89.0 |
| Associates | **68.2** | 69.8 |
| Joint ventures | **0.0** | 0.0 |
| Subsidiaries | **0.0** | 0.0 |
| of which money market placements denominated in foreign currency | **0.0** | 0.0 |

### (34) Allowances for losses on loans and advances

Allowances for losses on loans and advances comprise specific loan loss allowances for loans and advances in the category 'loans and receivables' and portfolio loan loss allowances – these allowances being reported separately on the assets side of the balance sheet – as well as provisions for losses on loans and advances.

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| Specific loan loss allowances | | |
| Loans and advances to banks | **0.0** | 0.0 |
| Loans and advances to customers | **148.1** | 146.9 |
| Portfolio loan loss allowances | **28.3** | 29.6 |
| Total allowances for losses on loans and advances | **176.4** | 176.5 |
| Provisions for losses on loans and advances | **47.6** | 45.4 |
| **Total** | **224.0** | 221.9 |

The changes in the specific and portfolio loan loss allowances in the year under review and in 2014 were as follows:

| | Specific loan loss allowances<br>€ million | Portfolio loan loss allowances<br>€ million | **Total**<br>**€ million** |
|---|---|---|---|
| Balance as at January 1, 2014 | 163.1 | 30.0 | 193.1 |
| Utilizations | -14.2 | 0.0 | -14.2 |
| Reversals | -21.4 | -1.1 | -22.5 |
| Unwinding of discount | -4.2 | 0.0 | -4.2 |
| Additions | 23.6 | 0.7 | 24.3 |
| Balance as at December 31, 2014/January 1, 2015 | 146.9 | 29.6 | **176.5** |
| Utilizations | -2.3 | 0.0 | **-2.3** |
| Reversals | -37.3 | -2.2 | **-39.5** |
| Unwinding of discount | -4.2 | 0.0 | **-4.2** |
| Additions | 45.0 | 0.9 | **45.9** |
| **Balance as at December 31, 2015** | **148.1** | **28.3** | **176.4** |

### (35) Fair value changes of the hedged items in portfolio hedges of interest-rate risk

Fair value changes of the (asset) hedged items in portfolio hedges of interest-rate risk amounted to €316.8 million (December 31, 2014: €496.6 million). These changes resulted from hedging interest-rate risk.

### (36) Derivatives used for hedging (positive fair values)

| | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| Positive fair values from micro fair value hedges | **3.5** | 16.7 |
| Positive fair values from portfolio fair value hedges | **630.1** | 699.5 |
| **Total** | **633.6** | 716.2 |

Owing to the netting of the positive fair values of derivatives processed via a central clearing house with liabilities arising on variation margins, the volume reported on the balance sheet as at December 31, 2015 was reduced by €0.8 million. This line item had not been affected by netting as at December 31, 2014.

### (37) Financial assets held for trading

| | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| Derivatives (positive fair values) | | |
| Currency-linked contracts | **559.2** | 1,019.9 |
| Interest-linked contracts | **2,839.4** | 3,554.4 |
| Share-/index-linked contracts | **27.0** | 39.8 |
| Other contracts | **44.9** | 59.4 |
| | **3,470.5** | 4,673.5 |
| Bonds and other fixed-income securities | | |
| Money market instruments from public-sector issuers | **0.0** | 0.0 |
| Money market instruments from other issuers | **0.0** | 16.8 |
| Bonds from public-sector issuers | **513.9** | 1,193.8 |
| Bonds from other issuers | **2,217.5** | 3,170.0 |
| | **2,731.4** | 4,380.6 |
| Shares and other variable-yield securities | **10.3** | 7.3 |
| Money market placements denominated in foreign currency | **689.9** | 807.3 |
| Promissory notes and registered bonds | **68.3** | 144.1 |
| **Total** | **6,970.4** | 10,012.8 |

Owing to the netting of the positive fair values of derivatives processed via a central clearing house with liabilities arising on variation margins, the volume reported on the balance sheet as at December 31, 2015 was reduced by €238.5 million (December 31, 2014: €205.9 million).

## (38) Long-term equity investments and securities portfolio

| | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| Bonds and other fixed-income securities | **19,208.9** | 20,646.9 |
| of which due after more than one year | **19,072.3** | 18,098.7 |
| Shares and other variable-yield securities | **4.8** | 3.6 |
| Investments | **1,012.7** | 1,024.3 |
| Paid-up shares in cooperatives | **2.6** | 5.2 |
| Investments in subsidiaries | **1.7** | 1.7 |
| **Total** | **20,230.7** | 21,681.7 |

The following table shows the change in long-term equity investments and paid-up shares in cooperatives:

| | Long-term equity investments and paid-up shares in cooperatives<br>€ million |
|---|---|
| Cost | |
| Balance as at Jan. 1, 2014 | 1,053.2 |
| Additions | 54.2 |
| Disposals | -0.4 |
| Balance as at Dec. 31, 2014 | 1,107.0 |
| Additions | 21.9 |
| Disposals | -29.4 |
| **Balance as at Dec. 31, 2015** | **1,099.5** |
| **Impairment losses** | |
| Balance as at Jan. 1, 2014 | 57.9 |
| Additions | 19.6 |
| Disposals | 0.0 |
| Balance as at Dec. 31, 2014 | 77.5 |
| Additions | 6.7 |
| Disposals | 0.0 |
| **Balance as at Dec. 31, 2015** | **84.2** |
| Carrying amount as at Dec. 31, 2014 | 1,029.5 |
| **Carrying amount as at Dec. 31, 2015** | **1,015.3** |

**(39) Companies accounted for using the equity method**

As at the balance sheet date, the consolidated financial statements included twelve investments (December 31, 2014: 13) in associates in which significant influence could be exercised based on the voting rights held. Of these associates, five (December 31, 2014: six) were accounted for using the equity method. WGZ BANK's holding in DZ PRIVATBANK S.A., Luxembourg, is 19.04 percent. As a result of the arrangement agreed between the shareholders that consent should be required for all key corporate decisions, WGZ BANK can exercise significant influence over DZ PRIVATBANK S.A.

With the exception of DZ Holding GmbH & Co. KG, which has a reporting date of August 31, all the other companies accounted for using the equity method have a reporting date of December 31. No interim financial statements for the period to December 31 were required for DZ Holding GmbH & Co. KG because there were no material transactions in the last four months of 2015.

There are no relevant restrictions (stipulated by the Articles of Association, contracts, or regulatory requirements) that prevent cash and other assets from being transferred or prevent guarantees from being utilized. The companies only have continuing operations. The other associates are reported at amortized cost because together they are not material.

DZ Holding GmbH & Co. KG holds shares in DZ BANK AG, while the other two material long-term equity investments are also strategic investments within the cooperative financial network.

DZ PRIVATBANK S.A. particularly supports the primary banks with portfolio investments and investment advice in their retail business and fund business, whereas VR Equitypartner GmbH provides assistance in the form of equity and mezzanine capital in the corporate banking business.

The following tables show the equity-accounted companies in which WGZ BANK holds a stake. Financial data is shown separately for each material associate and in aggregate form for the other associates and joint ventures.

| | DZ Holding GmbH & Co. KG, Neu-Isenburg | DZ PRIVAT-BANK S.A. sub-group, Strassen, Luxembourg[1)] | VR Equity-partner GmbH, Frankfurt am Main | DZ Holding GmbH & Co. KG, Neu-Isenburg | DZ PRIVAT-BANK S.A. sub-group, Strassen, Luxembourg[1)] | VR Equity-partner GmbH, Frankfurt am Main |
|---|---|---|---|---|---|---|
| | | | **2015** | | | 2014 |
| Shareholding (corresponding to share of voting rights) | 36.4% | 19.0% | 22.0% | 36.4% | 19.0% | 22.0% |
| | | | **€ million** | | | € million |
| Dividends received | 13.8 | 8.7 | 1.2 | 10.3 | 8.7 | 1.9 |
| Current assets | 0.5 | | 69.6 | 0.5 | | 24.4 |
| of which: cash and cash equivalents | 0.4 | | 38.8 | 0.5 | | 5.8 |
| Non-current assets | 1,550.2 | | 297.2 | 1,553.2 | | 325.0 |
| Current liabilities | 0.4 | | 65.7 | 0.3 | | 105.7 |
| of which: current financial liabilities | 0.1 | | 65.7 | 0.1 | | 104.9 |
| Non-current liabilities | 0.0 | | 248.9 | 0.0 | | 199.1 |
| of which: non-current financial liabilities | 0.0 | | 248.9 | 0.0 | | 199.1 |
| Depreciation and amortization | 0.0 | -11.6 | 0.1 | 0.0 | -10.9 | 0.1 |
| Interest income | 38.3 | 173.5 | 53.2 | 29.2 | 204.1 | 26.1 |
| Interest expense | 0.0 | -26.4 | 7.7 | 0.0 | -51.4 | 8.2 |
| Income tax expense or income | -0.3 | -3.7 | 0.2 | -0.2 | -9.3 | 0.0 |
| Revenue | 38.3 | 257.0 | 45.9 | 29.0 | 268.0 | 19.7 |
| Profit/loss from continuing operations, net of tax | 38.0 | 34.0 | 27.6 | 28.9 | 44.3 | -2.5 |
| Other comprehensive income/loss | 0.0 | 11.9 | 1.8 | 0.0 | -0.8 | 17.8 |
| Total comprehensive income/loss | 38.0 | 45.9 | 29.5 | 28.9 | 43.6 | 15.3 |
| Proportion of equity | 559.3 | 193.5 | 22.5 | 559.3 | 193.7 | 17.3 |
| Goodwill | 0.0 | 9.3 | 39.2 | 0.0 | 104.0 | 39.2 |
| Carrying amount | 559.3 | 202.8 | 61.7 | 559.3 | 297.7 | 56.5 |

[1)] Assets of €17,495.9 million (Dec. 31, 2014: €14,785.1 million) and liabilities of €16,479.8 million (Dec. 31, 2014: €13,769.1 million).

As at the balance sheet date, the consolidated financial statements also included one (December 31, 2014: one) joint venture accounted for using the equity method, as had also been the case in 2014. The following aggregated amounts were attributable to the WGZ BANK Group based on the shareholdings in these equity-accounted associates and the equity-accounted joint venture:

| | Other associates | Other joint ventures<br>2015<br>€ million | Other associates | Other joint ventures<br>2014<br>€ million |
|---|---|---|---|---|
| Carrying amount | 55.9 | 0.2 | 59.7 | 6.8 |
| Profit/loss from continuing operations, net of tax | 1.3 | -1.9 | -2.5 | 0.1 |
| Impairment loss on carrying amount of long-term equity investment | 0.0 | -6.0 | 0.0 | 0.0 |
| Other comprehensive income/loss | 0.0 | 0.0 | 0.0 | 0.0 |
| Total comprehensive income/loss | 1.3 | -7.9 | -2.5 | 0.1 |

Contingent liabilities to associates amounted to €43.5 million (December 31, 2014: €45.4 million).

The changes in investments in companies accounted for using the equity method were as follows:

| | Companies accounted for using the equity method € million |
|---|---|
| **Cost** | |
| Balance as at Jan. 1, 2014 | 1,011.9 |
| Additions | 103.4 |
| Disposals | -5.9 |
| Balance as at Dec. 31, 2014 | 1,109.4 |
| Additions | 10.6 |
| Disposals | -10.1 |
| **Balance as at Dec. 31, 2015** | **1,109.9** |
| **Impairment losses** | |
| Balance as at Jan. 1, 2014 | 63.0 |
| Additions | 66.4 |
| Disposals | 0.0 |
| Balance as at Dec. 31, 2014 | 129.4 |
| Additions | 100.7 |
| Disposals | 0.0 |
| **Balance as at Dec. 31, 2015** | **230.1** |
| Carrying amount as at Dec. 31, 2014 | 980.0 |
| **Carrying amount as at Dec. 31, 2015** | **879.8** |

There were no quoted market prices for any of the equity-accounted companies.

## (40) Intangible assets and property, plant and equipment

| | Purchased intangible assets<br>€ million | Internally generated intangible assets<br>€ million | Land and buildings<br>€ million | Office furniture and equipment<br>€ million |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at Jan. 1, 2014 | 56.1 | 9.2 | 122.1 | 43.0 |
| Additions | 11.2 | 0.0 | 0.0 | 2.9 |
| Disposals | -9.7 | 0.0 | -0.3 | -8.8 |
| Balance as at Dec. 31, 2014 | 57.6 | 9.2 | 121.8 | 37.1 |
| Additions | 8.9 | 0.0 | 0.1 | 3.5 |
| Disposals | -5.7 | 0.0 | 0.0 | -4.0 |
| **Balance as at Dec. 31, 2015** | **60.8** | **9.2** | **121.9** | **36.6** |
| **Amortization, depreciation, and impairment losses** | | | | |
| Balance as at Jan. 1, 2014 | 44.2 | 9.2 | 64.8 | 38.5 |
| Additions | 4.4 | 0.0 | 2.8 | 3.1 |
| Disposals | -9.6 | 0.0 | -0.2 | -8.8 |
| Balance as at Dec. 31, 2014 | 39.0 | 9.2 | 67.4 | 32.8 |
| Additions | 5.4 | 0.0 | 2.9 | 2.2 |
| Disposals | -5.6 | 0.0 | 0.0 | -4.0 |
| **Balance as at Dec. 31, 2015** | **38.8** | **9.2** | **70.3** | **31.0** |
| Carrying amount as at Dec. 31, 2014 | 18.6 | 0.0 | 54.4 | 4.3 |
| **Carrying amount as at Dec. 31, 2015** | **22.0** | **0.0** | **51.6** | **5.6** |

The carrying amount of intangible assets with an indefinite useful life was unchanged year on year at €1.1 million. The fair value of land and buildings totaled €123.6 million as at December 31, 2015.

## (41) Income tax assets

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| Current income tax assets | **30.7** | 39.7 |
| Deferred tax assets | **234.1** | 279.2 |
| of which relating to temporary differences | **234.1** | 279.2 |
| of which relating to tax loss carryforwards | **0.0** | 0.0 |
| **Total** | **264.8** | 318.9 |

Impairment testing of deferred tax assets in 2015 found that the full amount of the deferred tax assets was recoverable, as had also been the case in 2014. The impairment test conducted on deferred tax assets is based on the approved IFRS-based group budget for 2016–2019, extrapolated for an additional year. The IFRS net operating profit in the budget is adjusted to reflect section 8b of the German Corporation Tax Act (KStG) and non-deductible operating expenses.

As at the balance sheet date, the carrying amount of deferred tax assets recognized in other comprehensive income amounted to €39.4 million (December 31, 2014: €49.6 million). Deferred tax assets were recognized in connection with temporary differences in the following balance sheet items and in respect of as yet unused tax loss carryforwards:

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| Loans and advances to banks and customers | **51.8** | 0.0 |
| Derivatives used for hedging (fair values) | **231.8** | 287.6 |
| Financial assets and financial liabilities held for trading | **371.2** | 495.1 |
| Deposits from banks and amounts owed to other depositors | **289.9** | 341.8 |
| Debt certificates including bonds | **24.1** | 49.1 |
| Provisions | **32.6** | 34.8 |
| Other balance sheet items | **44.2** | 44.2 |
| | **1,045.6** | 1,252.6 |
| Tax loss carryforwards | **0.0** | 0.0 |
| Adjustment of deferred tax assets carrying amount | **0.0** | 0.0 |
| Offsetting with deferred tax liabilities | **-811.5** | -973.4 |
| **Total** | **234.1** | 279.2 |

### (42) Other assets

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| Entitlements to reinsurance cover for pension schemes | 14.5 | 14.5 |
| Checks, bonds due, coupons, dividend certificates, and other collection papers received | 0.9 | 0.5 |
| Other | 41.9 | 42.5 |
| **Total** | **57.3** | 57.5 |

Other assets are largely of a short-term nature.

### (43) Non-current assets and disposal groups classified as held for sale

The 0.02 percent long-term equity investment in Visa Europe Ltd., London, with a value of €32.7 million and the 5.5 percent long-term equity investment in Union Investment Real Estate GmbH, Hamburg, with a value of €48.8 million were classified as held for sale as at the valuation date. There were no impairment losses as defined by IFRS 5.20. Both companies were carried at cost in the past and are to be sold in the first half of 2016. The long-term equity investment in Visa Europe Ltd. is to be sold in connection with the acquisition by Visa Inc. A fair value has now been reliably determined for the first time for this long-term equity investment on the basis of the purchase offer submitted. In 2014, the long-term equity investments in Union Investment Real Estate GmbH and Visa Europe Ltd. had been recognized under the long-term equity investments and securities portfolio item and had been measured at cost. Corresponding reversals of the write-downs have been recognized in other comprehensive income.

## Balance sheet disclosures – EQUITY AND LIABILITIES –

### (44) Deposits from banks, amounts owed to other depositors, debt certificates including bonds

| | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| **Deposits from banks** | | |
| Breakdown by residual maturity: | | |
| Repayable on demand | **7,031.2** | 6,706.0 |
| Up to three months | **4,133.2** | 5,371.7 |
| Between three months and one year | **2,601.5** | 3,868.9 |
| Between one year and five years | **9,563.0** | 9,066.1 |
| More than five years | **12,297.2** | 12,058.2 |
| **Total** | **35,626.1** | 37,070.9 |
| of which attributable to: | | |
| Affiliated banks | **10,273.5** | 10,342.1 |
| DZ BANK AG | **1,545.0** | 1,144.2 |
| Other long-term investees and investors | **1,459.0** | 1,521.7 |
| Associates | **15.6** | 50.8 |
| of which Pfandbriefe | **1,819.8** | 1,752.9 |
| of which money market deposits denominated in foreign currency | **41.0** | 37.7 |
| **Amounts owed to other depositors** | | |
| Breakdown by residual maturity: | | |
| Repayable on demand | **3,002.6** | 3,157.6 |
| Up to three months | **1,626.0** | 3,069.3 |
| Between three months and one year | **646.9** | 621.9 |
| Between one year and five years | **3,507.6** | 3,924.0 |
| More than five years | **11,667.0** | 11,781.7 |
| **Total** | **20,450.1** | 22,554.5 |
| of which attributable to: | | |
| Other long-term investees and investors | **151.5** | 60.3 |
| Associates | **5.2** | 6.5 |
| Joint ventures | **0.0** | 1.0 |
| Subsidiaries | **0.2** | 0.1 |
| of which Pfandbriefe | **13,860.5** | 14,175.4 |
| of which money market deposits denominated in foreign currency | **8.9** | 10.1 |
| **Debt certificates including bonds** | | |
| of which Pfandbriefe | **10,904.3** | 9,935.5 |
| a) Bonds issued | **21,337.6** | 21,238.7 |
| of which due after more than one year | **18,049.3** | 18,125.8 |
| b) Other debt certificates | **0.0** | 0.0 |
| of which due after more than one year | **0.0** | 0.0 |
| **Total** | **21,337.6** | 21,238.7 |

### (45) Fair value changes of the hedged items in portfolio hedges of interest-rate risk

Fair value changes of the (liability) hedged items in portfolio hedges of interest-rate risk amounted to €221.6 million (December 31, 2014: €272.0 million). These changes resulted from hedging interest-rate risk.

### (46) Derivatives used for hedging (negative fair values)

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| Negative fair values from micro fair value hedges | **6.1** | 3.0 |
| Negative fair values from portfolio fair value hedges | **1,366.5** | 1,630.5 |
| **Total** | **1,372.6** | 1,633.5 |

In 2015, there was no netting of the negative fair values of derivatives processed via a central clearing house with receivables arising on variation margins. In 2014, this netting had reduced the volume reported on the balance sheet as at December 31, 2014 by €0.4 million.

### (47) Financial liabilities held for trading

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| Derivatives (negative fair values) | | |
| Currency-linked contracts | **500.2** | 947.7 |
| Interest-linked contracts | **3,964.7** | 4,970.3 |
| Share-/index-linked contracts | **82.2** | 49.2 |
| Other contracts | **36.1** | 19.9 |
| | **4,583.2** | 5,987.1 |
| Delivery commitments arising from short sales of securities | **13.6** | 6.0 |
| Money market deposits denominated in foreign currency | **949.0** | 1,010.9 |
| **Total** | **5,545.8** | 7,004.0 |

Owing to the netting of the negative fair values of derivatives processed via a central clearing house with receivables arising on variation margins, the volume reported on the balance sheet as at December 31, 2015 was reduced by €483.5 million (December 31, 2014: €472.5 million).

## (48) Provisions

| Dec. 31, 2014 € million | Opening balance | Utilizations | Reversals | Additions | Unwinding of discounts | Closing balance |
|---|---|---|---|---|---|---|
| **Provisions for pensions and other post-employment benefits** | **186.5** | **-9.1** | **0.0** | **50.2** | **5.7** | **233.3** |
| **Other provisions** | **58.4** | **-25.2** | **-6.8** | **45.6** | **1.5** | **73.5** |
| Other personnel provisions | 19.3 | -14.4 | -0.7 | 18.1 | 0.1 | 22.4 |
| Provisions for losses on loans and advances | 21.4 | 0.0 | -1.8 | 24.4 | 1.4 | 45.4 |
| Provisions for the costs of litigation and legal redress | 5.4 | -0.1 | -4.1 | 1.0 | 0.0 | 2.2 |
| Residual provisions | 12.3 | -10.7 | -0.2 | 2.1 | 0.0 | 3.5 |
| **Total** | **244.9** | **-34.3** | **-6.8** | **95.8** | **7.2** | **306.8** |

| Dec. 31, 2015 € million | Opening balance | Utilizations | Reversals | Additions | Unwinding of discounts | Closing balance |
|---|---|---|---|---|---|---|
| **Provisions for pensions and other post-employment benefits**[1)] | **233.3** | **-9.9** | **0.0** | **5.9** | **4.1** | **233.4** |
| **Other provisions** | **73.5** | **-18.4** | **-13.9** | **34.6** | **2.7** | **78.5** |
| Other personnel provisions | 22.4 | -16.3 | -0.1 | 16.9 | 0.1 | 23.0 |
| Provisions for losses on loans and advances | 45.4 | 0.0 | -13.7 | 13.3 | 2.6 | 47.6 |
| Provisions for the costs of litigation and legal redress | 2.2 | -0.4 | -0.1 | 3.0 | 0.0 | 4.7 |
| Residual provisions | 3.5 | -1.7 | 0.0 | 1.4 | 0.0 | 3.2 |
| **Total** | **306.8** | **-28.3** | **-13.9** | **40.5** | **6.8** | **311.9** |

[1)] Income of €2.6 million was recognized in other comprehensive income (2014: expenses of €42.5 million).

The provisions for pensions and other post-employment benefits primarily comprise provisions to cover the defined benefit obligation in connection with the payment of occupational retirement pensions based on direct pension commitments. The nature and amount of the retirement pension to be paid to the beneficiaries is determined by the relevant pension rules (derived from a number of sources, including company agreement, pension provision regulations). These rules largely depend on the start date of the employment contract. The amount of pension benefits paid to employees is based on remuneration over the entire period of service.

## Collectivist schemes

### Legal framework

The entitlements of WGZ BANK Group employees to an occupational pension have been granted on the basis of a collectivist scheme set forth in company agreements. Some of the entitlements are direct pension entitlements and some are relief fund entitlements. The obligation in respect of the direct pension entitlements amounted to €200.1 million (2014: €200.0 million) and the obligation in respect of the relief fund amounted to €76.5 million (2014: €74.6 million).

### Schemes open to newcomers

Under the employer-funded scheme (BV2002), which is currently open to newcomers, WGZ BANK makes capital-formation payments to its employees. The entitlement is structured as a defined contribution entitlement with accessory reinsurance. The amount of the benefit is therefore defined on the basis of life insurance contracts. This type of scheme with defined contributions and accessory reinsurance also allows employees to fund their pension provision by way of deferral of compensation. The resulting obligation amounted to €16.6 million (2014: €14.6 million).

### Closed schemes

There are various older pension schemes in existence that, as far as currently active employees are concerned, have been fully harmonized with a defined contribution scheme.

The entitlements of active employees consist of defined contribution entitlements (cash balance plan) with final-salary-linked capital components from the harmonization of earlier final-salary-dependent pension entitlements. The benefit is paid out in the form of a lump sum but can also be paid in installments or in the form of a lifelong pension.

Besides the cash balance plan, some of the people with vested pension entitlements who have left the bank still have vested entitlements to a lifelong pension.

Most of these beneficiaries draw a lifelong pension, which, according to section 16 (1) of the German Occupational Pensions Act (BetrAVG), must be checked to ascertain whether it requires adjustment. In the past, this effectively meant that pensions increased in line with consumer prices. Former employees who are entitled to capital-formation benefits draw these benefits, partly in the form of a lump sum or installments that rise by 6 percent per year, and partly in the form of a lifelong pension.

### Funding

The obligations in respect of BV2002 are funded by means of reinsurance policies, into which WGZ BANK pays the contribution entitlements. The pension benefits in respect of legacy entitlements are funded partly internally and partly through WGZ BANK's relief fund. Whereas the relief fund has now taken over the bulk of beneficiaries' retirement pension entitlements, WGZ BANK funds the benefits paid in respect of death and invalidity directly.

### Risk aspects

WGZ BANK believes it has largely eliminated funding risk, accounting risk, adjustment risk, and longevity risk in the BV2002 by paying the contribution entitlements into reinsurance policies.

As far as legacy entitlements are concerned, the bank bears the adjustment risk arising on the lifelong benefits and on the salary-linked components of the vested entitlements to capital-formation benefits. Moreover, there are longevity risks arising on lifelong benefits, although these only arise for the vested entitlements to capital-formation benefits which the bank pays in the form of lifelong pensions.

WGZ BANK has reduced the accounting risk and funding risk through its contributions to the relief fund and the resulting cover funds held in the relief fund. Where benefits are direct pension entitlements or the relief fund has a cover shortfall, the obligations are covered by provisions.

## Individual entitlements

The members of the Board of Managing Directors have final-salary-related individual entitlements to lifelong benefits, which are funded through a pension fund and a reinsured support fund. The members of the Board of Managing Directors appointed most recently were granted defined contribution cash balance plan entitlements governed by individual agreements. The former members of the Board of Managing Directors either are already receiving lifelong benefits or have vested entitlements to such pensions.

The defined benefit obligation is determined annually by independent actuaries using the projected unit credit method.

The following actuarial assumptions were used in the calculation of the obligation:

| | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| Discount rate (%) | **2.00** | 1.80 |
| Expected increase in pensionable remuneration (%) | **3.00** | 3.00 |
| Expected increase in pensions (%) | **2.00** | 2.00 |

The imputed retirement age, which is 65 in most cases, is factored into the calculation individually for each obligation. The valuation of defined benefit obligations uses the 2005 G mortality tables published by Professor Klaus Heubeck.

The interest rate for discounting is determined in accordance with the RATE:Link methodology. The data basis for the approach is the AA-rated corporate bond universe for the eurozone from Bloomberg. After standardization by means of the 'par bond' approach, the individual yields to maturity are grouped together in nine clusters. A cubic spline is then given as the best smooth approximation based on these nine clusters. An interest-rate curve is then derived from the yield curve using the bootstrapping method, on the basis of which the discount rate can be determined for a sample cash flow. The sample cash flow corresponds to a typical volume of defined benefit obligations, the duration of which is the same as the duration of the measured volume.

Changes to actuarial assumptions affected the volume of defined benefit obligations in the WGZ BANK Group as follows:

| DEFINED BENEFIT OBLIGATIONS | Dec. 31, 2015 (%) | Change (%) | Change (€ million) | Change (%) |
|---|---|---|---|---|
| Discount rate | **2.00** | +1.00 | -29.5 | -9.8 |
| Discount rate | **2.00** | -1.00 | 35.4 | 11.8 |
| Expected increase in pensionable remuneration | **3.00** | +0.50 | 0.9 | 0.3 |
| Expected increase in pensionable remuneration | **3.00** | -0.50 | -0.8 | -0.3 |
| Expected increase in pensions | **2.00** | +0.25 | 3.4 | 1.1 |
| Expected increase in pensions | **2.00** | -0.25 | -3.3 | -1.1 |
| Increase in life expectancy[1] | | | 4.9 | 1.6 |
| Reduction in life expectancy[1] | | | -4.8 | -1.6 |
| Increase in the age of retirement by one year | | | 1.9 | 0.6 |
| Decrease in the age of retirement by one year | | | -3.0 | -1.0 |

[1] Simulation with a one-year change in the age of the beneficiary.

In terms of sensitivity, a change in the retirement age results in countervailing effects for individual plans that largely offset one another.

As at the balance sheet date, the present value of the defined benefit obligation, the fair value of the plan assets, and experience adjustments relating to the plan assets and liabilities were as follows:

| | 2015<br>€ million | 2014<br>€ million | 2013<br>€ million | 2012<br>€ million | 2011<br>€ million |
|---|---|---|---|---|---|
| Present value of the funded defined benefit obligation | 100.6 | 99.4 | 78.5 | 70.5 | 51.9 |
| Fair value of plan assets | -67.3 | -66.0 | -64.2 | -62.4 | -59.8 |
| **Deficit (+)/surplus (-)** | **33.3** | **33.4** | **14.3** | **8.1** | **-7.9** |
| **Present value of the unfunded defined benefit obligation** | **200.1** | **199.9** | **172.2** | **163.9** | **131.8** |
| **Experience adjustments relating to plan liabilities** | 3.6 | 2.1 | 3.6 | -0.6 | 1.6 |

The following table shows the change in plan assets over the year under review and the breakdown of these assets as at the balance sheet date:

| CHANGES IN PLAN ASSETS AT FAIR VALUE | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| Brought forward at January 1 | 66.0 | 64.2 |
| Return on plan assets | 1.2 | 2.0 |
| Loss recognized in other comprehensive income | -0.3 | -0.1 |
| Employer contributions | 1.8 | 1.3 |
| Pensions paid | -1.4 | -1.4 |
| **Total** | **67.3** | 66.0 |
| **Breakdown of plan assets**[1] | | |
| WGZ BANK Unterstützungskasse e.V. | | |
| Public-sector bonds[2] | 5.7 | 7.4 |
| Bearer bonds issued by the WGZ BANK Group | 20.6 | 21.3 |
| Short-term loans and advances to WGZ BANK | 19.4 | 17.9 |
| R+V Pensionsfonds AG mathematical reserve | 9.2 | 9.1 |
| Versorgungskasse genossenschaftlich orientierter Unternehmen e.V. (VGU) mathematical reserve | 12.4 | 10.3 |
| **Total** | **67.3** | 66.0 |

[1] Transactions with entities in the group are on an arm's-length basis. [2] Traded in an active market.

No employer contributions are budgeted for 2016.

| CHANGE IN PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION | € million | Dec. 31, 2014 € million |
|---|---|---|
| Brought forward at January 1 | 299.3 | 250.6 |
| Current service cost | 8.5 | 7.7 |
| Interest cost | 5.3 | 7.7 |
| Actuarial gains (2014: losses) | -2.9 | 42.5 |
| of which resulting from experience adjustments | 3.6 | 2.1 |
| of which resulting from changes to financial assumptions | -6.5 | 40.4 |
| Pensions paid | -9.5 | -9.2 |
| **Balance as at December 31** | **300.7** | 299.3 |

Given the level of plan assets, the pension provisions recognized on the balance sheet are lower than the present value of the defined benefit obligation:

| FUNDING POSITION | € million | Dec. 31, 2014 € million |
|---|---|---|
| Present value of the unfunded defined benefit obligation | 200.1 | 199.9 |
| Present value of the funded defined benefit obligation | 100.6 | 99.4 |
| External plan assets | -67.3 | -66.0 |
| **Total** | **233.4** | 233.3 |

The expense reported in the income statement arising from the funding of the pension provision and the income and expenses recognized in other comprehensive income can be broken down as follows:

| | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| **Expenses recognized on the income statement** | **12.6** | **13.4** |
| Current service cost | 8.5 | 7.7 |
| Interest cost | 4.1 | 5.7 |
| **Income and expenses recognized in other comprehensive income** | **-2.6** | **42.5** |
| Return on plan assets (excluding interest income) | 0.3 | 0.1 |
| Actuarial gains (2014: losses) | -2.9 | 42.4 |
| **Total** | **10.0** | **55.9** |

The current service cost is recognized as pension and other post-employment benefit expenses within administrative expenses and the interest expense is recognized within net interest income. Actuarial gains and losses and the expense related to the limitation of the plan assets are reported within retained earnings, taking account of deferred taxes, as remeasurements of the net liability in connection with defined benefit plans.

The weighted average duration of pension obligations in the WGZ BANK Group is 11.5 years (2014: 11.3 years). The expected future pension payments amount to €9.7 million for 2016 and €9.3 million for 2017.

Of the other provisions, an amount of €70.4 million (December 31, 2014: €68.9 million) had a maturity of less than one year.

### (49) Tax liabilities

| | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| Current income tax liabilities | 33.2 | 74.7 |
| Deferred tax liabilities | 0.0 | 0.0 |
| **Total** | **33.2** | 74.7 |

Deferred tax liabilities were recognized in connection with the following balance sheet items:

| | € million | Dec. 31, 2014<br>€ million |
|---|---|---|
| Loans and advances to banks and customers | **385.7** | 443.5 |
| Financial assets and financial liabilities held for trading | **0.0** | 0.0 |
| Long-term equity investments and securities portfolio | **296.2** | 428.9 |
| Deposits from banks and amounts owed to other depositors | **41.0** | 0.0 |
| Other balance sheet items | **88.6** | 101.0 |
| | **811.5** | 973.4 |
| Offsetting with deferred tax assets | **-811.5** | -973.4 |
| **Total** | **0.0** | 0.0 |

## (50) Other liabilities

The other liabilities of €59.9 million (December 31, 2014: €81.1 million) comprised interest liabilities in connection with subordinated capital, obligations related to invoices not yet received, deductions from salaries to be paid over to the relevant authorities, and accrued expenses. Other liabilities are largely of a short-term nature.

## (51) Subordinated capital

| | | Dec. 31, 2014 |
|---|---|---|
| | **€ million** | € million |
| Subordinated liabilities | **713.8** | 737.2 |
| of which due after more than one year | 693.3 | 726.8 |
| Profit-sharing rights | **0.0** | 2.1 |
| of which due after more than one year | 0.0 | 0.0 |
| Subordinated convertible bond | **24.6** | 30.4 |
| of which due after more than one year | 18.3 | 24.1 |
| **Total** | **738.4** | 769.7 |

As at December 31, 2015, the subordinated liabilities comprised 72 registered promissory notes and five bearer bonds. No promissory notes or bearer bonds were issued during the year under review. The total amount of subordinated liabilities includes one bond, the value of which exceeds 10 percent of the total amount. This bond is a subordinated bearer bond with a value of €94.2 million and a coupon of 2.3 percent, and will mature in 2021. Subordinated capital is only repaid after amounts due to all other creditors have first been settled. Lender rights to terminate the loans are excluded. The leveraged portion (€24.6 million) of the convertible bond that was issued in 2014 is also recognized under subordinated capital.

## (52) Equity

As at December 31, 2015, WGZ BANK's subscribed capital comprised share capital of €714,340,000.00, as was also the case as at December 31, 2014. The fully paid-up share capital is divided into 7,143,400 registered no-par-value shares (subject to transfer restrictions), each with an imputed share of the capital amounting to €100.00. Disclosures on shareholder structure can be found in the management report. The Articles of Association authorize the Board of Managing Directors, subject to the approval of the Supervisory Board, to increase the share capital of WGZ BANK over a period of five years from June 24, 2014 on one or more occasions by a total of up to €200,000,000.00 by issuing new shares in return for capital contributions.

In the year under review, WGZ BANK paid from its reported distributable profit a standard dividend of €5.00 per share plus a bonus dividend of €2.00 per share in respect of the 7,143,400 shares. This amounted to a total distribution of €50,003,800.00. The total distribution in 2014 was €42,860,400.00 (standard dividend of €5.00 plus a bonus dividend of €1.00). For 2015, the Board of Managing Directors and the Supervisory Board propose to the Annual General Meeting that WGZ BANK's reported distributable profit be appropriated to pay a standard dividend of €5.00 per share and a bonus dividend of €4.00 per share. That amounts to a total of €64,290,600.00.

## Income statement disclosures

### (53) Net interest income

| | € million | 2014<br>€ million |
|---|---|---|
| Interest income from | | |
| lending and money market business | **1,647.5** | 1,707.1 |
| fixed-income securities and bonds | **376.5** | 429.0 |
| unwinding of discount on provisions/allowances for losses on loans and advances | **4.2** | 2.8 |
| | **2,028.2** | 2,138.9 |
| Current income from | | |
| shares and other variable-yield securities | **0.0** | 0.0 |
| long-term equity investments and paid-up shares in cooperatives | **95.8** | 81.0 |
| investments in subsidiaries | **0.8** | 1.1 |
| | **96.6** | 82.1 |
| Total interest income | **2,124.8** | 2,221.0 |
| of which negative interest on financial assets | **-2.0** | -0.1 |
| Interest expense from | | |
| lending and money market business[1)] | **677.2** | 639.6 |
| fixed-income securities and bonds | **369.6** | 551.5 |
| Pfandbriefe | **542.6** | 515.6 |
| Total interest expense | **1,589.4** | 1,706.7 |
| of which positive interest on financial liabilities | **-0.1** | -0.3 |
| **Total** | **535.4** | 514.3 |

[1)] Contains unwinding effects in respect of loan provisions of €2.6 million, whereas the corresponding unwinding effects of €1.4 million in 2014 had been netted with the unwinding of the discount on provisions/allowances for losses on loans and advances and shown in interest income.

### (54) Allowances for losses on loans and advances

| | | 2014 |
|---|---|---|
| | **€ million** | € million |
| | | |
| Additions to specific loan loss allowances | **-45.0** | -23.6 |
| Reversals of specific loan loss allowances | **37.3** | 21.4 |
| Additions to portfolio loan loss allowances | **-0.9** | -0.7 |
| Reversals of portfolio loan loss allowances | **2.2** | 1.1 |
| Additions to provisions for losses on loans and advances | **-13.3** | -24.4 |
| Reversals of provisions for losses on loans and advances | **13.7** | 1.8 |
| Direct impairment losses on loans and advances | **-0.2** | -0.2 |
| Receipts from loans and advances previously impaired | **16.2** | 1.5 |
| **Total** | **10.0** | -23.1 |

### (55) Net fee and commission income

| | | 2014 |
|---|---|---|
| | **€ million** | € million |
| | | |
| Net fee and commission income from securities business | **22.3** | 19.7 |
| Net fee and commission income from payments processing | **43.2** | 46.1 |
| Net fee and commission income from loans and advances | **-29.5** | -13.3 |
| Other net fee and commission income | **17.4** | 16.3 |
| **Total** | **53.4** | 68.8 |

### (56) Gains and losses arising on hedging transactions

| | | 2014 |
|---|---|---|
| | **€ million** | € million |
| | | |
| Change in the fair value of | | |
| hedging instruments in micro hedges | **-2.0** | -8.7 |
| hedged items in micro hedges | **3.5** | 8.6 |
| hedging instruments in portfolio hedges | **174.8** | -424.6 |
| hedged items in portfolio hedges | **-184.3** | 400.1 |
| **Total** | **-8.0** | -24.6 |

### (57) Gains and losses on trading activities

| | € million | 2014 € million |
|---|---|---|
| Gains and losses on trading activities in derivatives | 6.9 | 124.6 |
| Gains and losses on trading activities in bonds and other fixed-income securities | 30.2 | 113.4 |
| Gains and losses on trading activities in shares and other variable-yield securities | 1.0 | 1.1 |
| Gains and losses on trading activities in promissory notes | 1.8 | 3.7 |
| Gains and losses on exchange differences | 28.7 | -123.3 |
| Money market business denominated in foreign currency | 2.4 | 3.4 |
| Gains and losses on trading activities (in the narrow sense) | 71.0 | 122.9 |
| Fair value gains and losses on financial instruments voluntarily measured at fair value | 70.8 | 89.0 |
| **Total** | **141.8** | 211.9 |

Of the fair value gains and losses on financial instruments voluntarily measured at fair value, losses of €18.5 million (2014: gains of €32.3 million) and cumulative losses of €39.2 million (2014: losses of €20.7 million) were attributable to the change in the credit risk associated with loans and receivables, and gains of €117.3 million (2014: losses of €18.1 million) and cumulative losses of €132.3 million (2014: losses of €249.6 million) were attributable to the change in credit risk in connection with financial liabilities. In the case of loans and receivables voluntarily measured at fair value, there was a total credit risk of €9,137.6 million (2014: €9,523.4 million) not mitigated by credit derivatives. The change in the credit risk for loans and receivables was derived from the amount allocated to each individual rating class as at the balance sheet date. The change in the credit risk for financial liabilities was calculated on the basis of the rating-related changes in spreads that occurred during the period under review. The change in respect of Pfandbrief issues was determined directly from the WGZ BANK Group's own funding curve.

### (58) Gains and losses on investments

| | € million | 2014 € million |
|---|---|---|
| Fair value gains and losses on long-term equity investments | -6.8 | -19.5 |
| Gains and losses on the disposal of long-term equity investments and investments in subsidiaries | 16.4 | 1.0 |
| Fair value gains and losses on joint ventures and associates | -100.7 | -66.4 |
| Gains and losses on the disposal of associates | 0.3 | 0.0 |
| Gains and losses on the disposal of available-for-sale securities | 0.4 | 0.0 |
| Fair value gains and losses on available-for-sale securities | 2.5 | -0.9 |
| Other gains and losses on investments | -21.0 | -46.8 |
| **Total** | **-108.9** | -132.6 |

Fair value gains and losses on long-term equity investments related to a distribution-related impairment of €6.6 million on the long-term equity investment in the Düsseldorf Stock Exchange. By contrast, there was a gain of €13.9 million on the disposal of shares in R+V Versicherung AG. The fair value gains and losses on associates and joint ventures relate to impairment losses of €94.7 million on the long-term equity investment in DZ PRIVATBANK and of €6.0 million in respect of VR Corporate Finance (2014: impairment loss of €66.4 million in respect of DZ PRIVATBANK). The other gains and losses on investments mainly consisted of losses totaling €436.0 million on liabilities repurchased above par and measured at amortized cost (expenses of €48.4 million; 2014: expenses of €55.4 million) that were partly offset by income on the sale of promissory notes and securities held as assets of €27.5 million (2014: €8.6 million).

### (59) Profit/loss from companies accounted for using the equity method

Profit/loss from companies accounted for using the equity method comprises the pro rata net profit/loss from such investments, which in 2015 amounted to €25.5 million (2014: €16.6 million).

### (60) Administrative expenses

| | | 2014 |
|---|---|---|
| | **€ million** | € million |
| **Staff expenses** | **151.6** | 151.3 |
| of which wages and salaries | **127.3** | 126.1 |
| of which social security, post-employment, and other employee benefit expenses | **24.3** | 25.2 |
| **Other administrative expenses** | **143.1** | 134.5 |
| **Depreciation and amortization expense** | **10.5** | 10.3 |
| of which depreciation expense on property, plant and equipment | **5.1** | 5.9 |
| of which amortization expense on intangible assets | **5.4** | 4.4 |
| **Total** | **305.2** | 296.1 |

### (61) Other net operating income

Other net operating income, which totaled €2.6 million (2014: net expense of €27.3 million), largely comprised income from the reversal of provisions, interest-rate effects from the discounting of other non-current provisions, and exchange-rate effects from other loans and advances and other liabilities.

Of the other expenses in 2014, €36.2 million had related to a subsidy for VBI Beteiligungs GmbH in connection with the planned disposal of Volksbank Romania S.A.

## (62) Taxes

| | € million | 2014<br>€ million |
|---|---|---|
| Current income tax | **110.4** | 62.2 |
| of which relating to prior years | **14.4** | -11.7 |
| Deferred taxes | **35.5** | 10.5 |
| **Income taxes** | **145.9** | 72.7 |

Current taxes for the year under review include corporation tax, the solidarity surcharge, trade tax, and income tax incurred outside Germany. The tax rate in Ireland was unchanged year on year at 12.50 percent.

Deferred taxes were recognized in 2015 in connection with a number of items, as follows: deferred tax asset of €35.6 million (2014: deferred tax asset of €48.5 million) for temporary differences or the reversal thereof in relation to the carrying amounts of assets and liabilities, deferred tax liability of €0.1 million (2014: deferred tax asset of €0.1 million) as a result of changes in tax rates. In 2014, a deferred tax asset of €3.9 million in relation to tax loss carryforwards and a deferred tax asset adjustment of minus €42 million had also been recognized. The tax rate of 31.36 percent (2014: 31.35 percent) applied in the calculation of deferred taxes in the year under review comprised a corporation tax rate of 15.00 percent (the rate that will apply when the temporary differences reverse), the solidarity surcharge of 5.5 percent of the corporation tax, and the average trade tax rate of 15.54 percent (2014: 15.52 percent). The current tax rate for the year was 31.36 percent (2014: 31.35 percent).

A net deferred tax liability of €9.8 million was recognized in other comprehensive income (2014: net deferred tax asset of €0.3 million). The tax effects relate to the following components:

| | € million | | | 2014 € million | | |
|---|---|---|---|---|---|---|
| | Amount before taxes | Tax expense/ income | Amount after taxes | Amount before taxes | Tax expense/ income | Amount after taxes |
| Remeasurement of the net liability in connection with defined benefit plans | 3.3 | -1.0 | 2.3 | -42.5 | 13.3 | -29.2 |
| Available-for-sale financial instruments | 31.6 | -9.2 | 22.4 | 51.7 | -13.3 | 38.4 |
| Proportion accounted for by income and expenses with associates recognized in other comprehensive income | 2.2 | 0.4 | 2.6 | 3.4 | 0.3 | 3.7 |
| **Other comprehensive income/loss for the year** | **37.1** | **-9.8** | **27.3** | **12.6** | **0.3** | **12.9** |

| TAX RECONCILIATION | € million | 2014 € million | Change (%) |
|---|---|---|---|
| Profit/loss before taxes | **346.9** | 307.0 | 13.0 |
| Tax rate (%) | **31.36** | 31.35 | |
| Expected income taxes | **108.8** | 96.2 | 13.1 |
| Reasons for difference: | | | |
| Impact from tax-exempt items | **35.8** | -26.6 | > 100.0 |
| Tax effects from prior years | **14.4** | -12.3 | > 100.0 |
| Changes in tax rates | **-0.1** | 0.1 | > 100.0 |
| Distribution-related tax effects | **-0.7** | -0.8 | -12.5 |
| Different tax rates outside Germany | **-4.2** | -3.8 | 10.5 |
| Non-deductible expenses | **32.7** | 2.8 | > 100.0 |
| Impact from permanent differences | **-40.1** | 59.9 | > 100.0 |
| Adjustment of deferred tax assets carrying amount | **0.0** | -42.0 | -100.0 |
| Other differences | **-0.7** | -0.8 | -12.5 |
| **Income taxes** | **145.9** | 72.7 | > 100.0 |

Income tax payments of €139.2 million were made to German tax authorities and €3.7 million to Irish tax authorities.

Other taxes of €0.3 million were reimbursed in 2015 (2014: tax expense of €0.9 million). Other taxes arise largely in connection with value added tax, payroll tax, and land tax.

## Statement of cash flows disclosures

The statement of cash flows satisfies the requirements of IAS 7. It shows the breakdown and changes in cash and cash equivalents for the year under review, the items being classified into operating activities, investing activities, and financing activities.

Cash flows from operating activities comprise cash inflows and outflows in connection with loans and advances to banks and customers as well as those related to securities and other assets unless they form part of investing activities. In addition, inflows and outflows in connection with deposits from banks, amounts owed to other depositors, debt certificates including bonds, and other liabilities form part of cash flows from operating activities. Interest, dividends received, and income tax payments also fall within this category.

Cash flows from investing activities show the cash transactions in connection with property, plant and equipment and investments. Any changes in the scope of consolidation with an impact on cash are also reported in this category.

Cash flows from financing activities comprise the proceeds from capital increases and any receipts or payments arising from changes in subordinated capital. Cash outflows resulting from dividend payments are also shown in this category.

The reported balance of cash and cash equivalents reflects the cash and cash equivalents balance sheet item, comprising cash on hand and balances with central banks.

## Segment information

**(63) Segment disclosures**

The segment information meets the requirements of IFRS 8. It is taken from the internal management information system, which forms the basis for strategic management of the bank and group. Internal reporting was extended to reflect the importance of the public-sector customers business segment at WL BANK. Accordingly, the segment information for the reporting period includes the public-sector customers segment for the first time and the figures for the prior period have been restated retrospectively. This business had previously been reported in the treasury and capital market partners & trading segments.

The segments are based on the WGZ BANK Group's corporate strategy, which targets the following groups of customers: member banks, corporate customers, capital market partners, and real estate and public-sector customers, the latter being a particular focus of WL BANK. The segment breakdown is also determined by the products and services offered to each of the customer groups.

The operating segments in the segment information are defined as follows:

- The member banks segment comprises the entire business with member banks, loans to customers of the member banks with guarantees from these banks, and business with high-net-worth private clients brokered by the member banks.

- The corporate customer segment comprises business with SME corporate customers acquired either directly or via the member banks and also includes the commercial real estate business.

- The capital market partners & trading segment includes the interbank business, business with institutional customers and corporate customers with access to the capital markets, and also includes the results of own-account trading.

- The real estate customer segment covers WL BANK's real estate loans business.

- The public-sector customers segment mainly covers WL BANK's business with German local authorities and their legally dependent businesses. The granting of promissory notes by WGZ BANK to German federal states is of minor significance in the public-sector customers segment.

- The treasury segment consists of the results of the treasury activities conducted by the individual group companies. They result from strategic transactions entered into by central planning, but not from customer business.

- The investment segment comprises the income from the investment of free capital not allocated to the other segments, together with the interest-free liabilities. Income and funding costs from long-term equity investments are also reported under this segment.

- The consolidation/reconciliation column contains items relating to the reconciliation from the internal reporting system to the annual financial statements required for external financial reporting purposes. These items result from differences between the valuation methods used in internal management reporting and those required by IFRS, especially with regard to portfolio loan loss allowances and pension provisions, as well as differences in the classification of income statement components. This column also includes all the effects from consolidation transactions in the group.

In the regional segment information, the components of profit or loss are broken down into Germany and other European countries. The allocation of items to these two segments is based on the location of the registered offices of the group companies.

There is no material cross-segment revenue in either of the two segment breakdowns.

Net interest income, which also includes current income, is allocated among the segments using the market interest method and forms the basis for decisions made by senior management. In order to ensure that the segments can be compared with economically independent units, the segments are also assigned the imputed interest income arising from the investment of the capital allocated to the segment concerned; a risk-free long-term capital market interest rate is used for this purpose. The gains and losses on trading activities reported for member banks and corporate customers are the components of securities and currency trading transactions related to trading on customer account. Allowances for losses on loans and advances include portfolio loan loss allowances in addition to net new specific loan loss allowances.

The administrative expenses allocated to the segments include both the direct costs of the segments and also a share of the overhead costs of the central services and operational divisions allocated on the basis of specific usage or an appropriate key.

The capital allocated to the individual segments is derived from the regulatory Tier 1 capital. Segment risk exposures are backed by capital at a rate of 7 percent in total (2014: 6.5 percent). Similarly to internal capital management, this equates to the minimum Tier 1 capital requirement of 6 percent required by regulators (2015: 5.5 percent) plus an internal loading of 1 percentage point. System-related variances compared with the consolidated equity – average share capital for the year plus reserves at the beginning of the year – are allocated to the consolidation segment as reconciliation items.

The return on equity for each segment is the ratio of operating profit/loss to allocated capital. The nature of the system means that the return shown for the individual segments is heavily influenced by the calculation of the capital requirement, which in turn is closely linked to the regulatory requirements. In particular, the allocated capital in the case of the member banks segment is low compared with business volume. To a large degree this is caused by the fact that loans and advances to member banks only have to be backed by capital in the foreign subsidiaries. Furthermore, the activities in this segment are significantly focused on liabilities-side business and on services that do not tie up capital but are resource-intensive.

The high level of allocated capital in the investment segment reflects the investments in banks and financial institutions in the cooperative financial network held locally for the member banks. Regulatory requirements specify that these investments must be backed in full by liable capital.

The cost/income ratio is the ratio of administrative expenses to the sum of net interest income, net fee and commission income, gains and losses on trading activities (including gains and losses arising on hedging transactions), gains and losses on investments, and other net operating income.

### (64) Segment information by business segment

| € million | | Member banks | Corporate customers | Capital market partners/ trading | Real estate | Public-sector customers | Treasury | Investment | Consolidation/ reconciliation | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 2015 | 27.3 | 133.2 | 31.9 | 128.6 | 19.9 | 139.8 | 67.0 | -12.3 | 535.4 |
| | 2014 | 29.2 | 123.6 | 29.1 | 119.0 | 18.1 | 130.3 | 66.5 | -1.5 | 514.3 |
| Allowances for losses on loans and advances | 2015 | 0.0 | 8.1 | 0.0 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 |
| | 2014 | 0.0 | -24.0 | -5.3 | -3.4 | 0.0 | 0.0 | 0.0 | 9.6 | -23.1 |
| Net fee and commission income | 2015 | 64.0 | 27.5 | 15.1 | -44.2 | -1.1 | 1.0 | 0.0 | -8.9 | 53.4 |
| | 2014 | 64.2 | 29.4 | 13.9 | -28.6 | -0.5 | -1.4 | 0.0 | -8.2 | 68.8 |
| Gains and losses on trading activities and gains and losses arising on hedging transactions | 2015 | 2.9 | 7.5 | 84.1 | -5.5 | 10.1 | 55.4 | 0.0 | -20.6 | 133.8 |
| | 2014 | 2.4 | 5.1 | 110.2 | -13.9 | 2.6 | 91.1 | 0.0 | -10.2 | 187.3 |
| Gains and losses on investments | 2015 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -17.8 | -91.1 | 0.0 | -108.9 |
| | 2014 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -47.7 | -84.9 | 0.0 | -132.6 |
| Profit/loss from companies accounted for using the equity method | 2015 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 25.5 | 0.0 | 25.5 |
| | 2014 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 16.6 | 0.0 | 16.6 |
| Administrative expenses | 2015 | 79.0 | 59.9 | 75.5 | 45.6 | 8.0 | 38.7 | 0.0 | -1.5 | 305.2 |
| | 2014 | 81.2 | 59.7 | 72.0 | 35.6 | 6.9 | 36.6 | 0.0 | 4.1 | 296.1 |
| Other net operating income/expense | 2015 | 0.0 | 0.0 | 0.0 | 1.4 | 0.1 | 0.1 | -6.8 | 7.8 | 2.6 |
| | 2014 | 0.0 | 0.0 | 0.0 | 1.9 | 0.2 | 0.5 | 40.8 | 10.7 | -27.5 |
| **Operating profit/loss** | 2015 | 15.1 | 116.4 | 55.5 | 36.6 | 21.0 | 139.8 | -5.4 | -32.5 | 346.6 |
| | 2014 | 14.6 | 74.4 | 75.9 | 39.5 | 13.5 | 136.2 | -42.5 | -3.7 | 307.9 |
| **Allocated capital** | 2015 | 0.0 | 499.6 | 296.4 | 215.0 | 0.8 | 314.3 | 1,453.4 | 1,040.3 | 3,819.9 |
| | 2014 | 0.0 | 432.9 | 272.8 | 173.2 | 0.7 | 371.9 | 1,264.1 | 772.2 | 3,287.8 |
| Cost/income ratio (%) | 2015 | 83.9 | 35.6 | 57.6 | 56.8 | 27.5 | 21.7 | **** | | 47.5 |
| | 2014 | 84.7 | 37.7 | 47.0 | 45.3 | 33.8 | 21.2 | **** | | 47.2 |
| Return on equity (%) | 2015 | **** | 23.3 | 18.7 | 17.0 | **** | 44.5 | -0.4 | | 9.0 |
| | 2014 | **** | 17.2 | 27.8 | 22.8 | **** | 36.6 | -3.4 | | 9.4 |

## (65) Segment information by region

| € million | | Germany | Other Europe | Consolidation / reconciliation | Group |
|---|---|---|---|---|---|
| Net interest income | 2015 | 531.7 | 12.2 | -8.4 | 535.4 |
| | 2014 | 494.6 | 16.5 | 3.2 | 514.3 |
| Allowances for losses on loans and advances | 2015 | 10.0 | 0.0 | 0.0 | 10.0 |
| | 2014 | -23.1 | 0.0 | 0.0 | -23.1 |
| Net fee and commission income | 2015 | 53.1 | 0.0 | 0.3 | 53.4 |
| | 2014 | 68.5 | 0.0 | 0.3 | 68.8 |
| Gains and losses on trading activities and gains and losses arising on hedging transactions | 2015 | 141.9 | 12.5 | -20.6 | 133.8 |
| | 2014 | 188.9 | 8.7 | -10.2 | 187.3 |
| Gains and losses on investments | 2015 | -17.0 | -91.9 | 0.0 | -108.9 |
| | 2014 | -46.6 | -85.9 | 0.0 | -132.6 |
| Profit/loss from companies accounted for using the equity method | 2015 | 19.3 | 6.2 | 0.0 | 25.5 |
| | 2014 | 7.4 | 9.2 | 0.0 | 16.6 |
| Administrative expenses | 2015 | 300.9 | 5.3 | -1.0 | 305.2 |
| | 2014 | 291.1 | 5.0 | 0.0 | 296.1 |
| Other net operating income/expense | 2015 | -4.3 | 0.0 | 6.9 | 2.6 |
| | 2014 | -34.4 | 2.0 | 4.9 | -27.4 |
| **Operating profit/loss** | 2015 | 433.6 | -66.3 | -20.7 | 346.6 |
| | 2014 | 364.2 | -54.5 | -1.8 | 307.9 |
| **Allocated capital** | 2015 | 4,088.5 | 364.9 | -633.6 | 3,819.9 |
| | 2014 | 3,575.3 | 335.5 | -623.0 | 3,287.8 |
| Cost/income ratio (%) | 2015 | 42.7 | **** | | 47.5 |
| | 2014 | 43.4 | **** | | 47.2 |
| Return on equity (%) | 2015 | 10.6 | -18.2 | | 9.0 |
| | 2014 | 10.2 | -16.2 | | 9.4 |

## Other disclosures

### (66) Sale and repurchase agreements (repos)

The WGZ BANK Group acts as both a protection buyer and a protection seller in sale and repurchase agreements (repos) and securities lending transactions. The relevant transactions were carried out on an arm's-length basis. The following tables show repos in which the WGZ BANK Group was the seller and buyer respectively, together with the related financial instruments for which derecognition/recognition was not permitted and the associated receivables and payables. In the case of financial instruments that are not derecognized, the market risk and rewards remain with the WGZ BANK Group in full.

| | € million | | 2014 € million | |
|---|---|---|---|---|
| **SELLER** | Carrying amount of the transferred financial assets | Carrying amount of the associated financial liabilities | Carrying amount of the transferred financial assets | Carrying amount of the associated financial liabilities |
| Type of transaction | | | | |
| Sale and repurchase agreements (repos) | 1,523.1 | 1,603.3 | 3,583.2 | 3,577.1 |
| Securities lending | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **1,523.1** | **1,603.3** | **3,583.2** | **3,577.1** |

| | € million | | 2014 € million | |
|---|---|---|---|---|
| **BUYER** | Transferred financial assets | Carrying amount of the associated receivables | Transferred financial assets | Carrying amount associated receivables |
| Type of transaction | | | | |
| Sale and repurchase agreements (repos) | 339.6 | 343.1 | 621.5 | 616.8 |
| Securities lending | 577.7 | 0.0 | 626.6 | 0.0 |
| **Total** | **917.3** | **343.1** | **1,248.1** | **616.8** |

### (67) Offsetting and netting arrangements

Financial assets and financial liabilities must generally be presented on a gross basis, i.e. they should not be offset against each other. However, they must be netted if there is a legal right as at the reporting date to offset the amounts and there is the intention to settle on a net basis. As a rule, these requirements are not met if the financial assets and financial liabilities are only subject to the same legally enforceable global netting agreement. Nonetheless, this type of agreement reduces the risk arising from the aggregate exposure of financial instruments underlying any individual agreement. The same applies to agreements for the provision of collateral.

| | Sale and repurchase agreements (repos) € million | Derivatives € million | Other financial instruments € million |
|---|---|---|---|
| **ASSETS** | | | |
| **Gross amount of financial assets before offsetting** | 343.1 | 4,343.4 | 0.0 |
| **Gross amount of financial liabilities to be offset** | 0.0 | -239.3 | 0.0 |
| Financial instruments | 0.0 | 0.0 | 0.0 |
| Cash collateral | 0.0 | -239.3 | 0.0 |
| **Recognized net amount of financial assets** | **343.1** | **4,104.1** | **0.0** |
| **Gross amounts not offset against financial assets** | **-335.8** | **-2,751.5** | **0.0** |
| Financial instruments | -335.8 | -2,683.9 | 0.0 |
| Cash collateral | 0.0 | -67.6 | 0.0 |
| **Remaining net assets** | **7.3** | **1,352.6** | **0.0** |
| **LIABILITIES** | | | |
| **Gross amount of financial liabilities before offsetting** | **1,603.3** | **6,439.3** | **0.0** |
| **Gross amount of financial assets to be offset** | 0.0 | -483.5 | 0.0 |
| Financial instruments | 0.0 | 0.0 | 0.0 |
| Cash collateral | 0.0 | -483.5 | 0.0 |
| **Recognized net amount of financial liabilities** | **1,603.3** | **5,955.8** | **0.0** |
| **Gross amounts not offset against financial liabilities** | **-1,568.0** | **-5,538.2** | **0.0** |
| Financial instruments | -1,526.6 | -2,683.9 | 0.0 |
| Cash collateral | -41.4 | -2,854.3 | 0.0 |
| **Remaining net liabilities** | **35.3** | **417.6** | **0.0** |

The offsetting of cash collateral against derivatives (positive and negative fair values) reduced the loans and advances to banks by €247.9 million and reduced deposits from banks by €3.7 million. The volume reported on the balance sheet was therefore reduced by €487.2 million compared with the gross amount (€239.3 million relating to derivatives recognized as assets and €247.9 million relating to loans and advances as well as €483.5 million relating to derivatives recognized as liabilities and €3.7 million relating to liabilities).

The volume reported on the balance sheet as at December 31, 2014 had been reduced by €472.9 million compared with the gross amount (€205.9 million relating to derivatives recognized as assets and €267.0 million relating to loans and advances as well as €472.9 million relating to derivatives recognized as liabilities).

| | Sale and repurchase agreements (repos) 2014 € million | Derivatives 2014 € million | Other financial instruments 2014 € million |
|---|---|---|---|
| **ASSETS** | | | |
| **Gross amount of financial assets before offsetting** | 616.8 | 5,595.6 | 0.0 |
| **Gross amount of financial liabilities to be offset** | 0.0 | -205.9 | 0.0 |
| Financial instruments | 0.0 | 0.0 | 0.0 |
| Cash collateral | 0.0 | -205.9 | 0.0 |
| **Recognized net amount of financial assets** | **616.8** | **5,389.7** | **0.0** |
| **Gross amounts not offset against financial assets** | **-616.8** | **-3,814.8** | **0.0** |
| Financial instruments | -616.8 | -3,511.6 | 0.0 |
| Cash collateral | 0.0 | -303.2 | 0.0 |
| **Remaining net assets** | **0.0** | **1,574.9** | **0.0** |
| **LIABILITIES** | | | |
| **Gross amount of financial liabilities before offsetting** | **3,577.1** | **8,093.5** | **0.0** |
| **Gross amount of financial assets to be offset** | 0.0 | -472.9 | 0.0 |
| Financial instruments | 0.0 | 0.0 | 0.0 |
| Cash collateral | 0.0 | -472.9 | 0.0 |
| **Recognized net amount of financial liabilities** | **3,577.1** | **7,620.6** | **0.0** |
| **Gross amounts not offset against financial liabilities** | **-3,539.1** | **-7,121.2** | **0.0** |
| Financial instruments | -3,539.2 | -3,511.6 | 0.0 |
| Cash collateral | 0.1 | -3,609.6 | 0.0 |
| **Remaining net liabilities** | **38.0** | **499.4** | **0.0** |

### (68) Collateral

The following overview shows a list of furnished collateral by balance sheet item and carrying amount. The items include collateral that may be sold or pledged by the recipient. The collateral has been furnished on an arm's-length basis in connection with securities lending. It also involves receivables assigned to cover liabilities related to funds designated for special purposes, mortgage Pfandbriefe passed to the lender to secure loans taken out in connection with the mortgage lending business, public-sector registered Pfandbriefe, and assigned loan receivables. Collateral has also been pledged for open-market operations, exchange-traded forward transactions, and in relation to collateral agreements as part of OTC trading business.

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| Loans and advances to banks | **15,773.6** | 15,520.5 |
| Loans and advances to customers | **1,103.3** | 1,087.6 |
| Financial assets held for trading | **340.6** | 316.0 |
| Long-term equity investments and securities portfolio | **7,732.1** | 8,235.7 |
| Other | **10.0** | 10.0 |
| **Total** | **24,959.6** | 25,169.8 |

### (69) Contingent liabilities and other obligations

WGZ BANK is a member of the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks]. This scheme comprises a guarantee fund and a guarantee network. As a participant in the guarantee network, WGZ BANK has entered into a guarantee obligation, the value of which is ten times the basic contribution to the guarantee fund (€47.5 million). In addition, a contribution guarantee has been made to BVR Institutssicherung GmbH (BVR-ISG) in accordance with section 7 of the declaration of accession and general undertaking made in respect of BVR-ISG's bank-related protection scheme. This guarantee relates to the annual contributions required to reach the target volume as well as the payment obligations, special contributions, and special payments to be made if the available funds are not sufficient to compensate the depositors of a CRR bank belonging to the bank-related protection scheme following a compensation event, and the obligations to replace financial resources used for funding measures. Furthermore, WGZ BANK made an irrevocable payment commitment to the Bundesanstalt für Finanzmarktstabilisierung (FMSA) [Federal Agency for Financial Market Stabilization] after the bank's application to furnish collateral in partial settlement of the contribution to the bank levy was accepted by FMSA. Other contingencies and commitments that do not appear on the balance sheet are not material to any assessment of the financial position of WGZ BANK. Such contingencies and commitments relate to balancing arrangements in collateral pooling agreements, liability obligations under Articles of Association, and liability up to a certain level in connection with shares in cooperatives. For reasons of practicability, it is not possible to include disclosures relating to estimated financial impact, the probability that such liabilities will crystallize, or the extent of possible reimbursement payments. The loan commitments are agreements forming part of standard banking business with customers.

| | **€ million** | Dec. 31, 2014<br>€ million |
|---|---|---|
| **Contingent liabilities** | | |
| Arising from guarantees and indemnity agreements | **948.9** | 910.0 |
| Other contingent liabilities | **119.9** | 116.0 |
| **Total** | **1,068.8** | 1,026.0 |
| **Other obligations** | | |
| Irrevocable loan commitments to banks | **1,390.2** | 1,368.5 |
| Irrevocable loan commitments to customers | **4,539.5** | 3,746.2 |
| **Total** | **5,929.7** | 5,114.7 |

## (70) Counterparty and product structure for derivatives

| POSITIVE FAIR VALUES | | Dec. 31, 2014 |
|---|---|---|
| | € million | € million |
| OECD central government and derivatives exchanges | 178.5 | 220.3 |
| OECD banks | 3,838.8 | 4,957.5 |
| OECD financial services institutions | 25.6 | 61.2 |
| Other companies, private individuals | 300.5 | 355.4 |
| Non-OECD central governments | 0.0 | 0.0 |
| Non-OECD banks | 0.0 | 1.2 |
| Non-OECD financial services institutions | 0.0 | 0.0 |
| **Total** | **4,343.4** | 5,595.6 |

The positive fair values reflect the maximum credit risk as at the balance sheet date. They are the total of all positive contract fair values and exclude any offsetting of negative contract fair values, deduction of collateral, or weighting based on credit rating. WGZ BANK has entered into the transactions listed in the following table for the most part in order to hedge fluctuations in interest rates, exchange rates or other types of changes in market prices as part of its trading activities. Some of the transactions also relate to hedging of interest-rate and exchange-rate fluctuations in connection with general banking business.

The product structure and nominal amounts (including brokerage business) as at December 31, 2015 were as follows:

| | Nominal amount by time to maturity | | | | Fair value | |
|---|---|---|---|---|---|---|
| | Up to 1 year | 1–5 years | More than 5 years | Total | Negative | Positive |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **Interest-linked contracts** | **16,179,919** | **42,885,326** | **57,797,047** | **116,862,292** | **5,716,148** | **3,620,457** |
| of which attributable to: | | | | | | |
| **OTC products** | 11,437,881 | 42,113,484 | 57,797,047 | **111,348,412** | 5,715,973 | 3,620,282 |
| Forward rate agreements | 0 | 0 | 0 | **0** | 0 | 0 |
| Interest-rate swaps (same currency) | 10,785,713 | 40,757,052 | 56,063,215 | **107,605,980** | 5,544,145 | 3,559,514 |
| Interest-rate options – call | 208,500 | 233,000 | 750,000 | **1,191,500** | - | 28,973 |
| Interest-rate options – put | 383,215 | 1,040,866 | 833,760 | **2,257,841** | 146,826 | - |
| Other interest-rate contracts | 60,453 | 82,566 | 150,072 | **293,091** | 25,002 | 31,795 |
| **Exchange-traded products** | 4,742,038 | 771,842 | 0 | **5,513,880** | 175 | 175 |
| Interest-rate futures | 4,477,838 | 771,842 | 0 | **5,249,680** | 0 | 0 |
| Interest-rate options | 264,200 | 0 | 0 | **264,200** | 175 | 175 |
| **Currency-linked contracts** | **57,251,308** | **1,538,133** | **0** | **58,789,441** | **500,227** | **559,184** |
| of which attributable to: | | | | | | |
| **OTC products** | 56,714,929 | 1,538,133 | 0 | **58,253,062** | 500,227 | 559,184 |
| Forward forex transactions | 56,379,212 | 1,519,165 | 0 | **57,898,377** | 497,409 | 556,845 |
| Forex options – call | 181,769 | 9,484 | 0 | **191,253** | - | 2,339 |
| Forex options – put | 153,948 | 9,484 | 0 | **163,432** | 2,818 | - |
| Other forex contracts | 0 | 0 | 0 | **0** | 0 | 0 |
| **Exchange-traded products** | 536,379 | 0 | 0 | **536,379** | 0 | 0 |
| Forex futures | 536,379 | 0 | 0 | **536,379** | 0 | 0 |
| Forex options | 0 | 0 | 0 | **0** | 0 | 0 |
| **Share-/index-linked contracts** | **10,732,587** | **320,852** | **281,308** | **11,334,747** | **82,163** | **27,025** |
| of which attributable to: | | | | | | |
| **OTC products** | 53,015 | 296,809 | 281,308 | **631,132** | 56,317 | 4,166 |
| Share/index swaps | 2,000 | 270,450 | 267,450 | **539,900** | 52,154 | 1,963 |
| Share/index options – call | 8,975 | 0 | 6,929 | **15,904** | - | 2,203 |
| Share/index options – put | 42,040 | 26,359 | 6,929 | **75,328** | 4,163 | - |
| Other share/index contracts | 0 | 0 | 0 | **0** | 0 | 0 |
| **Exchange-traded products** | 10,679,572 | 24,043 | 0 | **10,703,615** | 25,846 | 22,859 |
| Share/index futures | 6,086,303 | 110 | 0 | **6,086,413** | 0 | 0 |
| Share/index options | 4,593,269 | 23,933 | 0 | **4,617,202** | 25,846 | 22,859 |
| **Other contracts** | **471,589** | **2,859,327** | **886,568** | **4,217,484** | **140,788** | **136,729** |
| of which attributable to: | | | | | | |
| **OTC products** | 452,028 | 2,859,327 | 886,568 | **4,197,923** | 140,788 | 136,729 |
| Cross-currency swaps | 21,911 | 1,103,193 | 836,338 | **1,961,442** | 104,703 | 91,840 |
| Credit default swaps | 430,117 | 1,756,134 | 50,230 | **2,236,481** | 36,085 | 44,889 |
| **Exchange-traded products** | 19,561 | 0 | 0 | **19,561** | 0 | 0 |
| Precious metal futures | 19,561 | 0 | 0 | **19,561** | 0 | 0 |
| **Total for all contracts** | **84,635,403** | **47,603,638** | **58,964,923** | **191,203,964** | **6,439,326** | **4,343,395** |
| of which attributable to: | | | | | | |
| OTC products | 68,657,853 | 46,807,753 | 58,964,923 | **174,430,529** | 6,413,305 | 4,320,361 |
| Exchange-traded products | 15,977,550 | 795,885 | 0 | **16,773,435** | 26,021 | 23,034 |

## (71) Capital management

The objective of capital management in the WGZ BANK Group is to ensure that adequate capital is in place to support the corporate strategy determined by the Board of Managing Directors, that regulatory capital adequacy requirements are satisfied, and that the group has sufficient risk-bearing capacity. Risk-bearing capacity is quantified in terms of the WGZ BANK Group's aggregate risk cover. For more detailed information on risk-bearing capacity, please also refer to the risk report within the management report.

The WGZ BANK Group's regulatory own funds are determined in accordance with the provisions of the CRR, part 2. The following table shows the breakdown of the WGZ BANK Group's own funds after appropriation of profits:

| | Pursuant to CRR<br><br>€ million | Pursuant to CRR<br>Dec. 31, 2014<br>€ million |
|---|---|---|
| Share capital | 714 | 714 |
| Reserves | 3,201 | 3,058 |
| **Tier 1 capital before deductions** | **3,916** | **3,772** |
| Deductions from Tier 1 capital | -677 | -564 |
| **Tier 1 capital after deductions** | **3,239** | **3,208** |
| Subordinated liabilities | 563 | 655 |
| Profit-sharing rights | 0 | 0 |
| Other components | 24 | 30 |
| **Tier 2 capital before deductions** | **587** | **685** |
| Deductions from Tier 2 capital | -284 | -427 |
| **Tier 2 capital after deductions** | **303** | 258 |
| **Own funds pursuant to CRR** | **3,542** | **3,466** |

Under article 92 CRR in conjunction with article 11 (1) CRR and section 10a KWG, banks and banking groups must ensure that they have adequate own funds. Under CRR, capital adequacy requirements are satisfied if the capital requirements for counterparty-risk and market-risk exposures, operational risk, CVA risk, and settlement risk do not exceed the eligible own funds on a day-to-day basis. Both the bank and the banking group complied with the CRR solvency requirements in the year under review. The capital adequacy requirements for the WGZ BANK Group financial conglomerate were also satisfied in 2015.

As at the balance sheet date (taking into account the appropriation of profits), the relevant figures for the banking group's own funds were as follows:

| CAPITAL ADEQUACY REQUIREMENT FOR | € million | Dec. 31, 2014 € million |
|---|---|---|
| Counterparty risk | 1,543 | 1,572 |
| Market risk | 105 | 130 |
| Operational risk | 102 | 109 |
| **Credit valuation adjustment (CVA) risk** | **28** | 31 |
| **Total capital adequacy requirement** | **1,778** | 1,842 |
| **Total capital ratio (%)** | **15.9** | 15.1 |

As at the balance sheet date, the key capital adequacy figures for WGZ BANK (taking into account the appropriation of profits) were Tier 1 capital of €2,805 million (December 31, 2014: €2,743 million), eligible own funds of €3,513 million (December 31, 2014: €3,438 million), and a total capital ratio of 19.1 percent (December 31, 2014: 18.8 percent).

### (72) Auditors of the consolidated financial statements

The auditors of the consolidated financial statements are PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft, Moskauer Strasse 19, Düsseldorf, Germany.

| DISCLOSURES PURSUANT TO SECTION 314 (1) NO. 9 HGB | €'000 |
|---|---|
| Expenses recognized in the year under review for the following services provided by the auditors: | |
| Financial statements auditing services | 1,385 |
| Other attestation services | 292 |
| Tax consultancy services | 42 |
| Other services | 1,108 |
| **Total** | 2,827 |

## (73) Members of the Supervisory Board and the Board of Managing Directors

**Supervisory Board**

| | |
|---|---|
| Werner Böhnke, *Chairman* | Bank Director (ret.) |
| Franz Lipsmeier, *Deputy Chairman* | Full-time member of the Board of Managing Directors of Volksbank Delbrück-Hövelhof eG |
| Peter Bersch | Full-time member of the Board of Managing Directors of Volksbank Bitburg eG |
| Martin Eul | Full-time member of the Board of Managing Directors of Dortmunder Volksbank eG |
| Uwe Goldstein | Full-time member of the Board of Managing Directors of Raiffeisenbank Frechen-Hürth eG |
| Ludger Hünteler | Employee of WGZ BANK |
| Manfred Jorris | Employee of WGZ BANK |
| Ina Maßmann | Employee of WGZ BANK |
| Herbert Pfennig | Full-time member of the Board of Managing Directors of Deutsche Apotheker- und Ärztebank eG |

**Board of Managing Directors**

| | |
|---|---|
| Hans-Bernd Wolberg, *Chief Executive Officer* | Full-time member of the Board of Managing Directors |
| Uwe Berghaus | Full-time member of the Board of Managing Directors |
| Dr. Christian Brauckmann | Full-time member of the Board of Managing Directors |
| Karl-Heinz Moll | Full-time member of the Board of Managing Directors |
| Michael Speth | Full-time member of the Board of Managing Directors |

## (74) Total remuneration of the members of the parent company's decision-making bodies

Remuneration of €113 thousand (2014: €113 thousand) was paid to the members of the Supervisory Board, and €211 thousand (2014: €213 thousand) to the members of the Advisory Council, all such remuneration being due for payment in the short term. The employee representatives on the Supervisory Board also continued to receive remuneration for their primary activities in the company at standard industry rates. The short-term remuneration for the members of the Board of Managing Directors in the year under review in return for the fulfillment of their responsibilities in the parent company and the subsidiaries was €3.164 million (2014: €2.671 million), while the long-term remuneration amounted to €1.266 million (2014: €1.378 million).

The additions to provisions for pensions and other post-employment benefits for active members of the Board of Managing Directors from the current service cost along with effects from salary adjustments amounted to €574 thousand (2014: €1.170 million). The total remuneration for the members of the Board of Managing Directors in the year under review was therefore €5.004 million (2014: €5.219 million). A sum of €2.714 million (2014: €2.652 million) was paid to former members of the Board of Managing Directors and their surviving dependants. The existing provision for pensions and post-employment benefits in respect of this group of persons amounts to €48.933 million (December 31, 2014: €50.105 million).

### (75) Related party disclosures

Related party disclosures are required in accordance with IAS 24.

Given its close integration in the Volksbanken Raiffeisenbanken cooperative financial network, the WGZ BANK Group maintains a wide variety of business relationships with related entities. The related entities of the WGZ BANK Group as defined by IAS 24 include, in particular, joint ventures, direct and indirect associates, and entities controlled by related parties. Individuals among the related parties of the WGZ BANK Group include the members of the Board of Managing Directors and the Supervisory Board, divisional managers at WGZ BANK, the managing directors of WGZ Verwaltungs GmbH, and their family members.

Transactions with related parties were conducted as part of normal business activities and always on an arm's-length basis, including with regard to collateral. The following table shows the balances in relevant balance sheet items as at December 31, 2015 attributable to transactions with related parties. Loans and advances to banks related to the WGZ BANK Group in connection with development loan business are not included because these are offset by corresponding liabilities to non-related development banks and are thus deemed in substance to be transactions via a suspense account. Income and expenses arising on transactions with related parties were not significant.

| | Loans and advances to banks € million | Loans and advances to customers € million | Allowances for losses on loans and advances € million | Financial assets held for trading € million | Deposits from banks € million | Amounts owed to other depositors € million | Financial liabilities held for trading € million |
|---|---|---|---|---|---|---|---|
| Parent company | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 |
| Subsidiaries | 0.0 | 1.6 | 0.0 | 0.0 | 0.0 | 10.0 | 0.0 |
| Joint ventures | 0.0 | 2.4 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 |
| Associates | 0.8 | 69.6 | 0.0 | 26.4 | 21.3 | 8.2 | 10.6 |
| Key management personnel | 0.0 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other related parties | 80.8 | 0.2 | 0.0 | 63.2 | 130.5 | 19.5 | 2.3 |
| **Total** | **81.6** | **75.3** | **0.0** | **89.6** | **151.8** | **38.2** | **12.9** |

## (76) Loans and advances to members of decision-making bodies

| | €'000 | Dec. 31, 2014 €'000 |
|---|---|---|
| Supervisory Board | 581 | 344 |
| Advisory Council | 1,269 | 1,812 |
| Board of Managing Directors | 0 | 0 |

These are normal loans and advances with interest at market rates.

## (77) Average number of employees

| | Female | Male | **Total** |
|---|---|---|---|
| WGZ BANK | 517 | 782 | **1,299** |
| Subsidiaries | 185 | 192 | **377** |
| | 702 | 974 | **1,676** |

## (78) Mandates held by members of the Board of Managing Directors and employees on statutory supervisory bodies of major corporations

**Board of Managing Directors of WGZ BANK**

| | |
|---|---|
| **Hans-Bernd Wolberg (Chief Executive Officer)** | |
| Bausparkasse Schwäbisch Hall, Schwäbisch Hall | Member of the Supervisory Board |
| DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main | Member of the Supervisory Board |
| | |
| **Uwe Berghaus** | |
| VR-LEASING AG, Eschborn | Deputy Chairman of the Supervisory Board |
| | |
| **Dr. Christian Brauckmann** | |
| Fiducia & GAD IT AG, Frankfurt am Main | Member of the Supervisory Board |
| | |
| **Karl-Heinz Moll** | |
| DZ PRIVATBANK (Schweiz) AG, Zurich, Switzerland | Deputy Chairman of the Board of Directors |
| DZ PRIVATBANK S.A., Strassen, Luxembourg | Deputy Chairman of the Supervisory Board |
| Union Asset Management Holding AG, Frankfurt am Main | Deputy Chairman of the Supervisory Board |
| R+V Versicherung AG, Wiesbaden | Member of the Supervisory Board |
| | |
| **Michael Speth** | |
| BAG Bankaktiengesellschaft, Hamm | Member of the Supervisory Board |

**Other employees of WGZ BANK**

| | |
|---|---|
| **Peter Tenbohlen** | |
| Deutsche WertpapierService Bank AG, Frankfurt am Main | Member of the Supervisory Board |

## (79) List of shareholdings

| NAME AND REGISTERED OFFICE | | Shareholding (%) | Equity in the most recent year for which figures are available € million | Net profit/loss in the most recent year for which figures are available € million |
|---|---|---|---|---|
| Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall | *5) | 15.00 | 1,812.3 | *1) |
| DZ Holding GmbH & Co. KG, Neu-Isenburg | *2), *3) | 36.42 | 1,550.2 | 38.0 |
| DZ PRIVATBANK S.A., Strassen/Luxembourg | *3), *5) | 19.04 | 673.7 | 45.5 |
| GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG, Nidderau | *3) | 32.10 | 56.4 | -1.7 |
| GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG, Nidderau | *3) | 31.61 | 75.0 | 5.5 |
| R+V Versicherung AG, Wiesbaden | *5) | 15.04 | 2,058.7 | *1) |
| Union Asset Management Holding AG, Frankfurt am Main | *5) | 17.72 | 639.2 | 274.9 |
| Union Investment Real Estate AG, Hamburg | *5) | 5.50 | 115.8 | 63.7 |
| VR-LEASING AG, Eschborn | *5) | 16.54 | 211.1 | *1) |
| VR Equitypartner GmbH, Frankfurt am Main | *3) | 22.00 | 69.1 | 7.1 |
| VR Corporate Finance GmbH, Düsseldorf | *4) | 50.00 | 2.1 | -0.2 |

*1) Profit-and-loss transfer agreement with DZ BANK AG.
*2) The company has a shareholding of 6.64 percent in DZ BANK AG held on behalf of WGZ BANK.
*3) Associate accounted for using the equity method.
*4) Joint venture accounted for using the equity method.
*5) Long-term equity investments in large corporations and publicly listed companies where the investment equates to more than 5 percent of voting rights.

Disclosures on further shareholdings have not been included because they are not material for the presentation of a true and fair view of the assets, liabilities, financial position, and profit or loss of the group.

## (80) Events after the balance sheet date

There were no events of particular significance after the balance sheet date.

Düsseldorf, March 23, 2016
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

# Additional disclosures pursuant to section 26a KWG as at December 31, 2015

The following disclosures have been prepared on a consolidated basis.

## a) Company name, nature of activities, and geographical location of the branches

WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, has branches at its Düsseldorf headquarters and in Koblenz and Münster. The consolidated subsidiary WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, is headquartered in Münster and also has branches in Berlin, Düsseldorf, Hamburg, and Munich. WGZ BANK Ireland plc operates solely at its headquarters in Dublin, Ireland.

Details of the nature of activities can be found in the 2015 management report of WGZ BANK and the WGZ BANK Group, chapter II. Business activities.

## b) Revenue

Revenue is defined as the sum of the following components of the income statement pursuant to IFRS: net interest income before allowances for losses on loans and advances, net fee and commission income, gains and losses arising on hedging transactions, gains and losses on trading activities, gains and losses on investments, profit/loss from companies accounted for using the equity method, and other net operating income.

Revenue came to €612.7 million in Germany and €29.1 million in Ireland in 2015.

## c) Number of recipients of wages and salaries expressed in full-time equivalents

The number of recipients of wages and salaries expressed in full-time equivalents (FTEs) within the WGZ BANK Group's scope of consolidation was 1,577 in Germany and 24 in Ireland.

## d) Profit

The pre-tax profit was €322.7 million for Germany and €23.9 million for Ireland. After deduction of taxes of €143.3 million in Germany and €2.2 million in Ireland, net profit amounted to €179.4 million and €21.7 million respectively. The taxes consisted of both current and deferred taxes.

## e) Return on assets (ratio of net profit to total assets)

The WGZ BANK Group's net profit for 2015 of €201.0 million and net assets of €89.8 billion resulted in a return on assets of 0.2 percent.

# Audit opinion (translation)

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows, and the notes to the financial statements, together with the group management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, for the financial year from January 1, to December 31, 2015 (the group management report having been combined with the management report of the parent company). The preparation of the consolidated financial statements and the combined management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (HGB), and the supplementary provisions of the Articles of Association is the responsibility of the Board of Managing Directors of the company. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Public Auditors) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB as well as the supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial position, and results of operations of the group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 24, 2016
**PricewaterhouseCoopers Aktiengesellschaft**
**Wirtschaftsprüfungsgesellschaft**

| | |
|---|---|
| Mark Maternus | Michael Meteling |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group management report, which is combined with the management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group."

Düsseldorf, March 23, 2016
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

# Allocation of responsibilities

Hans-Bernd Wolberg
Chief Executive Officer

- Central services
- Human resources
- Internal audit
- Member banks
- Compliance

Uwe Berghaus
Member of the Board of Managing Directors

- Corporate customers
- Investment subsidies
- Legal affairs

Dr. Christian Brauckmann
Member of the Board of Managing Directors

- Financial markets operations
- Organization and operations
- Payments processing

Karl-Heinz Moll
Member of the Board of
Managing Directors

Capital market
partners & trading

Treasury

Michael Speth
Member of the Board of
Managing Directors

Finance

Credit back office

Financial control and planning

# Contact addresses

WGZ BANK
info@wgzbank.de
www.wgzbank.de
Fax: +49 (0)211 778 1277
S.W.I.F.T. GENO DE DD
Reuters dealing: WGZD

**Branches**

Ludwig-Erhard-Allee 20
40227 Düsseldorf
Tel: +49 (0)211 778 00

Sentmaringer Weg 1
48151 Münster
Tel: +49 (0)251 706 00

Roonstrasse 7
56068 Koblenz
Tel: +49 (0)261 390 35

**Subsidiaries**

WL BANK
Sentmaringer Weg 1
48151 Münster
Tel: +49 (0)251 490 50
info@wlbank.de

WGZ Immobilien +
Treuhand Group
Sentmaringer Weg 1
48151 Münster
Tel: +49 (0)251 706 4741
info@wgz-it.de

WGZ BANK Ireland plc
International House
3 Harbourmaster Place
IFSC, Dublin 1
Tel: +353 (0)1 6738 100
info@wgzbank.ie

**Strategic partners**

VR Corporate Finance GmbH
Bleichstrasse 14
40211 Düsseldorf
Tel: +49 (0)211 9598 7050
info@vr-cf.de

VR Equitypartner GmbH
Sentmaringer Weg 1
48151 Münster
Tel: +49 (0)251 706 4723
mail@vrep.de

FSC
www.fsc.org
MIX
Papier aus verantwortungsvollen Quellen
FSC® C006024

ClimatePartner
klimaneutral gedruckt

**Editorial information**

Layout: M.L.&S. Werbeagentur GmbH, Düsseldorf

Photography: Frank Schemmann, Düsseldorf (p. 22/23/25/32/33/39/45/51/57/63)
Getty Images / Westend61 (cover and p. 17/26/27/46/47)
Fotolia / Blackosaka (p. 2)
Fotolia / alexey_fedoren (p. 4/5)
Augustusburg and Falkenlust Castles at Brühl UNESCO World Heritage site / Klaus Wohlmann (p. 6/7)
Fotolia / annaborkum (p. 8/9)
Fotolia / mojolo (p. 10/11)
Fotolia / Martina Berg (p. 16)
Getty Images / Tony Burns (p. 17/20/21)
Fotolia / Rulan (p. 17/40/41)
Getty Images / Michael Utech (p. 17/34/35)
Jochen Tack / Zollverein Foundation (p. 17/52/53/55)
Fotolia / pure-life-pictures (p. 17/58/59)
ttm GmbH / Millen (p. 22/24/274/275)
Getty Images / Charles Bowman (p. 28)
Oliver Abels (SBT) – own work, CC BY 2.5 (p. 29)
Fotolia / Andy Ilmberger (p. 30/31)
Getty Images / H & D Zielske / LOOK-foto (p. 36)
Getty Images / Daniel Schoenen / LOOK-foto (p. 37)
Fotolia / davis (p. 37)
Aachen Cathedral Chapter (p. 38)
Getty Images / Maria Swärd (p. 42)
Getty Images / UniversalImagesGroup (p. 42)
Getty Images / Leemage (p. 43)
Fotolia / Jürgen Fischer (p. 44)
Dombauhütte Köln / Matz und Schenk (p. 48)
Getty Images / Michael Zegers / LOOK-foto (p. 49)
Getty Images / Yulia Reznikov (p. 50)
Getty Images / Walter Bibikow (p. 50)
Fotolia / Thomas Jablonski (p. 54)
Fotolia / Hans-Martin Goede (p. 54)
Getty Images / Heinz Wohner / LOOK-foto (p. 56)
Höxter-Corvey Cultural Association (p. 60/61)
Herzog von Ratibor'sche Generalverwaltung (p. 62)
Fotolia / mojolo (p. 65)
Fotolia / Thomas Leonhardy (p. 88/89)
Fotolia / Thomas Leonhardy (p. 158)
Fotolia / Nomad_Soul - (p. 186)

Lithography: Publication Partners Medienkompetenz GmbH, Willich

Production: Das Druckhaus Beineke Dickmanns GmbH, Korschenbroich

WGZ BANK
Die Initiativbank

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken