MAR. 31, 2015

QUARTERLY REGULATORY RISK REPORT OF THE DZ BANK BANKING GROUP

DZ BANK Gruppe

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1. SCOPE OF APPLICATION

The DZ BANK banking group's regulatory risk reporting is based on section 26a of the German Banking Act (KWG) in conjunction with Part 8, articles 437 to 455 of the Capital Requirements Regulation (CRR). Furthermore, article 433 CRR on disclosure frequency requires institutions to disclose the information required by Part 8 CRR at least once a year. Institutions themselves must review which information should be disclosed more frequently than once a year in light of the pertinent characteristics of their business. For this purpose, the DZ BANK banking group is following the European Banking Authority (EBA) guideline EBA/GL/2014/14 and disclosing quarterly information about its structure of capital and capital requirements, its capital ratios and, for the first time, its leverage ratio.

All entities in the financial conglomerate are integrated in DZ Bank's central risk management system, subject to the principle of materiality pursuant to article 432 (1) CRR. Materiality is determined on the basis of a concept that is also relevant to opportunity and risk reporting pursuant to commercial law. The concept takes into account the decision-usefulness of disclosures and the economic viability of preparing reports. It is based on risk management procedures that meet the requirement for a groupwide risk monitoring system as specified in section 91 (2) of the German Stock Corporation Act (AktG) and pursuant to section 25a (1) KWG.

The disclosures in this risk report relate to material entities in the DZ BANK banking group pursuant to article 432 (1) CRR. The materiality concept does not cover the disclosures on capital structure, capital requirements, or capital ratios. All relevant entities consolidated for regulatory purposes are included in these disclosures to ensure that the key regulatory figures are consistent with the figures reported.

In Figure 1 (disclosure pursuant to article 436 sentence 1 letter b CRR), the financial conglomerate's entities that are material for internal risk management purposes are classified according to the nature of their business, the nature of their treatment for regulatory purposes, and the nature of their consolidation for commercial-law purposes. These companies are classified on the basis of the definitions contained in article 4 (1) and (2) CRR.

FIGURE 1 – CONSOLIDATION MATRIX: DIFFERENCES BETWEEN ENTITIES CONSOLIDATED FOR REGULATORY PURPOSES AND THOSE CONSOLIDATED FOR THE PURPOSES OF COMMERCIAL LAW

Classification	Name (abbreviation)	Treatment for regulatory purposes Consolidation				Consolidation under IFRS	
		Full	Pro-rata	Deduction method	Risk-weighted equity investment	Full	Pro-rata
Credit institutions	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK)	●				●	
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (BSH)	●				●	
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP)	●				●	
	DVB Bank SE, Frankfurt am Main, (DVB)	●				●	
	DZ BANK Ireland plc, Dublin, (DZ BANK Ireland)	●				●	
	DZ PRIVATBANK S.A., Luxembourg-Strassen, (DZ PRIVATBANK S.A.)	●				●	
	DZ PRIVATBANK (Schweiz) AG, Zurich, (DZ PRIVATBANK Schweiz)	●				●	
	TeamBank AG Nürnberg, Nuremberg, (TeamBank)	●				●	
Financial institutions	Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding)	●				●	
	VR-LEASING AG, Eschborn, (VR-LEASING)	●				●	
Insurance companies	R+V Versicherung AG, Wiesbaden, (R+V)				●	●	

The material entities are consolidated for both regulatory and commercial-law purposes. Although R+V is fully consolidated for commercial-law purposes, it is not directly subject to banking regulation. Instead, it is factored into the procedure used to determine the DZ BANK banking group's capital adequacy and disclosure requirements using the risk-weighted carrying amount of DZ BANK's investment in R+V. Furthermore, R+V is included in the cross-sectoral regulatory surveillance of the DZ BANK financial conglomerate at consolidated level within the legal framework applicable to financial conglomerates.

The following were fully **consolidated for regulatory purposes** pursuant to article 11 CRR on March 31, 2015, together with the companies listed in Figure 1: a total of 18 (December 31, 2014: 18) banks, 9 (10) financial services institutions, 9 (9) asset management companies, 526 (530) finance companies, 479 (484) of which were project companies belonging to VR-IMMOBILIEN-LEASING GmbH, Eschborn, and 8 (8) providers of related services. In addition, 3 banks, 2 finance companies, and one asset management company were consolidated on a pro-rata basis.

DZ BANK is either directly or indirectly the major shareholder in the long-term equity investments consolidated for regulatory purposes. Most companies are based either in Germany or elsewhere in the European Union. On the reporting date there were no **restrictions on the transfer of funds or capital** as defined in article 436 sentence 1 letter c CRR within the DZ BANK banking group imposed by third-party individuals, private or public-sector companies, supranational organizations, or sovereign states.

As was already the case at the end of 2014, there were no subsidiaries in the DZ BANK banking group that had a **capital deficiency** as at March 31, 2015. Consequently, no disclosure pursuant to article 436 sentence 1 letter d CRR has been made. Figure 2 shows how the entities in the DZ BANK banking group are integrated into the quantitative regulatory disclosure procedures of the DZ BANK banking group. The entities identified as material

are also directly incorporated into the DZ BANK Group's risk management system as management units. The disclosures take into account the effects of intragroup consolidation. In the disclosures on gross lending volume, allowances for losses on loans and advances, and interest-rate risk in the banking book, economic risk management criteria are used to define the management units in terms of the subsidiaries and investees included in the units, whereas the other disclosures are based on the entities consolidated for regulatory purposes.

FIGURE 2 – INCLUSION OF ENTITIES IN THE DZ BANK GROUP IN QUANTITATIVE REGULATORY DISCLOSURES

Entity	Structure of capital	Capital requirements	Capital ratios	Gross lending volume & allowances for losses on loans and advances	Standardized Approach exposure	IRBA exposure	Collateralized lending volume	Derivative counterparty risk exposure	Securitization exposure and capital requirements	Long-term equity investments in banking book	Value-at-risk in trading book	Interest-rate risk in banking book	Remuneration
DZ BANK	•	•	•	•	•	•	•	•	•	•	•	•	•
BSH	•	•	•	•	•	•	•		•	•		•	•
DG HYP	•	•	•	•	•	•	•	•	•	•		•	•
DVB	•	•	•	•	•	•	•	•		•		•	•
DZ BANK Ireland	•	•	•	•	•	•	•	•	•			•	•
DZ PRIVATBANK S.A.	•	•	•	•	•	•	•	•		•		•	•
DZ PRIVATBANK Schweiz	•	•	•	•	•			•	•	•		•	•
TeamBank	•	•	•	•	•	•	•	•		•		•	•
Union Asset Management Holding	•	•	•	•	•					•		•	•
VR-LEASING AG	•	•	•	•	•		•	•	•	•			•
Other companies of relevance for regulatory purposes	•	•	•	•	•	•			•				•

2. RISK CAPITAL MANAGEMENT

2.1. CAPITAL

(DISCLOSURE PURSUANT TO ARTICLE 437 CRR)

Since January 1, 2014, the solvency ratios of the DZ BANK banking group have been calculated in accordance with the CRR. The main basis for calculating regulatory capital is therefore the capital reported in the IFRS consolidated financial statements (consolidated accounting method). The CRR also defines an additional category of capital, common equity Tier 1, which is also used to calculate a new, additional capital ratio.

Figure 3 'Structure of capital during transition period' shows the aggregate capital as defined by article 437 CRR in conjunction with Title VII of EBA guideline EBA/GL/2014/14 dated December 23, 2014. These disclosures relate to all the entities consolidated for regulatory purposes in the DZ BANK banking group as at March 31, 2015.

FIGURE 3 – STRUCTURE OF CAPITAL DURING TRANSITION PERIOD
(ANNEX VI OF IMPLEMENTING REGULATION 1423/2013)

		(A)	(B)	(C)
		Amount on disclosure reporting date	Reference to CRR article	Amounts subject to pre-CRR treatment, or prescribed CRR residual amounts
€ million			March 31, 2015	
Ref. no. [1]		Unofficial	Relevant CRR article	Unofficial
Common equity Tier 1: Instruments and reserves				
6	Common equity Tier 1 (CET1) before regulatory adjustments	13,966	●	●
Common equity Tier 1 (CET1): Regulatory adjustments				
28	Total regulatory adjustments to common equity Tier 1 (CET1)	-1,216	●	●
29	Common equity Tier 1 (CET1)	12,750	●	●
Additional Tier 1 capital (AT1): Instruments				
36	Additional Tier 1 capital (AT1) before regulatory adjustments	1,746	●	●
Additional Tier 1 capital (AT1): Regulatory adjustments				
43	Total regulatory adjustments to additional Tier 1 capital (AT1)	-386	●	●
44	Additional Tier 1 capital (AT1)	1,360	●	●
45	Tier 1 capital (T1 = CET1 + AT1)	14,110	●	●
Tier 2 capital (T2): Instruments and reserves				
51	Tier 2 capital (T2) before regulatory adjustments	3,429	●	●
Tier 2 capital (T2): Regulatory adjustments				
57	Total regulatory adjustments to Tier 2 capital (T2)	0	●	●
58	Tier 2 capital (T2)	3,429	●	●
59	Total capital (TC = T1 + T2)	17,539	●	●
Capital ratios and buffers				
61	Common equity Tier 1 capital ratio (as a percentage of total exposure)	12.4%	92 (2) (a), 465	●
62	Tier 1 capital ratio (as a percentage of total exposure)	13.7%	92 (2) (b), 465	●
63	Total capital ratio (expressed as a percentage of total exposure)	17.1%	92 (2) (c)	●

[1] The reference numbers correspond to the consecutive numbering in the template for the disclosure of capital during the transition period in accordance with annex VI of Implementing Regulation (EU) no. 1423/2013.

The DZ BANK banking group's total **regulatory capital** as at March 31, 2015 amounted to €17,539 million (December 31, 2014: €16,508 million).

Common equity Tier 1 as at March 31, 2015 amounted to €12,750 million (December 31, 2014: €11,913 million); total Tier 1 capital was €14,110 million. The increase resulted from interim profit of €333 million that is eligible as regulatory capital and the revaluation reserve of €703 million that is eligible as regulatory capital on a pro-rata basis for the first time under the CRR. This increase was offset by the higher proportion of capital deductions that have to be recognized under the CRR and further effects of the CRR totaling €199 million.

Tier 2 capital grew by €328 million compared with the end of 2014 and amounted to €3,429 million. This was largely attributable to further additional Tier 1 capital instruments that are eligible for inclusion in Tier 2 capital.

The regulatory capital of the DZ BANK banking group is derived from the provisions of the CRR/CRD IV. It is based on the carrying amounts recognized under IFRS and essentially comprises the equity reported on the balance sheet, hybrid capital instruments, and subordinated liabilities that are modified with respect to various components that are reported on the balance sheet or are relevant for measurement purposes.

The banking regulator's review of the DZ BANK financial conglomerate's solvency ratio is based on annual reporting at the end of each year, according

to which, the DZ BANK financial conglomerate's eligible capital as at December 31, 2014 amounted to €19,201 million (December 31, 2013: €16,344 million). On the other side of the ratio, the solvency requirement amounted to €11,011 million (December 31, 2013: €9,060 million), producing a coverage ratio of 174.4 percent (December 31, 2013: 180.4 percent), significantly in excess of the minimum regulatory requirement. The bank's own internal assurance of compliance with the minimum requirements at all times that is required by the banking regulator showed that this was the case throughout the first quarter of 2015.

2.2. CAPITAL REQUIREMENTS

(DISCLOSURE PURSUANT TO ARTICLE 438 CRR)

Figure 4 shows the capital requirements in relation to the risk types of relevance for regulatory purposes (credit risk, market risk, and operational risk). The figures cover all the entities consolidated for regulatory purposes in the DZ BANK banking group. As at March 31, 2015, regulatory capital requirements were calculated at €8,219 million (December 31, 2014: €7,846 million). The increase was primarily attributable to new business at key group entities, but the following factors also increased the amount of capital required: a rise in the equity-accounted carrying amount of R+V, a rise in the capital requirements resulting from the internal model, the annual operational risk update in March 2015, and fluctuations in the euro/US dollar exchange rate.

FIGURE 4 – CAPITAL REQUIREMENTS

€ million	March 31, 2015		March 31, 2014	
	Capital requirements	Risk-weighted assets	Capital requirements	Risk-weighted assets
1 Credit risk				
1.1 Standardized Approach to credit risk				
Central governments	152	1,906	169	2,113
Regional governments and local authorities	38	481	36	450
Other public-sector entities	6	76	4	48
Multilateral development banks	-	-	-	-
International organizations	-	-	-	-
Institutions	41	511	38	470
Covered bonds issued by institutions	6	70	6	73
Corporates	601	7,516	504	6,295
Retail business	179	2,238	179	2,242
Institutions and entities with short-term ratings	5	66	3	43
Exposures collateralized by real estate	56	703	55	691
Investment fund units	48	606	49	609
Particularly high-risk exposures	9	108	12	148
Other exposures	83	1,032	63	787
Past due exposures	36	444	44	553
Total credit risk under the Standardized Approach	1,261	15,757	1,162	14,523

1.2 IRB approaches				
Central governments	60	750	53	658
Institutions	779	9,740	712	8,894
Corporates	2,110	26,371	2,068	25,848
of which: SMEs	54	674	55	684
Retail business	912	11,397	883	11,034
of which: mortgage-backed	491	6,132	469	5,868
qualified revolving	-	-	-	-
other retail business	421	5,266	413	5,166
Other non credit-obligation assets	131	1,642	133	1,656
Total under IRB approaches	3,992	49,900	3,847	48,090
1.3 Securitizations				
Securitizations under the Standardized Approach to credit risk	504	6,305	459	5,741
of which: re-securitizations	43	538	39	485
Securitizations under IRB approaches	201	2,507	235	2,937
of which: re-securitizations	29	359	24	295
Total securitizations	705	8,811	694	8,679
1.4 Long-term equity investments				
Long-term equity investments under IRB approaches	68	848	62	777
of which: internal modeling approach	-	-	-	-
PD/LGD approaches	8	99	5	63
simple risk-weighting approach	49	606	46	572
of which: exchange-traded equity investments	14	174	9	109
private equity in a diversified investment portfolio	-	-	-	-
other equity investments	35	432	37	463
Equity investments exempted from IRB approaches and included in Standardized Approach to credit risk	359	4,485	339	4,236
Total long-term equity investments	427	5,333	401	5,013
1.5 Contributions to central counterparty's default fund	37	460	22	269
1.6 CVA charge	168	2,098	183	2,297
Total credit risk	**6,589**	**82,359**	**6,309**	**78,869**
2 Market risk				
Standardized approach	129	1,609	102	1,272
of which: trading book risk exposures	17	211	18	220
of which: interest-rate risk	16	203	18	220
of which: general and specific price risk (net interest-rate exposure)	16	203	18	220
of which: specific price risk for securitization exposures in trading book	9	115	9	112
specific price risk in correlation trading portfolio	4	50	3	43
equity risk	1	8	0	0
currency risk	110	1,380	83	1,037
commodity risk	1	18	1	16
Internal modeling approach	788	9,855	771	9,637
Total market risk	917	11,464	873	10,909
3 Operational risk				
Operational risk under Basic Indicator Approach	-	-	-	-
Operational risk under Standardized Approach	713	8,918	664	8,302
Operational risk under AMA	-	-	-	-
Total operational risk	713	8,918	664	8,302
Total capital requirements	**8,219**	**102,742**	**7,846**	**98,080**

2.3. CAPITAL RATIOS

The regulatory capital ratios of the DZ BANK banking group are shown in Figure 3. The ratios illustrate the relationship between the risk-weighted exposures and the regulatory capital components in the DZ BANK banking group. The capital ratios for the DZ BANK banking group as at March 31, 2015 were in each case well above the minimum ratios prescribed for regulatory purposes of 8 percent (total capital ratio), 6.0 percent (Tier 1 capital ratio), and 4.5 percent (common equity Tier 1 capital ratio), as they were as at December 31, 2014.

3. LEVERAGE RATIO PURSUANT TO THE REVISED CRR/CRD IV FRAMEWORK

In addition to risk-weighted capital requirements, the CRR/CRD IV established the leverage ratio as a non-risk weighted capital ratio. Intended to be used as an additional minimum capital ratio from 2018 onward, it is currently in a monitoring phase and this is the first time that it has been disclosed. The aim of the leverage ratio is to limit the risk of banking-sector debt that could harm the financial system and the economy, and to provide a simple, non-risk-weighted safety mechanism to supplement risk-based requirements.

On October 10, 2014, the European Commission adopted a delegated act that came into force upon publication in the Official Journal of the European Union on January 17, 2015. This delegated act resulted in the following significant changes to the calculation of aggregate risk exposure for the leverage ratio in a revised CRR/CRD IV framework:

- Synthetic credit risk arising from written credit derivatives must now be included in aggregate risk exposure for the leverage ratio. Provided certain conditions are met, the capital charge can be reduced by the credit protection arising from the purchase of a credit derivative on the same reference name.

- Cash collateral can be offset against derivative exposures in certain circumstances.

- Security financing transactions can be offset against cash receivables of the same amount. Strict conditions apply to the offsetting of cash liabilities arising from these transactions. Counterparty default risk exposure can also be offset where transactions are undercollateralized.

- Off-balance-sheet exposures must now be weighted using the credit conversion factors arising from the Standardized Approach to credit risk (0 percent, 20 percent, 50 percent, or 100 percent depending on the risk category, with a lower limit of 10 percent). This reduces the aggregate risk exposure arising from off-balance-sheet items.

- Consolidation is now restricted to the entities consolidated for regulatory purposes. There is no longer a requirement to consolidate certain investments in financial-sector entities that were consolidated for commercial-law purposes but not for regulatory purposes.

These provisions of the delegated act have been incorporated into the results presented below.

FIGURE 5 – DISCLOSURE OF LEVERAGE RATIO PURSUANT TO DELEGATED ACT

€ million	March 31, 2015	
Transitional provisions option		
Transitional provisions selected to define the capital measure	Transitional rules	Full application of CRR
Tier 1 capital and aggregate risk exposure		
Tier 1 capital	**14,110**	**12,113**
Aggregate risk exposure	**358,061**	**358,601**
Leverage ratio		
Leverage ratio as at Mar. 31, 2015 [2]	3.94%	3.38%

[2] Because DZ BANK has an exemption pursuant to article 499 (3) CRR, no average quarterly figures are calculated.

The following exposures represent a material proportion of the aggregate risk exposure for the leverage ratio:

- Pass-through development loans: As they are passed through several institutions, development loans are weighted more than once in Germany. This involvement of different institutions (including central institutions) is essential in multilevel banking systems, not only for reasons of efficiency but also to ensure that development funds are provided throughout the country. Multiple counting of one transaction obviously conflicts with the government's desire to provide development support, such as for renewable energies. Both trust loans and pass-through loans merely constitute transactions that are redirected to the primary institutions of a financial network, which transfer the development loans to end customers. If they were omitted, the leverage ratio would rise by 0.33 percent where the CRR is applied in full and by 0.39 percent where the transitional provisions are applied.

- Exposures within the cooperative financial network that are exempt from inclusion in risk-weighted capital requirements pursuant to article 113 (7) CRR: In the interest of consistency between risk-weighted capital requirements and the leverage ratio – with the exception of items that by definition differ between these capital ratios (e.g. external credit ratings and internal valuation-model approaches) – these exposures should also be omitted from the leverage ratio. If they were omitted, the leverage ratio would increase by 0.60 percent where the CRR is applied in full and by 0.71 percent where the transitional provisions are applied.

- Because there is a substantial overlap between the effects of omitting the two factors mentioned, the effect of omitting both would result in the leverage ratio increasing by a total of 0.63 percent to 4.01 percent where the CRR is applied in full and by a total of 0.74 percent to 4.68 percent where the transitional provisions are applied.

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