Volksbanken Raiffeisenbanken
cooperative financial network

2016 Half-Year Financial Report

DZ BANK Group

Key figures

DZ BANK GROUP

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
FINANCIAL PERFORMANCE		
Operating profit[1,2]	1,430	1,325
Allowances for losses on loans and advances	-219	-41
Profit before taxes	1,574	1,284
Net profit	1,158	913
Cost/income ratio (percent)[2]	54.4	56.2

	Jun. 30, 2016	Dec. 31, 2015
FINANCIAL POSITION		
Assets		
Loans and advances to banks	110,010	80,735
Loans and advances to customers	173,093	126,850
Financial assets held for trading	62,255	49,520
Investments	72,058	54,305
Investments held by insurance companies	88,552	84,744
Remaining assets	15,386	12,187
Equity and liabilities		
Deposits from banks	129,459	97,227
Deposits from customers	127,512	96,186
Debt certificates issued including bonds	74,633	54,951
Financial liabilities held for trading	67,332	45,377
Insurance liabilities	83,449	78,929
Remaining liabilities	16,718	15,942
Equity	22,251	19,729
Total assets/total equity and liabilities	**521,354**	**408,341**
Volume of business	**837,044**	**701,591**
AVERAGE NUMBER OF EMPLOYEES DURING THE PERIOD	**28,481**	**29,911**
PLUS EMPLOYEES OF THE WGZ BANK GROUP AT THE REPORTING DATE	**1,712**	
LONG-TERM RATING		
Standard & Poor's	AA-	AA-
Moody's Investors Service	Aa3	Aa3
Fitch Ratings	AA-	AA-

	Jun. 30, 2016	Dec. 31, 2015
LIQUIDITY ADEQUACY		
DZ BANK Group (pre-merger)		
Economic liquidity adequacy (€ billion)[3]	8.4	8.9
WGZ BANK Group		
Liquidity buffer (€ billion)	8.7	
DZ BANK banking group (pre-merger)		
Liquidity coverage ratio – LCR (percent)	142.1	125.8
Net stable funding ratio – NSFR (percent)	96.8	99.0
WGZ BANK banking group		
Liquidity coverage ratio – LCR (percent)	157.3	
Net stable funding ratio – NSFR (percent)	98.8	
CAPITAL ADEQUACY		
DZ BANK Group (pre-merger)		
Economic capital adequacy (percent)[4]	166.0	173.5
WGZ BANK Group		
Economic capital adequacy (percent)[4]	246.1	
DZ BANK financial conglomerate (pre-merger)		
Financial conglomerate solvency[5,6] (percent)		185.1
DZ BANK banking group (pre-merger)		
Total capital ratio (percent)[7]	18.6	18.7
Tier 1 capital ratio (percent)[7]	15.8	15.6
Common equity Tier 1 capital ratio (percent)[7]	13.9	13.6
Common equity Tier 1 capital ratio applying CRR in full (percent)[8]	13.3	13.0
Leverage ratio (percent)[7]	4.5	4.5
WGZ BANK banking group		
Total capital ratio (percent)[9]	15.9	
Tier 1 capital ratio (percent)[9]	14.4	
Common equity Tier 1 capital ratio (percent)[9]	14.4	
Common equity Tier 1 capital ratio applying CRR in full (percent)[10]	13.1	
Leverage ratio (percent)[9]	3.4	

1 Operating income (total of net interest income, net fee and commission income, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, net income from insurance business, and other net operating income) less administrative expenses.
2 Figure for first half of 2015 restated.
3 Stress scenario with the lowest minimum liquidity surplus.
4 The figure as at December 31, 2015 differs from the figure in the 2015 Annual Report because the overall solvency requirement for the Insurance sector was recalculated as scheduled in the second quarter of 2016.
5 June 30, 2016: Financial conglomerate solvency is reported to the regulator annually. Consequently, solvency ratios for the DZ BANK financial conglomerate as at June 30, 2016 have not been disclosed.
6 December 31, 2015: Final coverage ratio.
7 In accordance with the requirements applicable as at the reporting date, with fully dynamic calculation of own funds.
8 In accordance with the requirements applicable from 2019, with fully dynamic calculation of own funds.
9 In accordance with the requirements applicable as at the reporting date.
10 In accordance with the requirements applicable from 2019.

Contents

Dear Shareholders,

The DZ BANK Group's half-year financial report as at June 30, 2016 marks a milestone for our organization: the successful completion of the merger of DZ BANK and WGZ BANK. The merger, which has been the dominant theme of the past few months, has already been taken into account in this consolidated financial report. Profit before taxes for the first half of the year amounted to around €1.57 billion, reflecting both our predominantly good business performance and positive valuation effects resulting from the merger.

The combining of DZ BANK and WGZ BANK to create a single cooperative central institution is a historic step. Our organization is now fully consolidated within the superstructure of the cooperative financial network, which will help us to tackle the challenges that lie ahead. We in the cooperative financial network are once again demonstrating our cohesiveness and our ability to take action. This can be seen from the efficiency and speed with which the merger is being implemented.

In accordance with IFRS accounting requirements, WGZ BANK's assets and liabilities were transferred to DZ BANK at the end of June 2016. The merger-related effects have been reported in the income statement under 'Net income from the merger with WGZ BANK'. The other line items for the first half of 2016 relate to the DZ BANK Group before the merger and are therefore comparable with those for the first half of 2015.

Now to the results in detail: Against a backdrop of negative interest rates, net interest income was almost unchanged year on year at €1.36 billion (first half of 2015: €1.38 billion). One of the main reasons for this was the stable performance of DZ BANK AG, whose corporate banking business did well. A dividend of €62 million from EURO Kartensysteme also had a positive impact. However, the effects of low interest rates were evident at Bausparkasse Schwäbisch Hall (BSH). The DZ BANK Group's allowances for losses on loans and advances increased to €219 million (first half of 2015: €41 million), thereby remaining at an insignificant level overall. This rise was primarily attributable to additions to allowances for losses on loans and advances at DZ BANK AG and DVB. Net fee and commission income of €822 million was on a par with the high prior-year level (first half of 2015: €826 million). This was due, in particular, to another strong business performance from Union Investment and to increased net fee and commission income in DZ BANK AG's capital markets business. Under gains and losses on trading activities, the net gain increased from €226 million in the first 6 months of last year to €501 million in the reporting period mainly thanks to a year-on-year improvement in net gains from the capital markets business but also owing to the measurement of DZ BANK AG's own issues. Strong net gains on investments held by insurance companies and growth in premium income at R+V resulted in net income from insurance business climbing to €461 million (first half of 2015: €405 million).

Overall, profit before taxes came to €1.57 billion (first half of 2015: €1.28 billion). This included the 'Net income from the merger with WGZ BANK' of €363 million.

These strong results, which were achieved while successfully completing the merger process, reflect the hard work and dedication of our employees. My colleagues on the Board of Managing Directors and I would like to take this opportunity to express our sincere gratitude to them.

Using the profits that we have generated, we further strengthened our capital base from our own resources. This, combined with careful management of risk-weighted assets and positive effects from the merger, enabled us to increase our common equity Tier 1 capital ratio again. Using a post-merger pro-forma calculation and applying the Capital Requirements Regulation (CRR) in full, this ratio stood at 13.9 percent as at June 30, 2016. This is 0.9 percentage points above the ratio for DZ BANK (pre-merger) as at December 31, 2015.

Our banking group delivered this encouraging performance in a challenging environment. In addition to heightening geopolitical risk, the question of Europe's political and economic future is now more critical than ever following the Brexit vote. It also appears that the new normal for Europe is low interest rates and, at best, moderate growth. The ECB's policy of negative interest rates has so far failed to achieve the desired effect, while the risk of incorrectly allocating this 'cheap' money is rising and reform efforts have ground to a halt in many countries. Germany is no exception, despite its currently robust economic growth. Our economists expect that the German economy will expand by 1.6 percent overall this year. Against this background, profit of more than €2 billion (including merger effects) appears realistic for the DZ BANK Group.

In view of these economic conditions and a banking market shaped by fierce competition, we are continually driving the DZ BANK Group forward. There are three areas of focus. Firstly, one of our top priorities is the structural and cultural integration of the merged bank. We have already made some significant strategic decisions in this regard, and acted upon them. Secondly, we are faced with the permanent task of managing our capital and costs effectively due to the impact of low interest rates combined with the steady rise in regulatory requirements (Basel IV, for example). Unlocking the synergies created by the merger will play a key role here. And thirdly, we are working constantly to safeguard and increase our sources of income, particularly in corporate banking. To this end, we are using our portfolio of products and services – which is now complete following the merger – and new, digital approaches that have emerged from our innovation management.

Our pride in what we have achieved together does not mean we can now rest on our laurels. The excellent market position and reputation that our organization enjoys today rests on a proactive approach to business, along with individual responsibility and cohesion. So we at DZ BANK – since August 1, ‘DZ BANK. Die Initiativbank’ – are continuing to plan and work on the future success of the cooperative financial network.

Kind regards,

Wolfgang Kirsch
Chief Executive Officer

Interim group management report

Note

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK), as the parent company in the DZ BANK Group, implements the transparency requirements as specified in sections 37w and 37y of the German Securities Trading Act (WpHG) and section 315 of the German Commercial Code (HGB) in conjunction with the relevant German accounting standard (GAS 16 Interim Financial Reporting) with the publication of this interim group management report. The opportunity and risk report also satisfies the applicable international requirements of International Accounting Standard (IAS) 34 (Interim Financial Reporting) with respect to risk-related disclosure requirements.

The figures in this interim group management report are rounded to the nearest whole number. This may give rise to small discrepancies between the totals shown in the tables and diagrams and totals calculated from the individual values shown.

I. DZ BANK Group fundamentals

The shareholders of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) and WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK) agreed to the merger of the two institutions at the Annual General Meetings in June.

The objectives behind the merger of the two cooperative central banks are pooling their strategic expertise and operational strength, refining processes, leveraging income and cost synergies, deploying available resources efficiently, and laying the foundations for the further development of the superstructure of the cooperative financial network.

In this half-year financial report, the following terms are used for the time before the merger: DZ BANK Group (pre-merger), DZ BANK (pre-merger), WGZ BANK Group, and WGZ BANK – reflecting the economic and management perspective – and DZ BANK financial conglomerate (pre-merger), DZ BANK banking group (pre-merger), and WGZ BANK banking group – reflecting the regulatory perspective. In disclosures referring to the time after the merger, the following terms are used: DZ BANK Group, DZ BANK, DZ BANK financial conglomerate, and DZ BANK banking group.

The terms DZ BANK Group and DZ BANK financial conglomerate are synonymous and refer to all the management units together. The context dictates the choice of term. For example, in the case of disclosures relating to economic management, the focus is on the DZ BANK Group, whereas in the case of regulatory issues relating to all the management units in the DZ BANK Group, the appropriate term is DZ BANK financial conglomerate.

The DZ BANK financial conglomerate mainly comprises the DZ BANK banking group and R+V Versicherung AG, Wiesbaden, (R+V Versicherung; subgroup abbreviated to R+V). DZ BANK acts as the financial conglomerate's parent company.

Fundamental information about the DZ BANK Group (pre-merger) is provided on page 20 onwards of the 2015 Annual Report. Those disclosures are also applicable to the first half of 2016. The fundamental information relating to the time after the merger is provided below.

1. Business model

DZ BANK focuses closely on the local cooperative banks, which are its customers and owners. The DZ BANK Group makes a significant contribution to helping the cooperative banks strengthen their market position by providing them with competitive products and services for incorporation into their end-customer business. This support is provided on the basis of the subsidiarity principle.

The focus on network-based business is always given priority, especially in times when resources are in short supply. In its role as a corporate bank, DZ BANK offers complementary services using existing products, platforms, and support activities. These services are constantly reviewed both from a strategic perspective (for example, so that there is no direct competition with the cooperative banks) and from an economic perspective (for example, so that the returns are appropriate and the risk acceptable).

2. Strategic focus as a network-oriented central institution and financial services group

The strategic focus in the DZ BANK Group follows the guiding principle of fulfilling the role of a networkoriented central institution and financial services group. Business activities are focused on the local cooperative banks and their customers in the group's home market of Germany. The objective of this is to consolidate the positioning of the cooperative financial network as one of the leading financial services providers in Germany on a long-term basis. To achieve this aim, the DZ BANK Group is steadfastly pursuing a threefold strategy of growth oriented to the cooperative financial network, consistent focus, and integration within the network and with the cooperative banks.

In November 2015, DZ BANK (pre-merger) and WGZ BANK signed a memorandum of understanding announcing that they would merge to create one cooperative central institution. On June 21 and 22, 2016, the shareholders of the two banks consented to the planned merger, with 99.9 percent of the votes cast in favor of the plan. The merger was entered in the commercial register on July 29, 2016.

The merger of DZ BANK and WGZ BANK marks the end of the process of consolidating the cooperative central institutions, of which there were initially more than 50. The two banks are bringing together their strategic and operating strengths for the benefit of the entire cooperative financial network, based on a successful business model and complementary market territories. The potential synergies of the merger – from strategic, business management, and regulatory perspectives – are considerable.

Strengthening the market position of the cooperative banks is the most important factor for the success of the cooperative financial network. The merger enables DZ BANK to create added value for its customers and owners and thus underpins the competitiveness of the cooperative financial network. The satisfaction of the 1,000-plus local cooperative banks will remain at the heart of DZ BANK's activities.

One of the core aims of merging the two institutions is to generate additional growth and earnings. DZ BANK will continue to develop its central institution services in corporate banking, international business, capital markets business with institutional and retail customers, and transaction banking. The decentralized structures for supporting the local cooperative banks and the corporate banking business will be retained. Business with the cooperative banks will be overseen and managed from the Düsseldorf office, which will also be the base for regional corporate customer support and for back office and settlement activities. A broader customer base and enlarged sales team will enable cross-selling potential to be unlocked more efficiently in the future. Working with the local cooperative banks, DZ BANK plans to step up business with small and medium-sized enterprises and further expand the related international business. DZ BANK's overall aim is to achieve a level of profitability that enables an appropriate dividend to be paid over the long term, taking the cooperative support principle into consideration. At the same time, DZ BANK needs to retain sufficient profits so that it can meet the regulatory requirements for capital adequacy.

Potential savings result from the combining and standardizing of structures and processes and from avoiding duplication of capital investment on platforms for IT and processes, particularly in view of the growth in regulatory requirements. A moderate number of job losses are planned as part of the two banks' integration. According to current planning, around 700 full-time posts will be eliminated. Total income and cost synergies of €100–150 million per year are expected going forward. The one-off costs of the merger will amount to approximately €300–350 million. The central services and steering functions are to be progressively brought together in Frankfurt, DZ BANK's registered office.

Once the central institutions have been successfully integrated, the plan is to refine the governance structure by the end of the decade. This will involve pooling the overarching strategic and steering functions in one unit (holding company) that will only have a few tasks related to the cooperative network. In this context, the business activities of the central institution will be brought together in a separate unit at the same level as the other group entities. This will enable the greatest possible transparency regarding the income structure of the merged central institution and its business lines. In addition to the Supervisory Board, the new holding company will have a central Advisory Council on which the local cooperative banks are represented, ensuring that they are involved in strategic decisions of the DZ BANK Group.

2.1. DZ BANK

Following the merger with WGZ BANK, DZ BANK will continue to focus on its core business activities in its Cooperative Banks/Verbund division and in the Corporate Banking, Retail Banking, Capital Markets, and Transaction Banking business lines.

2.1.1. Cooperative Banks/Verbund

In the future, support for the cooperative banks provided by *Regionaldirektoren* [regional directors] and the consultancy and other services delivered in connection with strategic bank management will be pooled in the Cooperative Banks/Verbund division. The *Regionaldirektoren* see themselves as the first port of call for the cooperative banks and will provide strategic business support for the product divisions and entities in the DZ BANK Group so that they can strengthen their financial products and services.

The local cooperative banks will continue to have access to consulting at every stage of the strategic bank management process, from defining the strategy to managing risk and implementing the strategy. The range of tailor-made products along with services and outsourcing options should help to improve the competitiveness and thus the market position of the cooperative financial network in an increasingly challenging market environment.

2.1.2. Corporate Banking

The corporate banking business of the local cooperative banks and DZ BANK is subject to fierce competition in the German market. To counter this, it is becoming more and more important to attract new customers through intensive, structured marketing and provide existing customers with comprehensive needs-based support. Medium-sized companies continue to be the main target group for DZ BANK's future growth.

DZ BANK's merger with WGZ BANK is a logical progression in the expansion of DZ BANK's established concept of regional support. The merger-related measures in corporate banking consist of many different project modules covering aspects such as the new structure of the product and sales divisions.

The measures begun in 2015 as part of the FokusKunde! (focus on customers) initiative have successfully taken root at DZ BANK. Their aim is to further broaden the customer base, strengthen existing customer relationships through closer integration within the DZ BANK Group, and establish more relationships in which DZ BANK is the principal bank of the customer concerned. The FokusKunde! initiative was set up to establish an even clearer customer focus and sales excellence in corporate banking, as well as to streamline processes and management in this business line. The measures initiated thus support the planned growth of corporate banking.

DZ BANK also continued to press ahead with its digitalization activities. It refined Easy Entry Business – the online sales channel for corporate banking in the cooperative financial network – and developed the Banking Guide, a payments processing solution that helps sales staff to identify the right product for the customer. DZ BANK has also invested in TrustBills, an electronic marketplace for selling companies' receivables to international institutional investors.

2.1.3. Retail Banking

DZ BANK offers the local cooperative banks and their customers a comprehensive range of securities services in retail banking.

It systematically pursues an omnichannel approach and supports the local cooperative banks with their omnichannel presence. The focus is on customers, with the objective of offering them a comprehensive personal investment solution that is tailored to their needs and available around the clock. From the customer perspective, that means both access to the bank in person and digital access, i.e. visits to a branch and personal contact with a customer advisor as well as access via a mobile login, numerous online tools (such as VR-ProfiBroker and VR-ProfiTrader), and the derivatives portal at www.dzbank-derivate.de.

This year, DZ BANK has further strengthened its position as market leader in the overall German market for investment certificates.

2.1.4. Capital Markets

DZ BANK's customer-oriented capital markets business is focused on serving diverse customer requirements for investment and risk management products involving the asset classes of interest rates, loans, equities, foreign exchange, and commodities. The range of products and services is based mainly on the needs of the cooperative banks, their retail and corporate customers, and the corporate customers and institutional customers in Germany and abroad supported directly by DZ BANK.

A fundamental element of capital market activities are the key functions carried out by Group Treasury within the cooperative financial network and within the management of both the group and DZ BANK.

These functions include cash-pooling for the entities in the cooperative financial network, coordination of the cash flows within the DZ BANK Group, and the management of interest-rate risk at DZ BANK.

2.1.5. Transaction Banking

In the transaction banking business, DZ BANK provides a comprehensive range of services for the local cooperative banks. Its actions remain rooted in the principles of achieving economies of scale and promoting innovation and partnership. Digitalization plays a key role in this regard.

In the area of e-/m-payments, the paydirekt online payments solution that was launched in 2015 is being expanded. The focus is on continually increasing the number of participating merchants and refining the solution's underlying technology.

A project initiative to enhance the authentication processes, which forms part of the overarching KundenFokus 2020 (customer focus 2020) project of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V., Berlin, (BVR) [National Association of German Cooperative Banks], lays the foundations for standardized, state-of-the-art authentication processes that are easy for customers to use. With account access for third parties becoming mandatory from 2018 under the Directive on Payment Services (PSD2), DZ BANK is designing transparent third-party access to customers' accounts that customers can control themselves and developing the authentication process as a service.

As part of the Wachstumsinitiative Karten (cards growth initiative), DZ BANK is continuing to support the local cooperative banks by organizing various events and running targeted marketing campaigns aimed at securing the future success of its profitable card processing business.

2.2. BSH

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (Bausparkasse Schwäbisch Hall; subgroup abbreviated to BSH) is the market leader in building society operations in Germany. As interest rates remain low, BSH has further streamlined its business model and, in connection with this, taken steps to boost productivity.

With the aim of maintaining its leading position in the German building society market over the long term, BSH has initiated a program of investment to thoroughly overhaul its IT systems by 2018. It is also investing in digitalizing its core business in line with the aims of the cooperative financial network, improving the quality of advice in sales, and updating its product portfolio.

BSH continues to plan growth in its international business with varying risk-oriented target growth rates depending on the market concerned.

2.3. DG HYP

Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP) is one of the leading banks for commercial real estate finance in Germany and aims to consolidate its well-established market position by generating profitable new business. Under its business policy, the bank's main focus is its role within the cooperative financial network and the joint provision of finance with the cooperative banks. DG HYP currently works with more than 400 local cooperative banks on a regular basis, catering to the growing demand among small and medium-sized commercial real estate finance customers for suitable properties in regional locations.

DG HYP also assists the local cooperative banks with public-sector funding inquiries, allowing these banks to strengthen their presence in this market and intensify business relations with local authorities.

As part of its corporate strategy, DG HYP has been steadily winding down its portfolios of government and bank lending, consumer home finance, and non-strategic commercial real estate finance since 2007.

2.4. DVB

DVB Bank SE, Frankfurt am Main, (DVB Bank; subgroup abbreviated to DVB) is a highly specialized niche provider in the area of transport finance, focusing on the international transport market, which can be broken down into shipping, aviation, offshore finance, and land transport segments.

In its core lending business, DVB continues to concentrate its activities on steady, sustainable new business coupled with proactive risk management. It also continually optimizes its range of advisory and capital market products. For example, it is deliberately stepping up its corporate finance activities through selected capital market issues and M&A transactions.

DVB is running various strategic initiatives to counter the difficult market conditions in shipping finance. In January 2016, it established the Credit & Asset Solution Group in order to pool the group's restructuring expertise in one unit. The task of this specialist team is to efficiently reduce non-performing lending exposures.

In response to the continuous rise in costs in recent years, DVB has launched a cost optimization project aimed at maintaining general and administrative expenses unchanged year on year until 2020. This should also enable DVB to remain competitive in the long term.

2.5. DZ PRIVATBANK

DZ PRIVATBANK S.A., Strassen, Luxembourg, (DZ PRIVATBANK S.A.), with its headquarters in Luxembourg and its wholly owned subsidiaries DZ PRIVATBANK (Schweiz) AG, Zurich, Switzerland, DZ PRIVATBANK Singapore Ltd., Singapore, Singapore, Europäische Genossenschaftsbank S.A., Strassen, Luxembourg, IPConcept (Luxemburg) S.A., Strassen, Luxembourg, and IPConcept (Schweiz) AG, Zurich, Switzerland, is the cooperative financial network's center of excellence and solutions provider for private banking, fund services, and financing in all currencies (LuxCredit). In the past few years, it has established ten locations across Germany so that the local cooperative banks can receive sales support on the ground, thereby helping to further expand their joint business with DZ PRIVATBANK.

DZ PRIVATBANK is dealing with the fierce levels of competition and strong pressure on margins that currently prevail by strictly managing costs. As part of its efforts to realign its international locations, it has further centralized downstream sales processes in Germany and Luxembourg.

So that it can continue to operate effectively in its various areas of business going forward, DZ PRIVATBANK is forging ahead with initiatives under its digitalization strategy and establishing a company-wide innovation management process.

2.6. R+V

R+V is one of the leading insurance companies in Germany. It has grown steadily for many years and currently serves more than 8 million customers. R+V's products cover all of the typical insurance segments, from life and health insurance to non-life insurance and inward reinsurance.

R+V's underlying strategy is to gradually develop its market position on the basis of a sound portfolio. Its primary sales channels are the local cooperative banks and other partners within the cooperative financial network. Strategic activities aimed at increasing market share in Germany include the further development of omnichannel sales in collaboration with the BVR and the ongoing development of innovative products to gain access to new groups of customers.

2.7. TeamBank

TeamBank AG Nürnberg, Nuremberg, (TeamBank) is a cooperative consumer finance provider and works closely with the local cooperative banks. Its overarching strategic aim is to secure new customers for the cooperative financial network. TeamBank is firmly focused on the customer with its easyCredit product, positioning itself as the fairest consumer finance expert in the German market.

TeamBank continues to pursue robust and profitable growth in the consumer finance business. To this end, it is driving the digital transformation of its business. The focus is on enhancing mobile apps with more functions and refining e-commerce solutions. TeamBank is aiming to reach customers as early as possible via fully integrated touchpoints and seamless interfaces.

2.8. UMH

Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding; subgroup abbreviated to UMH) is the central asset manager in the cooperative financial network.

To maintain the rapid growth of its retail and institutional customer businesses, UMH is working continuously to develop investment solutions for the low-interest-rate environment, in particular multi-asset funds.

In addition to generating growth in its core business, UMH has further increased its assets under management by entering the Austria market. It has operated in this market as Union Investment Austria since January 2016 and is stepping up its partnership with Austria's Volksbanken cooperative banks on selling asset management products.

2.9. VR LEASING
VR-LEASING AG, Eschborn, (VR-LEASING AG; subgroup abbreviated to VR LEASING) positions itself as a cooperative provider of financing solutions in its core businesses of leasing, loans, rental, hire purchase, factoring, and centralized settlement. It focuses on the German market and its role within the cooperative financial network. VR LEASING is targeting further growth in its core business, working hand in hand with the local cooperative banks and their small and medium-sized enterprise customers with strong regional ties.

One of the final milestones was reached in the strategy to wind down international business when the Hungarian subsidiary Lombard Pénzügyi és Lízing Rt., Szeged/Hungary, (Lombard Lízing) was sold in April 2016.

VR LEASING is also working on implementing innovative, digital solutions in its corporate customer business and on enhancing its product range.

2.10. WL BANK
WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, (WL BANK) has been added as a management unit of the DZ BANK Group following the merger of DZ BANK and WGZ BANK. Its core businesses are real estate finance, local authority, and Pfandbrief treasury business with a focus on customers in Germany.

WL BANK provides long-term real estate finance, and its customer business is centered on financing for commercial real estate capable of being used by third parties and for residential real estate in Germany. Its target customers are retail customers and investors from the cooperative financial network that are passed on to WL BANK as part of cooperative network business. WL BANK also supports the institutional housing sector, open-ended and closed-end real-estate funds, professional investors with extensive property assets, and partner banks in the context of loan syndication.

In addition, WL BANK does business with public-sector customers, particularly public authorities. This business focuses on lending to public-sector entities, but WL BANK also grants short-term local authority loans. Furthermore, it grants structured loans to the public sector, restructures existing loans and, as part of public-private partnership financing, participates in selected forfaiting transactions that are eligible as cover pursuant to the German Pfandbrief Act (PfandBG).

3. Management of the DZ BANK Group

3.1. Governance

3.1.1. Integration within the cooperative financial network
The DZ BANK Group is a financial services group comprising entities that function as product specialists, providing the Volksbanken Raiffeisenbanken cooperative financial network with an entire range of financial services. Given the particular nature of the group, DZ BANK consciously manages the group with a balanced centralized and decentralized approach with clearly defined interfaces and taking into account business policy requirements.

The three defining features of governance in the DZ BANK Group are the general management approach of the DZ BANK Group, appointments to key posts in the subsidiaries, and the committee structure.

For the purposes of managing the subsidiaries through appointments to key posts, a representative of DZ BANK is appointed in each case as the chairman of the supervisory body and generally also as the chairman of any associated committees (risk and investment committee, audit committee, human resources committee).

3.1.2. Corporate management committees
In view of the very speedy merger process and the short period of time between the decisions of the Annual General Meetings (June 21, 2016 and June 22, 2016) and the reporting date for the half-year financial report (June 30, 2016), the corporate management committees were set up for the joint central institution on an interim basis. The two former central institution groups had already begun the necessary preparations for integrating the committees at the end of last year. Further details were elaborated in the first half of this year.

FIG. 1 – MANAGEMENT COMMITTEES IN THE DZ BANK GROUP

Figure 1 provides an overview of the committees of particular importance in the management of the DZ BANK Group.

The **Group Coordination Committee** ensures coordination between the key entities in the DZ BANK Group with regard to consistent management of opportunities and risks, capital allocation, strategic issues, and leveraging synergies. In addition to the Board of Managing Directors of DZ BANK, the members of this committee comprise the chief executive officers of BSH, DG HYP, DZ PRIVATBANK, R+V, TeamBank, UMH, and VR LEASING. The chief executive officer of WL BANK will also belong to the Group Coordination Committee in the future.

Special working groups whose members comprise representatives from all strategic business lines and group functions are responsible for the following areas of activity and report to the Group Coordination Committee:

- product and sales/marketing coordination for retail customers, corporate customers, and institutional clients;
- IT, operations, and resources strategies;
- human resources management;
- finance and liquidity management/risk management.

The **Group Risk and Finance Committee** is the central committee in the DZ BANK Group responsible for proper operational organization and, in particular, risk management in accordance with section 25 of the German Supervision of Financial Conglomerates Act (FKAG) and section 25a of the German Banking Act (KWG). It assists DZ BANK with groupwide financial and liquidity management and provides support for risk capital management throughout the group. The Group Risk and Finance Committee also assists the Group Coordination Committee in matters of principle. The members of this committee include the relevant executives at DZ BANK responsible for Group Finance, Group Strategy and Controlling, Group Risk Controlling, Credit, Credit Special, and Group Treasury. The committee members also include representatives of the executives of various group companies. The Group Risk and Finance Committee has set up the following working groups to prepare proposals for decision-making and to implement management action plans.

- The **Group Risk Management working group** supports the Group Risk and Finance Committee in all matters concerning risk and the management of risk capital and market risk in the DZ BANK Group, and in matters relating to external risk reporting. At DZ BANK level, the monitoring and control of the aggregate risks to the bank is coordinated by the Risk Committee. The Risk Committee makes recommendations to the entire Board of Managing Directors in matters relating to risk management, risk methodology, risk policies, risk processes, and the management of operational risk.

- The **Architecture and Processes Finance/Risk working group** assists the Group Risk and Finance Committee with the further development of the integrated finance and risk architecture in the DZ BANK Group. In terms of the corporate management of the DZ BANK Group, this committee works on refining the blueprint for the business, process, and data architecture, ensuring a coordinated roadmap and a transparent project portfolio, and establishing overarching data governance.

- The management of credit risk throughout the group is the responsibility of the **Group Credit Management working group** of the Group Risk and Finance Committee. The limitation and monitoring of credit risk is based on agreed and binding group standards and procedures, taking into account the business policy concerns of the entities involved. The Group Credit Management working group is responsible for the further development of the group credit risk strategy and the group credit manual and assists the Group Risk and Finance Committee with the groupwide harmonization of credit-related processes with due regard to their economic necessity. The monitoring and control of DZ BANK's overall credit portfolio is coordinated by the Credit Committee. This committee normally meets every two weeks and makes decisions on material lending exposures at DZ BANK, taking into account the credit risk strategy of both the bank and the group. The Credit Committee is also responsible for managing credit risk at DZ BANK and country risk throughout the DZ BANK Group.

- The Group Risk and Finance Committee's **Market working group** is responsible for providing implementation support throughout the group in the following areas: liquidity management, funding activities, balance sheet structure management, and capital management. This body also focuses on coordinating and aligning funding strategies and liquidity reserve policies, as well as on planning the funding within the DZ BANK Group. At DZ BANK level, the Asset Liability Committee/Treasury and Capital Committee is the central body responsible for the operational implementation of the strategic requirements in the following areas to ensure integrated resource management: capital management, balance sheet and balance sheet structure management, liquidity and liquidity risk management, and income statement and profitability management. This committee also discusses overarching issues and current regulatory matters with the aim of identifying those requiring management action.

- The **Finance working group** advises the Group Risk and Finance Committee on matters concerning the consolidated financial statements, tax law, and supervisory law. It discusses new statutory requirements and works out possible implementation options.

The **Group IT Committee**, comprising the members of the boards of managing directors of the main group entities with responsibility for IT, supports the Group Coordination Committee in matters relating to IT strategy. This committee manages all overarching IT activities in the DZ BANK Group. In particular, the Group IT Committee makes decisions on collaboration issues, identifies and realizes synergies, and initiates joint projects.

The members of the **Group HR Committee** comprise the members of the boards of managing directors with responsibility for HR and the HR directors from the main entities in the DZ BANK Group. This committee helps the Group Coordination Committee address HR issues of strategic relevance. The Group HR Committee initiates and coordinates activities relating to overarching HR issues while at the same time exploiting potential synergies. It also coordinates the groupwide implementation of regulatory requirements concerning HR systems and facilitates the sharing of HR policy information within the DZ BANK Group.

The **product and sales committees** act as centers responsible for coordination and pooling functions relating to the range of products and services provided by the DZ BANK Group. The **retail customers** product and sales committee coordinates products and services, and the marketing activities of its members where there are overarching interests affecting the whole of the group. The common objective is to generate profitable growth in market share for the cooperative banks and the entities in the DZ BANK Group with a focus on retaining existing customers and attracting new ones by providing needs-based solutions (products and processes) as part of a holistic advisory approach across all sales channels (omnichannel approach).

The **institutional clients** product and sales committee helps to strengthen the position of the DZ BANK Group in the institutional clients market.

The **corporate customers** product and sales committee is responsible for coordinating the strategies, planning, projects, and sales activities in the DZ BANK Group's corporate banking business if overarching interests are involved. The objective is closer integration in both the joint lending business with the cooperative banks and the direct corporate customer business of the entities in the DZ BANK Group.

The DZ BANK Group **Heads of Internal Audit working group**, which is led by DZ BANK, coordinates group-relevant audit issues and the planning of cross-company audits and activities based on a common framework drawn up and approved by the relevant members of the Board of Managing Directors. This working group also serves as a platform for sharing specialist information across the group – especially information on current trends in internal audits – and for developing best practice in internal audit activities. The working group reports to the Chief Executive Officer of DZ BANK and, where appropriate, to the Group Coordination Committee.

The **Economic Roundtable**, the members of which comprise the economists from the main group companies, helps the Group Coordination Committee to assess economic and capital market trends, providing a uniform basis for consistent planning scenarios throughout the group, and to prepare risk scenarios required by regulators.

The members of the **Innovation Roundtable** comprise specialists, executive managers, and innovation managers from the various divisions of DZ BANK and the group companies. The Innovation Roundtable is therefore the Group Coordination Committee's key point of contact for information on innovations and trends relevant to the group. The objectives of the Innovation Roundtable are to systematically examine innovative topics with group relevance on an ongoing basis, to bring together the divisions involved in innovation projects and to ensure that innovation activities in the DZ BANK Group are transparent. Innovation topics are broadly based throughout the DZ BANK Group and are developed in the relevant departments and subsidiaries by the product and sales committees.

3.2. Management units

The DZ BANK Group comprises DZ BANK as the parent company, the DZ BANK Group's fully consolidated subsidiaries in which DZ BANK directly or indirectly exercises control, and other long-term equity investments that are not fully consolidated.

All entities in the DZ BANK Group are integrated into groupwide management. In the case of subgroups, the disclosures in the interim group management report on management units relate to the entire subgroup comprising the parent company of the subgroup plus its subsidiaries and second-tier subsidiaries. The management units are managed by the parent company in the subgroup, which is responsible for compliance with management directions in the subsidiaries and second-tier subsidiaries. The following management units are each managed as a separate operating segment:

- DZ BANK
- BSH
- DG HYP
- DVB
- DZ PRIVATBANK
- R+V
- TeamBank
- UMH
- VR LEASING
- WL BANK.

These fully consolidated entities are management units and form the core of the financial services group. DZ BANK forms a separate management unit from a higher-level perspective.

3.3. Key performance indicators

The DZ BANK Group's KPIs for profitability, volume, and productivity as well as the regulatory return on risk-adjusted capital (RORAC) are presented below. The liquidity adequacy and capital adequacy KPIs for the DZ BANK Group (pre-merger) and for the WGZ BANK Group are also explained.

- **Profitability figures in accordance with International Financial Reporting Standards (IFRS):**
  The profitability figures (allowances for losses on loans and advances, profit/loss before taxes, net profit/loss) are presented in chapter II., section 3.1. of this interim group management report.

- **IFRS volume figures:**
  One of the main volume KPIs is equity. Equity is described in chapter II., section 4. of this interim group management report.

- **Productivity:**
  One of the most significant productivity KPIs is the cost/income ratio. This is described in chapter II., section 3.1. of this interim group management report.

- **Liquidity adequacy:**
  Appropriate levels of liquidity reserves are demonstrated using the ratios for economic and regulatory liquidity adequacy presented in chapter V., section 5. of this interim group management report. The minimum liquidity surplus reflects economic liquidity adequacy. Regulatory liquidity adequacy is expressed in terms of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

- **Capital adequacy:**
  The KPIs and the calculation method for economic capital adequacy are described in chapter V., section 6.1. of this interim group management report. The KPIs for regulatory capital adequacy are included in chapter V., section 6.2.

- **Regulatory RORAC:**
  Regulatory RORAC is a risk-adjusted performance measure. In the period under review, it reflected the relationship between profit before taxes and before contributions to the resolution fund (in the first half of 2015, profit before taxes) and regulatory risk capital (own funds/solvency requirement). It therefore shows the return on the regulatory risk capital employed. This is described in chapter II., section 3. of this interim group management report.

3.4. Management process

In the annual strategic planning process, the entities in the DZ BANK Group produce a business strategy (objectives, strategic direction, and initiatives), a finance and capital requirements plan, and a risk strategy derived from the business strategy.

The feasibility of the planning by the management units is then assessed and the plans are also discussed and examined in strategy meetings. When the individual entity planning has been completed, the process then moves on to consolidated group planning, allowing active management of the DZ BANK Group's economic and regulatory capital adequacy.

Target attainment is monitored in a number of ways, notably in quarterly meetings with the subsidiaries and in review meetings with the DZ BANK divisions.

Groupwide initiatives are implemented in order to unlock identified marketing potential. These include the development of new, innovative products and sales methods for the strategic business lines – Corporate Banking, Retail Banking, Transaction Banking, and Capital Markets – in order to further strengthen sales by the DZ BANK Group and the local cooperative banks. Regular reports on the individual initiatives are submitted to the relevant product and sales committee. If appropriate, certain aspects of the initiatives may be handled by the Group Coordination Committee. This results in more efficient cooperation in the cooperative financial network.

At DZ BANK level, the main divisions involved in the strategic planning process are Group Strategy and Controlling, Group Risk Controlling, Group Finance, and Research and Economics. The planning coordinators in the front-office divisions and the subsidiaries are also incorporated into the process. The Group Strategy and Controlling division is responsible for overall coordination, including strategic financial planning as part of the strategic planning process.

II. Business report

1. Economic conditions

The German economy continued its uptrend in the first 6 months of 2016. Adjusted for inflation, average overall economic output in the first half of the year was 1.1 percent higher than in the second half of 2015. German economic output in the first quarter of 2016 was up by 0.7 percent compared with the preceding quarter. Gross domestic product (GDP) rose by 0.4 percent in the second quarter compared with the first quarter of this year.

Overall, the economy of the eurozone continued to recover in the first half of 2016. Following economic expansion of 0.7 percent in the second half of 2015 compared with the first half of 2015, the eurozone's economic output in the period under review rose by 0.9 percent. The rate of growth in the first quarter of 2016 was 0.6 percent. In the second quarter, the economy grew by 0.3 percent compared with the previous quarter.

The economy in the United States remained subdued in the first half of 2016. Consumer spending, the main engine of growth, increased moderately during the reporting period. The industrial sector continued to be held back by the weakness of the oil industry, caused by the relatively low oil price. Moreover, US products are still more expensive worldwide owing to the sustained strength of the dollar. Nonetheless, the US economy continues to benefit from the constantly improving situation in the job market and the ongoing recovery of the US real estate market.

Economic difficulties persisted in some emerging economies, particularly in Latin America, during the reporting period. These were often attributable to structural problems and a reluctance to implement reforms. China's economy is continuing to see a slowdown in its growth. Political crises, particularly the United Kingdom's vote to leave the EU, also contributed to gloomier international economic prospects in the first half of 2016.

Nonetheless, demand from emerging markets continued to bolster exports from Germany, which also benefited from the improving pace of economic growth in the eurozone.

During the reporting period, the German economy received a strong boost from the rise in consumer and government spending. The latter included increased government expenditure on refugees. The stability of the labor market and stronger consumer purchasing power on the back of low energy prices, combined with the low level of interest rates, resulted in a strong level of household spending. The increase in German economic output was also driven by construction investment, primarily due to the exceptionally mild weather at the start of the year. Foreign trade also contributed to economic growth thanks to buoyant demand for exports.

Given the robust economy and strong increases in tax revenues, German public finances are likely to finish the current year with a small budget surplus once again.

2. The banking industry amid continued efforts to stabilize the economy of the eurozone

In the reporting period, the focus in the EU continued to be on efforts to stabilize economic conditions in the eurozone.

The euro area maintained its restrained rate of economic growth during the period under review, while growth in the global economy remained steady at a modest level overall.

However, only limited progress was made in reducing new and total borrowing in the eurozone. At the end of the first quarter of 2016, the total borrowing of the 19 eurozone countries equated to 91.7 percent of their GDP, a year-on-year decrease of just 1.3 percentage points (March 31, 2015: 93.0 percent).

Eurozone countries Ireland, Portugal, and Spain, which had been reliant on EU aid during the sovereign debt crisis, made further year-on-year progress in the first quarter of 2016 on their path of economic renewal and fiscal recovery. France and Italy, two countries that are important to overall European economic growth, are suffering from a high level of indebtedness and a lack of economic strength, as are, in particular, Greece, Portugal, and Spain.

Greece, which finally met the conditions for financial aid of €7.5 billion from European lenders in mid-June 2016 when the Greek parliament signed off a host of reforms, leads the way among the countries of the EU as far as indebtedness is concerned (public debt as a percentage of GDP in the first quarter of 2016: 176.3 percent).

Following parliamentary elections in early October 2015, Portugal (public debt as a percentage of GDP in the first quarter of 2016: 128.9 percent) has had a new minority government since November 2015 and has started to move away from the reform policies of the previous government.

Spain (public debt as a percentage of GDP in the first quarter of 2016: 100.5 percent) has not been able to form a working government since parliamentary elections at the end of last year. The resulting uncertainty has had an adverse impact, including on the country's economic performance. It remains to be seen whether this situation will change any time soon, especially in view of the latest setbacks of the current prime minister, Mariano Rajoy, in his efforts to secure a parliamentary majority after fresh elections on June 26, 2016.

But France (public debt as a percentage of GDP in the first quarter of 2016: 97.5 percent) and Italy (public debt as a percentage of GDP in the first quarter of 2016: 135.4 percent) too have little hope of quickly correcting the imbalances in their finances. Companies in these two countries are not delivering sufficient profitability, which is resulting in too little capital spending. Moreover, Italian banks are weighed down by non-performing loans totaling around €360 billion.

The persistently high debt levels in the eurozone are matched by the European Commission's repeated deferral of the deadlines for individual member states to comply with the targets defined for the whole of the EU under the Maastricht criteria. These targets reflect the fundamental economic view that the financial stability and international competitiveness of each individual EU member state are vital if developments such as those seen in the recent financial crisis are to be avoided.

A key reason for the European Commission's lack of discipline in implementing the stability criteria is most probably the growing skepticism about the EU. This can be seen not only from the United Kingdom's vote to leave the EU (Brexit) on June 23, 2016 but also from a multitude of euroskeptic political movements in various EU countries that are against the stability efforts. In Portugal and Spain, which were particularly hard hit by the financial crisis, the parties that support these new political movements have either already gained significant political influence or hampered the formation of a stable government majority.

Even if the low level of interest rates ushered in by the European Central Bank (ECB) has significantly reduced the interest burden for public finances, there is a risk that this trend will mean that politicians remain unwilling to implement the necessary structural changes. This is all the more likely as the countries with the biggest backlog of reforms are those that are benefiting the most from the ECB's monetary policy because they are seeing far higher savings on interest payments.

At its meeting on March 10, 2016, the ECB decided to cut the key interest rate by a further 5 basis points, from 0.05 percent to 0.00 percent, and to again lower the rate on the deposit facility for banks to minus 0.40 percent from minus 0.20 percent. It also decided that, from April 2016, it would expand its monthly volume of bond purchases from €60 billion to €80 billion until early 2017. The ECB's stated aim was to counter the risk of deflation and bring inflation back to a level close to, but below, 2 percent. A further objective was to strengthen growth in the eurozone by encouraging greater lending by banks.

By contrast, the US Federal Reserve, having begun to reverse its interest-rate policy in mid-December 2015, held the key rate for short-term lending between banks to cover minimum reserve requirements in a range of 0.25 percent to 0.50 percent throughout the reporting period.

The serious and far-reaching intervention in economic activity represented by the ECB's policy of zero and negative interest rates is making it harder for savers to build up sufficient capital and, in particular, to ensure they have adequate provision for old age. There is also a significant impact on the earnings power not only of banks but also of life insurers and building societies. The extent of the imposed lowering of interest rates is illustrated by the yields on ten-year German government bonds, which dropped into negative territory for the first time on June 14, 2016.

The ECB cited the persistently low level of inflation as one of the critical reasons why its expanded monetary policy measures were required. Inflation for June 2016 stood at 0.1 percent. The factors causing the low rate of inflation included the muted rate of overall global economic growth and, more significantly, the low oil price. Although the price of oil has bounced back from its rock-bottom levels at the start of the year, the price of US$ 49.7 per barrel of North Sea Brent Crude at the end of June 2016 was down substantially compared with prices in previous years. The core rate of inflation, which excludes energy and food prices, published by the EU's statistical office Eurostat for June 2016 was 0.9 percent.

The ECB is maintaining its policy of strengthening economic growth by transferring liquidity to the eurozone banks, the aim of which is to encourage the banks to commit to a greater level of lending. However, another factor that needs to be taken into account is that the eurozone banks are themselves under an obligation to improve their capital adequacy and liquidity position as a consequence of tighter regulatory requirements following the introduction of Basel III.

Loans to non-banks in the eurozone increased by 3.6 percent between mid-2015 and mid-2016, although this growth was largely attributable to a sharp rise in funding in the form of securities. However, credit facilities extended to the private sector, which are especially important to investing activity, were up by just 0.4 percent in the same period. While there is undoubtedly a great need for credit in southern Europe, but a distinct lack of demand for credit at an acceptable level of risk, demand for lending from German companies is generally weak because of their good cash flow. Consequently, growth in loans to the private sector is muted.

Moreover, companies' stronger demand for credit is in conflict with borrowers' cautious assessment of economic conditions, which in the eurozone are characterized not only by the aforementioned instability but also by uncertainty about the consequences of the Brexit vote.

Uncertainty also stems from the recent developments in Turkey, whose country rating was downgraded by Standard & Poor's (S&P) from BB+ to BB on July 20, 2016.

Given the limited impact on the real economy from the ECB's monetary policy measures, an improvement in structural conditions therefore remains the best possible route by which a range of eurozone countries could escape the high level of indebtedness.

Against a backdrop of challenging market conditions, nearly all the major German banks reported a fall in operating income in the first half of 2016. The allowances for losses on loans and advances recognized by banks were mostly higher than in the first half of 2015. Administrative expenses decreased at the majority of large banks.

3. Financial performance

In the following information on the financial performance of the DZ BANK Group during the reporting period, the impact on earnings from the merger of the two cooperative central institutions pursuant to IFRS 3 has been taken into account, with the line item 'Net income from the merger with WGZ BANK' being recognized in an amount of €363 million. Further explanations are provided in the note on business combinations in the notes to the interim consolidated financial statements.

3.1. Financial performance at a glance

In the opinion of the Board of Managing Directors of DZ BANK, the DZ BANK Group successfully consolidated its position in challenging market conditions influenced primarily by the extremely low level of interest rates during the reporting period.

The year-on-year changes in the key figures that make up the net profit generated by the DZ BANK Group compared with the first half of 2015 were as described below.

Operating income in the DZ BANK Group amounted to €3,133 million (first half of 2015: €3,027 million). This figure comprises net interest income, net fee and commission income, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, net income from insurance business, and other net operating income.

Net interest income (including income from long-term equity investments) in the DZ BANK Group decreased by 1.4 percent year on year to €1,363 million (first half of 2015: €1,383 million).

Net interest income declined at DZ BANK (excluding income from long-term equity investments) by €3 million, at BSH by €72 million, at VR LEASING by €11 million, both at DG HYP and at DZ PRIVATBANK by €7 million, and at TeamBank by €1 million. At DVB, net interest income was up by €33 million.

Income from long-term equity investments in the DZ BANK Group rose by €51 million in the reporting period to €96 million (first half of 2015: €45 million). The increase compared with the first 6 months of last year was largely attributable to a dividend from EURO Kartensysteme GmbH, Frankfurt am Main, (EKS) amounting to €62 million, EKS having benefited from income generated from the disposal of MasterCard shares.

Allowances for losses on loans and advances in the DZ BANK Group amounted to €219 million in the first half of 2016 (first half of 2015: €41 million).

The specific loan loss allowances recognized for the DZ BANK Group came to a net addition of €80 million (first half of 2015: net addition of €64 million). Under portfolio loan loss allowances for the group, there was a net addition amounting to €97 million (first half of 2015: net reversal of €13 million).

Further detailed disclosures regarding the risk situation in the DZ BANK Group can be found in this interim group management report in chapter V. (Opportunity and risk report).

Net fee and commission income in the DZ BANK Group decreased by 0.5 percent to €822 million (first half of 2015: €826 million). DZ BANK's net fee and commission income advanced by €9 million, while DVB's increased by €5 million.

FIG. 2 – INCOME STATEMENT

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015	Change (%)
Net interest income[1]	**1,363**	1,383	-1.4
Allowances for losses on loans and advances	**-219**	-41	>100.0
Net fee and commission income[1]	**822**	826	-0.5
Gains and losses on trading activities	**501**	226	>100.0
Gains and losses on investments	**90**	21	>100.0
Other gains and losses on valuation of financial instruments	**-154**	127	>100.0
Net income from insurance business	**461**	405	13.8
Administrative expenses[1]	**-1,703**	-1,702	0.1
Staff expenses	-827	-799	3.5
Other administrative expenses[1,2]	-876	-903	-3.0
Other net operating income	**50**	39	28.2
Net income from the merger with WGZ BANK	**363**	–	–
Profit before taxes	1,574	1,284	22.6
Income taxes	**-416**	-371	12.1
Net profit	**1,158**	913	26.8

1 Amount for the first half of 2015 restated.
2 General and administrative expenses plus depreciation/amortization expense on property, plant and equipment, and investment property, and on other assets.

BSH's net fee and commission income was up by €11 million. At UMH and TeamBank, net fee and commission income declined by €29 million and €2 million respectively.

The DZ BANK Group's **gains and losses on trading activities** came to a net gain of €501 million compared with a net gain of €226 million in the first half of 2015.

This was largely attributable to the gains and losses on trading activities at DZ BANK amounting to a net gain of €484 million (first half of 2015: €214 million).

Gains and losses on investments in the DZ BANK Group rose by €69 million to a net gain of €90 million (first half of 2015: net gain of €21 million).

This year-on-year change was primarily attributable to the significant impact on gains and losses on investments in the reporting period resulting from a gain of €98 million from the disposal of DZ BANK's long-term equity investment in VISA Europe Ltd., London.

Other reasons for the year-on-year change in gains and losses on investments were the factors described in the details for the DG HYP and DVB operating segments.

Other gains and losses on valuation of financial instruments in the DZ BANK Group amounted to a loss of €154 million in the reporting period (first half of 2015: gain of €127 million).

Of the figure reported for the DZ BANK Group for the first half of 2016, a loss of €182 million (first half of 2015: gain of €77 million) was accounted for by DG HYP and a gain of €18 million (first half of 2015: gain of €42 million) by DVB.

The DZ BANK Group's **net income from insurance business** comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, and insurance business operating expenses.

Net income from insurance business grew by €56 million to €461 million in the first 6 months of 2016 (first half of 2015: €405 million). A rise in insurance benefit payments and in insurance business operating expenses was more than offset by a significantly higher increase in premium income and in the gains recognized under gains and losses on investments held by insurance companies and other insurance company gains and losses.

Administrative expenses amounted to €1,703 million (first half of 2015: €1,702 million), including staff expenses of €827 million (first half of 2015: €799 million) and other administrative expenses of €876 million (first half of 2015: €903 million).

In the interim group management report for the first half of 2015, the annual contributions to the resolution fund were shown in a separate line item on the income statement both at group level and at operating segment level. However, in this interim group management report, these contributions are reported under administrative expenses for both the reporting period and the prior-year period. The group's and the operating segments' administrative expenses in the first half of 2015 have been restated accordingly.

In the first half of 2016, the DZ BANK Group contributed €57 million to the resolution fund (first half of 2015: €143 million).

Excluding the aforementioned contributions to the resolution fund, administrative expenses in the group rose by €87 million (5.6 percent) year on year to €1,646 million (first half of 2015: €1,559 million), including an increase in staff expenses of €28 million (3.5 percent) to €827 million (first half of 2015: €799 million) and an increase in other administrative expenses of €59 million (7.8 percent) to €819 million (first half of 2015: €760 million).

The DZ BANK Group's **other net operating income** came to €50 million (first half of 2015: €39 million).

The main reasons for the change in other net operating income compared with the first half of 2015 were the factors described in the details for the DZ BANK, DZ PRIVATBANK, UMH, and VR LEASING operating segments.

Net income from the merger with WGZ BANK, which totaled €363 million in the reporting period, included staff expenses of €117 million in connection with the recognition of restructuring provisions, general and administrative expenses of €22 million for the transaction and preparation of the migration, income of €343 million from the elimination of business relationships that existed before the merger, and income of €159 million from the recognition in profit or loss of the negative goodwill.

Profit before taxes for the first 6 months of the year came to €1,574 million compared with €1,284 million in the first half of 2015.

The DZ BANK Group's **cost/income ratio** (i.e. the ratio of administrative expenses to total operating income) for the reporting period came to 54.4 percent (first half of 2015: 56.2 percent).

The DZ BANK Group's **income taxes** amounted to €416 million in the first half of 2016 (first half of 2015: €371 million).

Net profit for the first half of 2016 stood at €1,158 million compared with €913 million in the first half of 2015.

3.2. Financial performance in detail

Figure 3 shows the details of the financial performance of the DZ BANK Group's operating segments in the first half of this year compared with the corresponding period of 2015.

3.2.1. DZ BANK

Net operating interest income (excluding income from long-term equity investments) at DZ BANK decreased by €3 million to €205 million (first half of 2015: €208 million).

With the net interest margin contribution in corporate banking up by €4 million to €135 million compared with the first half of 2015, the net interest margin contribution from cooperative financial network finance and from group finance fell by €8 million to €57 million. The net interest income from money market business declined by €4 million, mainly because negative interest rates were not passed on to the cooperative financial network during the reporting period. By contrast, net interest income from hedges in lending and capital markets business went up by €6 million.

In the detailed descriptions, the financial performance of the strategic business lines is presented on the basis of the net income values used by financial planning and control for business management purposes.

At DZ BANK, the Corporate Banking strategic business line has four regional corporate customer divisions that focus on corporate banking in Germany. Business with German corporate customers and foreign customers with links to Germany is also supported by the Structured Finance division. On the basis of the cooperative financial network's subsidiarity principle, corporate customers are looked after by the local cooperative banks according to their needs, either in partnership with DZ BANK or directly by DZ BANK.

The net interest margin contribution in the Corporate Banking strategic business line increased by 2.7 percent to €134.9 million in the first half of 2016 (first half of 2015: €131.4 million). Two of the reasons for this rise were the tried-and-tested division of responsibilities within the cooperative financial network and the greater inclination to invest among German small and medium-sized enterprises (SMEs) in the first 6 months of 2016.

The results of DZ BANK's latest SME survey show that they are more willing to invest than ever before, whether using borrowed funds or their own equity. As a long-term partner, DZ BANK was able to provide sustained assistance. Overall, SMEs are crisis-resistant and, thanks to their solid levels of capital and liquidity, well equipped for the future. DZ BANK's close relationship with SMEs enabled it to further increase its lending volume in Germany and, at the same time, stabilize its margins in this fiercely contested business.

However, even SMEs are affected by the uncertain economic conditions in the eurozone – particularly those created by the vote for Brexit. Moreover, an economic slowdown in some emerging markets, particularly China, is also having an adverse impact.

The main year-on-year changes in the net interest margin contribution from each of the product fields in the Structured Finance division are described below.

FIG. 3 – SEGMENT INFORMATION

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2016

€ million	DZ BANK	BSH	DG HYP
Net interest income	536	398	147
Allowances for losses on loans and advances	-93	-3	4
Net fee and commission income	151	-33	17
Gains and losses on trading activities	484	–	5
Gains and losses on investments	98	2	-1
Other gains and losses on valuation of financial instruments	4	–	-182
Premiums earned	–	–	–
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–
Insurance benefit payments	–	–	–
Insurance business operating expenses	–	–	–
Administrative expenses	-600	-229	-73
Other net operating income/expense	22	16	7
Net income from the merger with WGZ BANK	-139	–	–
Profit/loss before taxes	**463**	**151**	**-76**
Cost/income ratio (%)	46.3	59.8	>100.0
Regulatory RORAC (%)	–	32.5	-13.4
Total assets/total equity and liabilities as at Jun. 30, 2016	289,495	62,712	45,493

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2015

€ million	DZ BANK	BSH	DG HYP
Net interest income[1]	479	470	154
Allowances for losses on loans and advances	26	-12	34
Net fee and commission income[1]	142	-44	13
Gains and losses on trading activities	214	–	-17
Gains and losses on investments	6	5	-33
Other gains and losses on valuation of financial instruments	16	–	77
Premiums earned	–	–	–
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–
Insurance benefit payments	–	–	–
Insurance business operating expenses	–	–	–
Administrative expenses[1]	-630	-226	-77
Other net operating income/expense	13	18	5
Profit/loss before taxes	**266**	**211**	**156**
Cost/income ratio (%)	72.4	50.3	38.7
Regulatory RORAC (%)	7.6	52.5	27.3
Total assets/total equity and liabilities as at Dec. 31, 2015	216,452	61,217	46,926

1 Amount restated.

In the development lending/agribusiness product field, new development lending business expanded significantly in the first half of 2016. The significance of private house-building business to the

DVB	DZ PRIVAT-BANK	R+V	TeamBank	UMH	VR LEASING	Other/ Consolidation	**Total**
129	70	–	204	4	74	-199	1,363
-83	–	–	-32	–	-3	-9	-219
57	57	–	1	602	13	-43	822
-1	4	–	–	–	–	9	501
-6	1	–	–	–	-2	-2	90
18	1	–	–	-3	–	8	-154
–	–	7,149	–	–	–	–	7,149
–	–	2,050	–	–	–	-50	2,000
–	–	-7,495	–	–	–	–	-7,495
–	–	-1,269	–	–	–	76	-1,193
-104	-114	–	-97	-358	-80	-48	-1,703
5	-29	-5	4	12	14	4	50
–	–	–	–	–	–	502	363
15	**-10**	**430**	**80**	**257**	**16**	**248**	**1,574**
51.5	>100.0	–	46.4	58.2	80.8	–	54.4
4.8	-6.4	20.5	40.2	>100.0	10.1	–	–
26,438	17,785	95,121	7,079	1,682	4,735	-29,186	521,354

DVB	DZ PRIVAT-BANK	R+V	TeamBank	UMH	VR LEASING	Other/ Consolidation	**Total**
96	77	–	205	7	85	-190	1,383
-40	–	–	-42	–	-4	-3	-41
52	57	–	3	631	12	-40	826
8	15	–	–	–	–	6	226
38	–	–	–	–	1	4	21
42	4	–	–	4	-2	-14	127
–	–	6,981	–	–	–	–	6,981
–	–	1,976	–	–	–	-32	1,944
–	–	-7,400	–	–	–	–	-7,400
–	–	-1,196	–	–	–	76	-1,120
-103	-111	–	-101	-327	-81	-46	-1,702
-19	-5	-5	3	25	2	2	39
74	**37**	**356**	**68**	**340**	**13**	**-237**	**1,284**
47.5	75.0	–	47.9	49.0	82.7	–	56.2
29.2	22.0	27.7	34.7	>100.0	8.1	–	23.9
26,549	17,496	90,280	6,866	2,072	4,909	-64,426	408,341

portfolio continued to increase, whereas traditional investment finance for SMEs decreased. Commercial environmental finance remained stable.

Despite the fall in margins in the development lending business, the net interest margin contribution in this product field, which amounted to €25.3 million, was almost the same (decline of 0.1 percent) as in the corresponding prior-year period (first half of 2015: €25.4 million).

In the syndicated business/renewable energies product field, the net interest margin contribution advanced by 3.6 percent to €10.2 million in the first half of 2016 (first half of 2015: €9.9 million). Despite growing competition, there was an increase in renewable energies business during the reporting period, particularly the funding of wind turbines.

In the acquisition finance product field, debt finance is arranged and structured to support the acquisition of large and medium-sized companies, primarily in the German-speaking countries. Large numbers of customers made use of the high degree of liquidity in lending and bond markets to redeem their loans. This, in combination with a selective approach to the granting of new loans, led to contraction of the portfolio and a 7.3 percent year-on-year reduction in the net interest margin contribution to €11.1 million (first half of 2015: €12.0 million).

The emphasis in the international trade and export finance product field is very much on providing support for German large and medium-sized corporate customers involved in international business. The net interest margin contribution rose from €16.3 million in the first half of 2015 to €17.5 million in the reporting period, an increase of 7.4 percent.

Overall, there was encouraging growth in the project finance field during the period under review, with the net interest margin contribution advancing by 4.5 percent to €12.2 million (first half of 2015: €11.7 million).

The asset securitization product field comprises structured investments and receivables financing for a defined selection of asset types. This gives unlisted companies access to the capital markets and to finance based on their portfolio of receivables. The liquidity costs in the asset securitization product field for the provision of the backup lines in connection with the financing made available by the conduit came to €2.4 million in the period under review, which was slightly above the equivalent figure in the first half of 2015 of €2.0 million.

Allowances for losses on loans and advances amounted to a net addition of €93 million (first half of 2015: net reversal of €26 million), including a net reversal of specific loan loss allowances of €31 million (first half of 2015: net reversal of €26 million) and a net addition to portfolio loan loss allowances of €81 million (first half of 2015: net addition of €8 million).

Net fee and commission income rose by 6.3 percent to €151 million (first half of 2015: €142 million).

The Corporate Banking strategic business line saw its service contribution go down by 6.7 percent to €75.6 million in the first half of 2016 (first half of 2015: €81.0 million).

The main year-on-year changes in the service contribution from each of the product fields in the Structured Finance division are described below.

In the syndicated business/renewable energies product field, the service contribution of €2.0 million in the first half of 2016 was down by 11.0 percent compared with the figure of €2.2 million reported for the first 6 months of the previous year.

Much fiercer competition characterized the acquisition finance product field during the reporting period. The German and foreign banks in the markets were joined by a significant number of debt funds. Consequently, the service contribution contracted by 45.2 percent to €3.5 million (first half of 2015: €6.4 million).

In the international trade and export finance product field, the service contribution for the reporting period remained unchanged year on year at €6.1 million despite increased competition (first half of 2015: €6.1 million).

There was strong growth in the service contribution from the international documentary business product field (letters of credit, guarantees, collections), which climbed by 8.0 percent to €6.9 million (first half of

2015: €6.4 million) primarily due to an increase in guarantees.

In the project finance product field, the service contribution was up slightly, rising by 0.9 percent to €5.8 million (first half of 2015: €5.7 million).

The asset securitization product field's service contribution of €25.9 million in the first half of this year was 17.7 percent lower than the figure of €31.5 million in the corresponding prior-year period, which had been boosted by one-off items (currency gains, early payments).

In the Capital Markets Institutional Clients and Capital Markets Retail Clients divisions, the comprehensive range of advisory, structuring, and placement services available in relation to investment, capital, and mezzanine products again proved popular with customers of the cooperative banks and direct customers of DZ BANK in the first half of 2016, and customers drew on these services frequently.

DZ BANK managed to prevail against German and international competitors, despite the market remaining fiercely contested. The successfully implemented transactions and the satisfaction of customers are testimony to a high level of product expertise and effectiveness in a constantly changing market environment. The cooperative banks and direct customers value the transaction security offered by DZ BANK in connection with the execution of capital and mezzanine transactions.

The service contribution generated by the Operations/Services division in the first half of 2016 was also significantly higher than the equivalent figure reported for the prior-year period as a result of a rise in the income from securities custody business.

Gains and losses on trading activities climbed by €270 million to a gain of €484 million (first half of 2015: gain of €214 million).

Trends in capital markets in the 6 months under review were shaped by the ECB's decision in spring 2016 to increase the volume and extend the duration of its program of quantitative easing while, at the same time, lowering the benchmark rate and the negative interest rate for central bank deposits. Financial markets were also affected during the reporting period by uncertainty surrounding the timing and extent of a rise in US interest rates in 2016. Another negative influence was the uncertainty about the outcome of the referendum on Brexit. The regulatory environment also impacted on the markets and market players, which again had to cope with the demanding requirements imposed by the banking regulator in the first half of 2016.

Nonetheless, DZ BANK's contribution from trading income improved during the reporting period.

The products and services of DZ BANK's customer-oriented capital markets business are geared to the needs of cooperative banks, specialized service providers within the cooperative sector, and their retail and corporate customers.

In addition, DZ BANK has business relationships with direct corporate customers and institutional customers in Germany and abroad. The portfolio comprises competitively priced investment and risk management products involving the asset classes of interest rates, equities, loans, and foreign exchange. These products are complemented by a broad range of advisory and research services, structuring expertise, and platforms.

Against the current backdrop of zero, and even negative, interest rates, German retail investors' top priorities are safety and intelligent investment solutions. Catering to this customer need, DZ BANK works closely with the local cooperative banks and has managed to further significantly strengthen its position in the German derivatives market since the third quarter of 2015. Measured in terms of the market volume invested in structured securities, DZ BANK impressively underlined its market leadership with a market share of 16.5 percent at the end of June 2016, a slight improvement of 0.2 percentage points compared with its market share at the end of the first quarter. DZ BANK continued to step up its activities in relation to selling exchange-traded derivative securities products during the reporting period, enabling it to significantly increase its market share from an average calculated for 2015 of 9.2 percent to an average calculated for the reporting period of 11.6 percent. Furthermore, efforts to continuously and effectively optimize securities processes in retail banking were recognized by renowned experts when DZ BANK received the Best Process Award 2016.

In order to stabilize their financial performance over the long term, the cooperative banks acquired investments with residual maturities of more than 5 years as part of their own-account investing activities. Creditrating-linked products such as corporate bonds and simply structured credit products saw increased demand. The cooperative banks also aimed for broad diversification in their securities portfolios, particularly with regard to investments in equities and foreign currencies. To this end, they increasingly invested in fund products from the Union Investment Group.

In addition, the cooperative banks focused on managing their liquidity coverage ratio (LCR) in accordance with their needs. By running various advisory and product initiatives, DZ BANK supported the cooperative banks' efforts to establish the level of high-quality liquid assets stipulated by the regulator while optimizing returns.

In the capital markets business with institutional customers, many transactions involving interest-rate structures were implemented, particularly private placements with insurance companies and pension schemes. Similarly, asset managers benefited from an upturn in DZ BANK's new issues business. Increased volatility in the market for derivative equity products pushed up demand for tailored investment and hedging products. DZ BANK maintained its leading market position in the trading of interest-rate derivatives and structured products.

In corporate customer securities business, there was less demand for commercial paper and bond issues from institutional investors in view of the negative interestrate environment and reduced yields. However, they increasingly turned to interest-rate hedges with long maturities. Another area of focus was tailored interestrate management solutions relating to structured finance and real estate finance.

In currency management, the continued weakness of the euro and a decline in market volatility during the first half of 2016 resulted in reduced revenues from corporate and institutional customers.

The cooperative banks' corporate customers used the opportunity presented by historically low interest rates to enter into interest-rate hedges with maturities of 10 to 30 years.

New bond issuance business was characterized by a brisk level of issuing activity following the ECB's decision in early March 2016 to expand its extensive bond buying program. Another reason was that some issues were brought forward due to the expectation that markets would be nervous in the run-up to the Brexit vote. Moreover, supranational, sovereign, and agency (SSA) issuers increasingly opted for maturities of more than 10 years. A particular focus was the corporate bond subsegment, which made the biggest gains in terms of spread performance and issuance activity thanks to their inclusion (provided they met the eligibility requirements) in the ECB's bond buying program.

Under liabilities recognized at fair value, there was a gain of €116 million in the first 6 months of 2016.

Further factors influencing the gains and losses on trading activities included interest-rate-related changes in the fair value of cross-currency basis swaps used to hedge currency risk amounting to a gain of €11 million (first half of 2015: gain of €28 million).

Also during the reporting period, the successful completion of the mediation proceedings in the legal dispute with Lehman Brothers International Europe resulted in a gain of approximately €50 million on the reversal of provisions to cover the cost of legal proceedings and attorneys.

Gains and losses on investments amounted to a gain of €98 million (first half of 2015: gain of €6 million).

One of the main influences on this figure in the 6 months under review was a gain of €98 million on the disposal of DZ BANK's long-term equity investment in VISA Europe Ltd., London, which was offset by a disposal recognized in the revaluation reserve of €90 million.

Administrative expenses amounted to €600 million (first half of 2015: €630 million). As in the prior-year period, the figure for the first half of this year included the full annual contribution to the resolution fund, which was recognized at €29 million in the reporting period and at €100 million in the first half of 2015.

Excluding the aforementioned contributions to the resolution fund, administrative expenses rose by €41 million year on year to €571 million (first half of 2015: €530 million), including an increase in staff expenses of €15 million to €277 million (first half of 2015: €262 million) and an increase in other administrative expenses of €26 million to €294 million (first half of 2015: €268 million).

The growth in staff expenses during the reporting period was caused by a rise in the number of employees and by salary increases. Other administrative expenses largely went up due to an increase in project expenses.

Other net operating income for the first 6 months of 2016, which totaled €22 million (first half of 2015: €13 million), largely comprised income from the reversal of provisions – as had been the case in the prior-year period.

Net income from the merger with WGZ BANK, which amounted to a net expense of €139 million in the reporting period, included staff expenses of €117 million in connection with the recognition of restructuring provisions and general and administrative expenses of €22 million for the transaction and preparation of the migration.

Profit before taxes for the period under review amounted to €463 million. This substantial rise of €197 million compared with the figure of €266 million reported for the first half of 2015 was mainly a consequence of the changes described above.

DZ BANK's **cost/income ratio** came to 46.3 percent in the first half of this year (first half of 2015: 72.4 percent).

3.2.2. BSH

Net interest income in the BSH subgroup came to €398 million, which was down by 15.3 percent on the €470 million reported for the first half of 2015.

The continued fall in the investment interest rate since the start of the year was only partly offset by the overall increase in the volume of the portfolio resulting from the high level of new business over the past few years. Gains and losses on investments in joint ventures and associates accounted for using the equity method declined by €25 million to a net loss of €9 million (first half of 2015: net gain of €16 million), predominantly due to an impairment loss of €23 million recognized on the carrying amount, calculated in accordance with the IFRS equity method, of Bausparkasse Schwäbisch Hall's Chinese long-term equity investment.

The brisk demand for advance and interim financing enabled BSH to strengthen its interest income base in the non-collective home finance business despite a reduction in average interest rates. However, the interest income generated by home savings loans business declined because of a reduction in the size of the portfolio on the back of falling average interest rates. Furthermore, the low level of interest rates meant that the contribution to income from available funds decreased even though the volume invested was larger.

Accompanied by a higher interest cost, the volume of home savings deposits at BSH grew by €1.5 billion to reach €52.5 billion (December 31, 2015: €51.0 billion). The growth in home savings deposits reflects customers' appreciation of the financing function of home savings, which rewards building society customers' efforts to save by helping them to buy their own home and offers them a reliable basis for calculating their finances in times of volatile financial markets.

In the period under review, the sustained market success of the innovative Schwäbisch Hall rates and charges once again confirmed BSH as the market leader in building society operations.

Allowances for losses on loans and advances decreased by €9 million to €3 million (first half of 2015: €12 million), mainly as a result of stable economic conditions in Germany.

The BSH subgroup's **net fee and commission income** improved by €11 million to a net expense of €33 million (first half of 2015: net expense of €44 million).

BSH pays fees and commissions to the cooperative banks and to the integrated, bank-supported field sales force on the basis of BSH contracts signed with customers. The reasons for the improvement in net fee and commission income in the first 6 months of 2016 were the contraction in the volume of new business and the associated reduction in fee and commission expense.

In the home savings business, BSH signed approximately 333,000 new home savings contracts, generating an impressive level of new home savings business with a volume of €15.1 billion (down by 13.1 percent on the first half of 2015).

Schwäbisch Hall achieved a new business volume of €5.6 billion in the home finance business, which was €0.4 billion less than the corresponding amount for the first half of 2015 of €6.0 billion. This figure does not include home savings loan contracts and bridging loans from BSH or other referrals totaling €0.9 billion (first half of 2015: €1.1 billion). If the latter is included, the total volume of new home finance business came to €6.5 billion, a year-on-year decrease of 7.5 percent (first half of 2015: €7.1 billion).

Home savings and home finance business benefit from the growing demand for residential real estate in periods of economic stability. The growing trend toward urbanization that can be observed in the housing market is accompanied by a fall in household sizes resulting from an increase in the number of people living alone that, in turn, is caused by demographic change. Nevertheless, the marked growth in housebuilding over the past few years is not sufficient to meet the higher demand for housing, especially in cities.

Building society operations offer substantial potential for the future, particularly as there are many existing homes in need of extensive modernization.

Given the considerable scope for energy savings in the housing stock, some 7 million homeowners in Germany plan to modernize their homes in the next few years. According to a study by the Forschungsinstitut für Wärmeschutz e. V. München, Gräfelfing, (FIW) [Institute for Research into Heat Insulation], two-thirds of the 18.1 million residential buildings are in need of an energy-efficiency upgrade.

Accessible housing is also likely to gain in importance, not least because only 5 percent or so of the approximately 11 million households made up of older people are in a property with some degree of accessibility. At the start of 2014, legislation was introduced to extend the scope of the Riester subsidy to include homes that are accessible to the elderly. Schwäbisch Hall's related Fuchs 03 rates and charges, which offer innovative product variants geared to specific customer needs, continued to enjoy a high level of interest among customers during the reporting period. Overall, more than 41,000 new contracts were signed with BSH for its Fuchs WohnRente product in the first half of 2016.

By cross-selling supplementary pension products, BSH field sales staff once again sold a large volume of cooperative bank pension products, Union Investment Group investment funds, and R+V insurance policies.

The increase in **administrative expenses** in the BSH subgroup, which grew by €3 million to €229 million (first half of 2015: €226 million), was largely attributable to slightly higher additions to personnel provisions.

Profit before taxes for the period under review amounted to €151 million (first half of 2015: €211 million), mainly because of the changes described above.

The **cost/income ratio** in the period under review came to 59.8 percent (first half of 2015: 50.3 percent).

Regulatory RORAC was 32.5 percent (first half of 2015: 52.5 percent).

3.2.3. DG HYP

The **net interest income** at DG HYP of €147 million was down by 4.5 percent compared with the figure of €154 million for the first half of 2015.

This decrease was largely attributable to the prior-year figure being boosted by significantly higher early redemption payments (first half of 2016: €15.3 million; first half of 2015: €29.2 million).

In the first half of 2016, the German real estate market was characterized by sustained high demand for commercial properties on the one hand and an increasing shortage of supply on the other. Against this background, the volume of transactions involving commercial real estate (excluding residential property) came to €18.0 billion in the first 6 months of 2016 (first half of 2015: €24.0 billion). Impressive nonetheless, this volume of transactions is mainly attributable to the stable economic environment in Germany and a wide gap between the yields achievable on commercial real estate and those achievable on bonds, even though prime yields from commercial real estate transactions continued to fall in the reporting period.

The consequences of a shortage of supply were even more noticeable in the investment market for residential real estate. The volume of transactions in the reporting period came to €4.4 billion, compared with €17.5 billion in the prior-year period, although this figure had also been influenced by large-scale mergers.

The fierce competition for coveted core real estate in popular prime locations that goes hand in hand with persistently high demand caused investors to take a closer interest in regional locations. Consequently, investments in commercial real estate located in less central areas of major cities and in regional centers with potential for development continued to gain in importance during the first 6 months of 2016.

In this regard, DG HYP's regional roots and tried-and-tested close collaboration with more than 400 partner banks provide an inestimable advantage. The local cooperative banks' extensive market knowledge and strong regional contacts are the ideal complement to the real estate finance know-how of DG HYP.

DG HYP, the specialist provider of commercial real-estate finance in the cooperative financial network, benefits from the traditional diversification in the investment of its funds across various types of commercial property. Moreover, DG HYP's activities are bound by a conservative strategy incorporating a selective procedure that takes account of the relevant investment risk when deciding on the granting of finance.

Continuing to pursue this market strategy in the first 6 months of 2016, DG HYP generated a volume of new business of €3,420 million (first half of 2015: €2,153 million) despite the challenging competitive situation.

Close collaboration with the local cooperative banks paved the way for a small increase in jointly generated new lending business; the volume in the reporting period amounted to €1,128 million (first half of 2015: €972 million).

DG HYP assists the local cooperative banks with public-sector funding inquiries for the benefit of the cooperative financial network. Taking account of borrowers' credit ratings, DG HYP prepares finance offers that the cooperative banks then present to local authorities. In the period under review, DG HYP generated a financing volume of €99 million (first half of 2015: €132 million).

Allowances for losses on loans and advances amounted to a net reversal of €4 million (first half of 2015: net reversal of €34 million), including a net addition to specific loan loss allowances of €1 million (first half of 2015: net reversal of €8 million) and a net reversal of portfolio loan loss allowances of €5 million (first half of 2015: net reversal of €24 million).

Gains and losses on trading activities improved by €22 million year on year to a net gain of €5 million (first half of 2015: net loss of €17 million) as a result of market conditions. The change was attributable to movement in both the euro/pound sterling and the euro/US dollar exchange rates.

Gains and losses on investments amounted to a net loss of €1 million (first half of 2015: net loss of €33 million) and included a reversal of impairment losses of €5 million (first half of 2015: €0 million) relating to latent risk from loan securitizations, which was offset by the recognition of impairment losses on mortgage-backed securities (MBSs) of €7 million (first half of 2015: €10 million). The figure for the first half of 2015 had included, in particular, an impairment loss equating to 50 percent of a bond of HETA Asset Resolution AG, Klagenfurt, (formerly Hypo Alpe Adria) in an amount of €25 million.

Other gains and losses on valuation of financial instruments amounting to a net loss of €182 million (first half of 2015: net gain of €77 million) reflected the widening of credit spreads on bonds from the peripheral countries of the eurozone compared with a narrowing of these credit spreads in the first half of last year.

Administrative expenses fell by €4 million, from €77 million in the first half of 2015 to €73 million in the reporting period. This decrease was primarily attributable to the 2016 contribution to the resolution fund of €15 million recognized in the reporting period on the basis of a finalized notification, whereas the prior-year period had included a preliminary contribution for 2015 of €25 million.

The **loss before taxes** was €76 million in the reporting period, a substantial decline of €232 million on the profit of €156 million generated in the first half of 2015. The primary reason behind this decrease was the negative change in other gains and losses on valuation of financial instruments as a consequence of the factors described above.

DG HYP's **cost/income ratio** was greater than 100.0 percent in the first half of this year (first half of 2015: 38.7 percent).

Regulatory RORAC was minus 13.4 percent (first half of 2015: 27.3 percent).

3.2.4. DVB

The DVB subgroup's **net interest income** increased by 34.4 percent to €129 million (first half of 2015: €96 million).

The net operating interest income of €125 million was up by €32 million year on year (first half of 2015: €93 million), largely because of lower interest expense on debt certificates issued including bonds and on operating leases. It was also influenced by currency effects.

In addition, net interest income continued to be adversely affected by significant pressure on interest margins as a consequence of the global increase in financing competition in the transport markets.

At €4 million, income from long-term equity investments was virtually unchanged on the amount for the first 6 months of 2015 of €3 million.

During the first half of 2016, global freight and passenger transport in all areas of the transport sector was influenced by a muted economic improvement in the eurozone, moderate growth in the US economy, and a slowdown of economic expansion in emerging markets, particularly China. Furthermore, the international transport industry continued to suffer from overcapacity, particularly within individual market segments covering international maritime shipping. Offshore markets were depressed by persistently low oil prices during the reporting period.

DVB's business model proved resilient in these challenging economic conditions thanks, in particular, to a discerning approach to new business and strict risk management.

Using a highly diversified credit portfolio (based on a number of criteria, including mode of transport, region, and user), the DVB subgroup concluded 63 deals in transport finance business in the reporting period (first half of 2015: 100 deals) with a new business volume of €2.8 billion (first half of 2015: €3.6 billion).

The year-on-year increase in **allowances for losses on loans and advances** of €43 million to €83 million (first half of 2015: €40 million) largely related to the shipping finance business, in which the net addition to allowances for losses on loans and advances rose by €26 million to €54 million (first half of 2015: €28 million), and the offshore finance business, in which the net addition was up by €14 million to €17 million (first half of 2015: €3 million).

Net fee and commission income advanced by 9.6 percent to €57 million (first half of 2015: €52 million).

This change comprised an increase of €3 million in fee and commission income from new transport finance to €32 million compared with the first half of 2015, a rise of €2 million in fee and commission income from ongoing lending to €11 million, an advance of €1 million in fee and commission income from consulting to €9 million, and a drop of €1 million in fee and commission income from asset management to €5 million.

Within the transport finance business in the DVB subgroup, the core areas of lending – shipping finance, aviation finance, offshore finance, and land transport finance – were influenced in the reporting period by a stable, albeit muted, global economy and the associated impact on international freight and passenger transport markets.

Gains and losses on trading activities declined by €9 million to a net loss of €1 million (first half of 2015: net gain of €8 million), largely due to the change in the US dollar/euro exchange rate.

Gains and losses on investments fell by €44 million to a net loss of €6 million (first half of 2015: net gain of €38 million). This reduction was mainly a reflection of the fact that the figure for the prior-year period had included a gain of €47 million on the disposal of some of DVB's shares in Wizz Air Holdings Plc.

The drop in **other gains and losses on valuation of financial instruments** of €24 million to a net gain of €18 million (first half of 2015: net gain of €42 million) was primarily attributable to a negative year-on-year change of €25 million in gains and losses on valuation of non-derivative financial instruments using the fair-value option and a simultaneous positive change of €10 million in gains and losses on derivatives used for purposes other than trading. The latter improvement was the result of a €17 million increase in measurement gains on cross-currency swaps, which amounted to €34 million (first half of 2015: €17 million).

The **administrative expenses** of €104 million were on a par with the first half of 2015 (€103 million). Whereas staff expenses rose by €3 million to €55 million, other administrative expenses went down by €2 million to €49 million because the contribution to the resolution fund was €3 million less than the amount recognized in the first half of 2015 (first half of 2016: €7 million; first half of 2015: €10 million).

Other net operating income for the first 6 months of 2016 amounted to €5 million (first half of 2015: net expense of €19 million). The prior-year figure had included an impairment loss of €28 million on the goodwill of the DVB subgroup.

Profit before taxes for the period under review amounted to €15 million. This substantial decrease of €59 million compared with the figure of €74 million reported for the first half of 2015 was mainly a consequence of the changes described above.

The **cost/income ratio** in the reporting period came to 51.5 percent (first half of 2015: 47.5 percent).

Regulatory RORAC was 4.8 percent (first half of 2015: 29.2 percent).

3.2.5. DZ PRIVATBANK

Net interest income at DZ PRIVATBANK contracted by 9.1 percent year on year to €70 million (first half of 2015: €77 million).

The main reasons behind this decline in net interest income were the further fall in interest rates, the ongoing implementation of a risk-conscious investment strategy, and a decrease in the contribution to income from the LuxCredit foreign-currency lending business.

DZ PRIVATBANK acts as the competence center for foreign-currency lending and borrowing in the interest-earning business. The average volume of guaranteed LuxCredit loans was €5.0 billion during the reporting period, which was lower than in the first 6 months of 2015 (€5.7 billion).

Net interest income for the first half of the previous year had been influenced by a favorable situation for funding denominated in Swiss francs and by a positive impact from financial instruments denominated in Swiss francs resulting from exchange rate movements.

At €57 million, **net fee and commission income** was on a par with the first half of 2015 (€57 million).

The year-on-year decrease in the average volume of guaranteed LuxCredit loans led to a lower expense from sales commission in the LuxCredit business compared with the first half of 2015. The related improvement in income was offset by a lower contribution to income from private banking and an unchanged contribution to income in the fund services business.

The value of funds under management had fallen to €96.5 billion as at June 30, 2016, €1.4 billion less than at December 31, 2015. The number of fund-related mandates at the end of the reporting period was 603 (December 31, 2015: 604).

At the end of the first half of 2016, the funds managed on behalf of high-net-worth individuals had increased to a total of €16.4 billion (December 31, 2015: €15.6 billion).

Gains and losses on trading activities were down by €11 million to a net gain of €4 million (first half of 2015: net gain of €15 million), largely because the gains and losses on exchange differences in the prior-year period had been boosted by an increase in the volume of customer-initiated transactions following the Swiss National Bank's unpegging of the Swiss franc exchange rate.

The growth in **administrative expenses** of €3 million to €114 million during the reporting period (first half of 2015: €111 million) was caused by staff expenses decreasing slightly (by €2 million) to €66 million and other administrative expenses rising by €5 million to €48 million. The latter change was due, above all, to the increased contributions resulting from regulatory requirements.

Other net operating income amounted to a net expense of €29 million (first half of 2015: net expense of €5 million) and included further additions to provisions of €18 million in connection with retail banking risks, expenses of €5 million for the recognition of provisions relating to the merger of Europäische Genossenschaftsbank S.A. into DZ PRIVATBANK S.A. and the closure of DZ PRIVATBANK Singapore Ltd., and an amortization expense of €8 million in respect of acquired customer relationships.

Against the background of the factors explained above, the **loss before taxes** came to €10 million (first half of 2015: profit before taxes of €37 million).

DZ PRIVATBANK's **cost/income ratio** was greater than 100.0 percent in the first half of this year (first half of 2015: 75.0 percent).

Regulatory RORAC was minus 6.4 percent (first half of 2015: 22.0 percent).

3.2.6. R+V

Premiums earned rose by 2.4 percent to €7,149 million (first half of 2015: €6,981 million), exceeding the impressive level of premiums earned in the first half of 2015.

Premium income in the life insurance and health insurance business of R+V decreased by a total of 1.2 percent.

In the life insurance business, premium income was down by 1.9 percent. The decline in premiums from pV Klassisch, IndexInvest Vorsorge, and pV Fonds was only partly offset by increased premiums in the bAV business.

By contrast, R+V Krankenversicherung AG, Wiesbaden, was able to increase its premium income from health insurance by 8.5 percent, largely due to the encouraging uptrend in regular and one-off premiums.

Premium income from non-life insurance advanced by 5.2 percent. This growth was predominantly generated from vehicle insurance and from corporate customers.

In the first 6 months of 2016, there was also a year-on-year rise of 10.2 percent in premiums earned (net) from inward reinsurance, driven mainly by the vehicle insurance sectors and the fire and non-life insurance sectors.

Gains and losses on investments held by insurance companies and other insurance company gains and losses went up by 3.7 percent to a net gain of €2,050 million (first half of 2015: net gain of €1,976 million).

Long-term interest rates fell sharply during the first half of 2016, whereas they had risen in the corresponding prior-year period. Equity markets relevant to R+V did not do as well over the course of the reporting period as they had in the first half of last year. And exchange rate movements were less favorable to R+V during the first 6 months of this year than in the prior-year period.

Overall, these trends resulted in lower net foreign exchange gains, which were partly offset by higher realized and unrealized gains.

Owing to the countervailing effects from the recognition of provisions for premium refunds (particularly in the life insurance and health insurance business) and claims by policyholders in the unit-linked life insurance business in the 'insurance benefit payments' line item presented below, however, the change in the level of gains on investments held by insurance companies only partially affected the level of net income from insurance business before taxes in the reporting period.

Insurance benefit payments increased by 1.3 percent from €7,400 million in the first half of 2015 to €7,495 million in the first 6 months of 2016.

In line with the increase in premium income and higher gains on investments held by insurance companies, higher additions were made to insurance liabilities at companies offering personal insurance. Furthermore, an amount of €101 million was added to the supplementary change-in-discount-rate reserve (first half of 2015: €433 million).

Both in non-life insurance and in inward reinsurance, losses caused by major claims were within expectations for the 6 months under review.

Insurance business operating expenses incurred in the course of ordinary business activities went up by 6.1 percent to €1,269 million (first half of 2015: €1,196 million).

Given the factors described above, **profit before taxes** for the reporting period improved by €74 million to €430 million (first half of 2015: €356 million).

Regulatory RORAC was 20.5 percent (first half of 2015: 27.7 percent).

3.2.7. TeamBank

Net interest income amounted to €204 million (first half of 2015: €205 million).

Payments to the partner banks for sales commissions were reported within this line item for the first time in the reporting period, whereas they had still been included in net fee and commission income in the interim management report for the first half of 2015. The amount of net interest income for the first 6 months of 2015 has been restated accordingly. The transaction cost components of loans and advances to customers, which are categorized as loans and receivables under IAS 39, were restated in accordance with IAS 8.41 et seq. as at June 30, 2016. Sales commissions were remeasured in connection with the measurement of these loans and advances using the effective interest method.

TeamBank is the consumer finance specialist in the cooperative financial network. With consumer demand remaining buoyant in the first half of 2016, it delivered a strong performance in a market that was again dominated by increasingly predatory pricing and cut-throat competition.

Despite this challenging environment, TeamBank succeeded in increasing loans and advances to customers by 3.3 percent to €7,204 million (December 31, 2015: €6,977 million).

This encouraging performance is rooted in the steadfast focus of business activities on TeamBank's unique selling proposition derived from its positioning as an all-round fair lender, reflecting the shared values embodied by all entities in the cooperative financial network. The success of the business model, which is based on sustainability and trust-based partnership, is strikingly demonstrated by the fact that TeamBank now works in collaboration with 850 of Germany's 1,019 local cooperative banks and with 93 partner banks in Austria.

In the reporting period, TeamBank continued to focus on digital transformation with the aim of creating a consistent and integrated customer experience across all touchpoints. The easyCredit app, for example, provides a mobile tool for liquidity management. Already available in the market, it is now going to be enhanced with more functions. Furthermore, social media is becoming increasingly important as a platform for communicating with existing and prospective customers.

Overall, TeamBank had 636,000 customers as at June 30, 2016, an increase of 14,000.

In the first half of 2016, the company continued to strengthen the market presence of its product variants, which have been successfully established as part of its customer business.

As at June 30, 2016, a total of 476 partner banks and around 91,000 customers were using easyCredit-Finanzreserve, which provides customers with a fair finance option that they can access via their credit card.

The popular advisory concept known as 'easyCredit-Liquiditätsberater' has been helping the cooperative idea to gain more prominence. Approximately 74,900 members benefited from advice in the reporting period, of whom around 15,700 were new to the cooperative financial network.

The 'Ratenkauf by easyCredit' installment purchase product, which was launched in 2015, is an easy and convenient way of paying in installments online. An impressive feature of this innovative product is that it can also be integrated into e-commerce merchants' online shops as a partial payments solution.

Allowances for losses on loans and advances amounted to €32 million in the first half of 2016 (first half of 2015: €42 million), primarily because the age structure of outstanding receivables remained favorable and the volume of terminations was again low.

Net fee and commission income amounted to €1 million (first half of 2015: €3 million). Sales commissions, which were previously recognized in net fee and commission income, were included in net interest income for the first time in the reporting period. The amount of net fee and commission income for the first 6 months of 2015 has been restated accordingly.

Administrative expenses totaled €97 million (first half of 2015: €101 million). The reduction was mainly the result of a €4 million decrease in staff expenses following the closure of the easyCredit shops.

Profit before taxes was €80 million, which was up by €12 million on the prior-year period (first half of 2015: €68 million).

TeamBank's **cost/income ratio** in the period under review came to 46.4 percent (first half of 2015: 47.9 percent).

Regulatory RORAC was 40.2 percent (first half of 2015: 34.7 percent).

3.2.8. UMH

Net fee and commission income in the UMH subgroup went down by 4.6 percent to €602 million (first half of 2015: €631 million).

The change in net fee and commission income was predominantly due to the factors described below. Income from transaction fees relating to real estate funds was higher than in the first half of 2015. However, income from performance-related management fees decreased significantly. The contribution to income generated with the average assets under management of the Union Investment Group in the reporting period was virtually unchanged year on year and accounted for 81.8 percent of net fee and commission income in the first 6 months of 2016.

During the reporting period, international capital markets continued to be influenced by the expansionary monetary policies of the central banks, with interest rates at historically low levels. The uncertainty that continued in the first few months of this year about the performance of the global economy in view of low oil prices and the difficult-to-assess extent of China's economic slowdown was replaced over the course of the reporting period by the ECB's monetary-policy decisions, uncertainty about the timing and level of an interest-rate hike by the Fed and, above all, the outcome of the Brexit vote at the end of June. As a result of these concerns, the equity markets were more volatile than in the first 6 months of 2015. The average price level was significantly lower in the reporting period than in the prior-year period.

The net fee and commission income for the first half of 2016 that was generated in this environment was the result of a successful sales partnership with the local cooperative banks that enabled the Union Investment Group to generate net inflows of €4.0 billion from its retail client business.

The tried-and-tested collaboration with partners in the cooperative financial network is becoming all the more important given the particular challenges of a sustained period of low interest rates. In times such as these, a balanced investment strategy requires interest-based investments to be placed on a broader footing, thereby opening up opportunities for adequate returns over the long term.

It was therefore no surprise in this environment that customers showed a preference for the solutions offered by Union Investment aimed at a well-balanced and broadly diversified investment portfolio.

The main focus was on the 6 variants in the PrivatFonds product range, which cater to customers' individual preferences. These multi-asset solutions from Union Investment, which offer a graduated risk profile tailored to the needs of the individual customer that combines active asset allocation with risk elements, attracted net inflows of €1.5 billion, with the overall volume of the portfolio rising by 8.7 percent to €14.2 billion.

The UniAbsoluterErtrag fund, which was launched in 2015 and aims to generate a steady stream of income in all market phases, is also enjoying growing popularity and generated new business amounting to €0.9 billion.

Many retail investors appreciate the advantages of the Union Investment Group's open-ended real estate funds, which invest in tangible assets, as part of a balanced investment portfolio. Offering an attractive risk/return profile, these funds saw net inflows of €1.5 billion in the first 6 months of 2016.

Fund-linked savings plans represent an extremely rewarding type of investment for those looking to accumulate wealth over the long term in periods of volatility in the capital markets. These plans exploit the opportunities presented by attractive markets, skirting the problem of finding the perfect entry timing, and open up the possibility of flexible wealth accumulation. As at June 30, 2016, Union Investment managed almost 1.3 million contracts with a 12-month savings volume of €2.0 billion (December 31, 2015: €1.8 billion).

The Riester products remained a cornerstone of long-term private capital preservation. With UniProfiRente and UniProfiRente Select, the Union Investment Group maintained its leading position in the market for fund-based Riester pension products. Net inflows amounted to €0.7 billion, and there are now 1.8 million Riester investment accounts.

Institutional business accounted for the largest proportion of total net inflows in the first half of 2016 at €6.7 billion. A total of 26 new institutional clients were gained in the reporting period.

In an entrenched environment of low returns, institutional business was focused on risk-controlled and broadly diversified investment solutions in the first half of 2016. Demand was mainly concentrated on high-yield bonds, money market-linked products, structured credits, equity strategies, and real estate investments.

Moreover, many institutional investors are increasingly keen to internationalize their investment strategies in order to capitalize on differences in rates of interest and growth around the globe. Other highly popular products included the Union Investment Group's capital preservation products, which had attracted a total investment volume of €22.1 billion by the end of the period under review.

The leading asset manager for sustainable investment funds, Union Investment managed assets totaling almost €22.1 billion as at June 30, 2016. This reflects the value that institutional investors place on such funds, in which risk management and investment decisions need to take account not only of ethical principles but also overarching trends such as climate change, demographic shifts, and globalization.

The decline in **other gains and losses on valuation of financial instruments** of €7 million to a net loss of €3 million (first half of 2015: net gain of €4 million) was mainly attributable to the higher valuation of guarantee commitments compared to the corresponding prior-year period. Moreover, the positive fair value measurement of own-account investments was lower due to the capital markets not performing as well as they had in the first half of last year.

Administrative expenses advanced by €31 million to €358 million (first half of 2015: €327 million). This included an increase in staff expenses of €11 million to €175 million, which mainly resulted from average salary increases and appointments to new and vacant posts. The rise in other administrative expenses of €20 million to €183 million was mostly accounted for by higher IT costs and increased expenses for public relations/marketing. Depreciation, amortization, and write-downs were also higher than in the first half of 2015.

Other net operating income fell by €13 million to €12 million in the reporting period (first half of 2015: €25 million), primarily due to the figure for the first half of last year including a gain of €13 million stemming from the reversal of a provision that had been recognized for claims by the Entschädigungseinrichtung der Wertpapierhandelsunternehmen (EdW) [Compensatory Fund of Securities Trading Companies].

Profit before taxes went down by €83 million to €257 million (first half of 2015: €340 million), above all due to the changes described above.

The **cost/income ratio** came to 58.2 percent in the first half of this year (first half of 2015: 49.0 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2015: greater than 100.0 percent).

3.2.9. VR LEASING

The VR LEASING subgroup's **net interest income** decreased by 12.9 percent to €74 million (first half of 2015: €85 million).

Net operating interest income (excluding income from long-term equity investments) in Germany fell by €4 million to €70 million (first half of 2015: €74 million), mostly because of the contraction in the real estate leasing, automotive trade, and vehicle fleet businesses, which, together with international business at VR LEASING, have been defined as non-core business and are being scaled back. A major milestone was achieved in this regard when the Hungarian subsidiary Lombard Lízing was sold at the end of April.

The decrease in interest income was also attributable to the continuing low level of interest rates and a further small reduction in the volume of finance leases. In this context, existing leases with higher rates of interest are being progressively replaced by new leases with lower rates of interest.

Net interest income in the international operating business was down by €6 million to €1 million (first half of 2015: €7 million). This contraction was attributable to the sale of the Hungarian subsidiary Lombard Lízing.

The €1 million decrease in income from long-term equity investments to €3 million (first half of 2015: €4 million) was largely caused by a decline in the income from long-term equity investments related to the non-consolidated property companies.

The net interest income trend reflected the entity's ongoing strategic repositioning efforts. VR LEASING's business activities within the cooperative banking sector are geared to the needs of Germany's small and mediumsized enterprises, which have strong regional ties. To this end, VR LEASING offers various innovative products at fair prices that can be easily explained to customers. These products include leasing, factoring, rental, hire purchase, loans, and centralized settlement.

Fast digital processes, from advisory support through to the funding decision, make it possible to service the needs of customers. This ensures the cooperative banks have the best possible support so that they can strengthen their position as a partner to German SMEs and, in particular, unlock additional market potential in the small business and self-employed customer segment.

VR Leasy-Online, a digital application providing advisory support, incorporates integrated, automated decision-making so that decisions on financing up to an amount of €200,000 can be made within minutes. The strong growth of 10.7 percent in new online business in the first half of this year has vindicated this strategy. VR Leasing flexibel, an online product currently being launched that is aimed at lending to businesses, made a significant contribution to this growth. As well as a credit line of up to €50,000, this innovative product includes six additional options for credit facilities that customers can use depending on their needs.

Against an economic backdrop of persistently low interest rates, growing competition, and greater pressure on margins, VR LEASING succeeded in increasing bank commission by 39.1 percent compared with the first half of 2015.

Overall **allowances for losses on loans and advances** decreased by €1 million to €3 million (first half of 2015: €4 million), which included a small increase of €3 million in such allowances in Germany to €8 million (first half of 2015: €5 million) and an improvement of €4 million in such allowances outside Germany to a net reversal of €5 million (first half of 2015: net reversal of €1 million) attributable to the Hungarian subsidiary Lombard Lízing.

Administrative expenses decreased by €1 million to €80 million in the reporting period (first half of 2015: €81 million) as a result of the rigorous continuation of the cost savings program.

Other net operating income rose by €12 million to €14 million in the first half of 2016 (first half of 2015: €2 million), mainly due to effects totaling €8.6 million (first half of 2015: €0.1 million) in relation to Lombard Lízing, which was sold in late April 2016. The figure for the reporting period includes other net operating income of €4.5 million (first half of 2015: €0.1 million) and income of €4.1 million from the deconsolidation of the Hungarian subsidiary Lombard Lízing.

VR LEASING's **profit before taxes** amounted to €16 million (first half of 2015: €13 million), largely as a consequence of the factors described above.

The **cost/income ratio** in the period under review came to 80.8 percent (first half of 2015: 82.7 percent).

Regulatory RORAC was 10.1 percent (first half of 2015: 8.1 percent).

3.2.10. Other/Consolidation

Other/Consolidation comprises the other group companies plus adjustments to reconcile operating segment profit/loss before taxes to consolidated profit/loss before taxes. These adjustments are attributable to the elimination of intragroup and merger-related transactions and to the fact that investments in joint ventures and investments in associates were accounted for using the equity method.

The adjustments to net interest income were primarily the result of the elimination of intragroup dividend payments and profit distributions in connection with intragroup liabilities to dormant partners and were also attributable to the early redemption of issued bonds and commercial paper that had been acquired by entities in the DZ BANK Group other than the issuer.

The figure under Other/Consolidation for net fee and commission income largely relates to the fee and commission business of TeamBank and BSH with R+V.

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

Also included are the income of €159 million from the recognition in profit or loss of the negative goodwill arising on the merger with WGZ BANK and income of €343 million from the elimination of business relationships that existed before the merger.

4. Net assets

The following information on net assets as at the reporting date relate to DZ BANK including WGZ BANK ('DZ BANK') and the DZ BANK Group including the WGZ BANK Group ('DZ BANK Group').

As at June 30, 2016, the DZ BANK Group's **total assets** had increased by €113.0 billion or 27.7 percent to €521.3 billion (December 31, 2015: €408.3 billion). This rise was largely attributable to the changes resulting from the merger of the two cooperative central institutions. In particular, the merger caused DZ BANK's net assets to go up by €73.0 billion. The total assets of the newly included subsidiary WL BANK provided €45.7 billion of the growth in the DZ BANK Group's total assets as at June 30, 2016.

The DZ BANK Group's **loans and advances to banks** rose to €110.0 billion, an increase of €29.3 billion or 36.3 percent. Loans and advances to banks in Germany went up by €23.9 billion to €95.1 billion, while loans and advances to foreign banks increased by €5.4 billion to €14.9 billion.

The DZ BANK Group's **loans and advances to customers** rose to €173.1 billion, an increase of €46.3 billion or 36.5 percent. Besides the additional loans and advances to customers from WL BANK of €33.4 billion, such loans and advances went up by €11.4 billion at DZ BANK, €1.6 billion at BSH, and €0.2 billion at TeamBank. However, loans and advances to customers fell by €0.4 billion at DVB, €0.2 billion at DG HYP, and €0.1 billion at DZ PRIVATBANK.

As at June 30, 2016, **financial assets held for trading** amounted to €62.2 billion, an advance of €12.7 billion or 25.7 percent on the figure as at December 31, 2015. Within this amount, derivatives (positive fair values) climbed by €9.3 billion or 42.8 percent and money market placements by €2.9 billion or 19.7 percent.

Investments were up by €17.8 billion or 32.7 percent to €72.1 billion. This was primarily attributable to a rise of €18.0 billion in bonds and a simultaneous reduction of €0.3 billion in shares and other variable-yield securities.

Investments held by insurance companies rose by €3.9 billion to €88.6 billion (December 31, 2015: €84.7 billion), above all due to a €4.4 billion increase in fixed-income securities to €41.2 billion.

The DZ BANK Group's **deposits from banks** as at June 30, 2016 amounted to €129.4 billion, which was €32.2 billion (33.2 percent) higher than the figure reported as at December 31, 2015. Deposits from domestic banks rose by €28.4 billion to €116.7 billion, and deposits from foreign banks increased by €3.8 billion to €12.7 billion.

Deposits from customers advanced by €31.3 billion or 32.6 percent to €127.5 billion. WL BANK's customer deposits contributed €18.1 billion to the figure for the DZ BANK Group as at June 30, 2016. At DZ BANK and BSH, deposits from customers were up by €12.6 billion and €1.7 billion respectively, whereas they contracted by €1.0 billion at DG HYP.

At the end of the reporting period, the carrying amount of **debt certificates issued including bonds** in the DZ BANK Group had reached €74.6 billion (December 31, 2015: €55.0 billion). The increase of €19.6 billion was the result of the additional amount included for WL BANK of €14.1 billion and, in particular, to growth of €5.8 billion in debt certificates issued including bonds at DZ BANK.

Financial liabilities held for trading increased by €21.9 billion or 48.4 percent to €67.3 billion. Derivatives (negative fair values) rose by €10.4 billion, money market deposits by €9.4 billion, and bonds issued by €1.6 billion during the reporting period.

Insurance liabilities advanced by €4.5 billion to €83.4 billion (December 31, 2015: €78.9 billion). This was mainly the result of an increase of €1.6 billion in the benefit reserve to €54.2 billion and growth of €1.5 billion in the provision for premium refunds to €9.4 billion.

As at June 30, 2016, the **equity** reported by the DZ BANK Group was €22.3 billion (December 31, 2016: €19.7 billion). The €1.0 billion increase in subscribed capital and €2.8 billion increase in the capital reserve reflect the capital increase that was implemented in the first half of 2016 by swapping the WGZ BANK shares for DZ BANK shares as part of the merger process. The group's equity as at June 30, 2016 was also boosted by the net profit of €1.1 billion generated in the first 6 months of the year. The €0.4 billion decrease in retained earnings was largely attributable to the acquisition of further long-term equity investments in specialized service providers within the cooperative sector in connection with the merger of the two cooperative central institutions and to the remeasurement of defined benefit plans due to the reduction in the discount rate for such plans as at the reporting date. The amount of €2.8 billion reported under the item 'Non-controlling interests' as at June 30, 2016 was down by €1.9 billion compared with December 31, 2015 (€4.7 billion) because of the aforementioned acquisition of further long-term equity investments in specialized service providers within the cooperative sector.

The **DZ BANK Group's capital and solvency situation** is described in this interim group management report in chapter V. (Opportunity and risk report), section 6 (Capital adequacy).

5. Financial position

The following details on **liquidity management** during the reporting period relate to DZ BANK (pre-merger) and the DZ BANK Group (pre-merger). In the first half of this year, liquidity management at WGZ BANK was carried out by WGZ BANK's treasury division in Düsseldorf, which was also responsible for managing the liquidity of the entities belonging to the WGZ BANK Group in the period under review.

Liquidity management for the entities in the DZ BANK Group (pre-merger) is carried out by Group Treasury at DZ BANK (pre-merger) and by the individual subsidiaries. DZ BANK (pre-merger) provides the individual entities with funding (group funding), or cash is pooled via DZ BANK (pre-merger) among the entities (group clearing). Liquidity is managed within DZ BANK (pre-merger) by head office treasury in Frankfurt and by treasury departments in its international branches, although Frankfurt has primary responsibility.

In the context of liquidity management, the DZ BANK Group (pre-merger) distinguishes between operational liquidity (liquidity in the maturity band of up to one year) and structural liquidity (liquidity in the maturity band of more than one year). Dedicated steering committees have been established for both types of liquidity.

The DZ BANK Group (pre-merger) has a highly diversified funding base for **operational liquidity**. A considerable portion is accounted for by money market activities resulting from the cash-pooling function with the local cooperative banks. This function enables local cooperative banks with available liquidity to invest it with DZ BANK (pre-merger) and local cooperative banks requiring liquidity to obtain it from DZ BANK (pre-merger). Traditionally, this results in a liquidity surplus, which provides the main basis for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for operational liquidity requirements. The DZ BANK Group (pre-merger) therefore has a comfortable level of liquidity at its disposal. Funding on the interbank market is not strategically important to the DZ BANK Group (pre-merger).

The DZ BANK Group (pre-merger) issues money market products based on debt certificates through its main branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. DZ BANK (pre-merger) has initiated a standardized groupwide multi-issuer euro commercial paper program, which DZ BANK (pre-merger) and DZ PRIVATBANK S.A. can draw on.

Money market funding also includes collateralized money market activities, which DZ BANK (pre-merger) has centralized in Group Treasury and which form the basis for broadly diversified funding on money markets. To this end, key repo and securities lending activities, together with the collateral management process, are managed centrally in Group Treasury. Group Treasury also has at its disposal a portfolio of investment-grade liquid securities (liquidity pool). These securities can be used through repos in connection with market funding activities and are also eligible for central bank borrowing.

Structural liquidity activities are used to manage and satisfy the long-term funding requirements (more than 1 year) of DZ BANK (pre-merger) and, in consultation with the group entities, the corresponding requirements of the DZ BANK Group (pre-merger).

Both for the DZ BANK Group (pre-merger) and each individual entity in it, structural liquidity is measured daily on the basis of total cash flows. In addition, the long-term ratio is used at DZ BANK (pre-merger) to support the management of structural liquidity. This key figure is also determined on a daily basis. It quantifies the ratio of sources of funds to application of funds with a residual maturity of more than one year on a cash flow basis.

The **long-term ratio** of DZ BANK (pre-merger) as at June 30, 2016 was 90 percent (December 31, 2015: 89 percent). This meant that the items tying up liquidity with residual maturities of over one year were largely funded by liabilities that also had residual maturities of more than one year.

DZ BANK secures its long-term funding for structural liquidity by using structured and non-structured capital market products that are mainly marketed through the local cooperative banks' own-account and customer-account securities business and to institutional clients. Unsecured long-term funding is secured through systematic integration between the entities in the DZ BANK Group (pre-merger). Options for obtaining covered liquidity through Pfandbriefe or DZ BANK BRIEFE are used on a decentralized basis, in other words based on the different cover assets at DZ BANK (pre-merger), DG HYP, and DVB.

Long-term funding requirements in foreign currencies are covered through the basis swap market, ensuring matching maturities.

To complement the description of the funding structure, further information on **liquidity risk** can be found in this interim group management report in chapter V. (Opportunity and risk report), section 5. (Liquidity adequacy). 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 interim consolidated financial statements.

III. Events after the balance sheet date

The merger of WGZ BANK AG into DZ BANK AG became legally effective when it was entered in the commercial register on July 29, 2016. The consideration transferred for all of the voting shares in WGZ BANK AG was paid in the form of a capital increase by DZ BANK AG and by distributing the shares in DZ BANK AG held by WGZ BANK AG to the former shareholders of WGZ BANK AG. For commercial reasons, the capital increase was recognized simultaneously with the first-time consolidation as at June 30, 2016. The capital increase became legally effective on July 29, 2016 when it was entered in the commercial register.

With effect from July 7, 2016, TeamBank's existing share capital of €83,103,744.00 was increased by €16,620,544.00 to €99,724,288.00 by issuing 32,462 new registered non-par-value shares, each with an imputed share of the capital amounting to €512.00, in return for cash contributions. An amount of €4,620.00 was received for each new share. The capital reserve went up by €133,353,896.00, from €205,470,496.80 to €338,824,392.80. Subject to the approval of the Supervisory Board, the company's share capital can be increased up to May 31, 2021 on one or more occasions by up to a total of no more than €11,500,000.00 by way of issuing new registered non-par-value shares in return for cash contributions (authorized capital 2016).

IV. Outlook

1. Economic conditions

1.1. Global economic trends

Following a slowdown in global economic growth in the winter months, growth in the global economy has since been affected by a wide range of influences, both positive and negative, from the individual groups of countries. The US economy has maintained its underlying momentum and the other advanced economies as a whole should also recover quickly from this temporary slowdown. However, the growth outlook for the emerging economies is still subdued overall. On the back of an anticipated firming of commodity prices and economic policy measures to stimulate the economy in China, the economic situation in the emerging markets that export natural resources is likely to regain some momentum.

In light of these trends, the expectation is that the global economy will grow by 2.8 percent in 2016 and by 3.0 percent in 2017. Global trade is likely to pick up again as a result, and is projected to advance by nearly 3.0 percent in 2016 and by 4.0 percent in 2017.

1.2. Trends in the USA

On June 23, 2016, the British people, by a small majority, voted to leave the European Union. The UK is an important trading partner for the US export economy, accounting for almost a fifth of all the country's exports to EU member states. The significant slowdown in growth in Europe in the second half of this year, which is likely following the Brexit decision, is expected not only to put a brake on trade but also to impact on investing activities in the USA. In the export-reliant sectors, the economic climate is expected to suffer from the uncertainty about the future legal framework for the trading of goods. Furthermore, the recovery of capital spending in the oil industry is likely to be delayed further because the slight upturn in the price of oil has flattened out again. Against this backdrop, the US economy is forecasted to grow by 1.6 percent in 2016 and by 2.0 percent in 2017.

Economic surveys point to robust growth in the US labor market, while the end of the strike at a major telecommunications company is expected to result in renewed growth in this sector. Weak job growth in retail does not tally with the strong recent levels of consumer spending. A further increase in job creation therefore seems likely. The unemployment rate in 2016 will be around 4.7 percent and in 2017 around 4.4 percent.

Robust domestic demand continues to put constant pressure on prices. In 2017, the weaker economic picture is expected to have only a slight dampening effect on the increase in inflation. An average inflation rate of 1.3 percent is projected for 2016, with a likely rise to 2.5 percent in 2017.

1.3. Trends in the eurozone

Numerous member states of the European Monetary Union (EMU) have a close trading relationship with the United Kingdom. In 2015, approximately 7.5 percent of goods exported from the eurozone were destined for the UK market. A decline in demand from the UK will be the principal factor affecting the eurozone countries.

A sharp decline in capital investment is also anticipated. This is partly because of the expected fall in demand for eurozone exports and partly because companies will be unwilling to invest due to the uncertainty about their future trade and economic relations with the UK. Investment projects are likely to be reviewed in light of the new circumstances and may be put on hold.

No further referendums on EU membership are currently expected, but there is still the likelihood of a marked slowdown in economic growth in the euro area. Whereas the weakening of growth in the current year will still be relatively mild, the effects in the coming year are likely to be much more pronounced. Aggregate economic output is expected to go up by 1.4 percent in 2016. In 2017, the economy is predicted to grow by only around 1.0 percent.

A slower rate of economic growth will also mean a slower reduction in unemployment. Since the second quarter of 2013, the situation on the labor markets in the eurozone has steadily improved. Economic growth, though only moderate, has been the main factor in the fall in the overall unemployment rate in the eurozone. Since the recovery began to take hold in the second quarter of 2013, however, the unemployment rate has fallen only gradually. The sluggish recovery on the eurozone labor market is likely to slow down even more as a result of the economic downturn in the wake of Brexit. The eurozone's average unemployment rate for 2016 is expected to be 10.2 percent. In 2017, it is predicted to drop only slightly, to 10.1 percent.

The slower rate of economic growth will also be reflected in the prices paid by consumers. In 2017, the rate of inflation in the European Monetary Union, which in 2015 and 2016 was largely influenced by the oil price, is now projected to increase at a slower rate than had previously been forecasted. In 2016, the impact of Brexit will remain limited. The price of crude oil is likely to continue its moderate recovery, causing the inflation rate to return to positive territory by the end of the year. In 2016, the average inflation rate will only just creep above zero, at 0.2 percent. It will continue to rise at a modest rate in 2017, coming in at around 1.3 percent.

1.4. Trends in Germany

The UK's decision to leave the EU is a significant blow to the German economy, as the UK is one of its biggest trading partners. The impact of the UK exiting the EU will therefore be felt directly by the German export sector. Although any potential administrative restrictions to trade as a result of Brexit will take years to become effective, the anticipated downturn in the UK economy will quickly have a knock-on effect for German exporters in particular. Spending on capital equipment in Germany will undoubtedly be affected by Brexit. The assumption is that the upcoming period of uncertainty will make companies reluctant to invest.

Growth is expected to slow as early as the second half of 2016 as the downturn in German export growth and an increasing unwillingness to invest begin to bite. Second-round effects on other countries will also play a part. The impact of Brexit is expected to shave nearly 0.25 percentage points off the growth rate in Germany in 2016 and just over half a percentage point in 2017. The German economy will therefore grow by around 1.8 percent in 2016 and by only around 1.1 percent on average in 2017.

It will take until the second half of 2017 for the German economy to return to normality and resume its steady growth rate of the past two years.

1.5. Trends in the financial sector

Despite several periods of stress, the global financial system has not shown any signs of destabilizing or slipping into crisis. The German financial system has proved to be robust. Its risk position is characterized by exceptionally low interest rates that are likely to remain a crucial factor for a long time to come. However, there are few indications that the individual sectors of the German financial system are willing to take on excessive risks.

Since the beginning of 2016, new rules have been in place across Europe regarding how much of the costs creditors should bear in the event of a bank going bust (bail-in). The objective is to mitigate problems of moral hazard resulting from implicit state guarantees for financial institutions. If the rules are applied rigorously, they could help to further loosen the close risk relationship that exists between banks and sovereign states.

2. Financial performance

The merger of the DZ BANK Group and the WGZ BANK Group, the two cooperative central institutions, is the principal factor determining the outlook for the DZ BANK Group's business performance in 2016. The outlook for financial performance in 2016 and 2017 is based on an initial qualitative and quantitative assessment that has been carried out in the course of the ongoing merger project.

This year will be dominated by various one-off items that are related to the merger.

Positive non-recurring items arising from the merger include the recognition in profit of the negative goodwill as well as approximately €502 million resulting from the elimination of business relationships that existed before the merger. On the negative side, one-off expenses related to preparations for the migration and to staff restructuring are expected to total around €225 million in the DZ BANK operating segment, primarily in 2016.

Taking into account the merger-related effects, the DZ BANK Group's **profit before taxes** is likely to exceed €2.0 billion.

Low interest rates and further high costs for strategic and regulatory projects will continue to have a detrimental impact on financial performance over the remainder of the year.

From 2017 onward, the merger is expected to result in positive synergy effects in terms of both income and administrative expenses.

The future financial performance of the DZ BANK Group could be subject to risks arising both from the political climate and from general economic conditions. The level of debt in several European states, particularly Italy and Spain, but also France, remains high. Political risks will also arise from negative geopolitical developments, for example in Turkey.

Net interest income for 2016 is expected to fall only just short of the prior-year level, despite the one-off effect in the DZ BANK operating segment related to the income from long-term equity investments for EKS. The ongoing phase of low interest rates will severely affect net interest income. Business models within the DZ BANK Group that are dependent on the level of interest rates, particularly that of BSH, will continue to see increased downward pressure on earnings this year and in 2017. Synergies resulting from the consolidation of marketing activities are expected to provide a boost, particularly in corporate banking in the DZ BANK operating segment.

A possible slowdown in economic growth and high levels of sovereign debt in the eurozone, combined with geopolitical instability, could have a detrimental impact on net interest income in both 2016 and 2017.

Expenses related to **allowances for losses on loans and advances** will probably rise overall – assuming standard risk costs in the second half of the year. For portfolio loan loss allowances, there will also be a periodic recalculation because of the merger and the need for an addition in respect of the WGZ BANK portfolio.

The assumption for 2017 is that allowances for losses on loans and advances will increase slightly in line with the growing lending volume and the long-term standard risk costs.

Risks would arise if there were a sharp economic downturn combined with rising sovereign debt in Europe, and Germany were unable to escape the effects of the downturn. A negative economic trend of this nature would have a detrimental impact on the level of allowances for losses on loans and advances.

Net fee and commission income in 2016 is expected to be well above the prior-year level. This is partly due to the fact that the sales commission in the TeamBank operating segment is reported in net interest income in 2016. There will also be positive pro rata effects in the DZ BANK operating segment as a result of the merger.

A further small increase in net fee and commission income is predicted for 2017. This prediction is being made primarily because we expect a further increase in assets under management in the UMH operating segment and gains in market share in the high-end private banking business in the DZ PRIVATBANK operating segment.

Any uncertainty in capital and financial markets, particularly as a result of effects from the sovereign debt crisis, could have a negative impact on confidence and sentiment among private and institutional investors, thereby depressing net fee and commission income.

In all probability, net gains under **gains and losses on trading activities** will be much higher in 2016. This increase will arise, firstly, because there were positive effects this year from the measurement of own issues and, secondly, because of the reversal of provisions related to the legal dispute with Lehman Brothers in the DZ BANK operating segment. The merger will also have a positive pro rata impact on the gains and losses on trading activities.

A significant deterioration in gains and losses on trading activities is forecasted for 2017 as a result of non-recurring items. The consolidation of marketing activities should lead to additional gains being made in the capital markets in the DZ BANK operating segment.

The targeted gains on trading activities will only be achieved if interest rates do not continue to fall, capital markets are stable, and the bank is successfully positioned in the market.

Gains and losses on investments will improve substantially due to the positive one-off item resulting from the sale of VISA Europe in the DZ BANK operating segment. Because of this one-off item, a sharp deterioration is predicted for 2017.

Other gains and losses on valuation of financial instruments are expected to improve significantly in 2017. In 2016, this line item was primarily influenced by negative valuation effects related to the widening of credit spreads in respect of the wind-down portfolio in the DG HYP operating segment.

Net income from insurance business is likely to fall substantially in 2016 compared with 2015, although premium income is expected to be slightly above the strong level achieved in the prior year. This is due to the continued high requirement for additions to the supplementary change-in-discount-rate reserve and the expectation of a year-on-year deterioration in the gains and losses on investments held by insurance companies. Because of the low interest rates, a significant deterioration in gains and losses on investments held by insurance companies is expected for 2017.

Exceptional events and turmoil in the capital markets, as well as changes in underwriting practices, may affect the level of net income that is expected to be earned from insurance business.

Administrative expenses are predicted to increase sharply in 2016 because of the pro rata merger-related effects that will arise in the DZ BANK operating segment and because of the continuing high costs for strategic and regulatory projects.

In view of the rising administrative expenses, one of the strategic aims within the DZ BANK Group is to improve the cost/income ratio by rigorously managing costs, particularly through long-term synergy management in the DZ BANK operating segment and by accelerating growth in the operating business.

The group has initiated strategic measures to this end. However, it is anticipated that the **cost/income ratio** will be significantly higher in 2016 because of one-off items.

Expenses incurred in connection with preparing for and facilitating the transaction and migration as well as the provisions for staff expenses in relation to restructuring are recognized under **merger-related income/expenses** in 2016. These investments, which are aimed at achieving synergies, will amount to a one-off item of between €300 million and €350 million in 2016 and 2017.

Regulatory RORAC will probably be significantly lower in 2017 because of the positive one-off items in 2016 arising from the merger. Nevertheless, RORAC will be at a very respectable level that compares well with the rest of the sector.

3. Liquidity and financial position

DZ BANK anticipates that the local cooperative banks will continue to hold a stable level of deposits with it this year, which will help with its management of operational liquidity. Corporate customers and institutional investors, both in Germany and abroad, will also continue to make a sustained contribution to the diversification of funding. At present, no negative influences on the funding activities of DZ BANK are discernible from Brexit.

The structural funding of DZ BANK is expected to continue to be underpinned by stable sales of a wide variety of funding products as a result of the broad, well-established customer base.

DZ BANK's economic capital adequacy has been assured for 2016. This is also expected to be the case for 2017.

V. Opportunity and risk report

1. Impact of the merger on the opportunity and risk report

The shareholders of DZ BANK (pre-merger) and WGZ BANK agreed to the merger at the Annual General Meetings on June 21, 2016 and June 22, 2016. Due to the short period of time between the decisions of the Annual General Meetings and the reporting date for the half-year financial report (June 30, 2016), it has not yet been possible to establish comprehensive and joint opportunity and risk management.

An integrated presentation of the figures as at June 30, 2016 based on internal management data and regulatory reporting would not provide a proper view of the financial position, financial performance, or the risk position. Consequently, these **figures as at June 30, 2016** in this opportunity and risk report are disclosed **separately for the two former central institution groups**.

Simply totaling the quantitative data, based on internal management data, for the comparable line items of the DZ BANK Group (pre-merger) and the WGZ BANK Group provides an approximate overview and a non-binding estimate of the approximate risk of the joint central institution group as at the reporting date. However, this approach ignores the economies of scope relating to risk, resulting in a generally conservative presentation. Moreover, the meaningfulness of the aggregated data is limited due to the different measurement concepts used by the two former central institution groups. Such totaling has not been carried out in the opportunity and risk report because it does not comply with the risk management implemented as at the reporting date.

Irrespective of these limitations, DZ BANK (pre-merger) and WGZ BANK initiated the activities required to harmonize their processes, methods, and IT systems in late 2015 and stepped up these activities in the first half of this year.

Forward-looking data on the risk factors, the group's ability to continue as a going concern, and the appropriateness of the risks in relation to the potential opportunities relates to the remaining 6 months of the financial year and is provided for the **joint central institution group** on an approximate basis derived from internal analysis.

DZ BANK Group

2. Risk factors, risks, and opportunities

2.1. Risk factors

The risk factors described in the opportunity and risk report in the 2015 group management report of DZ BANK ('2015 opportunity and risk report') continued to be relevant to the DZ BANK Group (pre-merger) in the first 6 months of this year. They apply equally to the DZ BANK Group for the remainder of the year, although the changes set out below must be taken into consideration.

The possible negative impact of the **United Kingdom's exit from the EU** (known as Brexit) that is expected following the referendum on June 23, 2016 presents a risk to future economic growth, both at EU level and, in particular, for the United Kingdom. Reduced exports and a reluctance to invest on the part of companies as a result of increased uncertainty are also likely to subdue the German economy.

After the referendum, the United Kingdom's **credit rating** from Standard & Poor's was downgraded from AAA to AA with a negative outlook. Moody's maintained the credit rating at Aa1 but changed the outlook to negative. The credit ratings from the two rating agencies therefore still correspond to the internal VR rating class 1A used by the DZ BANK Group. It is not yet clear whether the United Kingdom requires the approval of its parliament, where those in favor of remaining in the EU are in the majority, in order to withdraw from the EU.

At present, no negative influences on the **funding activities** of DZ BANK or the **liquidity risk** of the DZ BANK Group are discernible. Disadvantages for **capital markets financing** are also not expected, apart from the possible distortion of market parameters. The **credit risk** and **counterparty default risk** of exposures in the United Kingdom and the other EU member states may rise moderately in the medium to long term. Moreover, a sustained increase in **market risk** cannot be ruled out, especially if credit spreads become more volatile.

The Brexit vote has put European bank shares under pressure and drawn the financial markets' attention once again to the problems of the **Italian banking sector**, which has one of the highest proportions of non-performing loans in the EU. The non-performing loans, which total €360 billion, relate to bad debts incurred for economic reasons in the past. Renzi's government is seeking to rescue the banks using tax revenues, but this is no longer permissible due to new European rules that came into force at the start of this year. Under the EU's rules, the first step in rescuing a bank has to be to 'bail in' its owners and creditors. If the government cannot find an acceptable way of recapitalizing and turning around the banks, further adverse effects and rating downgrades are likely.

The entities in the DZ BANK Group had already taken the generally downward trend affecting **Turkey** into account in the past few years by limiting short-dated lending. The attempted coup on July 14 and 15, 2016 resulted in increased risk. The main critical factors are a possible worsening of what is already a tense relationship between Turkey and the EU due to the country's harsh treatment of political opponents and the potential withdrawal of international investment capital due to declining investor confidence. This is reflected in the downgrading from BB+ to BB of the country rating awarded by Standard & Poor's. The full impact of the political changes in Turkey is not yet clear, and further developments will be monitored closely.

The DZ BANK Group no longer considers **Ireland** to be a country with increased risk because of its success in consolidating its public finances, its falling debt ratio, and the strong economic growth that has been generated since 2014.

In the **shipping finance business**, the economic slowdown in some parts of the world combined with a global oversupply of shipping tonnage is continuing to adversely affect asset values and customers' credit standings. This has given rise to an increased credit risk for DVB and DZ BANK.

2.2. Risks and opportunities

The **solvency** of the DZ BANK Group (pre-merger) and the WGZ BANK Group was never in jeopardy at any point during the reporting period. By holding ample liquidity reserves, the group ensures that it is able to protect its liquidity against any potential crisis-related threats. Regulatory requirements for liquidity adequacy were also adhered to at all times. The DZ BANK Group (pre-merger) and the WGZ BANK Group remained within their economic **risk-bearing capacity** in the first half of 2016 and also complied with regulatory requirements for capital adequacy at all times.

Preliminary internal analysis shows that, as at June 30, 2016, the economic liquidity adequacy, economic capital adequacy, and regulatory liquidity and capital ratios of the DZ BANK Group, DZ BANK financial conglomerate, and DZ BANK banking group in their individual configurations after the merger are at the same level as have been determined as at June 30, 2016 for these reporting entities in their configuration before the merger.

There are no indications that the continued existence of the DZ BANK Group or individual management units, including DZ BANK, as **going concerns** might be at risk in the second half of the year.

The **opportunities** presented by the forecast developments are reasonable in relation to the risks that will be incurred.

3. Opportunity and risk management

3.1. Opportunity and risk management before the merger

A detailed description of the features of opportunity and risk management in the DZ BANK Group (pre-merger) can be found in the **2015 opportunity and risk report**.

3.2. Risk management after the merger
The changes to risk management that are planned for the DZ BANK Group as a result of the merger are set out below.

3.2.1. Focus of merger activities in the context of risk management
As part of the merger between DZ BANK (pre-merger) and WGZ BANK, many activities were initiated in order to harmonize and standardize the processes, methods, IT systems, and other aspects of risk management. This included amending the existing **risk strategies** of the two former central institution groups as well as the **risk appetite statement** and **risk manual** of the DZ BANK Group (pre-merger) to meet the requirements of the joint central institution. The amended versions were approved by the Board of Managing Directors with effect from August 2016.

Building on these, **other documents and rules relating to risk management** are to be revised during a transition phase up to the end of this year. In addition, important **planning activities** for the joint central institution group are already under way. These measures should enable the standardization of the main elements of the two former central institutions' risk management systems to be completed by December 31, 2016. The first **report** on the joint central institution group's economic liquidity and capital adequacy as at June 30, 2016 was submitted to the Board of Managing Directors in the third quarter of 2016. This report's content was subject to methodological restrictions due to particular features relating to the merger.

Longer transition phases are planned for the **IT systems used to manage risk exposure**. Initially, the IT systems of the two groups will run in parallel before being progressively replaced by the new target structure. In particular, the migration of the WGZ BANK Group's transactions to the IT systems of the DZ BANK Group (pre-merger) and the combining of the risk exposures are likely to continue into 2017.

3.2.2. Management units
All DZ BANK Group entities are included in the groupwide opportunity and risk management system. DZ BANK and its main subsidiaries form the core of the financial services group. Each management unit forms a separate operating segment, and they are assigned to the sectors as follows:

Bank sector:
- DZ BANK
- BSH
- DG HYP
- DVB
- DZ PRIVATBANK
- TeamBank
- UMH
- VR LEASING
- WL BANK

Insurance sector:
- R+V

As a result of the merger, WL BANK has been added to the management units that are material to risk management in the DZ BANK Group.

The management units represent the **operating segments** of the DZ BANK Group. They are deemed to be material in terms of their contribution to the aggregate risk and are therefore directly incorporated into the group's risk management system.

The **other subsidiaries and investee entities** are included in the system indirectly as part of equity investment risk.

The management units ensure that their respective subsidiaries and investees are also included in the DZ BANK Group's risk management system – indirectly via the majority-owned entities – and meet the minimum standards applicable throughout the group.

DG HYP and **WL BANK** apply the **waiver** pursuant to section 2a (1), (2), and (5) KWG in conjunction with article 6 (1) and (5) and article 7 of the Capital Requirements Regulation (CRR). This means that DG HYP and WL BANK as individual institutions are no longer required to apply the provisions of Parts 2–5 and 8 CRR and are instead covered at DZ BANK Group level.

3.2.3. Risk strategy
The exploitation of business opportunities and the systematic controlled assumption of risk in relation to target returns form an integral part of corporate control in the DZ BANK Group. The activities resulting from the business model require the ability to identify, measure, assess, manage, monitor, and

communicate opportunities and risks. The need to cover risks with adequate capital and to hold appropriate reserves of cash is also recognized as an essential prerequisite for the operation of the business and is of fundamental importance.

In all its activities, the DZ BANK Group therefore observes a risk culture in which it only takes on risk to the extent necessary to achieve its business objectives – taking account of the guiding principle of a 'network-oriented central institution and financial services group' – and to the extent that the management units have expertise in measuring and managing the risk. At the same time, the entities in the DZ BANK Group consider all material risks from the perspectives of capital/income and liquidity and avoid assuming risk in an aggressive manner.

In order to implement this principle, the Board of Managing Directors of DZ BANK has drawn up risk strategies for each of the material risks using the business strategies as a basis. The previous risk strategies of DZ BANK (pre-merger) have been adapted to the requirements of the merger.

The risk strategies each encompass the main risk-bearing business activities, the objectives of risk management (including the requirements for accepting or preventing risk), and the action to be taken to attain the objectives. The planning horizon is 1 year.

The risk strategies are updated annually as part of the strategic planning process by the Group Risk Controlling, Credit, and Group Strategy and Controlling divisions in close consultation with other relevant divisions at DZ BANK and the subsidiaries.

3.2.4. Risk appetite

The risk appetite statement contains fixed written principles on risk tolerance. The principles are overarching pronouncements that are incorporated consistently into the business and risk strategies and in other, more detailed documentation. These qualitative principles are supplemented by quantitative targets, including the relevant threshold values.

As part of the merger, the portfolios of the former DZ BANK Group and the former WGZ BANK Group are being combined. This will result in diversification effects and concentration effects that mean that the key risk indicators of the DZ BANK Group will not simply be the sum of the risks of the two central institution groups when considered in isolation. Owing to the consolidation effects under commercial law, the available internal capital of the DZ BANK Group will not equal the sum of the values calculated separately for the two former central institution groups.

3.3. Opportunity management after the merger

Opportunity management is not expected to be affected by any merger-related changes apart from the changes to the group of management units. The potential opportunities resulting from the merger are presented in the following section.

4. Potential opportunities

The potential opportunities whose assessment has changed compared with December 31, 2015 are set out below. They relate to the impact of the merger on strategic positioning and on changes to the credit rating.

The Outlook section of the interim group management report describes expected developments in the market and business environment together with the business strategies and the implications for the DZ BANK Group's financial performance forecast for the second half of the year. These are crucial factors in the **strategic positioning** and the resulting opportunities for increasing earnings and cutting costs.

The **merger** of the two former central institution groups is expected to create not only extensive synergies but also growth potential and earnings potential. Once the integration has been completed, it is estimated that the joint central institution will immediately be able to exploit income and cost synergies amounting to at least between €100 million and €150 million per year. The joint marketing activities and broader range of products are also expected to open up tangible opportunities.

During the first half of the year, the **rating agencies** reviewed the credit ratings issued for **DZ BANK (pre-merger)**. As part of an industry-wide credit rating initiative following the amendment of German bank resolution legislation, Moody's downgraded the long-term credit rating of DZ BANK (pre-merger) for unsecured, non-subordinated bonds to Aa3 and upgraded the long-term credit rating for deposits to Aa1. These two changes did not have any impact on the DZ BANK Group's funding. Figure 4 provides an overview of the credit ratings of DZ BANK (pre-merger).

Having upgraded the long-term deposit rating in January, Moody's rated **WGZ BANK** as at June 30, 2016 as Aa2 (long-term rating for unsecured, non-subordinated bonds), Aa1 (long-term rating for deposits; previously Aa2), and P-1 (short-term rating).

It is to be assumed that the credit ratings awarded by the rating agencies to the **joint central institution** will be on a par with those of DZ BANK (pre-merger).

As at June 30, 2016, the long-term credit rating for the **cooperative financial network** issued by Standard & Poor's and Fitch remained unchanged at AA-.

The potential opportunities described in the 2015 opportunity and risk report – **focus on the cooperative financial network**, **digitalization**, and **demographic change** – continue to apply without change in respect of the second half of the year.

FIG. 4 – RATINGS OF DZ BANK (PRE-MERGER)

	Standard & Poor's		Moody's		Fitch	
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Long-term rating for unsecured, non-subordinated bonds	AA-	AA-	Aa3	Aa2	AA-	AA-
Long-term rating for deposits	–	–	Aa1	Aa2	–	–
Covered bonds (DZ BANK BRIEFE)	AA+	AA+	–	–	AA+	AA+
Short-term rating	A-1+	A-1+	P-1	P-1	F1+	F1+

5. Liquidity adequacy

5.1. Economic liquidity adequacy

5.1.1. Quantitative variables in the DZ BANK Group (pre-merger)

The available liquid securities and the unsecured short-term and medium-term funding are the main factors determining the minimum liquidity surplus of the DZ BANK Group (pre-merger). Additional contractual obligations that would be owed if the credit rating of DZ BANK (pre-merger) were downgraded also play a role in the measurement of liquidity risk. These factors are presented below.

Liquid securities

Liquid securities, together with balances on nostro accounts and non-collateralized funding capacity, form the **counterbalancing capacity**. Liquid securities are largely held in the portfolios of the treasury units at the entities in the DZ BANK Group (pre-merger) or in the portfolios held by the Capital Markets Trading division of DZ BANK (pre-merger). Only bearer bonds are eligible as liquid securities.

Liquid securities comprise highly liquid securities that are suitable for collateralizing funding in private markets, securities eligible as collateral for central bank loans, and other securities that can be liquidated in the 1-year forecast period that is relevant for liquidity risk.

Securities are only eligible provided they are not pledged as collateral, e.g. for secured funding. Securities that have been borrowed or taken as collateral for derivatives business or in connection with secured funding only become eligible when they are freely transferable. Eligibility is recognized on a daily basis and also takes into account factors such as restrictions on the period in which they are freely available.

Figure 5 shows the liquidity value of the liquid securities that would result from secured funding or if the securities were sold.

The total liquidity value as at June 30, 2016 amounted to €49.0 billion (December 31, 2015: €54.0 billion). Consequently, liquid securities represent the largest proportion of the counterbalancing capacity for the

FIG. 5 – LIQUID SECURITIES OF THE DZ BANK GROUP (PRE-MERGER)

€ billion	Jun. 30, 2016	Dec. 31, 2015
Liquid securities eligible for GC Pooling (ECB Basket)[1]	**31.7**	**37.1**
Securities in own portfolio	29.3	31.2
Securities received as collateral	15.8	12.5
Securities provided as collateral	-13.4	-6.6
Liquid securities eligible as collateral for central bank loans	**12.9**	**11.8**
Securities in own portfolio	10.2	10.3
Securities received as collateral	5.0	3.7
Securities provided as collateral	-2.3	-2.2
Other liquid securities	**4.4**	**5.1**
Securities in own portfolio	4.1	4.9
Securities received as collateral	0.3	0.4
Securities provided as collateral	–	-0.2
Total	**49.0**	**54.0**
Securities in own portfolio	43.6	46.5
Securities received as collateral	21.1	16.5
Securities provided as collateral	-15.7	-9.0

1 GC = general collateral, ECB Basket = eligible collateral for ECB funding.

DZ BANK Group (pre-merger) and make a major contribution to ensuring that it remains solvent in the stress scenarios with defined limits at all times during the relevant forecast period. In the first month, which is a particularly critical period in a crisis, liquid securities are almost exclusively responsible for maintaining solvency in the stress scenarios with defined limits.

Funding and liquidity maturities

The level of liquidity risk in the DZ BANK Group (pre-merger) is determined by the short-term and medium-term funding structure. The main sources of funding on the unsecured money markets are shown

FIG. 6 – UNSECURED SHORT-TERM AND MEDIUM-TERM FUNDING OF THE DZ BANK GROUP (PRE-MERGER)

%	Jun. 30, 2016	Dec. 31, 2015
Local cooperative banks	38	46
Other banks, central banks	16	12
Corporate customers, institutional customers	19	10
Commercial paper (institutional investors)	27	32

in figure 6. The change in the composition of the main sources of funding compared with December 31, 2015 is attributable to a change in the behavior of customers and investors resulting from money market policy implemented by the ECB.

Further details on funding are provided in the business report (section II.5. ('financial position') of the interim group management report.

Additional contractual obligations

Some OTC collateral agreements that entities in the DZ BANK Group (pre-merger) have concluded contain rating-based triggers. A downgrade in an entity's own credit rating would trigger collateral calls by counterparties. Because this collateral would no longer be available to generate liquidity if it were called in, the stress scenarios also include deductions arising from these additional contractual obligations.

Figure 7 shows the additional collateral across all currencies that would have to be provided to counterparties should the credit rating of DZ BANK (pre-merger) be downgraded. The data reflects the situation in virtually the entire DZ BANK Group (pre-merger) because the additional contractual

FIG. 7 – ADDITIONAL CONTRACTUAL OBLIGATIONS OF THE DZ BANK GROUP (PRE-MERGER)

€ million	One-notch deterioration in credit rating		Two-notch deterioration in credit rating		Three-notch deterioration in credit rating	
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Additional contractual obligations based on collateral agreements	124	115	220	188	747	840

obligations of the other entities in the group (pre-merger) to provide further collateral are negligible. The changes in the additional contractual obligations compared with December 31, 2015 were mainly the result of new transactions, changes in market value, and reductions in nominal amounts.

Additional contractual obligations represent only a minimal liquidity risk that is already covered by the stress scenarios with defined limits.

5.1.2. Quantitative variables in the WGZ BANK Group

To ensure a liquidity buffer for unexpected cash outflows, the WGZ BANK Group has extensive holdings of securities and bonds eligible as collateral with central banks in its treasury and trading portfolios. Public-sector loans that are eligible as collateral with central banks (credit claims submission procedure) are also taken into consideration. The portfolio of WGZ BANK, which is shown in figure 8, ranged between €7.7 billion and €8.9 billion in the first 6 months of the year. During the same period, WL BANK's portfolio eligible as collateral with the ECB ranged between €0.9 billion and €1.6 billion.

FIG. 8 – CHANGES IN THE LIQUIDITY BUFFER OF WGZ BANK IN THE FIRST HALF OF 2016

€ billion	Jun. 30, 2016	Average	Maximum	Minimum
Liquidity obtainable from central banks (liquidity buffer)	8.7	8.5	8.9	7.7

5.1.3. Risk position

DZ BANK Group (pre-merger)

Figure 9 shows the results of measuring liquidity risk as at June 30, 2016 for the DZ BANK Group (pre-merger) in the four stress scenarios with defined limits. The results are based on a daily calculation and comparison of forward cash exposure and counterbalancing capacity. The values reported are the values that occur on the day on which the liquidity surplus calculated over the forecast period of 1 year is at its lowest point.

The minimum liquidity surplus, measured as at the reporting date on the basis of a forecast period of 1 year for the stress scenario with defined limits that had the lowest minimum liquidity surplus, was €8.4 billion as at June 30, 2016 (December 31, 2015: €8.9 billion). During the year under review, liquidity did not fall below the observation threshold of €4.0 billion or the limit of €1.0 billion for the minimum liquidity surplus in any of the scenarios with defined limits.

The results show that the minimum liquidity surplus as at June 30, 2016 was positive in the stress scenarios with defined limits that were determined on the basis of risk tolerance. This is due to the fact that the counterbalancing capacity was above the cumulative cash outflows on each day of the defined forecast period for each scenario, which indicates that the cash outflows assumed to take place in a crisis could be comfortably covered.

WGZ BANK Group

In the WGZ BANK Group, **liquidity gaps** and **excesses of liquidity** are always offset by means of appropriate arrangements, in particular to avoid unwanted accumulation of negative daily liquidity

FIG. 9 – LIQUIDITY UP TO 1 YEAR FOR THE DZ BANK GROUP (PRE-MERGER) IN THE STRESS SCENARIOS WITH DEFINED LIMITS – FIGURES FOR THE DAY WITH THE LOWEST LIQUIDITY SURPLUS

	Forward cash exposure		Counterbalancing capacity		Liquidity surplus	
€ billion	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Downgrading	-56.6	-54.8	73.0	71.6	16.4	16.8
Corporate crisis	-54.3	-53.1	62.7	62.0	8.4	8.9
Market crisis	-58.0	-51.2	72.0	70.8	14.0	19.6
Combination crisis	-57.9	-31.4	68.0	45.8	10.1	14.5

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 the first half of the year.

An extensive **stress test** is used to monitor operational liquidity risk over the next 7 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 were limited using a liquidity buffer, the scope of which is also based on various stress scenarios. The liquidity buffer remaining after application of each scenario was reported to the Board of Managing Directors of WGZ BANK. Throughout the reporting period, the stress-tested liquidity buffer was significantly larger than the stress-tested net outflow of liquidity over the subsequent 7 and 30 days.

5.2. Regulatory liquidity adequacy

Figure 10 shows the **liquidity coverage ratio** (LCR) of the DZ BANK banking group (pre-merger) and the WGZ BANK banking group calculated in accordance with Delegated Regulation 2015/61 as well as the determining factors for the LCR.

The main reasons for the rise in the LCR of the DZ BANK banking group (pre-merger) in the first half of 2016 were an increased volume of customer deposits and collateralized funding. This led to a larger credit balance with the ECB. As a result of different weighting factors for these variables within the cash outflows and liquid assets, the liquidity coverage ratio went up by 16.3 percentage points.

FIG. 10 – LIQUIDITY COVERAGE RATIO AND ITS DETERMINING FACTORS

	DZ BANK banking group (pre-merger)		WGZ BANK banking group
€ billion	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016
Total high-quality liquid assets	57.8	46.4	10.1
Total net cash outflows	40.7	36.9	6.4
LCR	142.1%	125.8%	157.3%

FIG. 11 – NET STABLE FUNDING RATIO AND ITS DETERMINING FACTORS

	DZ BANK banking group (pre-merger)		WGZ BANK banking group
€ billion	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016
Available stable funding	204.2	203.4	68.9
Required stable funding	211.0	205.5	69.7
NSFR	96.8%	99.0%	98.8%

Figure 11 shows the **net stable funding ratio** (NSFR) of the DZ BANK banking group (pre-merger) and the WGZ BANK banking group calculated in accordance with the stipulations of the Basel Committee on Banking Supervision as at the reporting date as well as the determining factors for the NSFR.

In the calculation of the NSFR of the DZ BANK banking group (pre-merger) as at June 30, 2016, operational deposits of affiliated local cooperative banks at DZ BANK (pre-merger) of €20.9 billion (December 31, 2015: €21.8 billion) were included in the amount of available stable funding with a weighting factor of 50 percent in the same way that other operational deposits of financial customers are included. So far, the national regulator has not defined a factor for these transactions. If this uncertainty is viewed conservatively and a factor of 0 percent is assumed for operational deposits of the cooperative financial network, the NSFR for the DZ BANK banking group (pre-merger) as at June 30, 2016 is 91.9 percent (December 31, 2015: 93.7 percent).

The operational deposits of affiliated local cooperative banks at WGZ BANK, which were included in accordance with the procedure explained above for the DZ BANK banking group (pre-merger), amounted to €6.6 billion as at June 30, 2016. Assuming a factor of 0 percent for the operational deposits of the cooperative financial network, the NSFR for the WGZ BANK banking group as at June 30, 2016 was 93.8 percent.

6. Capital adequacy

6.1. Economic capital adequacy

6.1.1. DZ BANK Group (pre-merger)

It was necessary to **recalculate the overall solvency requirement** as at December 31, 2015 owing to scheduled changes to the parameters for the risk measurement procedures and the updating of actuarial assumptions carried out in the second quarter of 2016 for the Insurance sector on the basis of R+V's 2015 consolidated financial statements. The recalculation reflects updated measurements of insurance liabilities based on annual actuarial analyses and updates to parameters in the risk capital calculation. Because of the complexity and the amount of time involved, the parameters are generally not completely updated in the in-year calculation and an appropriate projection is made.

Recalculating the overall solvency requirement as at December 31, 2015 means that R+V has implemented the finalized requirements of **Solvency II**, which have been in force since January 1, 2016. This involved switching the calculation of risk to a yield curve without an interest-rate premium, as stipulated by the European Insurance and Occupational Pensions Authority (EIOPA). A stochastic model was used for the life insurance providers' calculations. In addition, the calculation of the overall solvency requirement for occupational incapacity insurance was moved from the life actuarial risk module to the health actuarial risk module. The recalculation also involved changes to the scope of consolidation. These essentially related to the consolidation of the Italian subsidiaries Assimoco S.p.A., Segrate, (Assimoco) and Assimoco Vita S.p.A., Segrate, (Assimoco Vita). The implementation of Solvency II has had an impact on R+V's overall solvency requirement and own funds, although the DZ BANK Group's economic capital adequacy continues to be assured.

The **available internal capital** of the DZ BANK Group (pre-merger) as at June 30, 2016 was measured at €23,745 million (December 31, 2015: €22,518 million; original value: €22,616 million). As at June 30, 2016, the **capital buffer** amounted to €1,014 million (December 31, 2015: €1,526 million). The substantial decrease in the capital buffer was largely due to exposures being transferred from the capital buffer to the regular risk calculation. This decrease resulted in a corresponding increase in the risk capital requirement and available internal capital. The increase in available internal capital is also attributable, in particular, to a positive financial performance and the sharp fall in interest rates.

FIG. 12 – ECONOMIC CAPITAL ADEQUACY OF THE DZ BANK GROUP (PRE-MERGER)

€ million	Jun. 30, 2016	Dec. 31, 2015
Available internal capital	23,745	22,518
Capital buffer	-1,014	-1,526
Available internal capital after deduction of capital buffer	22,731	20,992
Upper loss limit	19,244	16,866
Risk capital requirement (after diversification)	13,695	12,098
Economic capital adequacy	**166.0%**	**173.5%**

Derived from the available internal capital minus the capital buffer, the **upper loss limit** for the DZ BANK Group (pre-merger) totaled €19,244 million as at June 30, 2016 (December 31, 2015: €16,866 million). As at June 30, 2016, the **risk capital requirement** was calculated at €13,695 million (December 31, 2015: €12,098 million; original value: €12,167 million). The rise in the upper loss limit was mainly caused by the model changes at R+V resulting from the implementation of Solvency II and by the refinement of risk models at DZ BANK. The higher risk capital requirement was largely due to a sharp fall in interest rates, the transfer of various exposures from the capital buffer to the risk capital requirement, and increased credit risk at DVB.

As at June 30, 2016, the **economic capital adequacy ratio** for the DZ BANK Group (pre-merger) was calculated at 166.0 percent (December 31, 2015: 173.5 percent; original value: 173.3 percent). Figure 12 provides an overview of the economic capital adequacy of the DZ BANK Group (pre-merger).

The upper loss limits and risk capital requirements for the Bank sector, broken down by risk type, are shown in figure 13.

Figure 14 sets out the upper loss limits and overall solvency requirements for the Insurance sector, broken down by risk type, and includes policyholder

FIG. 13 – UPPER LOSS LIMITS AND RISK CAPITAL REQUIREMENT IN THE BANK SECTOR OF THE DZ BANK GROUP (PRE-MERGER)

€ million	Upper loss limits		Risk capital requirement	
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Credit risk	4,973	4,860	3,780	3,569
Equity investment risk	1,299	1,081	1,068	854
Market risk[1]	6,490	5,830	3,748	3,204
Technical risk of a home savings and loan company[2]	600	550	541	549
Business risk[3]	847	775	707	579
Operational risk	1,052	1,150	870	871
Total (after diversification)	**14,034**	**13,066**	**9,511**	**8,391**

1 Market risk contains spread risk and migration risk.
2 Including business risk and reputational risk of BSH.
3 Apart from that of BSH, reputational risk is contained in the risk capital requirement for business risk.

FIG. 14 – UPPER LOSS LIMITS AND OVERALL SOLVENCY REQUIREMENT IN THE INSURANCE SECTOR OF THE DZ BANK GROUP (PRE-MERGER)

€ million	Upper loss limits		Overall solvency requirement	
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Life actuarial risk	750	520	659	403
Health actuarial risk	330	70	200	162
Non-life actuarial risk	3,100	2,600	2,692	2,651
Market risk	3,900	2,950	2,959	2,578
Counterparty default risk	110	50	75	67
Operational risk	600	470	532	478
Non-controlling interests in insurance companies and entities in other financial sectors	120	80	100	100
Total (after diversification)	**5,210**	**3,800**	**4,184**	**3,706**

participation. The definition of the upper loss limits and determination of overall solvency requirements take into account a favorable effect arising from the ability to offset deferred taxes resulting from the elimination of deferred tax liabilities in the loss scenario against losses. Diversification effects between the risk types are also taken into consideration. Owing to these effects of correlation, the overall solvency requirement and upper loss limits for each risk type are not cumulative.

As the upper loss limits were not retrospectively adjusted when the overall solvency requirement as at December 31, 2015 was recalculated, the prior-year upper loss limits for some of the risk types in the Insurance sector were exceeded retrospectively. This did not affect the overall upper loss limit for the Insurance sector.

6.1.2. WGZ BANK Group

The risk-bearing-capacity analysis for the WGZ BANK Group covers WGZ BANK, WL BANK, and WGZ BANK Ireland, Dublin.

As part of the risk-bearing-capacity concept used throughout the WGZ BANK Group, which is based on the assumption of company liquidation (gone concern), 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 capital requirement.

Figure 15 shows the determining factors for economic capital adequacy that were calculated for the WGZ BANK Group as at the reporting date. There were no limit overruns in the first half of the year.

FIG. 15 – ECONOMIC CAPITAL ADEQUACY OF THE WGZ BANK GROUP IN THE FIRST HALF OF 2016

€ million	Jun. 30, 2016	Average	Maximum	Minimum
Available internal capital	**6,400**	**6,309**	**6,400**	**6,235**
Risk limits				
Credit risk[1]	2,000	2,000	2,000	2,000
Market risk	1,727	1,727	1,727	1,727
Liquidity risk	55	55	55	55
Operational risk	88	88	88	88
Total	**3,870**	**3,870**	**3,870**	**3,870**
Risk capital requirement				
Credit risk[1]	1,412	1,414	1,455	1,389
Market risk	1,100	924	1,100	843
Liquidity risk	12	13	16	12
Operational risk	77	79	80	77
Total[2]	**2,601**	**2,430**	**2,601**	**2,329**
Economic capital adequacy	**246.1%**	**259.9%**	**270.1%**	**246.1%**

1 The disclosures for credit risk include equity investment risk.
2 The amounts for maximum and minimum total risk capital requirement refer to the totals at different points in time during the reporting period. Consequently, the maximum and minimum risk capital requirements shown for each risk type cannot be added together to produce the total minimum risk capital requirement and total maximum risk capital requirement.

6.2. Regulatory capital adequacy

6.2.1. DZ BANK financial conglomerate

Financial conglomerate solvency is reported to the regulator annually. Consequently, solvency ratios for the DZ BANK financial conglomerate as at June 30, 2016 have not been disclosed.

The solvency ratios as at December 31, 2015 were finalized in the first half of this year. Eligible own funds as at December 31, 2015 amounted to €20,760 million (provisional figure given in the 2015 opportunity and risk report: €20,491 million). On the other side of the ratio, the solvency requirement was €11,213 million (provisional figure given in the 2015 opportunity and risk report: €11,213 million). This produced a final coverage ratio of 185.1 percent (provisional figure given in the 2015 opportunity and risk report: 182.7 percent), significantly in excess of the regulatory minimum requirement.

The change in eligible own funds compared with the provisional figure is due to the final figures for some of the own funds positions not being available at the time of the preliminary calculation.

6.2.2. DZ BANK banking group (pre-merger) and WGZ BANK banking group

Regulatory capital ratios pursuant to the CRR based on a fully dynamic calculation of own funds

Applying the fully dynamic calculation of own funds, which is used for internal analysis, the capital ratios of the **DZ BANK banking group (pre-merger)** improved in the first half of 2016. The common equity Tier 1 capital ratio rose to 13.9 percent as at June 30, 2016, compared with a lower ratio of 13.6 percent as at December 31, 2015. The increase in the common equity Tier 1 capital ratio is primarily attributable to the inclusion of the positive results for the first half of the year. Applying the fully dynamic calculation of own funds, the Tier 1 capital ratio pursuant to the CRR was 15.8 percent as at June 30, 2016 (December 31, 2015: 15.6 percent). The corresponding total capital ratio stood at 18.6 percent at the reporting date (December 31, 2015: 18.7 percent).

The fully dynamic calculation of own funds involves a generally conservative calculation of the year-end values taking account of the CRR transition effects as at January 1 of each subsequent year. In addition, the profit eligible for retention for interim reporting periods is added to common equity Tier 1 capital in the fully dynamic calculation of own funds.

Regulatory capital ratios in accordance with the CRR disclosure

The regulatory **own funds** of the **DZ BANK banking group (pre-merger)**, which are used for regulatory reporting, amounted to a total of €17,791 million as at June 30, 2016 (December 31, 2015: €18,429 million). The reduction in **own funds** totaling €638 million was the result of common equity Tier 1 capital decreasing by €453 million and Tier 2 capital by €327 million. By contrast, additional Tier 1 capital increased by €142 million. The reduction in **common equity Tier 1 capital** was the result of a decrease in the revaluation reserve as well as a reduction in the use of non-controlling interests permitted by CRR transitional guidance. Moreover, the capital deductions in this class of capital increased because of the CRR transitional guidance. Under this guidance, an increasing proportion of the capital deductions impact on common equity Tier 1 capital each year, with a simultaneous reduction of their impact on additional Tier 1 capital. The portfolio of Tier 1 instruments classified as **additional Tier 1 capital** as at the reporting date was unchanged compared with December 31, 2015. The increase in this class of capital was attributable to the lower capital deductions resulting from the changes to the CRR transitional guidance described above. The decrease in **Tier 2 capital** was due, in particular, to the reduced level of eligibility under the CRR of Tier 2 instruments in the last 5 years before the maturity date.

As at June 30, 2016, the regulatory **capital requirements** of the **DZ BANK banking group (pre-merger)** amounted to €7,906 million (December 31, 2015: €7,828 million).

The **total capital ratio** of the **DZ BANK banking group (pre-merger)** declined from 18.8 percent as at December 31, 2015 to 18.0 percent as at the reporting date. As at June 30, 2016, the **Tier 1 capital ratio** was 15.2 percent, which was below the ratio of 15.6 percent as at December 31, 2015. The **common equity Tier 1 capital ratio** stood at 13.3 percent as at June 30, 2016 and was thus less than the ratio of 13.9 percent as at December 31, 2015.

The regulatory minimum values applicable to the **DZ BANK banking group (pre-merger)** were significantly exceeded at all times during the first half of the year. This was equally true for the **WGZ BANK banking group**.

Figure 16 shows the regulatory capital ratios for both banking groups.

FIG. 16 – REGULATORY CAPITAL RATIOS IN ACCORDANCE WITH THE CRR DISCLOSURE

	DZ BANK banking group (pre-merger)		WGZ BANK banking group
€ million	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016
Capital			
Common equity Tier 1 capital	13,101	13,554	3,192
Additional Tier 1 capital	1,890	1,748	–
Tier 1 capital	**14,991**	**15,302**	**3,192**
Total Tier 2 capital after capital deductions	2,800	3,127	334
Total capital	**17,791**	**18,429**	**3,526**
Capital requirements			
Credit risk (including long-term equity investments)	6,501	6,243	1,616
Market risk	693	872	60
Operational risk	712	713	102
Total	**7,906**	**7,828**	**1,778**
Capital ratios			
Total capital ratio (minimum ratio: 8.0 percent)	18.0%	18.8%	15.9%
Tier 1 capital ratio (minimum ratio: 5.5 percent)	15.2%	15.6%	14.4%
Common equity Tier 1 capital ratio (minimum ratio: 4.0 percent)	13.3%	13.9%	14.4%

SREP minimum ratio

Under the resolution adopted by the ECB in accordance with the regulatory Supervisory Review and Evaluation Process for Basel Pillar 2 (SREP), the **DZ BANK banking group (pre-merger)** has to maintain a common equity Tier 1 capital ratio of at least 9.5 percent this year. In addition, the countercyclical capital buffer has had to be calculated and maintained since January 1, 2016. This buffer amounted to 0.021 percent as at the reporting date. The SREP minimum ratio therefore totaled 9.521 percent. This requirement was met throughout the first half of the year and as at the reporting date. The common equity Tier 1 capital ratio was 13.3 percent as at June 30, 2016 (December 31, 2015: 13.9 percent).

The SREP minimum ratio applicable to the **WGZ BANK banking group** for the first half of the year was set at 9.25 percent by the ECB. The common equity Tier 1 capital ratio stood at 14.4 percent as at June 30, 2016.

The SREP minimum ratio specified by the ECB for the DZ BANK banking group (pre-merger) also applies to the **joint banking group**. According to current projections, the requirements set by the ECB are expected to be exceeded in the second half of the year.

Capital buffer according to section 10g (1) KWG

The Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] has adopted a resolution under which, from 2017, the **DZ BANK banking group (pre-merger)** must maintain a capital buffer comprising common equity Tier 1 capital for other systemically important institutions within the meaning of section 10g (1) KWG. The required buffer will change over time as follows:

– From January 1, 2017 to December 31, 2017: 0.33 percent
– From January 1, 2018 to December 31, 2018: 0.66 percent
– From January 1, 2019 onward: 1 percent.

These requirements also apply to the **joint banking group**.

The capital buffers will be added to the common equity Tier 1 capital ratio that is still to be specified by the ECB in accordance with SREP for 2017. Based on the ECB's specification of 9.5 percent for 2016 and the buffer for other systemically important institutions of the DZ BANK Group (pre-merger), the **individual common equity Tier 1 capital ratio** for 2017 would total 9.83 percent plus the countercyclical capital buffer calculated as at the relevant reporting date. According to current projections, this requirement is expected to be met.

Future regulatory capital ratios (full application of CRR)

According to the rules that will be in force from 2019, under which the CRR will be applied in full, the capital ratios for the DZ BANK banking group (pre-merger) and the WGZ BANK banking group will be as shown in figure 17.

In accordance with the fully dynamic calculation of own funds and applying the CRR in full, the common equity Tier 1 capital ratio of the DZ BANK banking group (pre-merger) was 13.3 percent as at June 30, 2016 (December 31, 2015: 13.0 percent).

At all times in the first half of the year, the capital ratios of the DZ BANK banking group (pre-merger) calculated in accordance with full application of the CRR were above the minimum ratios that will apply in the future. The ratios calculated as at June 30, 2016 for the WGZ BANK banking group also exceeded these minimum ratios.

FIG. 17 – FUTURE REGULATORY RATIOS IN ACCORDANCE WITH FULL APPLICATION OF THE CRR

	DZ BANK banking group (pre-merger)		WGZ BANK banking group
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016
Total capital ratio (minimum ratio: 10.5 percent)	17.6%	18.3%	14.1%
Tier 1 capital ratio (minimum ratio: 8.5 percent)	13.3%	13.8%	13.1%
Common equity Tier 1 capital ratio (minimum ratio: 7.0 percent)	12.6%	13.0%	13.1%

Leverage ratio

In accordance with the transitional guidance for the delegated act, the leverage ratio of the **DZ BANK banking group (pre-merger)** was 4.3 percent as at June 30, 2016 (December 31, 2015: 4.5 percent).

The decrease in this ratio during the first half of 2016 mainly resulted from a rise in the total exposure measure caused by increased on-balance-sheet business as well as from a reduction in Tier 1 capital.

The leverage ratio for the **WGZ BANK banking group** as at June 30, 2016, which was calculated on the same legal basis, amounted to 3.4 percent.

Applying the fully dynamic calculation of own funds, the leverage ratio of the **DZ BANK banking group (pre-merger)** was 4.5 percent as at June 30, 2016. This is the same percentage as at the end of 2015.

6.2.3. R+V Versicherung AG insurance group

In the first half of 2016, all of the supervised insurance companies of R+V together with the R+V Versicherung AG insurance group, which is the higher-level entity for regulatory purposes, satisfied the minimum solvency requirements that have been in force since January 1, 2016 under Solvency II.

The project accounting applied in the internal planning shows that the R+V Versicherung AG insurance group's solvency ratio will continue to exceed the minimum statutory requirement as at December 31, 2016.

In view of the ongoing challenging situation in the financial markets, forecasts about changes in the solvency capital requirement and own funds are subject to significant uncertainty. However, R+V will take suitable measures to ensure its risk-bearing capacity.

Bank sector

7. Credit risk

In the period under review, equity investment risk was managed separately from credit risk in the Bank sector of the **DZ BANK Group (pre-merger)**. The investment volume and the equity investment risk of the DZ BANK Group's Bank sector are therefore disclosed in section 8.

By contrast, the equity investment risk of the **WGZ BANK Group** was managed together with credit risk in the first 6 months of the year. Nonetheless, the investment volume is treated in the same way as that of the DZ BANK Group (pre-merger) in this opportunity and risk report to enable a better comparison between the two former central institution groups. In the information on economic capital adequacy (section 6.1.2.), however, the figure for equity investment risk is included in the figure for credit risk.

7.1. Lending volume

7.1.1. Lending volume as risk factor

The amount and structure of the lending volume are key factors in determining the credit risk. For the purposes of internal credit risk management in the Bank sector, the lending volume is broken down by credit-risk-bearing instrument – traditional lending, securities business, and derivatives and money market business. This breakdown corresponds to the risk classes required for the external reporting of risks arising from financial instruments.

The credit-risk-bearing instruments are also classified by sector, country group, credit rating, and term to maturity so that volume concentrations can be identified. Particularly in the case of an accumulation of exposures that have longer terms to maturity and a non-investment-grade rating, there is a danger that the credit risk will materialize, causing losses with a negative impact on the financial performance and financial position of the DZ BANK Group.

7.1.2. Change in lending volume

DZ BANK Group (pre-merger)

The **total lending volume** decreased slightly in the first half of the year, from €302.3 billion as at December 31, 2015 to €301.4 billion as at June 30, 2016.

There was an increase in the volume of **traditional lending business**, which rose from €209.8 billion as at December 31, 2015 to €210.1 billion as at June 30, 2016. The credit quality breakdown within this type of business was unchanged compared with the end of last year.

The lending volume in the **securities business** was down by 6 percent, from €78.4 billion as at December 31, 2015 to €74.0 billion as at June 30, 2016. This reduction was largely attributable to DZ BANK (pre-merger) and DG HYP.

Owing to an increased exposure, mainly at DZ BANK (pre-merger), the lending volume in the **derivatives and money market business** rose by 23 percent to €17.2 billion as at June 30, 2016 (December 31, 2015: €14.0 billion).

WGZ BANK Group

The lending volume in the WGZ BANK Group amounted to €92.6 billion as at June 30, 2016. The bulk of this volume was attributable to the **traditional lending business** (€60.4 billion) and related to business with small and medium-sized corporate customers, real estate and local authority loans business, and cooperative network business with the local cooperative banks. The growth of the lending volume was particularly pronounced in the real estate loans business and in cooperative network business during the reporting period.

As at June 30, 2016, the lending volume in the **securities business** totaled €29.1 billion. This primarily comprises public-sector bonds (mainly German debtors), covered securities, and bonds from international companies whose securities are admitted to trading on a regulated market in the EU.

As at June 30, 2016, the lending volume in the **derivatives and money market business** amounted to €3.1 billion and was almost entirely attributable to WGZ BANK.

7.1.3. Sector structure of the credit portfolio

DZ BANK Group (pre-merger)

Figure 18 shows the breakdown of the credit portfolio by sector, in which the lending volume is classified according to the industry codes used by Deutsche Bundesbank. This also applies to the other sector breakdowns related to credit risk in this opportunity and risk report.

As at June 30, 2016, a significant proportion (35 percent, which was unchanged compared with the end of last year) of the lending volume continued to be concentrated in the financial sector. In addition to the local cooperative banks, the borrowers in this customer segment comprised banks from other sectors of the banking industry and other financial institutions.

In its role as a central institution for the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK provides funding for the entities in the

FIG. 18 – BANK SECTOR: LENDING VOLUME OF THE DZ BANK GROUP (PRE-MERGER), BY SECTOR

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Financial sector	68.0	68.2	24.4	26.8	11.8	9.7	104.2	104.7
Public sector	5.9	6.2	43.5	45.4	1.5	0.8	50.9	52.4
Corporates	83.8	84.0	2.5	2.3	2.8	2.6	89.1	88.9
Retail	46.3	45.6	2.5	2.9	–	–	48.9	48.6
Industry conglomerates	5.6	5.4	1.1	1.1	1.0	0.8	7.7	7.2
Other	0.5	0.5	–	–	–	–	0.5	0.5
Total	210.1	209.8	74.0	78.4	17.2	14.0	301.4	302.3

DZ BANK Group and for the cooperative banks. For this reason, the cooperative banks account for one of the largest receivables items in the DZ BANK Group's credit portfolio. DZ BANK also supports the cooperative banks in the provision of larger-scale funding to corporate customers.

The resulting syndicated business, DZ BANK (pre-merger), DG HYP and DVB's direct business with corporate customers in Germany and abroad, the retail real-estate business under the umbrella of BSH, and TeamBank's consumer finance business determine the sectoral breakdown of the remainder of the portfolio.

WGZ BANK Group

Figure 19 shows the sectoral breakdown of the WGZ BANK Group's credit portfolio as at June 30, 2016. The largest proportion was accounted for by the financial sector (35 percent). As was the case for the DZ BANK Group, this concentration was caused by the WGZ BANK Group's role as a central institution for the cooperative financial network. This segment also comprised banks from other sectors of the banking industry and other financial institutions.

The corporates segment mainly consisted of the commercial real estate finance business, lending to small and medium-sized corporate customers, and bonds from international companies whose securities are admitted to trading on a regulated market in the EU. A substantial portion of the lending volume was also attributable to the public sector. The retail segment includes the consumer home finance business of WL BANK, which is operated in collaboration with the local cooperative banks.

7.1.4. Geographical structure of the credit portfolio

DZ BANK Group (pre-merger)

Figure 20 shows the geographical distribution of the credit portfolio by country group. The lending volume is assigned to the individual country groups using the International Monetary Fund's breakdown, which is updated annually. This also applies to the other country-group breakdowns related to credit risk in this opportunity and risk report.

As at June 30, 2016, 95 percent (December 31, 2015: 94 percent) of the total lending volume was concentrated in Germany and other industrialized countries.

FIG. 19 – BANK SECTOR: LENDING VOLUME OF THE WGZ BANK GROUP AS AT JUNE 30, 2016, BY SECTOR

€ billion	Traditional lending business	Securities business	Derivatives and money market business	Total
Financial sector	22.1	7.7	2.6	32.4
Public sector	5.5	14.6	0.2	20.3
Corporates	22.8	5.9	0.3	29.0
Retail	9.9	0.4	–	10.3
Industry conglomerates	–	0.6	–	0.6
Other	–	–	–	–
Total	**60.4**	**29.1**	**3.1**	**92.6**

FIG. 20 – BANK SECTOR: LENDING VOLUME OF THE DZ BANK GROUP (PRE-MERGER), BY COUNTRY GROUP

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Germany	170.2	168.8	50.0	52.3	11.7	8.8	232.0	229.8
Other industrialized countries	27.5	27.5	20.6	22.7	4.9	4.7	52.9	54.9
Advanced economies	3.9	4.2	0.5	0.6	0.1	0.1	4.5	4.9
Emerging markets	8.5	9.3	0.7	0.7	0.2	0.2	9.5	10.2
Supranational institutions	–	–	2.2	2.2	0.3	0.3	2.5	2.5
Total	**210.1**	**209.8**	**74.0**	**78.4**	**17.2**	**14.0**	**301.4**	**302.3**

WGZ BANK Group

Figure 21 shows the breakdown of the credit portfolio by country group. The countries were classified in the same way as for the DZ BANK Group.

FIG. 21 – BANK SECTOR: LENDING VOLUME OF THE WGZ BANK GROUP AS AT JUNE 30, 2016, BY COUNTRY GROUP

€ billion	Traditional lending business	Securities business	Derivatives and money market business	Total
Germany	59.4	16.6	2.0	78.0
Other industrialized countries	0.5	11.1	1.1	12.7
Advanced economies	–	0.1	–	0.1
Emerging markets	0.4	0.5	0.1	1.0
Supranational institutions	–	0.8	–	0.8
Total	60.4	29.1	3.1	92.6

As at June 30, 2016, 84 percent of total lending was concentrated in Germany and 14 percent in other industrialized countries.

7.1.5. Residual maturity structure of the credit portfolio

DZ BANK Group (pre-merger)

The breakdown of the credit portfolio by **residual maturity** presented in figure 22 as at June 30, 2016 shows that the lending volume had decreased by €2.3 billion in the short-maturity band compared with December 31, 2015. This was largely attributable to maturities of securities held by BSH and DG HYP. The increase of €1.3 billion in the lending volume in the longer-term maturity band was predominantly a consequence of the expansion of traditional lending business at DZ BANK (pre-merger).

Figures 23 and 24 show the **portion of the lending volume that is past due but not impaired**. The disclosures relate to traditional lending business.

FIG. 22 – BANK SECTOR: LENDING VOLUME OF THE DZ BANK GROUP (PRE-MERGER), BY RESIDUAL MATURITY

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
≤ 1 year	42.6	44.0	11.5	15.3	12.4	9.5	66.5	68.8
> 1 year to ≤ 5 years	47.2	47.3	29.7	29.4	1.7	1.8	78.7	78.6
> 5 years	120.3	118.5	32.7	33.7	3.1	2.7	156.2	154.9
Total	210.1	209.8	74.0	78.4	17.2	14.0	301.4	302.3

FIG. 23 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED OF THE DZ BANK GROUP (PRE-MERGER), BY SECTOR

	Past due up to 5 days		Past due > 5 days to 1 month		Past due > 1 month to 2 months		Past due > 2 months to 3 months		Past due > 3 months		Total	
€ million	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Financial sector	1	9	20	–	–	1	–	–	–	5	22	15
Public sector	–	–	–	1	–	–	–	–	–	–	1	1
Corporates	63	22	111	244	116	31	87	10	575	215	951	522
Retail	44	18	197	18	74	6	46	2	182	17	542	61
Industry conglomerates	–	3	–	–	–	–	–	–	–	–	–	4
Other	–	–	–	–	–	–	–	–	–	–	–	–
Total	108	53	328	263	190	39	133	13	757	237	1,516	603

FIG. 24 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED OF THE DZ BANK GROUP (PRE-MERGER), BY COUNTRY GROUP

	Past due up to 5 days		Past due > 5 days to 1 month		Past due > 1 month to 2 months		Past due > 2 months to 3 months		Past due > 3 months		Total	
€ million	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Germany	93	43	222	69	92	39	54	13	247	70	707	233
Other industrialized countries	15	2	46	42	97	–	26	–	130	52	314	96
Advanced economies	–	1	11	60	–	–	22	–	175	43	209	104
Emerging markets	–	7	49	92	1	–	31	–	205	71	286	170
Supranational institutions	–	–	–	–	–	–	–	–	–	–	–	–
Total	**108**	53	**328**	263	**190**	39	**133**	13	**757**	237	**1,516**	603

No valuation allowances were recognized for these loans because it can generally be assumed that the amounts past due will be repaid soon. Furthermore, it can be assumed that the entire amounts due under the lending agreements concerned can be collected by recovering collateral. Because of the conservative risk provision policy of the entities in the Bank sector, past-due loans only account for a relatively small proportion of the overall credit portfolio.

The significant rise in past-due loans in the corporates sector, which went up from €522 million as at December 31, 2015 to €951 million as at June 30, 2016, was largely attributable to DVB's shipping and offshore businesses. In the retail sector, the increase from €61 million at the end of 2015 to €542 million as at the reporting date was due to a change in the method of calculation used at BSH. The rise shown therefore does not mean that the portfolio has deteriorated.

WGZ BANK Group

The **residual maturity structure** shown in figure 25 shows a concentration of 64 percent of the total lending volume in the maturity band of over 5 years as at June 30, 2016. This maturity band is dominated by local authority and real estate loans business and by public-sector bonds.

Short-term lending with a residual maturity of up to one year made up 12 percent of the total volume; residual maturities of between one and 5 years accounted for 24 percent.

The **volume of loans that were past due but not impaired** as at June 30, 2016 came to €19 million in the WGZ BANK Group.

7.1.6. Rating structure of the credit portfolio

DZ BANK Group (pre-merger)

Figure 26 shows the **total lending volume** by rating class according to the VR credit rating master scale. 'Not rated' comprises counterparties for which a rating classification is not required.

The proportion of the total lending volume accounted for by rating classes 1A to 3A (investment grade) remained unchanged at 74 percent between December 31, 2015 and June 30, 2016. Rating classes 3B to 4E (non-investment grade) represented 23 percent of the total lending volume as at the reporting date, which was also unchanged compared with the end of last year. Defaults in rating classes 5A to 5E accounted for 2 percent of the Bank sector's total lending volume as at June 30, 2016 and thus remained at the low level reported at the end of 2015.

As at June 30, 2016, the **10 counterparties** associated with the largest lending volumes accounted for 11 per-

FIG. 25 – BANK SECTOR: LENDING VOLUME OF THE WGZ BANK GROUP AS AT JUNE 30, 2016, BY RESIDUAL MATURITY

€ billion	Traditional lending business	Securities business	Derivatives and money market business	Total
≤ 1 year	6.9	2.8	1.7	11.5
> 1 year to ≤ 5 years	8.7	12.8	0.5	22.0
> 5 years	44.7	13.5	0.9	59.1
Total	60.4	29.1	3.1	**92.6**

FIG. 26 – BANK SECTOR: LENDING VOLUME OF THE DZ BANK GROUP (PRE-MERGER), BY RATING CLASS

€ billion		Traditional lending business		Securities business		Derivatives and money market business		Total	
		Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Investment grade	1A	2.4	1.8	29.3	26.9	2.0	1.2	33.8	30.0
	1B	1.6	1.8	7.7	10.3	1.7	1.1	11.1	13.3
	1C	63.0	63.9	10.7	11.8	5.3	3.9	79.1	79.6
	1D	2.2	2.3	1.9	2.6	0.2	0.3	4.3	5.2
	1E	3.0	2.3	1.2	1.3	1.9	0.4	6.2	4.0
	2A	7.4	7.8	1.8	1.7	0.8	2.0	10.0	11.5
	2B	6.9	6.2	6.8	8.5	1.1	1.5	14.8	16.2
	2C	11.1	11.6	3.9	2.4	1.2	0.9	16.1	15.0
	2D	9.8	9.1	1.8	3.0	0.8	0.7	12.4	12.8
	2E	17.7	16.5	3.8	4.2	0.7	0.8	22.3	21.5
	3A	12.4	12.8	0.9	0.8	0.4	0.3	13.7	13.9
Non-investment grade	3B	15.1	16.8	0.4	0.6	0.2	0.3	15.7	17.7
	3C	13.9	11.6	1.4	1.6	0.1	0.1	15.4	13.3
	3D	11.6	13.5	0.4	0.6	0.1	0.1	12.0	14.2
	3E	4.5	3.5	0.3	0.1	–	–	4.8	3.6
	4A	2.2	2.8	0.1	0.1	–	–	2.2	2.9
	4B	7.2	6.9	0.2	0.2	–	–	7.3	7.1
	4C	5.9	5.5	0.1	0.1	–	–	6.0	5.6
	4D	0.6	0.6	–	–	–	–	0.6	0.6
	4E	4.1	4.5	0.1	0.1	–	–	4.1	4.6
Default		5.0	5.0	0.2	0.2	–	–	5.2	5.2
Not rated		2.6	2.8	1.1	1.2	0.5	0.4	4.1	4.5
Total		**210.1**	209.8	**74.0**	78.4	**17.2**	14.0	**301.4**	302.3

cent of total lending. This was the same percentage as at December 31, 2015. These counterparties largely comprised public-sector and financial-sector borrowers domiciled in Germany. All these exposures consisted of investment-grade lending.

WGZ BANK Group

Figure 27 contains a breakdown of the lending volume by rating class according to the VR credit rating master scale. The table shows that the rating structure for credit risk in the WGZ BANK Group is very good. The proportion of the total lending volume classified as investment grade (rating classes 1A to 3A) was 93 percent as at June 30, 2016, while the proportion of non-investment grade lending (rating classes 3B to 4E) was 6 percent. Defaults (rating classes 5A to 5E) made up 0.4 percent of the total lending volume.

As at June 30, 2016, the **10 counterparties** associated with the largest lending volumes accounted for 13 percent of total lending. These counterparties were predominantly public-sector borrowers and banks in the cooperative financial network. All these exposures consisted of investment-grade lending.

7.1.7. Collateralized lending volume

DZ BANK Group (pre-merger)

Figure 28 shows the breakdown of the collateralized lending volume at overall portfolio level by type of collateral and class of risk-bearing instrument. In the case of traditional lending business, figures are generally reported before the application of any offsetting agreements, whereas the collateralized exposure in the securities business and derivatives and money market business is shown net.

FIG. 27 – BANK SECTOR: LENDING VOLUME OF THE WGZ BANK GROUP AS AT JUNE 30, 2016, BY RATING CLASS

€ billion		Traditional lending business	Securities business	Derivatives and money market business	Total
Investment grade	1A	3.6	8.9	0.2	12.7
	1B	0.7	5.6	0.4	6.8
	1C	1.4	0.9	0.1	2.4
	1D	20.8	3.2	0.8	24.8
	1E	4.7	1.1	0.2	6.0
	2A	4.8	1.3	0.2	6.4
	2B	3.3	1.5	0.1	4.9
	2C	3.7	1.8	0.4	5.9
	2D	5.0	2.8	0.2	8.0
	2E	2.9	0.7	0.1	3.6
	3A	4.1	0.4	0.3	4.8
Non-investment grade	3B	1.7	0.2	0.1	2.0
	3C	1.6	0.5	–	2.1
	3D	0.8	0.1	–	1.0
	3E	0.4	–	–	0.4
	4A	0.2	–	–	0.2
	4B	0.1	–	–	0.1
	4C	–	–	–	–
	4D	–	–	–	–
	4E	–	–	–	0.1
Default		0.3	–	–	0.4
Not rated		–	–	–	–
Total		60.4	29.1	3.1	**92.6**

As at June 30, 2016, the collateralized lending volume had fallen slightly to €90.1 billion from €90.4 billion as at December 31, 2015. The collateralization rate remained unchanged at 30 percent.

In **traditional lending business**, the largest proportion of the collateralized lending volume (81 percent as at June 30, 2016, which was unchanged compared with the end of 2015) continued to be accounted for by lending secured by charges over physical assets such as land charges, mortgages, and registered ship mortgages. These types of collateral were particularly important for BSH, DG HYP, and DVB. In contrast, charges over physical assets were of lesser importance at DZ BANK (pre-merger) because it based its lending decisions primarily on borrower credit quality.

In **securities transactions**, there is generally no further collateralization to supplement the hedging activities already taken into account. Equally, in the **derivatives and money market business**, collateral received under collateral agreements is already factored into the calculation of gross lending volume with the result that only a comparatively low level of collateral (personal and financial collateral) is then additionally reported.

In terms of traditional collateral, **securities transactions** are generally concluded on an unsecured basis. A low level of personal collateral (guarantees and indemnity agreements) and financial collateral is

FIG. 28 – BANK SECTOR: COLLATERALIZED LENDING VOLUME OF THE DZ BANK GROUP (PRE-MERGER), BY TYPE OF COLLATERAL

€ billion	Traditional lending business		Securities business		Derivatives and money market business		Total	
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Guarantees, indemnities, risk subparticipation	6.8	6.9	–	–	0.4	0.3	7.2	7.3
Credit insurance	2.9	2.7	–	–	–	–	2.9	2.7
Land charges, mortgages, ship mortgages	72.7	72.7	–	–	–	–	72.7	72.8
Pledged loans and advances, assignments, other pledged assets	5.1	5.3	–	–	–	–	5.2	5.3
Financial collateral	1.6	1.6	–	–	0.2	0.3	1.8	1.9
Other collateral	0.4	0.4	–	–	–	–	0.4	0.4
Collateralized lending volume	**89.5**	89.7	**–**	–	**0.7**	0.7	**90.1**	90.4
Gross lending volume	210.1	209.8	74.0	78.4	17.2	14.0	301.4	302.3
Uncollateralized lending volume	**120.7**	120.1	**74.0**	78.4	**16.6**	13.3	**211.2**	211.9
Collateralization rate	**42.6%**	42.7%	**–**	–	**3.8%**	5.2%	**29.9%**	29.9%

used to mitigate risk in **derivatives and money market business**.

WGZ BANK Group

Figure 29 shows the breakdown of collateralized lending volume by type of collateral.

In **traditional lending business**, the largest proportion of the collateralized lending volume (94 percent) was accounted for by lending secured by charges over physical assets such as land charges and mortgages. All other types of collateral were of minor significance in the WGZ BANK Group.

The information about the collateral in the **securities business** and **derivatives and money market business** of the DZ BANK Group (pre-merger) also applies to the WGZ BANK Group.

7.1.8. Securitizations

DZ BANK Group (pre-merger)

In the period under review, the ABS portfolio was predominantly held by DZ BANK (pre-merger) and DG HYP. It had a fair value of €3,006 million as at the reporting date (December 31, 2015: €3,528 million). This includes the ABS wind-down portfolio dating back to the period before the financial crisis, which had a fair value of €2,396 million (December 31, 2015: €2,851 million).

The changes in the wind-down portfolio in the first 6 months of 2016 were largely in line with expectations, both in terms of the contraction of the portfolio as a result of redemptions and in terms of the overall performance of the portfolio.

In addition, DZ BANK (pre-merger) acted as a sponsor in ABCP programs that are funded by issuing money market-linked asset-backed commercial paper (ABCP) or liquidity lines. The ABCP programs were made available to DZ BANK customers, who then securitized their own assets via these programs.

WGZ BANK Group

WGZ BANK Ireland was the only entity in the WGZ BANK Group to hold securitization exposures.

FIG. 29 – BANK SECTOR: COLLATERALIZED LENDING VOLUME OF THE WGZ BANK GROUP AS AT JUNE 30, 2016, BY TYPE OF COLLATERAL

€ billion	Traditional lending business	Securities business	Derivatives and money market business	Total
Guarantees, indemnities, risk subparticipation	0.5	–	–	0.5
Credit insurance	–	–	–	–
Land charges, mortgages, ship mortgages	20.4	–	–	20.4
Pledged loans and advances, assignments, other pledged assets	0.8	–	–	0.8
Financial collateral	–	–	–	–
Other collateral	–	–	–	–
Collateralized lending volume	**21.8**	**–**	**–**	**21.8**
Gross lending volume	60.4	29.1	3.1	92.6
Uncollateralized lending volume	**38.6**	**29.1**	**3.1**	**70.9**
Collateralization rate	**36.1%**	**–**	**–**	**23.5%**

As at June 30, 2016, the fair value of the securitization portfolio amounted to €629 million. This included the wind-down portfolio dating back to the period before the financial crisis, which had a fair value of €506 million.

As at June 30, 2016, 92 percent of the securitization portfolio was investment grade. The bulk of the portfolio consisted of securitizations based on assets from western European countries, including those on the eurozone's periphery. In terms of product type, more than half of the securitizations were classified as residential mortgage-backed securities. Another significant product type was securitizations based on car lease receivables.

7.2. Portfolios with increased risk content

The following disclosures relating to exposures in subportfolios also form part of the above analyses of the entire credit portfolio. However, these subportfolios have been analyzed separately because of their significance for the risk position.

7.2.1. European sovereign debt crisis, Italian banking crisis, and Brexit

DZ BANK Group (pre-merger)

As at June 30, 2016, loans and advances to counterparties in the countries directly affected by the **European sovereign debt crisis** amounted to €7,150 million (December 31, 2015: €8,095 million). The decrease was mainly due to maturities of Spanish securities held by DG HYP.

As a result of a further improvement in its credit rating, Ireland has not been shown separately in internal risk reporting since the start of this year. Consequently, the total lending volume in respect of the eurozone periphery countries as at December 31, 2015 disclosed in this opportunity and risk report differs from the corresponding amount in the 2015 opportunity and risk report.

Figure 30 shows the borrower structures in the eurozone periphery countries by credit-risk-bearing instrument.

The volume of lending to Italian banks that is potentially affected by the current **Italian banking crisis** stood at €191 million as at June 30, 2016 (December 31, 2015: €217 million). Of this amount, €88 million was attributable to secured bonds (December 31, 2015: €90 million). This lending volume is included in the exposure shown for the Italian financial sector in figure 30.

As at June 30, 2016, the loans and advances that are affected by the expected **Brexit** to counterparties

FIG. 30 – BANK SECTOR: LOANS AND ADVANCES OF THE DZ BANK GROUP (PRE-MERGER) TO BORROWERS IN EUROZONE PERIPHERY COUNTRIES

	Traditional lending business[1]		Securities business		Derivatives and money market business		Total	
€ million	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Portugal	**99**	106	**696**	741	**–**	–	**795**	847
of which: public sector	–	–	609	645	–	–	609	645
of which: non-public sector	99	106	87	96	–	–	186	202
of which: financial sector	–	–	4	4	–	–	4	5
Italy	**229**	209	**2,547**	2,563	**17**	17	**2,793**	2,790
of which: public sector	–	–	2,107	2,088	–	–	2,107	2,088
of which: non-public sector	229	209	440	475	17	17	686	702
of which: financial sector	32	31	179	213	14	15	225	259
Greece	**29**	41	**–**	–	**–**	–	**29**	41
of which: public sector	–	–	–	–	–	–	–	–
of which: non-public sector	29	41	–	–	–	–	29	41
of which: financial sector	–	–	–	–	–	–	–	–
Spain	**321**	336	**3,193**	4,055	**19**	26	**3,534**	4,416
of which: public sector	26	33	1,823	1,875	–	–	1,849	1,908
of which: non-public sector	296	303	1,370	2,180	19	26	1,685	2,509
of which: financial sector	2	20	621	1,370	15	22	638	1,412
Total	**679**	692	**6,436**	7,360	**36**	43	**7,150**	8,095
of which: public sector	26	33	4,539	4,609	–	–	4,565	4,641
of which: non-public sector	653	659	1,897	2,751	36	43	2,586	3,453
of which: financial sector	34	51	804	1,588	29	37	867	1,675

1 Unlike the other presentations of lending volume, traditional lending business in this case includes equity investments.

in the United Kingdom totaled €11,239 million (December 31, 2015: €9,805 million); most of them were classified as investment grade. The loans and advances can be broken down by credit-risk-bearing instrument as follows:

– Traditional lending business: €5,124 million (December 31, 2015: €5,520 million)
– Securities business: €1,817 million (December 31, 2015: €2,034 million)
– Derivatives and money market business: €4,297 million (December 31, 2015: €2,251 million).

The increase in derivatives and money market business is almost entirely accounted for by transactions with the Bank of England.

WGZ BANK Group

As at June 30, 2016, loans and advances of the WGZ BANK Group to counterparties in the countries directly affected by the **European sovereign debt crisis** amounted to €2,602 million.

The volume of lending to Italian banks that is potentially affected by the current **Italian banking crisis** stood at €55 million as at June 30, 2016. Of this amount, €9 million was attributable to secured bonds. This lending volume is included in the exposure shown for the Italian financial sector in figure 31.

The volume of lending that was affected by **Brexit** disbursed by the WGZ BANK Group to counterparties in the United Kingdom totaled €656 million as at June 30, 2016. Of this amount, €611 million was attributable to the securities business. Almost all of the lending volume was categorized as investment grade.

7.2.2. Other global trouble spots

DZ BANK Group (pre-merger)

As at June 30, 2016, loans and advances made by entities in the DZ BANK Group (pre-merger) to counterparties in **Turkey** came to €1,063 million (December 31, 2015: €982 million). They can be broken down by credit-risk-bearing instrument as follows:

FIG. 31 – BANK SECTOR: LOANS AND ADVANCES OF THE WGZ BANK GROUP TO BORROWERS IN EUROZONE PERIPHERY COUNTRIES AS AT JUNE 30, 2016

€ million	Traditional lending business[1]	Securities business	Derivatives and money market business	Total
Portugal	26	351	–	**377**
of which: public sector	–	309	–	309
of which: non-public sector	26	42	–	68
of which: financial sector	26	–	–	26
Italy	9	1,180	36	**1,225**
of which: public sector	–	1,009	–	1,009
of which: non-public sector	9	171	36	216
of which: financial sector	9	19	36	65
Greece	3	15	–	**17**
of which: public sector	–	–	–	–
of which: non-public sector	3	15	–	17
of which: financial sector	3	–	–	3
Spain	57	847	78	**982**
of which: public sector	–	659	–	659
of which: non-public sector	57	187	78	322
of which: financial sector	57	42	78	177
Total	95	2,393	114	**2,602**
of which: public sector	–	1,978	–	1,978
of which: non-public sector	95	415	114	624
of which: financial sector	95	62	114	270

1 Unlike the other presentations of lending volume, traditional lending business in this case includes equity investments.

FIG. 32 – BANK SECTOR: SHIPPING FINANCE LENDING VOLUME OF THE DZ BANK GROUP (PRE-MERGER), BY COUNTRY GROUP

	Traditional lending business		Securities business		Derivatives business		Total	
€ million	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Germany	1,442	1,588	–	–	4	12	1,447	1,599
Other industrialized countries	6,900	7,004	–	–	14	15	6,913	7,020
Advanced economies	1,985	2,173	–	–	–	–	1,985	2,173
Emerging markets	1,720	1,883	–	–	9	8	1,730	1,892
Total	12,047	12,649	–	–	27	35	12,075	12,684

– Traditional lending business: €1,040 million (December 31, 2015: €957 million)
– Securities business: €19 million (December 31, 2015: €25 million).

Due to the reduction of the lending exposure in **Russia** and **Hungary**, these countries made only an insignificant contribution to credit risk in the Bank sector. Their credit ratings have not changed.

WGZ BANK Group

The volume of lending disbursed by the WGZ BANK Group to counterparties in **Turkey** came to €120 million as at June 30, 2016. This lending was entirely attributable to the export finance business.

7.2.3. Shipping finance business

As at June 30, 2016, the shipping finance portfolio had a value of €12,075 million (December 31, 2015: €12,684 million).

Figure 32 shows the portfolio structure by country group and credit-risk-bearing instrument.

The **WGZ BANK Group** did not engage in shipping finance in the first half of the year.

7.3. Volume of non-performing loans

DZ BANK Group (pre-merger)

The volume of non-performing loans (NPL) in the DZ BANK Group (pre-merger) amounted to €5.2 billion as at June 30, 2016, which was unchanged compared with the end of 2015. As the total lending volume decreased only slightly (from €302.3 billion to €301.4 billion), the NPL ratio remained at 1.7 percent.

Figure 33 shows key figures relating to the volume of non-performing loans.

WGZ BANK Group

The volume of non-performing loans in the WGZ BANK Group came to €0.4 billion as at June 30, 2016, which equates to less than 1 percent of the total lending volume of €92.6 billion.

7.4. Allowances for losses on loans and advances

The following disclosures on allowances for losses on loans and advances relate to the **DZ BANK Group (pre-merger)**. Unlike the opportunity and risk report, the interim consolidated financial statements relate to the joint central institution group. This means that the following information cannot be compared with the figures disclosed in the notes to the interim consolidated financial statements for allowances for losses on loans and advances (note 23).

As part of the merger, DZ BANK acquired the assets and liabilities of WGZ BANK. In accordance with IFRS 3, the acquired identifiable assets and liabilities

FIG. 33 – BANK SECTOR: KEY FIGURES FOR THE VOLUME OF NON-PERFORMING LOANS IN THE DZ BANK GROUP (PRE-MERGER)

€ billion	Jun. 30, 2016	Dec. 31, 2015
Total lending volume	301.4	302.3
Volume of non-performing loans[1]	5.2	5.2
Balance of allowances for losses on loans and advances[2]	2.3	2.4
Loan loss allowance ratio[3]	0.8%	0.8%
Risk cover ratio[4]	43.2%	47.1%
NPL ratio[5]	1.7%	1.7%

1 Volume of non-performing loans excluding collateral.
2 Total of specific loan loss allowances, portfolio loan loss allowances, provisions for loan commitments, and liabilities under financial guarantee contracts.
3 Balance of allowances for losses on loans and advances as a proportion of total lending volume.
4 Balance of allowances for losses on loans and advances as a proportion of the volume of non-performing loans.
5 Volume of non-performing loans as a proportion of total lending volume.

as at the acquisition date were measured at their fair value on the date of acquisition.

Over the course of the reporting period, the **volume of specific loan loss allowances** fell by €94 million compared with December 31, 2015. This largely resulted from disposals to reduce exposure and from the ending of exposures following successful restructuring work at DZ BANK (pre-merger). These allowances had also decreased in the corresponding prior-year period, by €96 million.

Portfolio loan loss allowances increased by €36 million in the first 6 months of the year (first half of 2015: decrease of €10 million). This rise was mainly attributable to DZ BANK (pre-merger).

The **volume of provisions for loan commitments and liabilities under financial guarantee contracts** expanded by €20 million in the first half of 2016 (first half of 2015: rise of €5 million). Most of this expansion was accounted for by DZ BANK (pre-merger).

7.5. Risk position

The amount of capital required to cover credit risk is based on a number of factors, including the size of single-borrower exposures, individual ratings, and the industry sector of each exposure.

7.5.1. DZ BANK Group (pre-merger)

The credit value-at-risk in the Bank sector of the DZ BANK Group (pre-merger) was €3,780 million as at June 30, 2016 (December 31, 2015: €3,569 million) with an upper loss limit of €4,973 million (December 31, 2015: €4,860 million). The risk capital requirement was below the applicable upper loss limit at all times during the first half of 2016.

Figure 34 shows the credit value-at-risk together with the average probability of default and expected loss.

The rise in the expected loss in the traditional lending business, which increased from €409 million as at December 31, 2015 to €495 million as at June 30, 2016, was largely attributable to DVB's shipping and offshore businesses.

The risk capital requirement for credit portfolios exposed to increased credit risk was calculated to be as follows:

– Eurozone periphery countries: €643 million (December 31, 2015: €701 million)
– Shipping finance: €358 million (December 31, 2015: €266 million).

Because Irish counterparties were removed from the analysis of particularly risky credit portfolios, the risk capital requirement for eurozone periphery countries as at December 31, 2015 that was given in the 2015 opportunity and risk report has been restated. The risk capital requirement for **shipping finance** stemmed primarily from DVB.

7.5.2. WGZ BANK Group

As at June 30, 2016, the credit value-at-risk in the WGZ BANK Group amounted to €1,412 million, with an average probability of default of 0.2 percent and an expected loss of €52 million.

8. Equity investment risk

8.1. Risk measurement

In the Bank sector of the DZ BANK Group (pre-merger), equity investment risk was previously determined as value-at-risk on the basis of a variance-covariance approach. Concentrations of equity investment risk were identified by allocating investments to different categories according to the purpose of the investee company; the risk model used assumed a high level of correlation within each category. Since the first quarter of 2016, equity investment risk at DZ BANK (pre-merger) has been determined using **Monte Carlo**

FIG. 34 – BANK SECTOR: FACTORS DETERMINING THE CREDIT VALUE-AT-RISK IN THE DZ BANK GROUP (PRE-MERGER)

	Average probability of default		Expected loss (€ million)		Risk capital requirement (€ million)	
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Traditional credit risk	0.9%	0.7%	495	409	2,285	2,091
Issuer risk	0.2%	0.3%	61	78	1,167	1,183
Replacement risk	0.1%	0.1%	9	10	328	295
Total			**565**	497	**3,780**	3,569
Average	**0.6%**	0.6%				

simulation, in which portfolio concentrations in industries and individual exposures are examined by simulating industry-wide and investment-specific risk factors.

8.2. Investment volume

The carrying amounts of long-term equity investments relevant for the measurement of equity investment risk amounted to €2,460 million in the Bank sector of the **DZ BANK Group (pre-merger)** as at June 30, 2016 (December 31, 2015: €3,235 million). The decrease was primarily attributable to a change in the valuation method used at DVB.

For the **WGZ BANK Group**, the carrying amounts of long-term equity investments were measured at €1,882 million as at June 30, 2016. Of this total, €1,719 million related to entities that were management units in the DZ BANK Group (pre-merger).

8.3. Risk position

As at June 30, 2016, the economic capital requirement for equity investment risk in the Bank sector of the **DZ BANK Group (pre-merger)** was measured at €1,068 million, which was higher than the corresponding figure at the end of 2015 of €854 million. The upper loss limit was €1,299 million (December 31, 2015: €1,081 million). The increased risk capital requirement was mainly due to the introduction of a new approach to risk modeling at DZ BANK. The upper loss limit was not exceeded at any time during the first 6 months of the year.

The **WGZ BANK Group's** equity investment risk was managed as part of credit risk in the reporting period and is therefore included in section 7.

9. Market risk

9.1. Risk capital requirement

9.1.1. DZ BANK Group (pre-merger)

As at June 30, 2016, the risk capital requirement for market risk used to determine the risk-bearing capacity amounted to €3,748 million (December 31, 2015: €3,204 million) with an upper loss limit of €6,490 million (December 31, 2015: €5,830 million). This growth in the risk capital requirement was largely due to exposures being transferred from the capital buffer to the regular market risk calculation. It mainly related to the integration of interest-rate risk arising on provisions for pensions and other post-employment benefits.

The risk capital requirement includes **asset-management risk**. The asset-management risk for guarantee funds was measured at €56 million as at June 30, 2016 (December 31, 2015: €60 million). The asset-management risk for UniProfiRente as at the reporting date amounted to €40 million (December 31, 2015: €30 million).

The risk capital requirement was below the upper loss limit at all times during the first half of the year.

9.1.2. WGZ BANK Group

To determine risk-bearing capacity, the WGZ BANK Group calculates a value-at-risk for market risk and uses it as the risk capital requirement.

9.2. Value-at-risk

9.2.1. DZ BANK Group (pre-merger)

Refinement of the portfolio structure

With effect from January 1, 2016, the existing definitions for trading portfolios and non-trading portfolios were amended in the context of value-at-risk, which is used for short-term risk management. '**Trading portfolios**' is now the overarching term for the trading and banking books assigned to the capital-markets-related trading units of DZ BANK (pre-merger). This differs from the previous definition of 'trading portfolios', which used to also cover parts of the treasury portfolios.

Under the new definition, the **non-trading portfolios** continue to cover all of the other portfolios of DZ BANK (pre-merger) as well as the portfolios of the other management units within the Bank sector. They now also include the parts of the treasury portfolios that are not assigned to the trading portfolios. In addition, the plan assets (pension assets) and the actuarial cash flows (pension liabilities) of non-outsourced pension plans are assigned to the non-trading portfolios.

Changes to the measurement of pension risk

The reclassification of the portfolios was accompanied by refinements to the measurement of pension risk in the Bank sector. The risks arising on **pension liabilities** are now included in the measurement of risk in the non-trading portfolios. Until mid-June 2016, some of these risks were backed by a general capital buffer.

DZ BANK (pre-merger) has also refined the way in which the amounts are shown that have been invested to meet the defined benefit obligations. These **pension assets**, which are held as funds, were previously reported for risk purposes in terms of the market risk attaching to the funds. The fund is now broken down into its constituent asset classes (interest rates, credit spreads, equities, and currencies) for the purposes of risk calculation. As the fund only contains a small proportion of equities, this has resulted in a sharp fall in the risk assigned to the equities category.

Risk position

Figure 35 shows the change in the value-at-risk in the trading and non-trading portfolios and the change in the aggregate risk in the first 6 months of 2016.

In addition, figure 36 shows the daily changes in risk and the results of daily backtesting of trading portfolios.

The value-at-risk for the **trading portfolios** as at June 30, 2016 was €3 million (December 31, 2015: €27 million). The redefinition of the trading and non-trading portfolios did not have any impact on the level of aggregate risk reported. However, it did lead to a sharp decline in the risk for the trading portfolios. Without this effect, the market risk of the previous trading portfolios would have decreased slightly, from €27 million as at December 31, 2015 to €24 million as at June 30, 2016.

Backtesting did not reveal any instances of the forecast losses being exceeded.

As at June 30, 2016, the value-at-risk for the **non-trading portfolios** was calculated at €82 million (December 31, 2015: €75 million). The increase in risk is predominantly the result of including the non-outsourced pension plans for the first time.

9.2.2. WGZ BANK Group

A value-at-risk of €7,107 thousand was calculated for the **banking book of WGZ BANK** as at June 30, 2016. The value-at-risk for the **banking book of WL BANK**

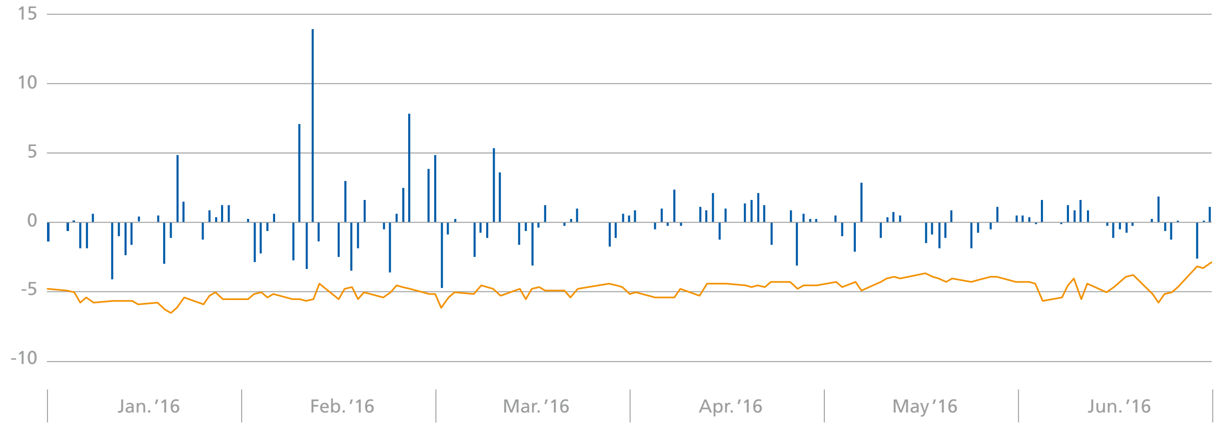
FIG. 35 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK IN THE TRADING AND NON-TRADING PORTFOLIOS OF THE DZ BANK GROUP (PRE-MERGER)[1 2]

€ million	Interest-rate risk	Spread risk	Equity risk[3]	Currency risk	Commodity risk	Diversification effect[4]	Total
Aggregate risk[5]							
Jun. 30, 2016	24	83	9	1	–	-36	**82**
Dec. 31, 2015	12	99	14	1	–	-22	105
Trading portfolios							
Jun. 30, 2016	3	4	1	1	–	-5	**3**
Average	3	7	1	1	–	-5	8
Maximum	4	26	1	2	–	-4	27
Minimum	2	3	–	–	–	-7	3
Dec. 31, 2015	4	26	1	2	–	-7	27
Non-trading portfolios							
Jun. 30, 2016	25	80	9	1	–	-33	**83**
Average	19	90	14	1	–	-32	92
Maximum	25	99	15	2	–	-21	104
Minimum	12	75	9	1	–	-42	69
Dec. 31, 2015	11	68	14	1	–	-20	75

1 Value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period, based on a central market risk model for the DZ BANK Group. Concentrations and effects of diversification were taken fully into account when calculating the risks.
2 The minimum and maximum amounts for the different subcategories of market risk may refer to different points in time during the reporting period. Consequently, they cannot be aggregated to produce the minimum or maximum aggregate risk due to the diversification effect.
3 Including funds, if not broken down.
4 Total effects of diversification between the types of market risk for all consolidated management units.
5 Owing to the effects of diversification between trading portfolios and non-trading portfolios, the mathematical total of the risks for these two parts of the overall portfolio are different from the figure for aggregate risk.

FIG. 36 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK AND HYPOTHETICAL CHANGES IN FAIR VALUE IN THE TRADING PORTFOLIOS OF THE DZ BANK GROUP (PRE-MERGER)

€ million, value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period



amounted to €931 thousand as at June 30, 2016. Figure 37 shows the values-at-risk as at the reporting date and the minimum, maximum, and average values-at-risk for the banking books during the reporting period.

WGZ BANK is the only entity in the WGZ BANK Group with a trading book. Figure 38 shows the daily changes in risk and the results of daily backtesting of the trading book.

The value-at-risk for the **trading book of WGZ BANK** amounted to €407 thousand as at June 30, 2016. The small decrease in risk in the middle of the reporting period was largely attributable to positions being closed out or reduced in connection with the merger. **Backtesting did not reveal any instances of risk values being overshot** in the first half of 2016.

FIG. 37 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK IN THE WGZ BANK GROUP IN THE FIRST HALF OF 2016[1]

€'000	Jun. 30, 2015	Average	Maximum	Minimum
WGZ BANK				
General interest-rate risk	3,830	4,643	8,412	3,458
Spread risk (excl. banking book)	3,000	2,990	4,692	2,473
Other risk[2]	277	436	1,006	267
Total	**7,107**	**8,069**	**14,109**	**6,198**
WL BANK				
General interest-rate risk	931	507	1,348	154
Spread risk (excl. banking book)	–	3	11	–
Total	**931**	**510**	**1,359**	**154**
WGZ BANK Group	**8,038**	**8,580**	**15,468**	**6,352**

[1] Value-at-risk with 95.00% confidence level, 1-day holding period.
[2] This includes equity risk, currency risk, volatility risk, and theta risk.

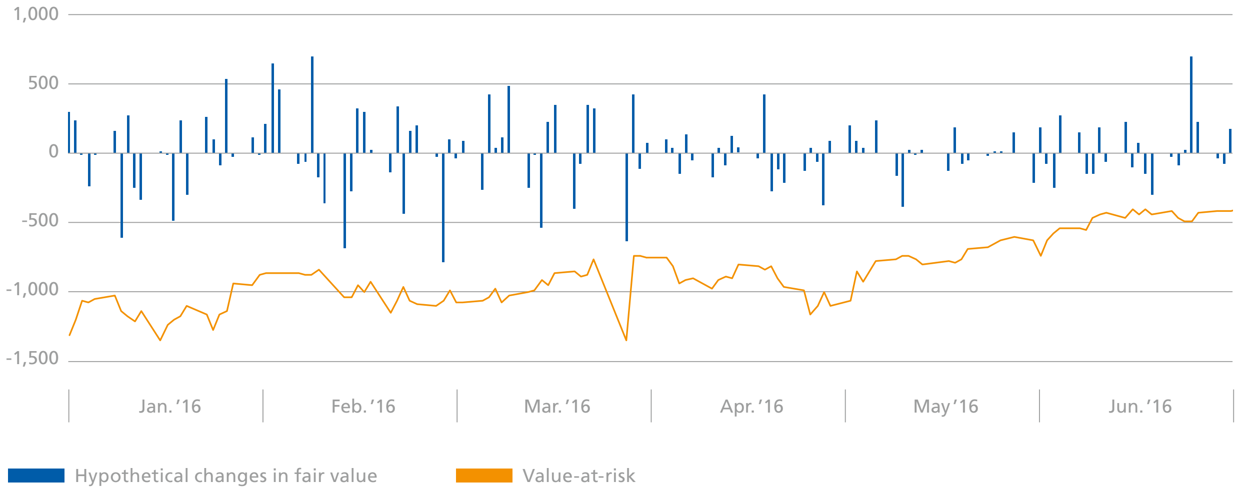
10. Technical risk of a home savings and loan company

The disclosures in this section relate to the Bank sector of the DZ BANK Group (pre-merger). There was no technical risk of a home savings and loan company in the WGZ BANK Group.

As at June 30, 2016, the capital requirement for the technical risk of a home savings and loan company amounted to €541 million (December 31, 2015: €549 million) with an upper loss limit of €600 million (December 31, 2015: €550 million). The risk capital requirement did not exceed the applicable upper loss limit at any point during the first half of 2016.

FIG. 38 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK AND HYPOTHETICAL CHANGES IN FAIR VALUE IN THE TRADING BOOK OF THE WGZ BANK GROUP

€'000, value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period



11. Business risk and reputational risk

As at June 30, 2016, the capital requirement for the business risk incurred in the Bank sector of the **DZ BANK Group** (**pre-merger**) amounted to €707 million (December 31, 2015: €579 million). The rise was largely the result of a recalculation based on updated business forecasts of DZ BANK (pre-merger). The upper loss limit was raised accordingly and stood at €847 million as at the reporting date (December 31, 2015: €775 million).

During the reporting period, reputational risk was generally taken into account within business risk and was therefore implicitly included in the measurement of risk and the capital requirement for the Bank sector. At BSH, the measurement of reputational risk and the determination of the associated capital requirement are primarily carried out in connection with the technical risk of a home savings and loan company. In addition, the risk that obtaining funding may become more difficult as a consequence of reputational damage is specifically taken into account in liquidity risk management.

The capital requirement for business risk and reputational risk was not calculated for the **WGZ BANK Group** because these two risk types were not significant during the reporting period.

12. Operational risk

12.1. Risk factors

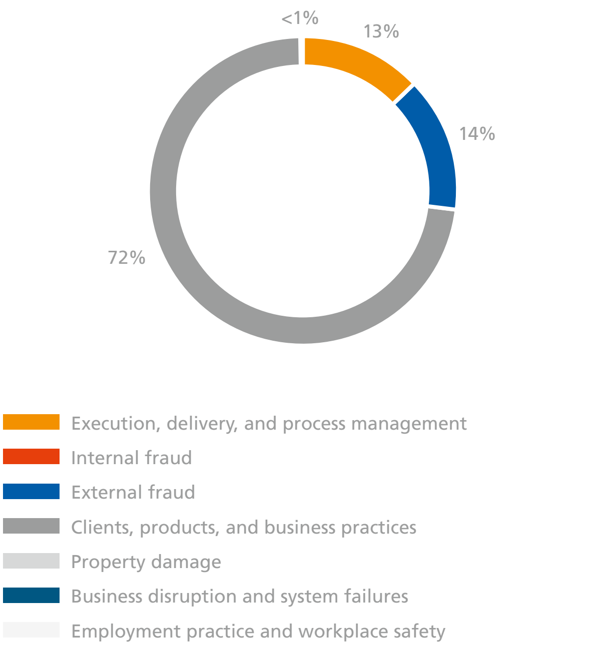
In the second quarter of 2016, **VR-LEASING AG** completed its separation from its subsidiary Lombard Lízing, as planned, as part of its strategic decision to wind down areas of its business that it has defined as non-core business. This move avoids further possible adverse effects for VR LEASING and the DZ BANK Group that could occur as a result of materializing **legal risks**.

12.2. Loss events

Losses from operational risk do not follow a consistent pattern. Instead, the overall risk profile can be seen from the total losses incurred over the long term and is shaped by a small number of large losses. Consequently, comparisons between net losses in a reporting period and those in a prior-year period are not meaningful. Prior-year figures are therefore not disclosed.

Figure 39 shows the losses reported in the first half of 2016 for the Bank sector of the **DZ BANK Group** (**pre-merger**) classified by loss event category. Over the course of time, there were regular fluctuations in the pattern of losses as the frequency of relatively large losses in each individual case was very low.

FIG. 39 – BANK SECTOR: NET LOSSES OF THE DZ BANK GROUP (PRE-MERGER), BY EVENT CATEGORY[1]



1 In accordance with the CRR, losses caused by operational risks that are associated with risks such as credit risk are also shown.

The chart shows the losses in the 12 months before the reporting date, which have been selected on the basis of the date on which the expense results in a cash outflow.

As at June 30, 2016, the majority (72 percent) of the net losses were in the ‘Clients, products, and business practices’ event category. This high proportion is mainly attributable to a loss event resulting from changes in legal precedent and in how the law is interpreted and to another loss event in connection with tax law matters. Losses did not reach a critical level relative to the expected loss at any point during the reporting period.

Of the losses reported in the first half of the year and classified by loss event category for the **WGZ BANK Group**, 85 percent were allocated to the ‘Clients, products, and business practices’ event category. This high proportion was also mainly caused by a particular loss event resulting from changes in legal precedent and in how the law is interpreted.

12.3. Risk position

As at June 30, 2016, the capital requirement for operational risk calculated in accordance with the internal portfolio model used in the Bank sector of the **DZ BANK Group (pre-merger)** was €870 million (December 31, 2015: €871 million), with an upper loss limit of €1,052 million (December 31, 2015: €1,150 million). The risk capital requirement was below both the applicable upper loss limit and the alert threshold at all times during the first 6 months of the year.

As at June 30, 2016, the **WGZ BANK Group’s** capital requirement for operational risk calculated in accordance with the regulatory Basic Indicator Approach amounted to €77 million. The risk limit stood at €88 million. The risk capital requirement was below the applicable risk limit at all times during the first 6 months of 2016.

Insurance sector

The disclosures in this section relate to the DZ BANK Group (pre-merger). There was no insurance-related risk in the WGZ BANK Group. WGZ BANK's long-term equity investment in R+V was allocated to equity investment risk.

13. Actuarial risk

As at June 30, 2016, the overall solvency requirement for **life actuarial risk** amounted to €659 million (December 31, 2015: €403 million). The increase was predominantly attributable to the change in interest rates and adjustments to the parameters of the stochastic model. The upper loss limit was €750 million as at the reporting date (December 31, 2015: €520 million) and was not exceeded at any time during the first half of the year.

As at June 30, 2016, the overall solvency requirement for **health actuarial risk** was measured at €200 million (December 31, 2015: €162 million). This increase was mainly due to adjustments to the parameters of the stochastic model for occupational incapacity insurance. The upper loss limit was €330 million (December 31, 2015: €70 million). Again, the risk capital requirement was below the upper loss limit at all times during the first 6 months of this year.

At R+V, the claims rate trend in respect of natural disasters during the first 6 months of this year was dominated by storms caused by the low-pressure systems Elvira, Friederike, Gisela, and Neele/Oliane. The resulting level of claims is forecast to be approximately €110 million and mainly relates to **direct non-life insurance**.

In **inward reinsurance**, the expected claims were at the budgeted level. There were no extraordinary large claims.

As at June 30, 2016, the overall solvency requirement for **non-life actuarial risk** amounted to €2,692 million (December 31, 2015: €2,651 million). This increase was largely attributable to the rise in premium and reserve risk resulting from the growth in business volume. The upper loss limit was €3,100 million as at the reporting date (December 31, 2015: €2,600 million). It was not exceeded at any time during the reporting period.

The overall solvency requirement for the various types of non-life actuarial risk is shown in figure 40.

14. Market risk

14.1. Lending volume

As at June 30, 2016, the total lending volume of R+V had advanced by 9 percent to €81.0 billion (December 31, 2015: €74.0 billion). Of this increase, €3.1 billion was attributable to the inclusion of the Italian subsidiaries of the Assimoco Group in R+V's scope of consolidation with effect from January 1, 2016 in accordance with Solvency II. The remainder of the increase was caused by the growth in insurance business.

The volume of lending in the home finance business totaled €9.4 billion as at June 30, 2016 (December 31, 2015: €9.5 billion). Of this amount, 91 percent was accounted for by loans for less than 60 percent of the value of the property, a situation that was unchanged on the end of 2015. The volume of home finance was broken down by finance type as at the reporting date as follows (figures as at December 31, 2015 shown in parentheses):

- Consumer home finance: €8.9 billion (€9.0 billion)
- Commercial home finance: €0.2 billion (€0.2 billion)
- Commercial finance: €0.3 billion (€0.4 billion).

In the home finance business, the entire volume disbursed is backed by traditional **loan collateral**.

The financial sector and the public sector, which are the dominant **sectors**, together accounted for 73 percent of the total lending volume at the reporting date (December 31, 2015: 72 percent). This lending mainly comprised loans and advances in the form of German and European Pfandbriefe with collateral backed by statute. Loans and advances to the public sector and consumer home finance (retail) highlight the safety of this investment.

Figure 41 shows the sectoral breakdown of the lending volume in the Insurance sector.

FIG. 40 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR NON-LIFE ACTUARIAL RISK

€ million	Jun. 30, 2016	Dec. 31, 2015
Premium and reserve risk	1,583	1,504
Non-life catastrophe risk	1,818	1,839
Lapse risk	5	46
Total (after diversification)	**2,692**	**2,651**

FIG. 41 – INSURANCE SECTOR: LENDING VOLUME, BY SECTOR

€ billion	Jun. 30, 2016	Dec. 31, 2015
Financial sector	37.8	35.6
Public sector	21.6	17.4
Corporates	12.1	11.5
Retail	8.9	8.9
Industry conglomerates	0.7	0.6
Other	–	–
Total	**81.0**	**74.0**

FIG. 42 – INSURANCE SECTOR: LENDING VOLUME, BY COUNTRY GROUP

€ billion	Jun. 30, 2016	Dec. 31, 2015
Germany	33.1	32.6
Other industrialized countries	41.3	35.3
Advanced economies	1.1	1.0
Emerging markets	3.3	3.4
Supranational institutions	2.1	1.8
Total	**81.0**	**74.0**

FIG. 43 – INSURANCE SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Jun. 30, 2016	Dec. 31, 2015
≤ 1 year	3.0	2.3
> 1 year to ≤ 5 years	13.8	12.3
> 5 years	64.2	59.4
Total	**81.0**	**74.0**

An analysis of the **geographical breakdown** of lending in figure 42 reveals that Germany and other industrialized countries accounted for the lion's share – 92 percent – of the lending volume as at the reporting date, which

FIG. 44 – INSURANCE SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion		Jun. 30, 2016	Dec. 31, 2015
Investment grade	1A	23.7	20.2
	1B	6.1	6.3
	1C	–	–
	1D	8.3	7.1
	1E	–	–
	2A	6.6	6.1
	2B	6.0	7.0
	2C	5.1	5.6
	2D	7.9	3.5
	2E	–	–
	3A	1.4	1.4
Non-investment grade	3B	0.7	1.3
	3C	0.3	0.7
	3D	–	–
	3E	0.5	0.1
	4A	0.1	0.2
	4B	0.1	–
	4C	0.2	0.1
	4D	–	–
	4E	–	0.1
Default		0.1	0.1
Not rated		13.9	14.2
Total		**81.0**	**74.0**

was unchanged compared with December 31, 2015. European countries dominated within the broadly diversified exposure in industrialized countries.

The high proportion of obligations in connection with the life insurance business requires investments with longer maturities. This is also reflected in the breakdown of **residual maturities** shown in figure 43. As at June 30, 2016, 79 percent (December 31, 2015: 80 percent) of the total lending volume had a residual maturity of more than 5 years. By contrast, just 4 percent of the total lending volume was due to mature within 1 year as at the reporting date (December 31, 2015: 3 percent). The increase in long residual maturities was mainly the result of investments in bonds.

The **rating structure** of the lending volume in the Insurance sector is shown in figure 44. Of the total lending volume as at June 30, 2016, 80 percent was attributable to investment-grade borrowers

(December 31, 2015: 77 percent). This reflects the regulatory requirements and the safety-oriented risk strategy of R+V. The lending volume that is not rated, which made up 17 percent of the total lending volume (December 31, 2015: 19 percent), essentially comprised low-risk consumer home finance for which external ratings were not available.

To rate the creditworthiness of the lending volume, R+V uses external ratings that have received general approval. It also applies its own expert ratings in accordance with the provisions of Credit Rating Agency Regulation III to validate the external credit ratings. R+V has defined the external credit rating as the maximum, even in cases where its own rating is better. The ratings calculated in this way are matched to the credit rating master scale of DZ BANK (pre-merger) using the methodology shown in section 8.4.1. of the 2015 opportunity and risk report.

As at the reporting date, the **10 counterparties** associated with the largest lending volumes accounted for 24 percent of R+V's total lending volume (December 31, 2015: 21 percent).

14.2. Credit portfolios with increased risk content

The following disclosures form part of the above analyses of the entire credit portfolio. However, a separate analysis of R+V's exposure in credit portfolios with increased risk content has been included because of its significance for the risk position in the Insurance sector. R+V continuously reviews its credit portfolio with regard to emerging crises. The risks identified are observed, analyzed, and managed by R+V with the aid of a regular reporting system and discussions in the operational decision-making committees. Adjustments are made to the portfolio if necessary.

R+V's investments in eurozone periphery countries totaled €7,559 million as at June 30, 2016 (December 31, 2015: €4,286 million), a rise of 76 percent. This increase was mainly caused by including the Italian subsidiaries of the Assimoco Group in R+V's scope of consolidation with effect from January 1, 2016 in accordance with Solvency II. Figure 45 shows the country breakdown of the exposure.

As a result of a further improvement in its credit rating, Ireland has not been shown separately in internal risk reporting since the start of this year. Consequently, the total lending volume in respect of the eurozone periphery countries as at December 31, 2015 disclosed in this opportunity and risk report differs from the corresponding amount in the 2015 opportunity and risk report. R+V's investments in Greece had already been reduced to zero in the previous year.

FIG. 45 – INSURANCE SECTOR: EXPOSURE IN EUROZONE PERIPHERY COUNTRIES

€ million	Jun. 30, 2016	Dec. 31, 2015
Portugal	**15**	15
of which: public sector	–	–
of which: non-public sector	15	15
of which: financial sector	11	8
Italy	**5,669**	2,327
of which: public sector	4,177	1,350
of which: non-public sector	1,493	978
of which: financial sector	978	551
Spain	**1,874**	1,945
of which: public sector	1,234	1,347
of which: non-public sector	640	598
of which: financial sector	415	331
Total	7,559	4,286
of which: public sector	5,411	2,697
of which: non-public sector	2,148	1,590
of which: financial sector	1,404	889

R+V's investments that are potentially affected by the current **Italian banking crisis** stood at €897 million as at June 30, 2016 (December 31, 2015: €549 million). Of this amount, €422 million was attributable to secured bonds (December 31, 2015: €87 million). This lending volume is included in the exposure shown for the Italian financial sector in figure 45.

The United Kingdom's expected exit from the EU and the political turmoil in Turkey have led to these countries' credit ratings being downgraded. This affected R+V's investments in the **United Kingdom** and **Turkey**, which amounted to €4,031 million and €108 million respectively as at June 30, 2016 (December 31, 2015: €3,900 million and €106 million respectively).

14.3. Risk position

As at June 30, 2016, the **overall solvency requirement** for market risk amounted to €2,959 million (December 31, 2015: €2,578 million). The **upper loss limit** was €3,900 million (December 31, 2015: €2,950 million).

FIG. 46 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR MARKET RISK

€ million	Jun. 30, 2016	Dec. 31, 2015
Interest-rate risk	298	715
Spread risk	1,592	1,259
Equity risk	1,280	1,266
Currency risk	259	272
Real-estate risk	130	123
Total (after diversification)	**2,959**	**2,578**

The higher overall solvency requirement is explained by a rise in spread risk and a simultaneous decrease in interest-rate risk. Market risk reacted to the change in the level of interest rates; in addition, parameters in the stochastic model were adjusted. The upper loss limit was not exceeded at any time during the first half of the year.

Figure 46 shows the overall solvency requirement for the various types of market risk.

15. Other risks

As at June 30, 2016, the overall solvency requirement for **counterparty default risk** amounted to €75 million (December 31, 2015: €67 million) with an upper loss limit of €110 million (December 31, 2015: €50 million). The upper loss limit was not exceeded at any point during the reporting period.

As at June 30, 2016, the overall solvency requirement for **operational risk** amounted to €532 million (December 31, 2015: €478 million). The upper loss limit applicable at the reporting date was set at €600 million (December 31, 2015: €470 million). The upper loss limit was not exceeded at any time during the first 6 months of 2016.

As at June 30, 2016, the overall solvency requirement for **non-controlling interests in insurance companies and entities in other financial sectors** stood at €100 million (December 31, 2015: €100 million) with an upper loss limit of €120 million (December 31, 2015: €80 million). The upper loss limit was not exceeded at any time in the reporting period.

Interim consolidated financial statements

Income statement for the period January 1 to June 30, 2016

€ million	(Note)	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Net interest income	(5)	1,363	1,383[1]
Allowances for losses on loans and advances	(6)	-219	-41
Net fee and commission income	(7)	822	826[1]
Gains and losses on trading activities	(8)	501	226
Gains and losses on investments	(9)	90	21
Other gains and losses on valuation of financial instruments	(10)	-154	127
Premiums earned	(11)	7,149	6,981
Gains and losses on investments held by insurance companies and other insurance company gains and losses	(12)	2,000	1,944
Insurance benefit payments	(13)	-7,495	-7,400
Insurance business operating expenses	(14)	-1,193	-1,120
Administrative expenses	(15)	-1,703	-1,702[1]
Other net operating income	(16)	50	39
Net income from the merger with WGZ BANK	(48)	363	–
Profit before taxes		1,574	1,284
Income taxes	(17)	-416	-371
Net profit		**1,158**	**913**
Attributable to:			
Shareholders of DZ BANK		1,066	698
Non-controlling interests		92	215

1 Amount restated.

Statement of comprehensive income for the period January 1 to June 30, 2016

€ million	(Note)	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Net profit		1,158	913
Other comprehensive income/loss		-17	142
Items that may be reclassified to the income statement		**205**	**27**
Gains and losses on available-for-sale financial assets	(18)	282	-147
Gains and losses on cash flow hedges	(18)	5	3
Exchange differences on currency translation of foreign operations	(18)	-6	53
Gains and losses on hedges of net investments in foreign operations	(18)	7	-16
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method		-7	9
Income taxes	(19)	-76	125
Items that will not be reclassified to the income statement		**-222**	**115**
Gains and losses arising from remeasurement of defined benefit plans		-314	167
Income taxes	(19)	92	-52
Total comprehensive income		**1,141**	**1,055**
Attributable to:			
Shareholders of DZ BANK		967	855
Non-controlling interests		174	200

Balance sheet as at June 30, 2016

ASSETS

€ million	(Note)	Jun. 30, 2016	Dec. 31, 2015
Cash and cash equivalents	(20)	9,059	6,542
Loans and advances to banks	(21)	110,010	80,735
Loans and advances to customers	(22)	173,093	126,850
Allowances for losses on loans and advances	(23)	-2,085	-2,073
Derivatives used for hedging (positive fair values)	(24)	597	416
Financial assets held for trading	(25)	62,255	49,520
Investments	(26)	72,058	54,305
Investments held by insurance companies	(27)	88,552	84,744
Property, plant and equipment, and investment property	(28)	1,706	1,710
Income tax assets		1,287	902
Other assets	(29)	4,401	4,270
Non-current assets and disposal groups classified as held for sale	(30)	57	166
Fair value changes of the hedged items in portfolio hedges of interest-rate risk		364	254
Total assets		**521,354**	**408,341**

EQUITY AND LIABILITIES

€ million	(Note)	Jun. 30, 2016	Dec. 31, 2015
Deposits from banks	(31)	129,459	97,227
Deposits from customers	(32)	127,512	96,186
Debt certificates issued including bonds	(33)	74,633	54,951
Derivatives used for hedging (negative fair values)	(34)	1,596	1,641
Financial liabilities held for trading	(35)	67,332	45,377
Provisions	(36)	3,768	3,081
Insurance liabilities	(37)	83,449	78,929
Income tax liabilities		833	775
Other liabilities	(38)	5,498	6,039
Subordinated capital	(39)	4,769	4,142
Liabilities included in disposal groups classified as held for sale	(30)	–	7
Fair value changes of the hedged items in portfolio hedges of interest-rate risk		254	257
Equity	(40)	22,251	19,729
Shareholders' equity		19,433	15,007
Subscribed capital		4,658	3,646
Capital reserve		4,905	2,101
Retained earnings		6,582	7,016
Revaluation reserve		1,326	1,228
Cash flow hedge reserve		-3	-7
Currency translation reserve		51	46
Additional equity components		848	750
Unappropriated earnings		1,066	227
Non-controlling interests		2,818	4,722
Total equity and liabilities		**521,354**	**408,341**

Statement of changes in equity

€ million	Subscribed capital	Capital reserve	Equity earned by the group	Revaluation reserve	Cash flow hedge reserve	Currency translation reserve	Additional equity components	**Shareholders' equity**	Non-controlling interests	**Total equity**
Equity as at Jan. 1, 2015	3,646	2,101	5,952	1,200	-16	24	–	12,907	5,338	18,245
Net profit	–	–	698	–	–	–	–	698	215	913
Other comprehensive income/loss	–	–	101	13	1	42	–	157	-15	142
Total comprehensive income/loss	–	–	799	13	1	42	–	855	200	1,055
Capital repaid	–	–	–	–	–	–	–	–	-463	-463
Acquisition/disposal of non-controlling interests	–	–	-8	25	–	–	–	17	-107	-90
Dividends paid	–	–	-210	–	–	–	–	-210	-107	-317
Equity as at Jun. 30, 2015	**3,646**	**2,101**	**6,533**	**1,238**	**-15**	**66**	**–**	**13,569**	**4,861**	**18,430**
Equity as at Jan. 1, 2016	3,646	2,101	7,243	1,228	-7	46	750	15,007	4,722	19,729
Net profit	–	–	1,066	–	–	–	–	1,066	92	1,158
Other comprehensive income/loss	–	–	-194	96	4	-5	–	-99	82	-17
Total comprehensive income/loss	–	–	872	96	4	-5	–	967	174	1,141
Capital increase	1,012	2,804	–	–	–	–	–	3,816	22	3,838
Changes in scope of consolidation	–	–	3	–	–	–	98	101	-21	80
Acquisition/disposal of non-controlling interests	–	–	-246	2	–	10	–	-234	-1,952	-2,186
Dividends paid	–	–	-224	–	–	–	–	-224	-127	-351
Equity as at Jun. 30, 2016	**4,658**	**4,905**	**7,648**	**1,326**	**-3**	**51**	**848**	**19,433**	**2,818**	**22,251**

Statement of cash flows

€ million	Jan. 1–Jun. 30, 2016	Jan. 1–Jun. 30, 2015
Net profit	**1,158**	**913**
Non-cash items included in net profit	575	702[1]
Subtotal	1,733	1,615
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	-6,763	-2,195
Other assets and liabilities from operating activities	45	-1,146
Derivatives used for hedging (positive and negative fair values)	-739	-801
Financial assets and financial liabilities held for trading	8,019	-1,814
Deposits from banks and customers	-1,241	2,644
Debt certificates issued including bonds	-1,672	689
Interest payments, dividends, and operating lease payments received (net cash flow)	1,384	1,550[1]
Income taxes paid	-160	-137
Cash flows from operating activities	**606**	**405**
Cash flows from investing activities	**288**	**360**
Cash flows from financing activities	**1,623**	**134**

€ million	2016	2015
Cash and cash equivalents as at January 1	6,542	3,033
Cash flows from operating activities	606	405
Cash flows from investing activities	288	360
Cash flows from financing activities	1,623	134
Cash and cash equivalents as at June 30	**9,059**	**3,932**

1 Amount restated.

The statement of cash flows shows the changes in cash and cash equivalents during the reporting period. Cash and cash equivalents consist of cash on hand, balances with central banks and other government institutions, treasury bills, and non-interest-bearing treasury notes. The cash and cash equivalents do not include any financial investments with maturities of more than 3 months at the date of acquisition. Changes in cash and cash equivalents are broken down into operating, investing, and financing activities.

Resulting from the first-time consolidation of subsidiaries cash and cash equivalents amounting to €236 million were taken over. The deconsolidation of subsidiaries resulted in an outflow of cash and cash equivalents of €2 million. In the first half of 2015, there had been no impact on cash and cash equivalents from the first-time consolidation or deconsolidation of subsidiaries.

Notes

A General disclosures

» 01
Basis of preparation

Pursuant to section 37w of the German Securities Trading Act (WpHG) in conjunction with section 37y no. 2 WpHG, the interim consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) for the first half of the 2016 financial year have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). In particular, the requirements of IAS 34 *Interim Financial Reporting* have been taken into account.

» 02
Accounting policies and estimates

Changes in accounting policies

The financial statements of the entities consolidated in the DZ BANK Group have been prepared using uniform accounting policies. The accounting policies used to prepare these financial statements were the same as those applied in the consolidated financial statements for the 2015 financial year, unless these policies are subject to the amendments described below.

First-time application in 2016 of changes in IFRS

The following amended accounting standards and the specified improvements to IFRS are applied for the first time in DZ BANK's interim consolidated financial statements for the first half of the 2016 financial year:

– *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19),
– *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11 Joint Arrangements),
– *Disclosure Initiative* (Amendments to IAS 1),
– *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38),
– *Annual Improvements to IFRSs 2010–2012 Cycle*,
– *Annual Improvements to IFRSs 2012–2014 Cycle*.

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) introduces an option for mandatory employee contributions relating to the accounting treatment of defined benefit plans. If such contributions are linked to the service period but do not depend on the number of years of service, an entity may use these contributions to reduce the service cost in the period in which the service in question was rendered instead of apportioning them over the service period. The amendments are to be applied for the first time to financial years beginning on or after February 1, 2015.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*) clarifies that the acquirer of an interest in a joint operation that constitutes a business as defined by IFRS 3 *Business Combinations* must apply the relevant principles of accounting for business combinations set forth in IFRS 3. It also clarifies that, if additional interests in an existing joint operation are acquired and joint control is retained, the interest already held is not remeasured. The amendments must be applied to financial years beginning on or after January 1, 2016 and do not have to be applied retrospectively.

The *Disclosure Initiative* (Amendments to IAS 1) clarifies that the concept of materiality applies to all parts of IFRS financial statements, including the notes. Immaterial information should not be provided, even if other standards explicitly stipulate their disclosure. It also introduces rules on presenting subtotals on the balance sheet, in the income statement, and in other comprehensive income. 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. These amendments must be applied to financial years beginning on or after January 1, 2016.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) clarifies that it is not permitted to use a revenue-related method for depreciating property, plant and equipment. With regard both to property, plant and equipment and to intangible assets, it also clarifies that a decrease in the unit selling prices of goods and services may be indicative of an asset's commercial obsolescence and thus of a reduction in the future economic benefits embodied in the assets. The amendments must be applied for the first time to financial years beginning on or after January 1, 2016.

In the *Annual Improvements to IFRSs 2010–2012 Cycle*, applying to financial years beginning on or after February 1, 2015, and *2012–2014 Cycle*, applying to financial years beginning on or after January 1, 2016, the International Accounting Standards Board (IASB) provides clarification of, and makes minor amendments to, various existing standards.

The aforementioned amendments and improvements to IFRS have no material impact on DZ BANK's consolidated financial statements because they do not give rise to any significant changes and/or because a need for structural revisions has not been identified.

Changes in presentation

In the interim consolidated financial statements for the first half of 2016, the contributions collected for the European bank levy are presented under administrative expenses in view of their insignificance and in accordance with industry practice. Consequently, the bank levy of €143 million recognized in the 'contributions to the resolution fund' line item in the income statement for the first half of 2015 has been reclassified to administrative expenses.

Restatements

Transaction cost components of loans and advances to customers, which are categorized as loans and receivables under IAS 39, have been restated in accordance with the provisions of IAS 8.41 et seq. Sales commissions were remeasured in connection with the measurement, using the effective interest method, of these loans and advances including the transaction cost components. In the past, these commissions were treated as fee and commission expense and not as deductions from interest income. This restatement did not impact on net profit.

The restatement has been carried out retrospectively. Consequently, the comparative figures for the first half of 2015 have been restated in the interim consolidated financial statements for the first half of 2016. The resulting effects are shown below.

Income statement for the period January 1 to June 30, 2015

€ million	Jan. 1– Jun. 30, 2015 before restatement	Amount of restatement	**Jan. 1– Jun. 30, 2015 after restatement**
Net interest income	1,441	-58	1,383
(...)			
Net fee and commission income	768	58	826
(...)			
Profit before taxes	1,284	–	1,284
Income taxes	-371	–	-371
Net profit	**913**	–	**913**

Statement of cash flows for the period January 1 to June 30, 2015

€ million	Jan. 1– Jun. 30, 2015 before restatement	Amount of restatement	Jan. 1– Jun. 30, 2015 after restatement
Net profit	913	–	**913**
Non-cash items included in net profit	644	58	702
Subtotal	1,557	58	1,615
Cash changes in assets and liabilities arising from operating activities			
Loans and advances to banks and customers	-2,195	–	-2,195
Other assets and liabilities from operating activities	-1,146	–	-1,146
Derivatives used for hedging (positive and negative fair values)	-801	–	-801
Financial assets and financial liabilities held for trading	-1,814	–	-1,814
Deposits from banks and customers	2,644	–	2,644
Debt certificates issued including bonds	689	–	689
Interest payments, dividends, and operating lease payments received (net cash flow)	1,608	-58	1,550
Income taxes paid	-137	–	-137
Cash flows from operating activities	**405**	–	**405**
Cash flows from investing activities	**360**	–	**360**
Cash flows from financing activities	**134**	–	**134**

There was no impact on the balance sheet as at December 31, 2015.

The relevant comparative disclosures in the notes to the financial statements have also been amended as a result of the retrospective restatements.

Sources of estimation uncertainty

It is necessary to make assumptions and estimates in accordance with the relevant financial reporting standards in order to determine the carrying amounts of assets, liabilities, income, and expenses recognized in these consolidated financial statements. These assumptions and estimates are based on historical experience, planning, and expectations or forecasts regarding future events.

Assumptions and estimates are used primarily in determining the fair value of financial assets and financial liabilities and in identifying any impairment of financial assets. Estimates also have a material impact on determining the impairment of goodwill or intangible assets acquired as part of business combinations. Furthermore, assumptions and estimates affect the measurement of insurance liabilities, provisions for employee benefits, provisions for share-based payment transactions, provisions relating to building society operations, and other provisions as well as the recognition and measurement of income tax assets and income tax liabilities.

» 03 Scope of consolidation

As part of the merger of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK) with DZ BANK, the scope of consolidation was extended to include WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, (WL BANK), WGZ BANK Ireland plc, Dublin, (since August 12, 2016: DZ BANK Ireland plc), PHOENIX Beteiligungsgesellschaft mbH, Düsseldorf, and IMPETUS Bietergesellschaft mbH, Düsseldorf. Further disclosures on this matter are presented in note 48.

There were no other material changes in the first half of 2016.

B Disclosures relating to the income statement and the statement of comprehensive income

» 04
Segment information

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2016

€ million	DZ BANK	BSH	DG HYP
Net interest income	536	398	147
Allowances for losses on loans and advances	-93	-3	4
Net fee and commission income	151	-33	17
Gains and losses on trading activities	484	–	5
Gains and losses on investments	98	2	-1
Other gains and losses on valuation of financial instruments	4	–	-182
Premiums earned	–	–	–
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–
Insurance benefit payments	–	–	–
Insurance business operating expenses	–	–	–
Administrative expenses	-600	-229	-73
Other net operating income/expense	22	16	7
Net income from the merger with WGZ BANK	-139	–	–
Profit/loss before taxes	**463**	**151**	**-76**
Cost/income ratio (%)	46.3	59.8	>100.0
Regulatory RORAC (%)	–	32.5	-13.4
Total assets/total equity and liabilities as at Jun. 30, 2016	289,495	62,712	45,493

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2015

€ million	DZ BANK	BSH	DG HYP
Net interest income[1]	479	470	154
Allowances for losses on loans and advances	26	-12	34
Net fee and commission income[1]	142	-44	13
Gains and losses on trading activities	214	–	-17
Gains and losses on investments	6	5	-33
Other gains and losses on valuation of financial instruments	16	–	77
Premiums earned	–	–	–
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–
Insurance benefit payments	–	–	–
Insurance business operating expenses	–	–	–
Administrative expenses[1]	-630	-226	-77
Other net operating income/expense	13	18	5
Profit/loss before taxes	**266**	**211**	**156**
Cost/income ratio (%)	72.4	50.3	38.7
Regulatory RORAC (%)	7.6	52.5	27.3
Total assets/total equity and liabilities as at Dec. 31, 2015	216,452	61,217	46,926

1 Amount restated.

DVB	DZ PRIVAT-BANK	R+V	TeamBank	UMH	VR LEASING	Other/ Consolidation	**Total**
129	70	–	204	4	74	-199	1,363
-83	–	–	-32	–	-3	-9	-219
57	57	–	1	602	13	-43	822
-1	4	–	–	–	–	9	501
-6	1	–	–	–	-2	-2	90
18	1	–	–	-3	–	8	-154
–	–	7,149	–	–	–	–	7,149
–	–	2,050	–	–	–	-50	2,000
–	–	-7,495	–	–	–	–	-7,495
–	–	-1,269	–	–	–	76	-1,193
-104	-114	–	-97	-358	-80	-48	-1,703
5	-29	-5	4	12	14	4	50
–	–	–	–	–	–	502	363
15	**-10**	**430**	**80**	**257**	**16**	**248**	**1,574**
51.5	>100.0	–	46.4	58.2	80.8	–	54.4
4.8	-6.4	20.5	40.2	>100.0	10.1	–	–
26,438	17,785	95,121	7,079	1,682	4,735	-29,186	521,354

DVB	DZ PRIVAT-BANK	R+V	TeamBank	UMH	VR LEASING	Other/ Consolidation	**Total**
96	77	–	205	7	85	-190	1,383
-40	–	–	-42	–	-4	-3	-41
52	57	–	3	631	12	-40	826
8	15	–	–	–	–	6	226
38	–	–	–	–	1	4	21
42	4	–	–	4	-2	-14	127
–	–	6,981	–	–	–	–	6,981
–	–	1,976	–	–	–	-32	1,944
–	–	-7,400	–	–	–	–	-7,400
–	–	-1,196	–	–	–	76	-1,120
-103	-111	–	-101	-327	-81	-46	-1,702
-19	-5	-5	3	25	2	2	39
74	**37**	**356**	**68**	**340**	**13**	**-237**	**1,284**
47.5	75.0	–	47.9	49.0	82.7	–	56.2
29.2	22.0	27.7	34.7	>100.0	8.1	–	23.9
26,549	17,496	90,280	6,866	2,072	4,909	-64,426	408,341

General information on operating segments

The information on operating segments has been prepared using the management approach in accordance with IFRS 8. Under this standard, external reporting must include segment information that is used internally for the management of the entity and for the purposes of quantitative reporting to the chief operating decision-makers. The DZ BANK Group's information on operating segments has therefore been prepared on the basis of the internal management reporting system.

Definition of operating segments

Segmentation is based on the integrated risk and capital management system, and the 9 management units are shown separately. They consist of DZ BANK, Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP), TeamBank AG Nürnberg, Nuremberg, (TeamBank), DZ PRIVATBANK, and the BSH, DVB, R+V, UMH, and VR LEASING subgroups. WL BANK will also be included as a management unit in financial statements after June 30, 2016. All other companies in the DZ BANK Group, which are not required to provide regular quantitative reports to the chief operating decision-makers, and the consolidations are reported on an aggregated basis under Other/Consolidation. The Other/Consolidation column as at the balance sheet date of June 30, 2016 also includes the total assets of WL BANK, which amounted to €45,720 million.

Presentation of operating segments

Interest income and associated interest expenses generated by the operating segments are offset and reported as net interest income in the information on operating segments because, from a group perspective, the operating segments are managed solely on the basis of the net figure.

Measurement

Internal reporting to the chief operating decision-makers in the DZ BANK Group is primarily based on the generally accepted accounting and measurement principles applicable to the DZ BANK Group.

Intragroup transactions between operating segments are carried out on an arm's-length basis. These transactions are reported internally using the financial reporting standards applied to external financial reporting.

The key indicators for assessing the performance of the operating segments are profit/loss before taxes, the cost/income ratio, and the return on risk-adjusted capital (regulatory RORAC). The cost/income ratio shows the ratio of administrative expenses to operating income and reflects the economic efficiency of the operating segment concerned.

Operating income includes net interest income, net fee and commission income, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, net income from insurance business, and other net operating income.

Regulatory RORAC is a risk-adjusted performance measure. It reflects the relationship between profit before taxes and regulatory risk capital (own funds/solvency requirement). It therefore shows the return on the regulatory risk capital employed. Regulatory RORAC for the DZ BANK management unit and for the DZ BANK Group is not shown in respect of the reporting period because it was not yet available for internal reporting purposes at the time of publication due to the merger with WGZ BANK.

Other/Consolidation

The consolidation-related adjustments shown under Other/Consolidation to reconcile operating segment profit/loss before taxes to consolidated profit/loss before taxes are attributable to the elimination of intragroup transactions and to the fact that investments in joint ventures and associates were accounted for using the equity method.

The adjustments to net interest income were primarily the result of the elimination of intragroup dividend payments and profit distributions in connection with intragroup liabilities to dormant partners and were also attributable to the early redemption of issued bonds and commercial paper that had been acquired by entities in the DZ BANK Group other than the issuer.

The figure under Other/Consolidation for net fee and commission income largely relates to the fee and commission business of TeamBank and the BSH subgroup with the R+V subgroup.

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

Also included are the income from the recognition of the negative goodwill arising on the merger with WGZ BANK and income from the elimination of business relationships that existed before the merger (see note 48).

» 05 Net interest income

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
INTEREST INCOME AND CURRENT INCOME AND EXPENSE	**3,164**	**3,307**
Interest income from	**3,064**	**3,254**
Lending and money market business	2,962	3,071[1]
Fixed-income securities	401	455
Portfolio hedges of interest-rate risk	-264	-265
Financial assets with a negative effective interest rate	-35	-7
Current income and expense from	**78**	**18**
Shares and other variable-yield securities	74	18
Investments in subsidiaries	2	3
Investments in associates	1	–
Operating leases	1	-3
Income from using the equity method for	**10**	**34**
Investments in joint ventures	4	28
Investments in associates	6	6
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	**12**	**1**
INTEREST EXPENSE ON	**-1,801**	**-1,924**
Deposits from banks and customers	-1,479	-1,519
Debt certificates issued including bonds	-286	-354
Subordinated capital	-77	-78
Portfolio hedges of interest-rate risk	14	16
Financial liabilities with a positive effective interest rate	30	14
Provisions and other liabilities	-3	-3
Total	**1,363**	**1,383**

1 Amount restated.

06 Allowances for losses on loans and advances

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Allowances for losses on loans and advances to banks	**-15**	**–**
Additions	-29	-3
Reversals	14	5
Directly recognized impairment losses	–	-2
Allowances for losses on loans and advances to customers	**-162**	**-51**
Additions	-444	-296
Reversals	273	223
Directly recognized impairment losses	-20	-29
Recoveries on loans and advances previously impaired	29	51
Other allowances for losses on loans and advances	**-42**	**10**
Change in provisions for loan commitments	-24	-7
Change in other provisions for loans and advances	-19	13
Change in liabilities from financial guarantee contracts	1	4
Total	**-219**	**-41**

07 Net fee and commission income

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Fee and commission income	**1,553**	**1,595**
Securities business	1,142	1,166
Asset management	80	95
Payments processing including card processing	89	90
Lending business and trust activities	110	118
Financial guarantee contracts and loan commitments	25	21
International business	3	3
Building society operations	9	15
Other	95	87
Fee and commission expenses	**-731**	**-769**
Securities business	-437	-438
Asset management	-49	-64
Payments processing including card processing	-46	-47
Lending business	-57	-62[1]
Financial guarantee contracts and loan commitments	-2	-2
Building society operations	-54	-71
Other	-86	-85
Total	**822**	**826**

1 Amount restated.

» 08 Gains and losses on trading activities

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Gains and losses on non-derivative financial instruments and embedded derivatives	131	52
Gains and losses on derivatives	209	123
Gains and losses on exchange differences	161	51
Total	**501**	226

» 09 Gains and losses on investments

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Gains and losses on bonds and other fixed-income securities	**–**	-27
Disposals	-1	4
Impairment losses	-7	-36
Reversals of impairment losses	8	5
Gains and losses on shares and other variable-yield securities	**103**	54
Disposals	103	54
Gains and losses on investments in subsidiaries	**-5**	–
Impairment losses	-5	–
Gains and losses on investments in joint ventures	**-3**	1
Impairment losses	-3	-1
Reversals of impairment losses	–	2
Gains and losses on investments in associates	**-5**	-7
Disposals	–	2
Impairment losses	-5	-9
Total	**90**	21

» 10 Other gains and losses on valuation of financial instruments

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Gains and losses from hedge accounting	**4**	26
Gains and losses on derivatives used for purposes other than trading	**12**	-17
Gains and losses on financial instruments designated as at fair value through profit or loss	**-170**	118
Gains and losses on non-derivative financial instruments and embedded derivatives	63	272
Gains and losses on derivatives	-233	-154
Total	**-154**	127

Gains and losses on derivatives used for purposes other than trading result from gains and losses on valuation of derivatives that are used for economic hedging but are not included in hedge accounting.

» 11 Premiums earned

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Net premiums written	**7,925**	7,712
Gross premiums written	7,986	7,770
Reinsurance premiums ceded	-61	-58
Change in provision for unearned premiums	**-776**	-731
Gross premiums	-790	-745
Reinsurers' share	14	14
Total	**7,149**	6,981

» 12 Gains and losses on investments held by insurance companies and other insurance company gains and losses

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Income from investments held by insurance companies	**2,916**	3,088
Interest income and current income	1,332	1,329
Income from reversals of impairment losses and unrealized gains	134	457
Gains on valuation through profit or loss of investments held by insurance companies	844	840
Gains on disposals	606	462
Expenses in connection with investments held by insurance companies	**-1,019**	-1,126
Administrative expenses	-62	-59
Depreciation/amortization expense, impairment losses, and unrealized losses	-438	-193
Losses on valuation through profit or loss of investments held by insurance companies	-273	-685
Losses on disposals	-246	-189
Other gains and losses of insurance companies	**103**	-18
Other insurance gains and losses	72	86
Other non-insurance gains and losses	31	-104
Total	**2,000**	1,944

» 13 Insurance benefit payments

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Expenses for claims	**-4,778**	**-4,607**
Gross expenses for claims	-4,831	-4,620
Reinsurers' share	53	13
Changes in the benefit reserve and in other insurance liabilities	**-1,648**	**-2,543**
Gross changes in provisions	-1,646	-2,540
Reinsurers' share	-2	-3
Expenses for premium refunds	**-1,069**	**-250**
Gross expenses for premium refunds	-303	106
Expenses for deferred premium refunds	-766	-356
Total	**-7,495**	**-7,400**

» 14 Insurance business operating expenses

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Gross expenses	-1,204	-1,130
Reinsurers' share	11	10
Total	**-1,193**	**-1,120**

» 15 Administrative expenses

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Staff expenses	-827	-799
General and administrative expenses	-806	-834[1]
Depreciation and amortization	-70	-69
Total	**-1,703**	**-1,702**

1 Amount restated due to restructuring of the income statement: Contributions to the resolution fund are reported under administrative expenses.

» 16 Other net operating income

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Other income from leasing business	–	6
Gains and losses on non-current assets and disposal groups classified as held for sale	6	–
Impairment losses on goodwill	–	-28
Residual other net operating income	44	61
Total	**50**	39

» 17 Income taxes

IAS 34 states that income taxes in interim financial statements are to be calculated on the basis of the best possible estimate of the weighted average tax rate for the year as a whole. This tax rate is based on the legislation that is in force or has been adopted at the relevant balance sheet date.

» 18 Items reclassified to the income statement

The following items were reclassified from other comprehensive income/loss to the income statement in the reporting period:

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Gains and losses on available-for-sale financial assets	**282**	-147
Gains (+)/losses (-) arising during the reporting period	447	-95
Gains (-)/losses (+) reclassified to the income statement	-165	-52
Gains and losses on cash flow hedges	**5**	3
Gains (+)/losses (-) arising during the reporting period	2	-21
Gains (-)/losses (+) reclassified to the income statement	3	24
Exchange differences on currency translation of foreign operations	**-6**	53
Gains (+)/losses (-) arising during the reporting period	-9	53
Gains (-)/losses (+) reclassified to the income statement	3	–
Gains and losses on hedges of net investments in foreign operations	**7**	-16
Gains (+)/losses (-) arising during the reporting period	5	-17
Gains (-)/losses (+) reclassified to the income statement	2	1

The table below shows the income taxes on the various components of other comprehensive income:

» 19
Income taxes relating to components of other comprehensive income

€ million	Jan. 1–Jun. 30, 2016 Amount before taxes	Jan. 1–Jun. 30, 2016 Income taxes	Jan. 1–Jun. 30, 2016 Amount after taxes	Jan. 1–Jun. 30, 2015 Amount before taxes	Jan. 1–Jun. 30, 2015 Income taxes	Jan. 1–Jun. 30, 2015 Amount after taxes
Items that may be reclassified to the income statement	**281**	**-76**	**205**	**-98**	**125**	**27**
Gains and losses on available-for-sale financial assets	282	-73	209	-147	121	-26
Gains and losses on cash flow hedges	5	-2	3	3	-2	1
Exchange differences on currency translation of foreign operations	-6	1	-5	53	1	54
Gains and losses on hedges of net investments in foreign operations	7	-2	5	-16	5	-11
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	-7	–	-7	9	–	9
Items that will not be reclassified to the income statement	**-314**	**92**	**-222**	**167**	**-52**	**115**
Gains and losses arising from remeasurement of defined benefit plans	-314	92	-222	167	-52	115
Total	**-33**	**16**	**-17**	**69**	**73**	**142**

C Balance sheet disclosures

» 20 Cash and cash equivalents

€ million	Jun. 30, 2016	Dec. 31, 2015
Cash on hand	202	192
Balances with central banks and other government institutions	8,831	6,350
Treasury bills and non-interest-bearing treasury notes	26	–
Total	**9,059**	**6,542**

» 21 Loans and advances to banks

	Repayable on demand		Other loans and advances		Total	
€ million	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Domestic banks	**20,357**	**8,033**	**74,766**	**63,145**	**95,123**	**71,178**
Affiliated banks	2,735	3,005	65,735	52,795	68,470	55,800
Other banks	17,622	5,028	9,031	10,350	26,653	15,378
Foreign banks	**9,760**	**6,957**	**5,127**	**2,600**	**14,887**	**9,557**
Total	**30,117**	**14,990**	**79,893**	**65,745**	**110,010**	**80,735**

» 22 Loans and advances to customers

€ million	Jun. 30, 2016	Dec. 31, 2015
Loans and advances to domestic customers	135,157	91,638
Loans and advances to foreign customers	37,936	35,212
Total	**173,093**	**126,850**

The following table shows the breakdown of loans and advances to customers by type of business:

€ million	Jun. 30, 2016	Dec. 31, 2015
Local authority loans	23,099	12,359
Mortgage loans and other loans secured by mortgages on real estate	40,063	19,936
Loans secured by ship mortgages	1,216	1,437
Home savings loans advanced by building society	35,349	33,659
Finance leases	3,495	3,548
Money market placements	1,583	644
Other loans and advances	68,288	55,267
Total	**173,093**	**126,850**

The changes in allowances for losses on loans and advances recognized under assets were as follows:

» 23
Allowances for losses on loans and advances

€ million	Allowances for losses on loans and advances to banks: Specific loan loss allowances	Allowances for losses on loans and advances to banks: Portfolio loan loss allowances	Allowances for losses on loans and advances to customers: Specific loan loss allowances	Allowances for losses on loans and advances to customers: Portfolio loan loss allowances	Total
Balance as at Jan. 1, 2015	89	20	1,819	460	2,388
Additions	3	–	240	56	299
Utilizations	-38	–	-153	–	-191
Reversals	-3	-2	-157	-66	-228
Interest income	–	–	-25	–	-25
Other changes	–	–	37	2	39
Balance as at Jun. 30, 2015	**51**	**18**	**1,761**	**452**	**2,282**
Balance as at Jan. 1, 2016	36	16	1,571	450	2,073
Additions	15	14	297	147	473
Utilizations	-34	–	-118	–	-152
Reversals	-14	–	-209	-64	-287
Interest income	–	–	-14	–	-14
Other changes	–	–	-17	9	-8
Balance as at Jun. 30, 2016	**3**	**30**	**1,510**	**542**	**2,085**

The interest income arises from unwinding the discount on impaired loans and advances as specified in IAS 39.AG93.

» 24
Derivatives used for hedging (positive fair values)

€ million	Jun. 30, 2016	Dec. 31, 2015
Derivatives used as fair value hedges	**595**	415
Interest-linked contracts	595	415
Derivatives used as cash flow hedges	**2**	1
Currency-linked contracts	2	1
Total	597	416

» 25 Financial assets held for trading

€ million	Jun. 30, 2016	Dec. 31, 2015
DERIVATIVES (POSITIVE FAIR VALUES)	**30,973**	**21,683**
Interest-linked contracts	28,198	19,848
Currency-linked contracts	1,632	716
Share-/index-linked contracts	291	292
Other contracts	614	584
Credit derivatives	238	243
BONDS AND OTHER FIXED-INCOME SECURITIES	**11,778**	**11,271**
Money market instruments	**643**	**392**
from public-sector issuers	537	192
from other issuers	106	200
Bonds	**11,135**	**10,879**
from public-sector issuers	3,320	2,902
from other issuers	7,815	7,977
SHARES AND OTHER VARIABLE-YIELD SECURITIES	**968**	**1,010**
Shares	957	999
Investment fund units	8	7
Other variable-yield securities	3	4
RECEIVABLES	**18,536**	**15,556**
Money market placements	**17,625**	**14,723**
with banks	14,184	11,189
of which: with affiliated banks	1,028	1,383
with other banks	13,156	9,806
with customers	3,441	3,534
Promissory notes, registered bonds, and other loans and advances	**911**	**833**
with banks	585	667
of which: with other banks	585	667
with customers	326	166
Total	**62,255**	**49,520**

» 26 Investments

€ million	Jun. 30, 2016	Dec. 31, 2015
BONDS AND OTHER FIXED-INCOME SECURITIES	**69,573**	**51,590**
Money market instruments	**86**	**104**
from public-sector issuers	12	16
from other issuers	74	88
Bonds	**69,487**	**51,486**
from public-sector issuers	33,500	25,625
from other issuers	35,987	25,861
SHARES AND OTHER VARIABLE-YIELD SECURITIES	**1,204**	**1,463**
Shares and other shareholdings	224	315
Investment fund units	973	1,140
Other variable-yield securities	7	8
INVESTMENTS IN SUBSIDIARIES	**293**	**265**
INVESTMENTS IN JOINT VENTURES	**532**	**574**
INVESTMENTS IN ASSOCIATES	**456**	**413**
Total	**72,058**	**54,305**

The carrying amount of investments in joint ventures accounted for using the equity method was €530 million (December 31, 2015: €569 million). €450 million of the investments in associates has been accounted for using the equity method (December 31, 2015: €410 million).

» 27 Investments held by insurance companies

€ million	Jun. 30, 2016	Dec. 31, 2015
Investment property	2,342	2,251
Investments in subsidiaries	524	489
Investments in joint ventures	59	37
Investments in associates	2	2
Mortgage loans	8,967	8,732
Promissory notes and loans	8,471	8,728
Registered bonds	9,667	10,244
Other loans	807	1,105
Variable-yield securities	6,828	7,288
Fixed-income securities	41,193	36,759
Derivatives (positive fair values)	645	248
Deposits with ceding insurers	186	163
Assets related to unit-linked contracts	8,861	8,698
Total	**88,552**	**84,744**

The carrying amount of investments in joint ventures accounted for using the equity method was €43 million (December 31, 2015: €21 million).

» 28 Property, plant and equipment, and investment property

€ million	Jun. 30, 2016	Dec. 31, 2015
Land and buildings	959	837
Office furniture and equipment	156	150
Assets subject to operating leases	337	460
Investment property	254	263
Total	**1,706**	**1,710**

» 29 Other assets

€ million	Jun. 30, 2016	Dec. 31, 2015
Other assets held by insurance companies	3,234	3,182
Goodwill	169	169
Other intangible assets	438	406
of which: software	288	248
acquired customer relationships	88	96
Other loans and advances	204	188
Residual other assets	356	325
Total	**4,401**	**4,270**

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

€ million	Jun. 30, 2016	Dec. 31, 2015
Intangible assets	151	155
Reinsurance assets	251	208
Receivables	689	661
Credit balances with banks, checks and cash on hand	208	241
Residual other assets	1,935	1,917
Total	**3,234**	**3,182**

» 30 Non-current assets and disposal groups classified as held for sale

The non-current assets and disposal groups classified as held for sale comprise securities secured by mortgages and investment fund units in various funds.

The disposal of the assets and liabilities of the following fully consolidated subsidiaries of VR LEASING was settled in the second quarter: Lombard Bérlet Gépjármüpark-kezelö és Kereskedelmi Korlátolt Felelõsségû Társaság, Szeged, Hungary, Lombard Ingatlan Lízing Zártkörûen Mûködõ Részvénytársaság, Szeged, Hungary, and Lombard Pénzügyi és Lízing Zártkörûen Mûködõ Részvénytársaság, Szeged, Hungary.

» 31 Deposits from banks

€ million	Repayable on demand		With agreed maturity or notice period		Total	
	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Domestic banks	**38,600**	31,094	**78,143**	57,210	**116,743**	88,304
Affiliated banks	32,423	24,666	22,392	19,142	54,815	43,808
Other banks	6,177	6,428	55,751	38,068	61,928	44,496
Foreign banks	**2,202**	868	**10,514**	8,055	**12,716**	8,923
Total	**40,802**	31,962	**88,657**	65,265	**129,459**	97,227

» 32 Deposits from customers

€ million	Jun. 30, 2016	Dec. 31, 2015
DEPOSITS FROM DOMESTIC CUSTOMERS	**107,316**	83,443
Home savings deposits	**50,691**	49,212
Other deposits	**56,625**	34,231
Repayable on demand	12,681	8,141
With agreed maturity or notice period	43,944	26,090
DEPOSITS FROM FOREIGN CUSTOMERS	**20,196**	12,743
Home savings deposits	**1,788**	1,714
Other deposits	**18,408**	11,029
Repayable on demand	8,535	7,327
With agreed maturity or notice period	9,873	3,702
Total	**127,512**	96,186

» 33 Debt certificates issued including bonds

€ million	Jun. 30, 2016	Dec. 31, 2015
Bonds issued	**55,210**	33,759
Mortgage Pfandbriefe	15,553	7,197
Public-sector Pfandbriefe	5,629	3,252
Other bonds	34,028	23,310
Other debt certificates issued	**19,423**	21,192
Total	**74,633**	54,951

All other debt certificates issued are commercial paper.

» 34 Derivatives used for hedging (negative fair values)

€ million	Jun. 30, 2016	Dec. 31, 2015
Derivatives used as fair value hedges	**1,588**	**1,630**
Interest-linked contracts	1,588	1,630
Derivatives used as cash flow hedges	**7**	**10**
Currency-linked contracts	7	10
Derivatives used for hedges of net investments in foreign operations	**1**	**1**
Currency-linked contracts	1	1
Total	**1,596**	**1,641**

» 35 Financial liabilities held for trading

€ million	Jun. 30, 2016	Dec. 31, 2015
DERIVATIVES (NEGATIVE FAIR VALUES)	**34,142**	**23,727**
Interest-linked contracts	28,493	18,811
Currency-linked contracts	1,679	786
Share-/index-linked contracts	1,040	717
Other contracts	2,786	3,282
Credit derivatives	144	131
SHORT POSITIONS	**1,283**	**836**
BONDS ISSUED	**16,201**	**14,572**
DEPOSITS	**15,706**	**6,242**
Money market deposits	**15,529**	**6,070**
from banks	12,879	5,704
of which: from affiliated banks	1,295	925
from other banks	11,584	4,779
from customers	2,650	366
Promissory notes and registered bonds issued	**177**	**172**
to banks	146	146
of which: to affiliated banks	146	146
to customers	31	26
Total	**67,332**	**45,377**

Bonds issued mainly comprise share- and index-linked certificates.

» 36 Provisions

€ million	Jun. 30, 2016	Dec. 31, 2015
Provisions for employee benefits	**2,525**	**1,868**
Provisions for defined benefit plans	2,180	1,635
Provisions for other long-term employee benefits	128	117
of which: for preretirement part-time employment schemes	16	16
Provisions for termination benefits	188	76
of which: for early retirement schemes	17	16
for restructuring	144	31
Provisions for short-term employee benefits	29	40
Provisions for share-based payment transactions	**23**	**23**
Other provisions	**1,220**	**1,190**
Provisions for onerous contracts	9	7
Provisions for restructuring	3	5
Provisions for loan commitments	126	51
Other provisions for loans and advances	82	68
Provisions relating to building society operations	690	653
Residual provisions	310	406
Total	**3,768**	**3,081**

The discount rate applied to defined benefit plans had been reduced to 1.50 percent at the balance sheet date (December 31, 2015: 2.25 percent).

» 37 Insurance liabilities

€ million	Jun. 30, 2016	Dec. 31, 2015
Provision for unearned premiums	1,894	1,104
Benefit reserve	54,159	52,634
Provision for claims outstanding	9,799	9,257
Provision for premium refunds	9,444	7,923
Other insurance liabilities	44	53
Reserve for unit-linked insurance contracts	8,109	7,958
Total	**83,449**	**78,929**

» 38 Other liabilities

€ million	Jun. 30, 2016	Dec. 31, 2015
Other liabilities of insurance companies	4,098	4,255
Liabilities from financial guarantee contracts	105	97
Accruals	691	977
Other payables	186	356
Residual other liabilities	418	354
Total	**5,498**	**6,039**

The table below gives a breakdown of insurance companies' other liabilities.

€ million	Jun. 30, 2016	Dec. 31, 2015
Other provisions	338	327
Payables and residual other liabilities	3,760	3,928
Total	**4,098**	**4,255**

» 39 Subordinated capital

€ million	Jun. 30, 2016	Dec. 31, 2015
Subordinated liabilities	4,440	3,812
Profit-sharing rights	283	292
Share capital repayable on demand	21	38
Other hybrid capital	25	–
Total	**4,769**	**4,142**

Subscribed capital

» 40
Equity

The subscribed capital (share capital) of DZ BANK consists of 1,884,591,900 registered non-par-value shares each with an imputed value of €2.60. Of these, 93,105,410 non-par-value shares are held via DZ Holding GmbH & Co. KG, Neu-Isenburg, (DZ Holding) as treasury shares that reduce the subscribed capital by €242 million. All other shares in issue are fully paid-up. In the first half of 2016, a dividend of €0.16 per share was paid for the 2015 financial year (first half of 2015: €0.15).

In the first half of 2016, the Board of Managing Directors used its existing authorizations, with the approval of the Supervisory Board, to adopt a resolution to increase the subscribed capital (share capital) by €1,253,672,030.00 from €3,646,266,910.00 to €4,899,938,940.00. The capital increase was carried out by swapping WGZ BANK shares for DZ BANK shares as part of the merger process. The exchange ratio was based on the exchange ratio of 1:67.5984 set forth in the merger agreement and confirmed by the auditors of the merger. The capital increase by way of an issue of 482,181,550 registered non-par-value shares at a value of €9.81 per share was entered in the commercial register of the Frankfurt am Main local court on July 29, 2016. Dividends are payable on the new shares from January 1, 2016.

Authorized capital

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by May 31, 2021 on one or more occasions by up to a total of €100 million by way of issuing new registered non-par-value shares in return for cash or non-cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders both in the case of capital increases in return for non-cash contributions and in the case of capital increases in return for cash contributions if the capital is increased for the purpose of
- issuing new shares to employees of the company (employee shares),
- issuing new shares to one or more cooperative banks which, measured in terms of their total assets, directly or indirectly have a below-average stake in the company's share capital, i.e. less than 0.5 percent of their total assets (using the nominal value of €2.60 per DZ BANK share),
- acquiring companies, equity investments in companies or for granting equity investments in the corporation in order to back strategic partnerships.

The Board of Managing Directors is also authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital I').

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by May 31, 2021 on one or more occasions by up to a total of €300 million by issuing new registered non-par-value shares in return for cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription rights of shareholders ('Authorized Capital II').

Contingent capital

The share capital was increased by up to €49,976,173.00 to meet contingencies by issuing up to 19,221,605 new, registered non-par-value shares (contingent capital). The contingent capital increase is used to provide registered non-par-value shares (conversion shares) to fulfill the conversion rights and/or conversion obligations of holders of the convertible bonds or partial bonds that were issued up to June 24, 2015. The issuance in return for capital contributions was authorized by a resolution at the Annual General Meeting of WGZ BANK on June 24, 2014. The contingent capital increase is only to be carried out in the event that holders of the aforementioned convertible bonds or partial bonds who have conversion rights or obligations exercise their conversion rights or meet their conversion obligations, and treasury shares are not used to satisfy their requirements. Conversion shares are always issued in a ratio of 7,435,824 conversion shares for every partial bond.

From the beginning of the financial year in which they are issued, conversion shares participate in the profit for the current financial year and in the profits generated in prior years, provided a resolution on their appropriation has not yet been adopted.

Subject to the consent of the Supervisory Board, the Board of Managing Directors is authorized to specify further details for carrying out a contingent capital increase.

Capital reserve

The capital reserve comprises the amounts from the issue of DZ BANK shares in excess of the imputed par value of the shares.

Retained earnings

Retained earnings comprise earned, undistributed consolidated profit together with gains and losses arising from remeasurement of defined benefit plans after taking into account deferred taxes. Cumulative gains and losses arising from remeasurement of defined benefit plans amounted to a loss of €635 million (December 31, 2015: loss of €438 million).

Revaluation reserve

The revaluation reserve shows changes in the fair value of available-for-sale financial assets after allowing for deferred taxes. Gains and losses are only recognized in profit or loss when the relevant asset is sold or an impairment has been identified.

Cash flow hedge reserve

The cash flow hedge reserve comprises the gains and losses on the measurement of hedging instruments attributable to the effective portion of the hedge after taking into account deferred taxes.

Currency translation reserve

The currency translation reserve is the result of the translation of financial statements of subsidiaries denominated in foreign currency into euros (the group reporting currency). It also includes the gains and losses on hedges of net investments in foreign operations and the change in the currency translation reserve for entities accounted for using the equity method.

Additional equity components

Additional Tier 1 notes

In 2015, DZ BANK issued a tranche of additional Tier 1 notes ('AT1 bonds') with a total volume of €750 million. The tranche of AT1 bonds issued is shown in the 'Additional equity components' sub-line item. According to the provisions of IAS 32, the AT1 bonds have characteristics of equity.

Other hybrid capital

As a result of the merger of DZ BANK with WGZ BANK, the convertible bond issued by WGZ BANK was taken over by DZ BANK as the legal successor. Upon initial recognition when the convertible bond is taken over, the components have to be defined as a financial liability or an equity instrument. The portion of the convertible bond that is not classified as a component of equity is recognized under subordinated capital. The equity component of €98 million is included in the 'Additional equity components' sub-line item within the equity of the DZ BANK Group until such time as it is potentially converted into non-par-value shares of DZ BANK. Further disclosures on conversion into non-par-value shares of DZ BANK can be found in the section on contingent capital.

D Financial instruments and fair value disclosures

» 41
Classes, categories, and fair values of financial instruments

The DZ BANK Group used the 'held-to-maturity investments' category for the first time in the interim consolidated financial statements for the first half of 2016. The 'held-to-maturity investments' category consists of non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. These investments are measured at amortized cost. The premiums and discounts are allocated over the expected life of the instrument using the effective interest method.

The following tables show the breakdown of carrying amounts and fair values of financial assets and financial liabilities by class (in accordance with IFRS 7) and by category of financial instruments (in accordance with IAS 39):

€ million	Jun. 30, 2016 Carrying amount	Jun. 30, 2016 Fair value	Dec. 31, 2015 Carrying amount	Dec. 31, 2015 Fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**185,531**	**185,531**	**151,065**	**151,065**
Financial instruments held for trading	**62,900**	**62,900**	**49,768**	**49,768**
Financial assets held for trading	62,255	62,255	49,520	49,520
Investments held by insurance companies	645	645	248	248
Fair value option	**22,442**	**22,442**	**18,029**	**18,029**
Loans and advances to banks	2,091	2,091	1,666	1,666
Loans and advances to customers	8,089	8,089	5,720	5,720
Investments	11,653	11,653	9,923	9,923
Investments held by insurance companies	609	609	720	720
Derivatives used for hedging	**597**	**597**	**416**	**416**
Derivatives used for hedging (positive fair values)	597	597	416	416
Available-for-sale financial assets	**99,592**	**99,592**	**82,852**	**82,852**
Loans and advances to customers	22	22	22	22
Investments	51,365	51,365	38,764	38,764
Investments held by insurance companies	48,205	48,205	44,066	44,066
FINANCIAL ASSETS MEASURED AT AMORTIZED COST	**312,720**	**324,523**	**234,826**	**244,477**
Held-to-maturity investments	**2,662**	**2,662**	–	–
Investments	2,662	2,662	–	–
Loans and receivables	**309,710**	**321,513**	**234,543**	**244,194**
Cash and cash equivalents	8,857	8,857	6,350	6,350
Loans and advances to banks	107,808	110,642	78,937	80,829
Loans and advances to customers	159,470	163,106	115,580	118,870
Investments	5,141	5,267	4,450	4,525
Investments held by insurance companies	27,570	33,141	28,483	33,131
Other assets	500	500	489	489
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	364		254	
Available-for-sale financial assets	**348**	**348**	**283**	**283**
Investments	257	257	189	189
Investments held by insurance companies	91	91	94	94
FINANCE LEASES	**3,538**	**3,769**	**3,587**	**3,746**
Loans and advances to banks	78	108	80	105
Loans and advances to customers	3,460	3,661	3,507	3,641

€ million	Jun. 30, 2016 Carrying amount	Jun. 30, 2016 Fair value	Dec. 31, 2015 Carrying amount	Dec. 31, 2015 Fair value
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**103,109**	**103,109**	**70,632**	**70,632**
Financial instruments held for trading	**67,382**	**67,382**	**45,447**	**45,447**
Financial liabilities held for trading	67,332	67,332	45,377	45,377
Other liabilities	50	50	70	70
Fair value option	**34,131**	**34,131**	**23,544**	**23,544**
Deposits from banks	5,444	5,444	3,561	3,561
Deposits from customers	11,752	11,752	7,009	7,009
Debt certificates issued including bonds	16,177	16,177	12,216	12,216
Subordinated capital	758	758	758	758
Derivatives used for hedging	**1,596**	**1,596**	**1,641**	**1,641**
Derivatives used for hedging (negative fair values)	1,596	1,596	1,641	1,641
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	**303,720**	**309,660**	**230,508**	**235,022**
Deposits from banks	124,015	126,924	93,666	95,647
Deposits from customers	115,760	118,332	89,177	91,378
Debt certificates issued including bonds	58,456	58,910	42,735	43,109
Other liabilities	1,224	1,224	1,289	1,289
Subordinated capital	4,011	4,270	3,384	3,599
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	254		257	
FINANCE LEASES	**26**	**33**	**27**	**32**
Other liabilities	26	33	27	32
FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS	**231**	**231**	**148**	**148**
Financial guarantee contracts	**105**	**105**	**97**	**97**
Other liabilities	105	105	97	97
Loan commitments	**126**	**126**	**51**	**51**
Provisions	126	126	51	51

Given the complex structure of home savings contracts and the multitude of scales of rates and charges, there is currently no suitable method for calculating the fair value of an individual contract as at the balance sheet date. Consequently, the fair value cannot be determined using either comparable market prices or suitable option pricing models. The fair values of financial assets and financial liabilities resulting from building society operations are therefore shown in simplified form at their carrying amounts. On the basis of the models used for building society management, which comprise both collective and non-collective business including deposits, the overall amount for building society operations during the reporting period was positive.

The carrying amounts and fair values reported under investments held by insurance companies relate to receivables and fixed-income securities matched as cover for long-term insurance contract obligations as part of insurance operations. Because these instruments are normally held over their entire maturity, interest-rate-related changes in fair value during the maturity of the financial assets balance each other out in full. The fair values of the investments held by insurance companies comprise both the proportion of the fair values that is attributable to the policyholders and the proportion attributable to the shareholders of the DZ BANK Group. The fair value attributable to the shareholders of the DZ BANK Group of investments held by insurance companies that are measured at amortized cost and reported under loans and receivables was €28,805 million (December 31, 2015: €29,557 million). The fair value attributable to the shareholders of the DZ BANK Group of other liabilities that are recognized as finance leases was €33 million (December 31, 2015: €32 million).

Financial instruments measured at cost

Investments and investments held by insurance companies include shares and other variable-yield securities and investments in subsidiaries, joint ventures, and associates measured at cost with a total carrying amount of €348 million (December 31, 2015: €283 million). There are no active markets for these investments, nor can their fair value be reliably determined by using a valuation technique based on assumptions that do not rely on available observable market data. Furthermore, there are no other markets for these financial instruments. The main purpose of these financial instruments is to support the business operations of the DZ BANK Group on a permanent basis.

During the reporting period, shares and other variable-yield securities measured at cost, other shareholdings measured at cost, and investments in subsidiaries and associates with a carrying amount of €1 million were sold. This resulted in gains on disposal of €1 million.

During the first half of 2015, other shareholdings measured at cost with a carrying amount of €7 million had been sold. This had resulted in gains on disposal of €47 million.

Fair value hierarchy

» 42
Assets and liabilities measured at fair value on the balance sheet

Recurring and non-recurring fair value measurements

The fair value measurements are assigned to the levels of the fair value hierarchy as follows:

€ million	Level 1 Jun. 30, 2016	Level 1 Dec. 31, 2015	Level 2 Jun. 30, 2016	Level 2 Dec. 31, 2015	Level 3 Jun. 30, 2016	Level 3 Dec. 31, 2015
Assets	**66,150**	63,317	**121,859**	92,001	**6,409**	4,556
Loans and advances to banks	–	–	1,877	1,666	214	–
Loans and advances to customers	–	–	7,039	5,159	1,072	583
Derivatives used for hedging (positive fair values)	–	–	597	416	–	–
Financial assets held for trading	1,133	1,172	60,971	48,074	151	274
Investments	18,293	18,372	42,324	28,968	2,401	1,347
Investments held by insurance companies	46,724	43,752	9,025	7,628	2,571	2,352
Non-current assets and disposal groups classified as held for sale	–	21	26	90	–	–
of which: non-recurring measurement	–	21	–	74	–	–
Liabilities	**8,064**	8,171	**101,071**	68,676	**2,736**	2,402
Deposits from banks	–	–	5,443	3,561	1	–
Deposits from customers	–	–	11,752	7,009	–	–
Debt certificates issued including bonds	2,081	2,153	13,634	9,562	462	501
Derivatives used for hedging (negative fair values)	–	–	1,596	1,641	–	–
Financial liabilities held for trading	746	602	64,667	42,875	1,919	1,900
Financial liabilities arising from unit-linked insurance products	5,228	5,402	3,534	3,195	–	–
Other liabilities	9	14	38	55	3	1
Subordinated capital	–	–	407	758	351	–
Liabilities included in disposal groups classified as held for sale	–	–	–	20	–	–

The investments held by insurance companies measured at fair value include assets related to unit-linked contracts. These are offset on the equity and liabilities side of the balance sheet by financial liabilities measured at fair value arising from unit-linked insurance products, which consist of the reserve for unit-linked insurance contracts and liabilities from capitalization transactions allocated to unit-linked life insurance.

Transfers

Assets and liabilities held at the balance sheet date and measured at fair value on a recurring basis were transferred as follows between Levels 1 and 2 of the fair value hierarchy:

€ million	Transfers from Level 1 to Level 2		Transfers from Level 2 to Level 1	
	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Assets measured at fair value	**209**	1,493	**1,347**	3,533
Financial assets held for trading	–	–	18	6
Investments	–	729	1,042	3,203
Investments held by insurance companies	209	764	287	324
Liabilities measured at fair value	**–**	–	**10**	1
Financial liabilities held for trading	–	–	10	1

Transfers from Level 1 to Level 2 were due to quoted prices no longer being obtainable in active markets for identical assets. Transfers from Level 2 to Level 1 were due to the availability of quoted prices in active markets that had previously not existed.

In the DZ BANK Group, transfers between Levels 1 and 2 take place when there is a change in the inputs that is relevant to categorization in the fair value hierarchy.

Fair value measurements within Levels 2 and 3

Fair value measurements within Level 2 of the fair value hierarchy either use prices available in active markets for similar, but not identical, financial instruments or use valuation techniques largely based on observable market data. If valuation techniques are used that include a significant valuation parameter that is not observable in the market, the relevant fair value measurements are categorized within Level 3 of the fair value hierarchy.

Generally, the discounted cash flow method is used in the model-based measurement of the fair value of financial instruments without optionalities. Modeling of the yield curves is based on a multi-curve approach with collateral discounting. Simple products on which options exist are measured using customary standard models in which the inputs are quoted in active markets. For structured products on which options exist, a wide range of standard valuation techniques are used. Valuation models are calibrated to available market prices and validated regularly. The fair values of structured products can be measured by breaking these products into their constituent parts, which are then measured using the valuation methods described below.

The basis for measurement is the selection of an adequate yield curve for each specific instrument. The measurement is carried out by selecting appropriate tenor-specific forward curves for projecting variable cash flows. The nature and collateralization of the transactions determines how they are discounted using yield curves that can be adjusted on the basis of relevant spreads.

The DZ BANK Group uses prices in active markets (provided these prices are available) for the fair value measurement of loans and advances as well as non-structured bonds. Otherwise, it mainly uses the discounted cash flow method. Discounting is based on yield curves that are adjusted for liquidity-related and credit rating-related costs using spreads. Product-dependent funding spreads are added to the yield curve for liabilities attributable to registered creditors, debt certificates issued including bonds, and subordinated capital. Debt instruments held are adjusted using issuer-specific spreads or spreads derived from the issuer's internal and external credit rating, sector, and risk category. Customer-appropriate spreads and collateralization rates are taken into account for the measurement of loans when the discounted cash flow method is used. If significant unobservable inputs are used for measurement and there are no indications that the transaction price is not identical to the fair value at the time of first-time recognition on the balance sheet, the valuation method is calibrated in such a way that the model price at the time of acquisition corresponds to the transaction price. In exceptional cases, the notional amount of the debt instrument in question provides the best evidence of fair value.

The fair value measurements of shares and other variable-yield securities and of long-term equity investments accounted for in accordance with IAS 39 are determined by applying income capitalization approaches and observing transaction prices. The best indicator of fair value is deemed to be the transaction prices for recent transactions involving the relevant financial instruments, provided there have been any such transactions. Otherwise, the fair value is measured using income capitalization approaches in which future income and dividends – calculated on the basis of forecasts and estimates – are discounted, taking risk parameters into account.

The fair value measurements of investment fund units are determined using the pro rata net asset value. This is adjusted for any outstanding performance-related remuneration entitlements of fund managers; risk adjustments are also taken into account. Some long-term equity investments in real-estate companies are also measured at net asset value. In this case, the liabilities are subtracted from the fair values of the real estate tied up in the company and the result is multiplied by the percentage of shareholding. The prices of units in real-estate funds that are not managed by the DZ BANK Group are provided by the asset management company that manages these funds. These units are measured regularly at net asset value. Fair value measurements are also based on valuations, current values, and prices in recent transactions.

The fair value measurement of standardized derivatives traded in liquid markets is based on observable market prices and/or industry-standard models using observable inputs. To discount the cash flows of derivatives, a distinction is made between non-collateralized and collateralized transactions when using yield curves. Moreover, calculation of the model prices for products on which options exist mostly requires the input of additional market data (e.g. volatilities, correlations, repo rates). As far as possible, this data is derived implicitly from quoted market prices that are available. If observable quoted market prices are not available, or only available to a limited extent, DZ BANK uses customary interpolation and extrapolation mechanisms, historical time series analysis, and fundamentals analysis of economic variables to generate the required inputs. It also uses expert assessments on a small scale.

The fair value measurement of OTC derivatives applies the option in IFRS 13.48, which enables the total net amount to be measured. In the first step, credit risk is not taken into account. Counterparty-specific credit risk arising from derivatives is recognized after the total net amount has been determined. Credit valuation adjustments (CVA) are recognized to mitigate counterparty credit risk and debt valuation adjustments (DVA) are recognized to mitigate the group's own credit risk. Their measurement also takes account of collateral and uses market-implied parameters with matching maturities or internal parameters with matching maturities for the probability of default and loss given default.

The measurement of financial instruments also involves carrying out measurement adjustments to a suitable degree. This includes, among other things, model reserves that enable uncertainties in model selection, model parameters, and model configuration to be taken into account. The DZ BANK Group measures financial instruments at the price at which these financial instruments can be realized in the market. If this differs from the measurement of the individual instruments (e.g. measurement at middle rates), the bid/ask adjustments (close-out reserves) are determined on a net basis applying the option in IFRS 13.48. Measurement takes account of the group's funding structure.

The following table shows the valuation techniques, the unobservable inputs, and their spreads used for the fair value measurements at Level 3 of the fair value hierarchy as at the balance sheet date.

Class according to IFRS 13	Assets/ liabilities	Fair value (€ million)	Valuation technique	Unobservable inputs	Spread of unobservable inputs (%)
Loans and advances to banks	Loans	214	DCF method	Credit spread	0.5 to 80
Loans and advances to customers	Loans	1,026	DCF method	Credit spread	-2.9 to 8.3
		24	DCF method	Internal spread	1.5 to 9.5
	Silent partnerships	22	DCF method	Internal credit ratings	6.7
Financial assets held for trading	ABSs	61	DCF method	Credit spread	1.2 to 370
	Bearer securities	62	DCF method	BVAL price adjustment	-2.9 to 3.5
	Equity/commodity basket products	8	Local volatility model	Correlation of the risk factors considered	-9.2 to 86.5
	Collateralized loan obligations	3	Gaussian copula model	Liquidity spread	0
	Syndicated loans	10	DCF method	Credit spread	–
	Loans and advances to issuers in default	7	DCF method	Recovery rate	0 to 60
Investments	Bearer securities	983	DCF method	BVAL price adjustment	-2.9 to 3.5
		384	DCF method	Recovery rate	-0.6 to 1
	VR Circle	459	DCF method	Multiple-year default probabilities	0 to 1
	Investments in subsidiaries	103	Income capitalization approach	Future income	–
		43	DCF method	Assumptions for measurement of risk parameters	9.2 to 16.4
	Other shareholdings	105	Income capitalization approach	Future income	–
		17	DCF method	Assumptions for measurement of risk parameters	9.2 to 16.4
	Investment fund units	43	Net asset value	–	–
	ABSs	264	DCF method	Credit spread	0.2 to 370

Class according to IFRS 13	Assets/ liabilities	Fair value (€ million)	Valuation technique	Unobservable inputs	Spread of unobservable inputs (%)
Investments held by insurance companies	Investments in subsidiaries, associates, and joint ventures, real estate funds, profit-participation certificates, and other long-term equity investments	1,315	Net asset value	–	–
	Investments in subsidiaries and associates, other long-term equity investments, and shares in cooperative banks	268	Income capitalization approach	Future income	6.4 to 14
		571	Prices offered by external suppliers of market prices	–	–
	ABSs	86	DCF method	Credit spread	6.0 to 6.1
	Profit-participation certificates, silent partnerships, promissory notes, and loan commitments	176	DCF method	Credit spread	6.0 to 6.1
	Fixed-income securities, shares, and shares in cooperative banks	154	Prices offered by external suppliers of market prices	–	–
	Derivatives (positive fair values)	1	Prices offered by external suppliers of market prices	–	–
Deposits from banks	Loans	1	DCF method	Credit spread	0.5 to 80
Debt certificates issued including bonds	VR Circle	458	DCF method	Multiple-year default probabilities	0 to 1
	Basket credit-linked notes	4	Gaussian copula model	Credit correlation	55 to 80
Financial liabilities held for trading	Equity/commodity basket products	1,880	Local volatility model	Correlation of the risk factors considered	-9.2 to 86.5
	Basket credit-linked notes	28	Gaussian copula model	Credit correlation	55 to 80
	Products with quanto correlation	11	Libor market model	Correlation of the risk factors considered	-6 to 70
Other liabilities	Derivatives (negative fair values)	3	Prices offered by external suppliers of market prices	–	–
Subordinated capital	Loans	351	DCF method	Credit spread	0.5 to 80

The following table shows the valuation techniques, the unobservable inputs, and their spread used for the fair value measurements at Level 3 of the fair value hierarchy as at December 31, 2015.

Class according to IFRS 13	Assets/ liabilities	Fair value (€ million)	Valuation technique	Unobservable inputs	Spread of unobservable inputs (%)
Loans and advances to customers	Loans	522	DCF method	Credit spread	0 to 8.3
		39	DCF method	Internal spread	1.5 to 9.5
	Silent partnerships	22	DCF method	Internal credit ratings	6.7
Financial assets held for trading	ABSs	78	DCF method	Credit spread	0 to 370
	Bearer securities	170	DCF method	BVAL price adjustment	-0.5 to 155
	Equity/commodity basket products	16	Local volatility model	Correlation of the risk factors considered	0 to 87
	Collateralized loan obligations	3	Gaussian copula model	Liquidity spread	0
	Syndicated loans	1	DCF method	Credit spread	–
	Loans and advances to issuers in default	6	DCF method	Recovery rate	0 to 60
Investments	Bearer securities	378	DCF method	BVAL price adjustment	-0.5 to 155
		25	DCF method	Recovery rate	50
	VR Circle	501	DCF method	Multiple-year default probabilities	0 to 100
	Investments in subsidiaries	107	Income capitalization approach	Future income	–
		51	DCF method	Assumptions for measurement of risk parameters	9 to 14.3
	Other shareholdings	222	Income capitalization approach	Future income	–
		16	DCF method	Assumptions for measurement of risk parameters	9 to 14.3
	Investment fund units	42	Net asset value	–	–
	ABSs	5	DCF method	Credit spread	0 to 370

Class according to IFRS 13	Assets/ liabilities	Fair value (€ million)	Valuation technique	Unobservable inputs	Spread of unobservable inputs (%)
Investments held by insurance companies	Investments in subsidiaries, associates, and joint ventures, real estate funds, profit-participation certificates, and other long-term equity investments	1,279	Net asset value	–	–
	Investments in subsidiaries and associates, investment fund units, profit-participation certificates, long-term equity investments	233	Income capitalization approach	Future income	6.4 to 7.5
		465	Prices offered by external suppliers of market prices	–	–
	ABSs	83	DCF method	Credit spread	6.0 to 6.1
	Profit-participation certificates, silent partnerships, promissory notes	151	DCF method	Credit spread	3.0 to 5.4
	Fixed-income securities, shares	140	Prices offered by external suppliers of market prices	–	–
	Derivatives (positive fair values)	1	Prices offered by external suppliers of market prices	–	–
Debt certificates issued including bonds	VR Circle	501	DCF method	Multiple-year default probabilities	0 to 100
Financial liabilities held for trading	Equity/commodity basket products	1,853	Local volatility model	Correlation of the risk factors considered	0 to 87
	Basket credit-linked notes	35	Gaussian copula model	Credit correlation	0
	Products with quanto correlation	12	Libor market model	Liquidity spread	-11 to 76
Other liabilities	Derivatives (negative fair values)	1	Prices offered by external suppliers of market prices	–	–

Fair value measurements within Level 3 of the fair value hierarchy

The table below shows the changes in the recurring fair value measurements of assets within Level 3 of the fair value hierarchy:

€ million	Loans and advances to banks	Loans and advances to customers	Financial assets held for trading	Investments	Investments held by insurance companies	Non-current assets and disposal groups classified as held for sale
Balance as at Jan. 1, 2015	–	595	385	2,686	2,075	8
Additions (purchases)	–	20	–	146	256	–
Transfers	–	–	-57	-1,464	27	–
from Level 3 to Levels 1 and 2	–	–	-57	-1,628	-34	–
from Levels 1 and 2 to Level 3	–	–	–	164	61	–
Disposals (sales)	–	-60	-67	-25	-380	–
Changes resulting from measurement at fair value	–	78	-6	43	15	39
through profit or loss	–	2	-6	-2	11	–
through other comprehensive income	–	76	–	45	4	39
Other changes	–	-1	–	2	15	–
Balance as at Jun. 30, 2015	**–**	**632**	**255**	**1,388**	**2,008**	**47**
Balance as at Jan. 1, 2016	–	583	274	1,347	2,352	–
Additions (purchases)	–	144	–	22	304	–
Transfers	214	283	-96	405	76	–
from Level 3 to Levels 1 and 2	–	–	-98	-7	-22	–
from Levels 1 and 2 to Level 3	214	283	2	412	98	–
Disposals (sales)	–	-16	-9	-121	-226	–
Changes resulting from measurement at fair value	–	51	-21	-24	62	–
through profit or loss	–	14	-4	-2	-3	–
through other comprehensive income	–	37	-17	-22	65	–
Other changes	–	27	3	772	3	–
Balance as at Jun. 30, 2016	**214**	**1,072**	**151**	**2,401**	**2,571**	**–**

The table below shows the changes in the recurring fair value measurements of liabilities within Level 3 of the fair value hierarchy:

€ million	Deposits from banks	Deposits from customers	Debt certificates issued including bonds	Financial liabilities held for trading	Other liabilities	Sub-ordinated capital
Balance as at Jan. 1, 2015	9	6	611	4,930	1	–
Additions (issues)	–	–	–	–	1	–
Disposals (settlements)	–	–	-114	-154	–	–
Changes resulting from measurement at fair value through profit or loss	–	–	-1	-41	–	–
Other changes	–	–	-2	–	–	–
Balance as at Jun. 30, 2015	**9**	**6**	**494**	**4,735**	**2**	**–**
Balance as at Jan. 1, 2016	–	–	501	1,900	1	–
Additions (issues)	–	–	–	140	–	–
Transfers	1	–	4	-121	–	356
from Level 3 to Levels 1 and 2	–	–	–	-210	–	–
from Levels 1 and 2 to Level 3	1	–	4	89	–	356
Disposals (settlements)	–	–	-45	–	-1	–
Changes resulting from measurement at fair value through profit or loss	–	–	2	–	3	–
Other changes	–	–	–	–	–	-5
Balance as at Jun. 30, 2016	**1**	**–**	**462**	**1,919**	**3**	**351**

The other changes mainly consist of merger-related effects.

As part of the processes for fair value measurement, the DZ BANK Group reviews whether the valuation methods used for the measurement are typical and whether the valuation parameters used in the valuation methods are observable in the market. This review takes place at every balance sheet date, i.e. at least every 6 months. On the basis of this review, the fair value measurements are assigned to the levels of the fair value hierarchy. In the DZ BANK Group, transfers between the levels generally take place as soon as there is a change in the inputs that is relevant to categorization in the fair value hierarchy.

In each step of these processes, both the distinctive features of the particular product type and the distinctive features of the business models of the group entities are taken into consideration.

Transfers of fair values from Levels 1 and 2 to Level 3 of the fair value hierarchy during the reporting period are largely attributable to a revised estimate of the market observability of the valuation parameters used in the valuation methods. Transfers from Level 3 to Levels 1 and 2 are essentially due to the availability of a price listed in an active market and to the inclusion in the valuation method of material valuation parameters observable in the market. In this context, the influence of unobservable inputs on the measurement of financial instruments is regularly assessed from the perspective of sensitivity and present value (significance analysis).

The amount recognized in profit or loss resulting from the recurring fair value measurements within Level 3 of assets and liabilities held at the balance sheet date constituted a loss of €25 million during the reporting period (first half of 2015: profit of €56 million). The profit or loss is contained in the line items net interest income, allowances for losses on loans and advances, gains and losses on trading activities, other gains and losses on valuation of financial instruments, and gains and losses on investments held by insurance companies.

For the fair values of investments held by insurance companies reported within Level 3, a worsening in the credit rating or a rise in the interest rate of 1 percent would lead to the recognition of a €20 million loss in the income statement (December 31, 2015: loss of €5 million) and a loss of €8 million under other comprehensive income/loss (December 31, 2015: loss of €7 million). In the case of the fair values of loans and advances to customers, the same change would lead to the recognition of a €15 million loss in the income statement (December 31, 2015: loss of €15 million) and a loss of €1 million under other comprehensive income/loss (December 31, 2015: loss of €1 million). For the fair values of investments, there would be an €8 million loss under other comprehensive income/loss (December 31, 2015: loss of €5 million) and a €25 million loss in the income statement. There would not have been any loss in the income statement as at December 31, 2015.

The fair values of bonds without liquid markets that are reported within financial assets held for trading, investments, and loans and advances to customers are given an individual adjustment spread or are measured using Bloomberg Valuation Service prices, which have a low level of observability in the market. All other things being equal, an increase in the pertinent measurement assumptions of 1 percent would lead to the recognition of a €22 million loss in the income statement (December 31, 2015: loss of €6 million) and a gain of €9 million under other comprehensive income/loss (December 31, 2015: gain of €3 million). Historical spreads are used for subordinated bonds recognized under loans and advances to banks and within subordinated capital whose spread components are no longer observable in the market. All other things being equal, an increase of 1 percent in the spread would lead to a €3 million decrease in fair value that would be recognized in the income statement.

An alternative assumption about the credit spreads used could lead to a significant change in the fair values of some of the ABSs reported under financial assets held for trading. All other things being equal, a rise of 1 percent in these credit spreads would lead to the recognition of a loss of €3 million in the income statement (December 31, 2015: loss of €4 million).

Measurement of some of the commodities reported under financial assets and financial liabilities held for trading is based on the benchmark volatility of a comparable underlying. All other things being equal, a 1 percent rise in volatility would lead to the recognition of a gain of €34 million in the income statement (December 31, 2015: gain of €9 million).

Sensitivity analysis is used to calculate the aforementioned changes in the fair value measurements. Non-performing exposures and strategically held investments in subsidiaries and other shareholdings whose fair values are calculated using an income capitalization approach are not included in the sensitivity analysis.

Exercise of option pursuant to IFRS 13.48

The option offered by IFRS 13.48 of measuring a net risk position for financial assets and financial liabilities is used for portfolios whose components are recognized under the balance sheet items loans and advances to banks, loans and advances to customers, financial assets held for trading, investments, and financial liabilities held for trading.

» 43 Hedge accounting

Gains and losses arising on hedging instruments and hedged items that need to be recognized in profit or loss are reported in the gains and losses from hedge accounting under other gains and losses on valuation of financial instruments. The breakdown of gains and losses from hedge accounting, by type of hedge, is as follows:

€ million	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Gains and losses on fair value hedges	**-1**	**7**
Gains and losses on hedging instruments	107	-88
Gains and losses on hedged items	-108	95
Gains and losses on portfolio fair value hedges	**4**	**17**
Gains and losses on hedging instruments	-744	207
Gains and losses on hedged items	748	-190
Gains and losses on cash flow hedges	**1**	**2**
Total	**4**	**26**

» 44 Nature and extent of risks arising from financial instruments and insurance contracts

Selected disclosures on the nature and extent of risks arising from financial instruments (IFRS 7.31-42) and insurance contracts (IFRS 4.38-39A) are included in the opportunity and risk report within the interim group management report.

The table below shows the carrying amounts of the DZ BANK Group's exposures to bonds issued by governments and public authorities in countries particularly affected by the sovereign debt crisis, broken down into the categories applied to financial instruments under IAS 39.

» 45
Exposures to countries particularly affected by the sovereign debt crisis

€ million	Jun. 30, 2016	Dec. 31, 2015
Portugal	**695**	293
Fair value option	337	244
Available-for-sale financial assets	69	–
Held-to-maturity investments	240	–
Loans and receivables	49	49
Italy	**6,413**	5,275
Financial instruments held for trading	21	–
Fair value option	1,497	1,372
Available-for-sale financial assets	4,413	3,903
Held-to-maturity investments	482	–
Spain	**2,536**	2,094
Financial instruments held for trading	223	168
Fair value option	1,376	1,353
Available-for-sale financial assets	742	573
Held-to-maturity investments	195	–
Total	**9,644**	7,662

The fair value of Portuguese government bonds categorized as 'loans and receivables' amounts to €54 million (December 31, 2015: €56 million).

Bonds issued by countries particularly affected by the sovereign debt crisis and held as part of the insurance business are only recognized in the proportion attributable to the shareholders of the DZ BANK Group.

As a result of a further improvement in its credit rating, Ireland has not been shown separately in internal risk reporting since the start of the financial year. Consequently, the total exposure in respect of countries particularly affected by the sovereign debt crisis as at December 31, 2015 disclosed here differs from the corresponding amount in the 2015 consolidated financial statements.

Fair value hierarchy

The recurring fair value measurements as measured and recognized on the balance sheet are assigned to the levels of the fair value hierarchy as follows:

	Level 1		Level 2		Level 3	
€ million	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Portugal	**337**	244	**69**	–	**–**	–
Fair value option	337	244	–	–	–	–
Available-for-sale financial assets	–	–	69	–	–	–
Italy	**4,602**	4,524	**1,151**	751	**178**	–
Financial instruments held for trading	–	–	21	–	–	–
Fair value option	1,349	1,312	87	60	61	–
Available-for-sale financial assets	3,253	3,212	1,043	691	117	–
Spain	**1,315**	1,631	**631**	463	**395**	–
Financial instruments held for trading	–	–	223	168	–	–
Fair value option	1,081	1,353	58	–	237	–
Available-for-sale financial assets	234	278	350	295	158	–
Total	**6,254**	6,399	**1,851**	1,214	**573**	–

Impairment

No impairment losses were recognized to cover exposures in respect of the bonds from countries particularly affected by the sovereign debt crisis (Portugal, Italy, and Spain) because there was insufficient objective evidence of impairment.

Maturity analysis

AS AT JUNE 30, 2016

€ million	≤ 1 month	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Portugal	20	–	28	151	873
Italy	6	320	543	1,385	5,213
Spain	14	1	334	651	2,385
Total	**40**	**321**	**905**	**2,187**	**8,471**

AS AT DECEMBER 31, 2015

€ million	≤ 1 month	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Portugal	–	–	12	48	376
Italy	87	112	475	1,129	4,454
Spain	4	23	326	362	2,026
Total	**91**	**135**	**813**	**1,539**	**6,856**

The maturity analysis shows the contractually agreed cash inflows.

E Other disclosures

» 46 Financial guarantee contracts and loan commitments

€ million	Jun. 30, 2016	Dec. 31, 2015
Financial guarantee contracts	**7,260**	**6,417**
Loan guarantees	3,988	3,113
Letters of credit	589	391
Other guarantees and warranties	2,683	2,913
Loan commitments	**31,962**	**24,876**
Credit facilities to banks	4,282	2,589
Credit facilities to customers	14,279	11,618
Guarantee credits	161	221
Global limits	13,240	10,448
Total	**39,222**	**31,293**

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

» 47 Trust activities

Trust assets and trust liabilities amounted to €1,129 million at the balance sheet date (December 31, 2015: €1,155 million).

» 48 Business combinations

The planned merger of DZ BANK AG, Frankfurt am Main, and WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, was announced on November 19, 2015. The related merger agreement was signed by both parties on April 12, 2016, laying the cornerstone for the merger of the two banks. The Supervisory Board of DZ BANK AG agreed to the merger on April 27, 2016. Agreement from the Supervisory Board of WGZ BANK AG was obtained on May 4, 2016. The shareholders adopted a resolution approving the two banks' merger at the annual general meetings of WGZ BANK AG on June 21, 2016 and DZ BANK AG on June 22, 2016.

This merger is a merger by way of acquisition, with the assets of WGZ BANK AG being transferred to DZ BANK AG. In return, the shareholders of WGZ BANK AG receive shares in DZ BANK AG as part of a capital increase. The exchange ratio for the shares held by the shareholders of WGZ BANK AG is based on the enterprise valuation of the two institutions as at June 21, 2016.

As intended by both Boards of Managing Directors, WGZ BANK AG is being fully merged (100 percent of the voting shares) into DZ BANK AG in a spirit of partnership. The merger was entered in the commercial register on July 29, 2016. The subsidiaries of WGZ BANK AG are also being transferred to DZ BANK AG as part of the merger.

WGZ BANK AG is the central institution for the local cooperative banks in North Rhine-Westphalia, Koblenz, and Trier. Alongside its strategic focus as a central institution, WGZ BANK AG is also a commercial and trading bank. To help it fulfill these roles, it operates subsidiaries, for which it acts as the group parent company. This strategy is underpinned by WGZ BANK AG's decentralized function within the regional cooperative financial network and the responsibilities that it assumes within the cooperative financial network in this role. Its activities are concentrated in 3 operating segments: its affiliated cooperative banks, corporate customers, and capital markets partners.

WGZ BANK AG's uppermost objective as a central institution is to support its shareholders and strengthen the competitiveness of the cooperative banks in its region. It sees itself as a partner to the local cooperative banks in the regional cooperative financial network. In addition to payments processing, WGZ BANK AG primarily operates the joint credit business and the funding and development lending businesses for the regional cooperative financial network, is a trading partner and advisor to the member banks on all banking matters, and sees itself as an 'Initiativbank' – or driving force – in the development of innovative products, services, and technologies.

In its role as a commercial and trading bank, WGZ BANK AG's target customers are small and medium-sized corporate customers – including in the area of real estate finance – along with companies and partners operating in the capital markets (banks and capital market institutions). Securities and trading business and custody services are included in the capital markets partners operating segment, as are custodian bank services. In corporate customer lending business, the decentralized structure of the regional cooperative financial network and the bank's in-depth knowledge of the local markets in its regions provide the foundations on which to continue building on its good position in this segment.

To provide its cooperative banks and customers with comprehensive support, WGZ BANK AG draws on the cooperative financial network and the activities of its subsidiaries. These subsidiaries include WL BANK AG, Westfälische Landschaft Bodenkreditbank, Münster, WGZ BANK Ireland plc, Dublin, PHOENIX Beteiligungsgesellschaft mbH, Düsseldorf, and IMPETUS Bietergesellschaft mbH, Düsseldorf.

As part of the merger between DZ BANK AG and WGZ BANK AG, WGZ BANK Ireland plc was renamed DZ BANK Ireland plc on August 12, 2016.

WGZ BANK AG has a 90.9 percent long-term equity investment in WL BANK AG. In addition, the local cooperative banks hold a 4.5 percent stake and the Westfälische Landschaft Foundation holds 4.6 percent.

The joint cooperative central institution created by the merger will build on the successful business policies pursued in recent years. Besides the pooling of financial resources, the merger will enable synergies resulting from the two banks' very similar business models to be leveraged in the areas of strategy, business, and regulatory requirements. The joint central institution will be able to look to the future and expand the collaboration with the cooperative banks – which number approximately 1,000 – with all services from a single source, driven by the consistent focus on the cooperative financial network.

DZ BANK AG acquired control (as defined by IFRS 10) over WGZ BANK AG with effect from June 28, 2016. DZ BANK AG is deemed to have control when it is exposed, or has rights, to variable returns from its involvement with WGZ BANK AG and has the ability to affect those returns through its power over WGZ BANK AG. When assessing whether control exists, all aspects and circumstances are considered (such as approval from the relevant authorities). Following this assessment, control is obtained 30 days before entry in the commercial register and the merger, which becomes effective under civil law at that point. In view of the 30-day notice required to convene a general meeting of shareholders and provided that the entry in the commercial register was not delayed, it had to be assumed from June 28, 2016 onward that the shareholders of WGZ BANK would no longer be able to convene a general meeting for WGZ BANK AG in the period up to July 29, 2016. In fact, the rights of the DZ BANK shareholders were classed as substantive from that date. The ability to direct the relevant activities of the WGZ BANK Group thus passed to the DZ BANK shareholders on that date.

After control was obtained, the transaction was completed on June 28, 2016. To simplify matters and due to the immaterial measurement differences between June 28, 2016 and June 30, 2016, the WGZ BANK Group was consolidated for the first time in the half-year financial report of the DZ BANK Group as at June 30, 2016.

Under IFRS 3, all identifiable assets and liabilities of the acquired entity have to be measured at their fair value on the date of acquisition. The resulting negative goodwill between the consideration transferred and the higher balance of the assets acquired and liabilities assumed measured at fair value is recognized as income from the merger in the income statement and thus directly increases the equity of the DZ BANK Group. DZ BANK AG determines the transferred consideration from the capital increase using the discounted cash flow method on the basis of estimated future cash flows and the weighted cost of capital pursuant to IDW S 1 Principles for the Performance of Business Valuations (2008 version). However, the fair values of each individual asset and liability in existence are determined in accordance with the provisions of IFRS 3 in conjunction with IFRS 13. The partial goodwill method is used to measure the non-controlling interests on the basis of the non-controlling interests' proportionate share of the remeasured net assets. The negative goodwill resulting from the merger amounted to €159 million and has been reported in the income statement under 'Net income from the merger with WGZ BANK'. This income is largely explained by the different methods used for measurement of the consideration transferred and measurement of the assets acquired and liabilities assumed. The consideration transferred equates to the enterprise value of the WGZ BANK Group, which was determined in accordance with the provisions of IDW S 1 Principles for the Performance of Business Valuations (2008 version) on the basis of the future long-term income of the WGZ BANK Group as a whole. By contrast, the rules of IFRS 3 in conjunction with IFRS 13 require that each individual asset and liability be remeasured at fair value and that hidden reserves and hidden liabilities be identified.

The following table shows the preliminary purchase price allocation under IFRS 3 relating to the date of first-time consolidation as at June 30, 2016.

Fair value of the consideration transferred

€ million	Jun. 30, 2016
Consideration transferred arising from the capital increase of DZ BANK AG	4,730
Consideration transferred in the amount of the DZ BANK AG shares held by WGZ BANK AG	5
Consideration transferred	**4,735**

Fair value of the assets acquired and liabilities assumed

€ million	Jun. 30, 2016
Cash and cash equivalents	215
Loans and advances to banks	25,540
Loans and advances to customers	43,315
Financial assets held for trading	9,047
Investments	23,884
Property, plant and equipment, and investment property	127
Income tax assets	497
Other assets	95
Total assets acquired	102,720
Deposits from banks	42,318
Deposits from customers	22,208
Debt certificates issued including bonds	21,212
Financial liabilities held for trading	10,695
Provisions	325
Income tax liabilities	21
Other liabilities	76
Subordinated capital	891
Total liabilities assumed	97,746
Net assets acquired	**4,974**

Determination of goodwill

€ million	Jun. 30, 2016
Net assets acquired	4,974
Less consideration transferred	-4,735
Less negative amount attributable to non-controlling interests	20
Less convertible bond	-98
Less shares in WGZ BANK AG already held by DZ BANK AG	-2
Negative goodwill	**159**

The consideration transferred was paid in the form of a capital increase by DZ BANK AG by issuing 482,181,550 registered non-par-value shares with an imputed value of €1,253,672,030.00 and by distributing the shares in DZ BANK AG held by WGZ BANK AG with an imputed value of €1,306,663.80 to the former shareholders of WGZ BANK AG. For commercial reasons, the capital increase was recognized simultaneously with the first-time consolidation as at June 30, 2016. The capital increase became legally effective on July 29, 2016 when it was entered in the commercial register.

As at June 30 2016, the fair value of the loans and advances to banks and customers acquired as part of the merger amounted to €68,855 million. The gross amount of these contractual loans and advances is €66,052 million. Contractually agreed streams of payments totaling €147 million are considered uncollectible.

In the context of the merger, no new contingent liabilities were identified that would have to be recognized as a liability.

As at the acquisition date, there were business relationships between the DZ BANK Group and the WGZ BANK Group that, in accordance with IFRS 3.51, constituted business relationships that existed before the merger. These include transactions involving registered non-derivative and derivative financial instruments (mainly loans, registered securities, and derivatives) that were concluded for funding, investment, or hedging purposes. The loans and registered securities were measured, in some cases at cost, before completion of the merger and recognized on the balance sheet under loans and advances to banks and customers, investments held by insurance companies, and deposits from banks and customers. By contrast, the derivatives were measured at fair value and recognized on the balance sheet under financial assets held for trading, financial liabilities held for trading, and investments held by insurance companies. Where the business relationships that existed before the merger have been settled, the settlement value is determined at fair value.

As at the acquisition date, the settlement of these business relationships that existed before the merger resulted in income of €343 million that is reported in the income statement under 'Net income from the merger with WGZ BANK'. The volume of the business relationships that existed before the merger stands at €6,544 million and increases both the consideration transferred and the net assets acquired.

If the merger had taken place at the start of the financial year, the WGZ BANK Group would probably have contributed additional interest income and fee and commission income totaling €1,091 million and a net profit of €183 million to the income statement of the DZ BANK Group. This amount is based on the IFRS results calculated by the

WGZ BANK Group as an independent group for the first half of 2016. It does not take consolidation effects into account.

As a consequence of the merger between DZ BANK AG and WGZ BANK AG, expenses for restructuring provisions were recognized in an amount of €139 million under 'Net income from the merger with WGZ BANK'.

As a result of the merger with WGZ BANK AG, DZ BANK AG has a 36.4 percent long-term equity investment in DZ Holding GmbH & Co. KG (DZ Holding), which means that, because of the significant influence that exists, DZ Holding should be accounted for in the consolidated financial statements using the equity method pursuant to IAS 28 Investments in Associates and Joint Ventures in an amount of €915 million and thus recognized under investments. The sole purpose of DZ Holding is to acquire and manage direct and indirect long-term equity investments in DZ BANK AG, which means that DZ BANK AG indirectly holds treasury shares via DZ Holding that are not required to be consolidated in accordance with IAS 32.33. From both a commercial and a legal perspective, DZ BANK AG effectively holds treasury shares as a result of acquiring WGZ BANK AG. In consequence, DZ BANK AG is in the same commercial and legal position as it would have been if it had acquired treasury shares directly and did not have any voting rights or dividend rights. On this basis, the direct recognition of the shares held indirectly via DZ Holding and the related €915 million deduction from equity in accordance with IAS 32.33 is correct in view of the need to provide a fair presentation of net assets because, otherwise, the amount of equity recognized would be too high.

Because the initial recognition of the acquisition has not yet been completed, the allocation of the purchase price carried out in accordance with IFRS 3 and the resulting determination of the fair values of the assets acquired and liabilities assumed are still provisional. Accordingly, there may still be changes to the fair values that are ultimately determined.

Average number of employees by employee group:

» 49
Employees

	Jan. 1– Jun. 30, 2016	Jan. 1– Jun. 30, 2015
Female employees	**12,956**	**13,827**
Full-time employees	8,232	8,915
Part-time employees	4,724	4,912
Male employees	**15,525**	**16,084**
Full-time employees	14,701	15,279
Part-time employees	824	805
Total	**28,481**	**29,911**

A total of 1,712 employees were added as at June 30, 2016 as a result of the merger with WGZ BANK. These are not included in the average number of employees.

The merger of WGZ BANK AG into DZ BANK AG became legally effective when it was entered in the commercial register on July 29, 2016. The consideration transferred for all of the voting shares in WGZ BANK AG was paid in the form of a capital increase by DZ BANK AG and by distributing the shares in DZ BANK AG held by WGZ BANK AG to the former shareholders of WGZ BANK AG. For commercial reasons, the capital increase was recognized simultaneously with the first-time consolidation as at June 30, 2016. The capital increase became legally effective on July 29, 2016 when it was entered in the commercial register.

With effect from July 7, 2016, TeamBank's existing share capital of €83,103,744.00 was increased by €16,620,544.00 to €99,724,288.00 by issuing 32,462 new registered non-par-value shares, each with an imputed share of the capital amounting to €512.00, in return for cash contributions. An amount of €4,620.00 was received for each new share. The capital reserve went up by €133,353,896.00, from €205,470,496.80 to €338,824,392.80. Subject to the approval of the Supervisory Board, the company's share capital can be increased by May 31, 2021 on one or more occasions by up to a total of no more than €11,500,000.00 by way of issuing new registered non-par-value shares in return for cash contributions (authorized capital 2016).

» 51
Board of Managing Directors

Wolfgang Kirsch
(Chief Executive Officer)
Responsibilities: Legal; Communication, Marketing, CR; Group Audit

Uwe Berghaus
(Member of the Board of Managing Directors since July 29, 2016)
Responsibilities: Investment Promotion; Corporate Banking Northern and Eastern Germany; Corporate Banking Western Germany

Lars Hille
Responsibilities: Capital Markets Trading Frankfurt; Capital Markets Trading Düsseldorf; Capital Markets Retail Clients

Karl-Heinz Moll
(Member of the Board of Managing Directors since July 29, 2016)
Responsibilities: Research and Economics; Group Treasury

Michael Speth
(Member of the Board of Managing Directors since July 29, 2016)
Responsibilities: Group Risk Controlling

Frank Westhoff
Responsibilities: Compliance; Credit; Credit Special

Hans-Bernd Wolberg
(Deputy Chief Executive Officer since July 29, 2016)
Responsibilities: Cooperative Banks/Verbund

Dr. Christian Brauckmann
(Member of the Board of Managing Directors since July 29, 2016)
Responsibilities: IT; Organisation

Wolfgang Köhler
Responsibilities: Capital Markets Institutional Clients

Dr. Cornelius Riese
Responsibilities: Group Finance; Group Strategy and Controlling

Thomas Ullrich
Responsibilities: Transaction Management; Operations; Payments & Accounts; Group Human Resources

Stefan Zeidler
Responsibilities: Corporate Banking Central Germany; Corporate Banking Bavaria; Corporate Banking Baden-Württemberg; Structured Finance

» 52
Supervisory
Board

Helmut Gottschalk
(Chairman of the Supervisory Board)
Spokesman of the
Board of Managing Directors
Volksbank Herrenberg-Nagold-
Rottenburg eG

Ulrich Birkenstock
(Deputy Chairman of the
Supervisory Board)
Employee
R+V Allgemeine Versicherung AG

Werner Böhnke
(Deputy Chairman of the
Supervisory Board since June 22, 2016)
Bank director (ret.)

Henning Deneke-Jöhrens
(Deputy Chairman of the
Supervisory Board until June 22, 2016)
Chief Executive Officer
Volksbank eG Hildesheim-Lehrte-
Pattensen

Heiner Beckmann
Senior manager
R+V Allgemeine Versicherung AG

Hermann Buerstedde
Employee
Union Asset Management Holding AG

Martin Eul
(Member of the Supervisory Board
since June 22, 2016)
Chief Executive Officer
Dortmunder Volksbank eG

Uwe Fröhlich
President
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e. V. (BVR)

Uwe Goldstein
(Member of the Supervisory Board
since June 22, 2016)
Spokesman of the
Board of Managing Directors
Raiffeisenbank Frechen-Hürth eG

Dr. Peter Hanker
(Member of the Supervisory Board
since June 22, 2016)
Spokesman of the Board of Managing
Directors
Volksbank Mittelhessen eG

Andrea Hartmann
Employee
Bausparkasse Schwäbisch Hall AG

Pilar Herrero Lerma
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Dr. Dierk Hirschel
Head of the Economic Policy Division
ver.di Bundesverwaltung

Klaus Holderbach
(Member of the Supervisory Board
until June 22, 2016)
Chief Executive Officer
Volksbank Franken eG

Bernd Hühn
(Member of the Supervisory Board
until June 22, 2016)
Chief Executive Officer
Volksbank Alzey-Worms eG

Renate Mack
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Rainer Mangels
Employee
R+V
Rechtsschutz-Schadenregulierungs-GmbH

Stephan Schack
Spokesman of the
Board of Managing Directors
Volksbank Raiffeisenbank eG, Itzehoe

Uwe Spitzbarth
Head of the Financial Services Division
ver.di Bundesverwaltung

Dr. Wolfgang Thomasberger
Chief Executive Officer
VR Bank Rhein-Neckar eG

Dieter Rembde
(Member of the Supervisory Board
until June 22, 2016)
Bank director (ret.)

Gregor Scheller
Chief Executive Officer
Volksbank Forchheim eG

Sigrid Stenzel
Regional Group Director
ver.di Bayern

Hans-Bernd Wolberg
(Member of the Supervisory Board
until June 22, 2016)
Chief Executive Officer
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank
(until July 29, 2016)

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group in accordance with German principles of proper accounting, and the interim group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Frankfurt am Main, September 13, 2016

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

The Board of Managing Directors

Kirsch	Wolberg	Berghaus	Dr. Brauckmann
Hille	Köhler	Moll	Dr. Riese
Speth	Ullrich	Westhoff	Zeidler

Review report (translation)

To DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

We have reviewed the interim condensed consolidated financial statements, comprising the condensed income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the condensed statement of cash flows, and selected explanatory notes, and the interim group management report of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, for the period from January 1 to June 30, 2016, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The preparation of the interim condensed consolidated financial statements in accordance with IFRSs on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review 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 review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Eschborn/Frankfurt am Main, September 13, 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Freiling	Dombek
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Editorial information

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main
Platz der Republik
60325 Frankfurt am Main
Germany

Postal address:
60265 Frankfurt am Main
Germany

Telephone +49 (0)69 7447 01
Fax +49 (0)69 7447 1685
mail@dzbank.de
www.dzbank.com

This half-year financial report is available in electronic
form on our website at www.halfyearreport.dzbank.com.

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main
Platz der Republik
60325 Frankfurt am Main
Germany

www.dzbank.com