Volksbanken Raiffeisenbanken
cooperative financial network

2017 Half-Year Financial Report

DZ BANK Group

Key figures

DZ BANK GROUP

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
FINANCIAL PERFORMANCE		
Operating income[1]	3,335	3,133
Allowances for losses on loans and advances	-396	-219
Profit before taxes	939	1,574
Net profit	488	1,158
Cost/income ratio (percent)	58.2	54.4

	Jun. 30, 2017	Dec. 31, 2016
FINANCIAL POSITION		
Assets		
Loans and advances to banks	117,624	107,253
Loans and advances to customers	176,048	176,532
Financial assets held for trading	43,851	49,279
Investments	63,285	70,180
Investments held by insurance companies	93,425	90,373
Remaining assets	19,125	15,830
Equity and liabilities		
Deposits from banks	131,565	129,280
Deposits from customers	129,075	124,425
Debt certificates issued including bonds	71,296	78,238
Financial liabilities held for trading	52,403	50,204
Insurance liabilities	87,430	84,125
Remaining liabilities	18,794	20,285
Equity	22,795	22,890
Total assets/total equity and liabilities	**513,358**	**509,447**
Volume of business	**864,690**	**843,130**

	Jun. 30, 2017	Dec. 31, 2016
LIQUIDITY ADEQUACY		
DZ BANK Group		
Economic liquidity adequacy (€ billion)[2]	16.3	11.2
DZ BANK banking group		
Liquidity coverage ratio – LCR (percent)	134.8	151.0
CAPITAL ADEQUACY		
DZ BANK Group		
Economic capital adequacy (percent)[3]	164.2	170.1
DZ BANK financial conglomerate		
Coverage ratio for the financial conglomerate (percent)[4,5]		180.3
DZ BANK banking group		
Common equity Tier 1 capital ratio (percent)[5]	13.1	14.5
Common equity Tier 1 capital ratio applying CRR in full (percent)[7]	13.0	14.5
Tier 1 capital ratio (percent)[6]	14.5	16.0
Total capital ratio (percent)[6]	16.7	18.6
Leverage ratio (percent)[6]	4.4	4.4
Leverage ratio applying CRR in full (percent)[7]	4.1	4.1
AVERAGE NUMBER OF EMPLOYEES DURING THE PERIOD	**30,284**	**28,481**
LONG-TERM RATING		
Standard & Poor's	AA-	AA-
Moody's Investors Service	Aa3	Aa3
Fitch Ratings	AA-	AA-

1 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.
2 Stress scenario with the lowest minimum liquidity surplus.
3 The figure as at December 31, 2016 differs from the figure in the 2016 Annual Report due to a scheduled recalculation of the overall solvency requirement for the Insurance sector in the second quarter of 2017.
4 June 30, 2016: The coverage ratio for the financial conglomerate is reported to the regulator annually. Consequently, there is no disclosure as at June 30, 2017.
5 December 31, 2016: Final coverage ratio.
6 In accordance with the requirements applicable as at the reporting date.
7 In accordance with the requirements applicable from 2019.

Not relevant

Contents

Wolfgang Kirsch (Chief Executive Officer)

Dear Shareholders,

The DZ BANK Group delivered a strong business performance in the first six months of 2017 thanks to continued growth in demand from customers. This positive trend was achieved in a challenging market environment and in parallel to the rapid progress made with integration following our merger.

At the same time, we had to absorb a greatly increased level of allowances for losses on loans and advances in the shipping finance business at DVB Bank. Against this backdrop, the fact that we achieved a profit before taxes of €939 million underlines the overall strength of our banking group.

This half-year financial report is also the first to fully reflect the performance of the merged bank in all regular line items in the income statement. The figures are therefore not comparable with the prior-year values.

The results in detail: Net interest income of the DZ BANK Group was €1.43 billion, reflecting the effects of the merger and growth in the retail and corporate banking business of the DZ BANK Group. We recently strengthened the support we provide to corporate customers in their undertakings outside Germany by opening a representative office in Jakarta. Allowances for losses on loans and advances stood at €396 million and were primarily affected by the high level of additions to this line item at DVB Bank. These were made due to a further deterioration in the market situation as a result of overcapacity in parts of the maritime sector. In all other group entities, there were no notable changes in the level of allowances for losses on loans and advances. Net fee and commission income rose to €977 million, again driven by the strong business performance of Union Investment. Gains and losses on trading activities stood at a gain of €304 million, primarily reflecting the satisfactory performance of the capital markets business at DZ BANK AG. The prior-year figure included significant one-off gains. Gains and losses on investments amounted to a gain of €88 million. Net income from insurance business reached €451 million, with R+V managing to increase premiums earned once again. Gains and losses on investments held by insurance companies remained at a high positive level but fell back slightly. Administrative expenses in the DZ BANK Group amounted to €1.94 billion. This figure reflected the effects of the merger as well as continued investment in our customer business and considerable expenses once again in relation to IT and other projects driven by regulatory requirements. The net income from the business combination with WGZ BANK amounted to a loss of €58 million and included integration and migration expenses. By contrast, the prior-year net income of €363 million was strongly influenced by positive measurement effects.

The positive business performance reflects the hard work and dedication of employees in the DZ BANK Group. My colleagues on the Board of Managing Directors and I would like to take this opportunity to express our sincere gratitude to them.

The capital base of the DZ BANK Group remains extremely robust thanks to the continued diligent management of its risk assets. Applying the provisions of the Capital Requirements Regulation (CRR) in full, the common equity Tier 1 capital ratio of the DZ BANK Group as at June 30, 2017 was 13.0 percent (December 31, 2016: 14.5 percent). This decline was already known and resulted from the change in the regulatory treatment of investments in insurance companies in the calculation of capital.

We anticipate positive stimulus from the wider economy in the second half of the year. For Germany, we forecast robust growth of 2 percent for 2017 overall. Against this background, our aim of generating profit before taxes at the lower end of the long-term earnings range of €1.5 billion to €2 billion still appears possible but has become more ambitious in view of the increased level of allowances for losses on loans and advances at DVB Bank.

Looking to the future, we continue to work on the sustainability of our organization. As the newly merged DZ BANK, and following the soon to be completed IT migration, we will be able to focus even more on tapping into synergies. In the real estate business, the merger of DG HYP and WL BANK to form the real estate bank DZ HYP will underpin our already strong market position. The project is proceeding entirely to plan. And last but not least, we are preparing for the evolution of our structures in line with the long-term succession plan for our Board of Managing Directors as announced at the beginning of July.

In the first six months of 2017, the continued trust placed in us by our customers and the clear stability of our broadly positioned financial services group further demonstrated the success of our corporate strategy, paving the way for further targeted growth in our customer business.

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

1. Business model and management of the DZ BANK Group

The business model and the management of the DZ BANK Group are described in detail on page 14 onward and page 20 onward of the 2016 Annual Report. Those disclosures are also applicable to the first half of 2017.

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

The DZ BANK Group's strategic focus is described in detail on page 14 onward of the 2016 Annual Report. Those disclosures are also applicable to the first half of 2017.

2.1. Reorganization of real estate activities in the DZ BANK Group

In March 2017, the DZ BANK Group announced that it was planning to reorganize its real estate activities following the merger of the central institutions. The strategic objectives of this move are to pool existing expertise and eliminate the duplication of work, to ensure customers are served by a single organization and, above all, to create greater benefits for the cooperative banks.

Against this backdrop, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) is integrating the commercial real estate activities of the former WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK), which have been assigned to DZ BANK since the merger, into Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP). In addition, the two real estate companies DG HYP and WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, (WL BANK) have begun talks about merging. They signed a joint memorandum of understanding to this effect on June 22, 2017.

The joint real estate bank will operate under the brand name DZ HYP within the DZ BANK family of brands and will continue to serve all four of the current customer segments – small business and self-employed customers, the housing industry, local authorities, and retail customers. The new entity will be headed up by the current Chief Executive Officers of the two banks, who will be appointed as Co-Chief Executive Officers. Hamburg and Münster are to remain the merged bank's main sites and, subject to approval from the registration courts, will both be the bank's registered office from a legal perspective.

The reorganization is expected to generate income and cost synergies in the low to mid double-digit millions. The transaction will be carried out as a merger by way of acquisition in which the assets of WL BANK, together with all rights and obligations, will be transferred to DG HYP. WL BANK will then be dissolved. The aim is to complete the merger following resolutions by the necessary Annual General Meetings by the middle of 2018.

2.2. Moving DZ BANK toward a holding structure

As a consequence of the merger of the two central institutions in 2016, DZ BANK will – as agreed in the merger agreement – establish a central Advisory Council in the course of 2018. Adhering to the governance requirements in stock corporation law, the Council will secure and expand the cooperative banks' involvement in and influence on strategic decisions into the future.

Over the next two years, DZ BANK will also take steps to create greater differentiation between the various powers, i.e. it will separate as far as possible the responsibilities for holding company activities and corporate bank activities – initially within one legal entity. This will involve not only changes to the responsibilities of the members of the Board of Managing Directors but also organizational measures.

The configuration of a holding structure from a legal perspective requires extensive preparations and checks to be carried out, particularly with regard to separating DZ BANK into two legal entities. Decisions on this will need to be made from 2020 onward once the aforementioned measures have been implemented.

2.3. DVB

Page 18 of the 2016 Annual Report sets out DZ BANK's intention to carry out a squeeze-out at DVB Bank SE, Frankfurt am Main, (DVB Bank; subgroup abbreviated to DVB) in order to increase flexibility in the further pursuit of strategic options.

On June 22, 2017, the Annual General Meeting of DVB Bank voted in favor of carrying out the squeeze-out. The purchase of the non-controlling interests took effect when the measure was entered in the commercial register on August 17, 2017.

II. Business report

1. Economic conditions

Growth in the German economy gathered momentum in the first 6 months of 2017. 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 2016. The rate of growth in the half-year period prior to that had been just 0.6 percent. Compared with the respective preceding quarter, German economic output was up by 0.7 percent in the first quarter and by 0.6 percent in the second quarter of 2017.

Overall, the economy of the eurozone also continued to recover in the first 6 months of this year. Following economic expansion of 0.9 percent in the second half of 2016 compared with the first half of 2016, the eurozone's economic output in the period under review rose by 1.1 percent. The rate of growth in the first quarter of 2017 was 0.5 percent. In the second quarter, the economy grew by 0.6 percent compared with the previous quarter.

The economy in the United States remained relatively subdued in the first half of 2017. Consumer spending, one of the main growth drivers, increased only moderately during the reporting period. By contrast, capital spending on plant and equipment made a rapid recovery, not least due to the significant expansion of shale oil production. The improving situation in the labor market and the rebound of the US real estate market also bolstered the US economy's performance.

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. Meanwhile, China's economic growth has picked up again slightly of late.

Overall, international economic perspectives brightened in the first 6 months of this year following relatively weak conditions in 2016. As before, the emerging markets are an important sales market for German exports. The eurozone's improved economic growth is also having a positive impact, and the trade balance is once again making a contribution to Germany's economic growth.

The boost to the German economy provided by the rise in consumer and government spending during the reporting period was not as big as in previous periods, with consumer spending dented by a slight increase in the rate of inflation. However, the robust labor market and strong consumer purchasing power on the back of energy prices that remain very low, combined with the low level of interest rates, ensured that household spending remained brisk and pushed up demand for private house-building. Against this backdrop, construction investment again accounted for a considerable proportion of the increase in German economic output. Companies' spending on capital equipment also stimulated the growth of the economy as a whole.

Given the stable 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 half-year under review, the focus in the European Union (EU) continued to be on efforts to stabilize economic conditions in the eurozone.

With the global economy's growth expected to accelerate in 2017, the economy of the eurozone continued along its path of stable recovery in the first half of this year.

In the eurozone as a whole, however, once again only limited progress was made in reducing new and total borrowing. At the end of the first quarter of 2017, the total borrowing of the 19 eurozone countries equated to 89.5 percent of their gross domestic product (GDP), a decrease of just 1.7 percentage points compared with the figure of 91.2 percent as at March 31, 2016. Furthermore, the eurozone countries' average credit rating according to rating agency Standard & Poor's (S&P) remained well below the level from before the financial and economic crisis, despite the continued economic recovery in the euro area.

Even though France and Italy, countries that are important in generating overall economic growth in Europe, along with Portugal and Spain, which had been reliant on EU aid during the sovereign debt crisis, all made further gains in economic efficiency in the first quarter of 2017 compared with the first quarter of 2016, they continued to suffer from a high level of indebtedness in the same way as some other eurozone countries, notably Greece.

Greece's public debt as a percentage of GDP stood at 176.2 percent in the first quarter of 2017 (first quarter of 2016: 176.4 percent) and its economy expanded only slightly at the start of the year. After Greece had implemented a range of further reforms to satisfy certain preconditions, European lenders reached agreement in mid-June 2017 on providing the country with a sum of €8.5 billion from the €86 billion bailout program approved in 2015 so that it would be able to service its debts in July 2017. This decision was supported by a commitment made by the International Monetary Fund (IMF) to get involved itself with a program of €2 billion, disbursement of which is not due to start until summer 2018 and is contingent on further debt relief for Greece being agreed at European level.

Italy is suffering from a high volume of non-performing loans and, above all, from having the highest government debt ratio in the eurozone after Greece; its public debt as a percentage of GDP stood at 134.7 percent in the first quarter of 2017 (first quarter of 2016: 134.8 percent). It remains unclear whether a fresh election will be held in autumn 2017. Productivity is still not improving sufficiently, thus preventing the country from becoming more competitive. It is likely to also be suffering as a result of Canadian rating agency DBRS lowering Italy's credit rating by one grade at the start of the year; before that, DBRS had been the only rating agency still giving the country a rating in the A band.

Portugal's public debt as a percentage of GDP stood at 130.5 percent in the first quarter of 2017 (first quarter of 2016: 128.9 percent) and the country made further progress on stabilizing its economy during the first half of the year. However, the banking sector continues to have significant legacy issues in the form of non-performing loans. Moreover, only rating agency DBRS has issued an investment-grade rating for Portugal's bonds. It is therefore solely on the strength of this rating from one rating agency that Portugal is able to access the bond-buying program for government bonds pursued by the European Central Bank (ECB) and that Portuguese banks are able to participate in the ECB's refinancing operations.

Spain's public debt as a percentage of GDP stood at 100.4 percent in the first quarter of 2017 (first quarter of 2016: 101.2 percent) and its economy continued to expand rapidly at the start of this year. However, the minority government formed at the end of October 2016 under the incumbent Prime Minister Mariano Rajoy was not able to approve the government budget for 2017 until late May 2017 and only by a slim majority. Given the difficulties in securing the necessary majorities in votes, Spain is likely to find it hard to reduce its substantial national debt.

As is the case in Italy, economic growth in France is hampered by structural deficiencies. The country's public debt as a percentage of GDP stood at 98.7 percent in the first quarter of 2017 (first quarter of 2016: 97.0 percent). A reduction in tax and social insurance charges, combined with growth-supporting changes to economic conditions, should enable the French economy to become significantly more competitive. The new President Emmanuel Macron, who also obtained a stable political majority in the French National Assembly, is expected to be able to push through the necessary reforms.

The economic performance of the eurozone described above shows that the ECB with its policy of quantitative easing has given individual eurozone countries time to eliminate their fundamental budget deficits. Nonetheless, these countries have made only limited efforts to reduce their high levels of indebtedness and bring in the necessary structural reforms.

One of the main reasons why politicians are generally reluctant to introduce measures to reduce public debt is that various EU countries are still seeing strong political movements that oppose the jointly agreed stabilization efforts. Although EU skepticism has given way to a pro-European political majority, especially in France, anti-EU forces in other eurozone countries, particularly Italy and Spain, are making it more difficult to form a lasting stable majority government or, as in Greece, are having a direct influence on the country's policy toward the EU through the elected government.

In addition, the affected EU countries' efforts to implement austerity measures will also diminish because the availability of low interest rates is noticeably reducing the debt burden. Thanks to the ECB's policy, many countries in the euro area have made considerable savings when borrowing money on the capital markets. Yields on Spanish and Italian bonds, for example, some of which had been over 7 percent in 2012, have since fallen to around 2 percent. According to DZ BANK's calculations, the drop in yields generated savings for Italy and Spain of €53.2 billion and €21.0 billion respectively in the period 2012 to 2015. By contrast, the corresponding figure for Germany was €9.5 billion.

Although these calculations are only approximations, the variation in the figures reveals a fundamental dilemma: The differences between the real economies of the eurozone countries are too big and, moreover, can no longer be balanced out by exchange rates. However, any system of fiscal equalization payments – regardless of how it is legitimized – comes up against the limits of what is politically possible, with recent opinion polls showing that almost half of the citizens in the European countries surveyed are against giving up too much of their country's sovereignty.

The ECB continued to follow a course of expansionary monetary policy in the half-year under review and will maintain the bond-buying program that it launched in March 2015 until at least the end of 2017. In early December 2016, the ECB decided to reduce its monthly volume of purchases from €80 billion to €60 billion. Throughout the reporting period, the main refinancing rate remained unchanged at 0.00 percent and the deposit facility for banks stayed at minus 0.40 percent.

The ECB's stated aim is to guide inflation back to a level close to, but below, 2 percent. To achieve this target, the ECB aims to strengthen growth in the eurozone by encouraging greater lending by banks.

By contrast, the Federal Reserve (Fed) raised the key interest rate by 25 basis points on March 15, 2017 and then again on June 14, 2017, taking the interest rate to its current range of 1.00 to 1.25 percent. These interest-rate hikes in the first half of 2017 were carried out in view of the prediction for the year as a whole of significantly higher US economic growth combined with inflation of well over 2 percent and a continuation of the robust employment situation. The Fed had begun to return its monetary policy to normal in December 2015 when it put up interest rates for the first time in around ten years.

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 building societies and life insurers.

Although the weakness of the euro resulting from low interest rates is boosting German companies' exports, it is also diminishing their efforts to lower costs and improve productivity. Furthermore, the ECB's policy of extremely low interest rates is prompting investors to take on more risk and encouraging the formation of dangerous bubbles in financial and real estate markets. As interest rates start to rise again, many borrowers in

Germany – and possibly banks – will face solvency problems. If the ECB delays scaling back its expansionary monetary policy, it will find itself with insufficient leeway in the event of an economic downturn because key interest rates will still be close to zero.

The ECB cited the persistently low level of inflation as one of the critical reasons why its expansionary monetary policy measures were required. In the eurozone, inflation reached 1.3 percent in June 2017, compared with 1.1 percent in December 2016.

The core rate of inflation, which excludes energy and food prices, published by the EU's statistical office Eurostat for June 2017 was 1.1 percent (December 2016: 0.9 percent). Following the agreement by the members of the Organization of the Petroleum Exporting Countries (OPEC) on November 30, 2016 to cut output, the price of a barrel of North Sea Brent Crude did initially go up. However, it fell again in the final weeks of the reporting period mainly due to the expansion of US shale oil production. As a result, the average price in the first half of 2017 was US$ 52.7 (first half of 2016: US$ 41.2).

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.

The volume of lending to businesses in the EU as a whole stabilized at a low level during the reporting period. Lending to corporate customers in the eurozone rose by just 0.6 percent between the end of March 2016 and the end of March 2017. In Germany, the volume of lending to businesses increased markedly. This trend reflects an increasing willingness to invest, particularly among German small and medium-sized enterprises (SMEs), in view of the positive economic environment. Spain also registered a noticeable rise in spending on capital equipment during the first few months of 2017. However, similarly strong lending growth in Italy and other southern European countries is constrained by the reluctance of banks to offer credit, which in turn stems from their high level of non-performing loans.

Furthermore, eurozone companies' stronger demand for credit is held back by geopolitical influences, above all uncertainty about the impact of the ongoing Brexit negotiations and the direction that the US government will take in terms of economic policy.

Given the limited impact on the real economy from the ECB's monetary policy measures, which also entail significant risks, an improvement in structural conditions therefore remains the best possible route by which a range of eurozone countries could escape their 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 2017. The allowances for losses on loans and advances recognized by the major banks were mostly higher than in the first half of 2016. Administrative expenses decreased in the majority of cases.

3. Financial performance

In the following information on the financial performance of the DZ BANK Group during the reporting period, the figures for the individual line items in the income statement relate to the post-merger DZ BANK Group and the corresponding figures for the first half of 2016 relate to the pre-merger DZ BANK Group.

3.1. Financial performance at a glance

The DZ BANK Group successfully consolidated its position in the half-year under review in challenging market conditions influenced primarily by the extremely low level of interest rates and demanding regulatory requirements.

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 2016 were as described below.

Operating income in the DZ BANK Group amounted to €3,335 million (first half of 2016: €3,133 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 increased by 4.7 percent year on year to €1,427 million (first half of 2016: €1,363 million).

Net interest income (excluding income from long-term equity investments) at DZ BANK went up by €69 million. WL BANK contributed an amount of €106 million to the net interest income of the DZ BANK Group. Net interest income increased by €25 million in the subgroup Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (BSH), by €29 million at DG HYP, and by €7 million at TeamBank AG Nürnberg, Nuremberg, (TeamBank). It decreased by €26 million at DVB, by €10 million in the subgroup DZ PRIVATBANK S.A., Strassen, (DZ PRIVATBANK), and by €4 million in the subgroup VR LEASING Aktiengesellschaft, Eschborn, (VR LEASING).

Income from long-term equity investments in the DZ BANK Group fell by 72.9 percent to €26 million (first half of 2016: €96 million). This change compared with the first 6 months of last year was largely because the figure for the prior-year period was influenced by a dividend from EURO Kartensysteme GmbH, Frankfurt am Main, (EKS), which had benefited from income of €62 million generated from the disposal of MasterCard shares.

Allowances for losses on loans and advances amounted to €396 million in the first half of 2017 (first half of 2016: €219 million).

This change of €177 million in the DZ BANK Group's allowances for losses on loans and advances compared with the first half of 2016 includes an increase of €363 million to €446 million in DVB's allowances for losses on loans and advances (first half of 2016: €83 million).

The specific loan loss allowances recognized for the DZ BANK Group came to a net addition of €421 million (first half of 2016: net addition of €80 million). The portfolio loan loss allowances for the DZ BANK Group amounted to a net addition of €2 million (first half of 2016: net addition of €97 million). At DVB, the specific loan loss allowances came to a net addition of €422 million and the portfolio loan loss allowances to a net addition of €23 million.

Further detailed disclosures regarding the level of, and changes in, allowances for losses on loans and

FIG. 1 – INCOME STATEMENT

€ million	Jan. 1– Jun. 30, 2017	Jan. 1– Jun. 30, 2016	Change (%)
Net interest income	1,427	1,363	4.7
of which: income from long-term equity investments[1]	26	96	-72.9
Allowances for losses on loans and advances	-396	-219	80.8
Net fee and commission income	977	822	18.9
Gains and losses on trading activities	304	501	-39.3
Gains and losses on investments	88	90	-2.2
Other gains and losses on valuation of financial instruments	34	-154	>100.0
Net income from insurance business	451	461	-2.2
Administrative expenses	-1,942	-1,703	14.0
Staff expenses	-904	-827	9.3
Other administrative expenses[2]	-1,038	-876	18.5
Other net operating income	54	50	8.0
Net income from the business combination with WGZ BANK	-58	363	>100.0
Profit before taxes	939	1,574	-40.3
Income taxes	-451	-416	8.4
Net profit	488	1,158	-57.9

1 Total of current income and expense from income from other shareholdings, current income and expense from investments in subsidiaries, current income and expense from investments in associates, income/loss from using the equity method, and income from profit-pooling, profit-transfer, and partial profit-transfer agreements; see interim consolidated financial statements, notes to the interim consolidated financial statements, note 05.
2 General and administrative expenses plus depreciation/amortization expense on property, plant and equipment, and investment property, and on other assets.

advances can be found in this interim group management report in chapter V. (Opportunity and risk report), section 6.4.

Net fee and commission income in the DZ BANK Group increased by 18.9 percent to €977 million (first half of 2016: €822 million).

Net fee and commission income at DZ BANK grew by €32 million. BSH's net fee and commission income was up by €11 million. At DG HYP and DVB, net fee and commission income declined by €12 million and €5 million respectively. There were increases in net fee and commission income for DZ PRIVATBANK and the subgroup Union Asset Management Holding AG, Frankfurt am Main, (UMH) of €5 million and €148 million respectively, whereas the equivalent figure at VR LEASING fell by €5 million.

The DZ BANK Group's **gains and losses on trading activities** came to a net gain of €304 million, compared with a net gain of €501 million in the first half of 2016. This was largely attributable to the gains and losses on trading activities at DZ BANK amounting to a net gain of €298 million (first half of 2016: net gain of €484 million).

Gains and losses on investments in the DZ BANK Group fell by €2 million to a net gain of €88 million (first half of 2016: net gain of €90 million). The main reasons for the year-on-year change were the factors described in the details for the operating segments DZ BANK and BSH.

Other gains and losses on valuation of financial instruments in the DZ BANK Group amounted to a net gain of €34 million in the reporting period (first half of 2016: net loss of €154 million). Of the figure reported for the DZ BANK Group for the first half of 2017, a net gain of €112 million was accounted for by DG HYP (first half of 2016: net loss of €182 million), a net gain of €49 million by WL BANK, and a net loss of €131 million by DVB (first half of 2016: net gain of €18 million).

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. In the reporting period, this figure decreased by 2.2 percent to €451 million (first half of 2016: €461 million).

The rise in premiums earned was unable to fully offset the decline in gains and losses on investments held by insurance companies and other insurance company gains and losses, the slight increase in insurance benefit payments, and the growth of insurance business operating expenses.

Administrative expenses in the DZ BANK Group rose by €239 million, or 14.0 percent, to €1,942 million (first half of 2016: €1,703 million), including an increase in staff expenses of €77 million (9.3 percent) to €904 million (first half of 2016: €827 million) and an increase in other administrative expenses of €162 million (18.5 percent) to €1,038 million (first half of 2016: €876 million).

The DZ BANK Group's **other net operating income** came to €54 million (first half of 2016: €50 million). The main reasons for this change compared with the first half of 2016 were the factors described in the details for the operating segments DZ BANK, BSH, DVB, DZ PRIVATBANK, and VR LEASING.

Net income from the business combination with WGZ BANK, which amounted to a net expense totaling €58 million in the period under review, related to general and administrative expenses of the same amount that were incurred in connection with data migration.

Profit before taxes in the first half of 2017 amounted to €939 million, compared with a figure of €1,574 million in the first 6 months of 2016.

The DZ BANK Group's **cost/income ratio** (i.e. the ratio of administrative expenses to total operating income) for the reporting half-year came to 58.2 percent (first half of 2016: 54.4 percent).

The DZ BANK Group's **income taxes** came to €451 million in the reporting period (first half of 2016: €416 million). The increase in the tax expense includes the effects of deferred taxes.

Net profit for the first half of 2017 stood at €488 million compared with €1,158 million in the first half of 2016.

3.2. Financial performance in detail

Figure 2 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 2016.

FIG. 2 – SEGMENT INFORMATION

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2017

€ million	DZ BANK	BSH	DG HYP
Net interest income	533	423	176
Allowances for losses on loans and advances	90	-2	14
Net fee and commission income	183	-22	5
Gains and losses on trading activities	298	–	7
Gains and losses on investments	67	15	3
Other gains and losses on valuation of financial instruments	15	-1	112
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	-745	-233	-72
Other net operating income	22	23	1
Net income from the business combination with WGZ BANK	-58	–	–
Profit/loss before taxes	**405**	**203**	**246**
Cost/income ratio (%)	66.6	53.2	23.7
Regulatory RORAC (%)	11.0	39.5	45.3
Average own funds/solvency requirement	5,403	1,026	1,088
Total assets/total equity and liabilities as at Jun 30, 2017	274,166	67,310	42,504

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	22	16	7
Net income from the business combination with WGZ BANK	-139	–	–
Profit/loss before taxes	**463**	**151**	**-76**
Cost/income ratio (%)	46.3	59.8	>100.0
Regulatory RORAC (%)	37.8	32.4	-13.1
Average own funds/solvency requirement	3,848	929	1,126
Total assets/total equity and liabilities as at Dec. 31, 2016	275,054	65,852	43,629

DVB	DZ PRIVAT-BANK	R+V	TeamBank	UMH	VR LEASING	WL BANK	Other/ Consolidation	**Total**
103	60	–	211	4	70	106	-259	**1,427**
-446	–	–	-34	-1	-6	-7	-4	**-396**
52	62	–	3	750	8	-5	-59	**977**
-19	7	–	–	–	–	–	11	**304**
-4	–	–	–	–	6	–	1	**88**
-131	5	–	–	2	–	49	-17	**34**
–	–	7,403	–	–	–	–	–	**7,403**
–	–	1,883	–	–	–	–	-36	**1,847**
–	–	-7,543	–	–	–	–	–	**-7,543**
–	–	-1,350	–	–	–	–	94	**-1,256**
-103	-116	–	-105	-393	-69	-54	-52	**-1,942**
16	-6	-4	3	–	4	1	-6	**54**
–	–	–	–	–	–	–	–	**-58**
-532	**12**	**389**	**78**	**362**	**13**	**90**	**-327**	**939**
>100.0	90.6	–	48.4	52.0	78.4	35.8	–	**58.2**
>100.0	8.4	–	36.8	>100.0	8.1	45.5	–	**–**
581	295	–	425	351	314	401	–	**–**
24,942	18,175	100,490	7,714	1,967	4,571	43,437	-71,918	**513,358**

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**
6.5	-6.3	21.0	41.1	>100.0	10.1		–	**26.3**
607	320	4,107	401	293	325		–	**11,956**
27,658	17,669	97,286	7,284	2,038	4,463		-31,486	**509,447**

3.2.1. DZ BANK

The figures for the first half of 2016 for the individual items of the income statement explained below for this operating segment relate only to DZ BANK before the merger. The corresponding figures for the reporting period relate to the joint central institution created by the merger of the two cooperative central institutions, which was carried out in accordance with IFRS 3 in mid-2016. Consequently, the difference in the basis of comparison (reporting period: joint central institution; first half of 2016: DZ BANK before the merger) must be borne in mind in respect of the changes to the individual line items described below.

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

Net interest income (excluding income from long-term equity investments) at DZ BANK rose by 33.7 percent to €274 million (first half of 2016: €205 million). This increase was largely the result of the aforementioned merger effect and a larger net interest margin contribution in Corporate Banking.

At DZ BANK, the Corporate Banking business line comprises the five regional corporate customer divisions that focus on corporate banking in Germany (Northern and Eastern Germany, Western Germany, Central Germany, Baden-Württemberg, and Bavaria), the Investment Promotion division, which includes development loan and agricultural business, and the Structured Finance division covering business with German corporate customers and foreign customers with links to Germany. Until the expected completion of the strategic reorganization of the real estate finance business in mid-2019, real estate customers will be looked after centrally by Region West.

In accordance with the cooperative principle of decentralization – the tried-and-tested distribution of responsibilities in the Volksbanken Raiffeisenbanken cooperative financial network – and focusing on the needs of the business concerned, customer relationship management for corporate customers is provided by the local cooperative bank in conjunction with DZ BANK, or directly by DZ BANK.

Germany's large and medium-sized companies continued to show a high level of willingness to commit to capital investment in the first half of 2017. However, even these companies cannot escape the geopolitical influences, above all uncertainty about the impact of the ongoing Brexit negotiations and the direction that the US government will take in terms of economic policy.

The businesses are generally structured so that they can withstand various crises and have demonstrated that they are well equipped for the future based on their sound capital and liquidity position. Partly as a result of the stable German economy and companies' robust financial health, large and medium-sized companies are increasingly venturing into international business again – despite the current geopolitical uncertainties. DZ BANK has recognized this trend with the opening of a new representative office in Jakarta, Indonesia, and by entering into a cooperation agreement with one of the biggest banks in China. China Development Bank (CDB), the largest state development bank in the People's Republic of China, and DZ BANK have agreed to form a strategic alliance that will primarily promote German investment in China and, conversely, Chinese investment in Germany.

In the Corporate Banking business line, the net interest margin contribution rose by a total of 59.4 percent to €215.1 million (first half of 2016: €134.9 million), in particular due to the aforementioned merger effects in the two prior-year periods.

The net interest margin contribution in the five regional corporate banking divisions increased substantially overall.

The net interest margin contribution from the development lending business in the Investment Promotion division increased year on year, despite a further contraction in margins.

Performance in the main areas of development activity within traditional investment finance, which primarily include business start-ups and financing of innovation projects, remained steady in this highly competitive area of business. However, growth was achieved in the development lending portfolios within the private house-building business and commercial environmental finance.

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.

The net interest margin contribution advanced in the syndicated business/renewable energies product field. 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, the division arranges and structures debt finance 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 the markets to redeem their loans. Despite this development and despite the selective approach to the granting of new loans, the net interest margin contribution increased year on year. This is largely attributable to transactions that were initiated in the fourth quarter of 2016 and realized in the first half of 2017.

There was a slight decrease in the project finance product field's net interest margin contribution in the first half of 2017.

In the advice and sales (west) product field, which is responsible across all products for renewable energies, syndicated loans, acquisition finance, and international trade and export finance business, a significantly net interest margin contribution well into positive territory was generated in the first half of 2017.

In the international trade and export finance product field, in which the emphasis is very much on providing support for German large and medium-sized corporate customers involved in international business, the net interest margin contribution rose sharply in the first half of 2017.

Allowances for losses on loans and advances amounted to a net reversal of €90 million (first half of 2016: net addition of €93 million), including a net reversal of specific loan loss allowances of €46 million (first half of 2016: net reversal of €31 million) and a net reversal of portfolio loan loss allowances of €14 million (first half of 2016: net addition of €81 million).

Net fee and commission income rose by 21.2 percent to €183 million (first half of 2016: €151 million).

In the Corporate Banking business line, the service contribution declined slightly, by 2.9 percent, to €73.4 million (first half of 2016: €75.6 million), in particular due to the aforementioned merger effects in the two prior-year periods.

The service contribution in the five regional corporate banking divisions increased overall.

A new pricing structure for development lending was introduced in the Investment Promotion division on January 1, 2017, under which the cooperative banks receive an annual margin reimbursement. As a result, the service contribution in the reporting period was significantly lower than in the first half of 2016.

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

Much fiercer competition characterized the acquisition finance product field during the first 6 months of 2017, causing a drop in the service contribution compared with the first half of 2016.

The service contribution in the project finance product field also decreased year on year.

In the international trade and export finance product field, the service contribution declined markedly during the reporting period owing to fiercer competition.

By contrast, the service contribution in the international documentary business product field (letters of credit, guarantees, collections) was far higher than in the first half of 2016.

In the asset securitization product field, the service contribution in the period under review was well below the figure in the corresponding prior-year period.

In the Capital Markets Institutional Clients and Capital Markets Retail Clients business lines, 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 reporting period, and customers drew on these services frequently.

Despite the market remaining fiercely contested, DZ BANK prevailed against German and international competitors with a variety of product offerings. 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.

In the first half of 2017, the cooperative banks had a greater need for advice in relation to their own-account investing activities, primarily due to new rules on the ranking of liabilities in the event that a bank is resolved or restructured.

The service contribution generated by the Transaction Banking business line was higher than the equivalent figure reported for the first half of 2016 as a result of a rise in the income from payments processing and from securities custody business.

Gains and losses on trading activities amounted to a gain of €298 million (first half of 2016: gain of €484 million).

The much larger gain in the first half of 2016 was attributable to the reasons set out below.

The liabilities recognized at fair value had given rise to a strong positive effect on earnings of €116 million in the first half of 2016 (reporting period: negative effect of €32 million).

Further factors influencing the gains and losses on trading activities in the prior-year period had 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 (reporting period: loss of €48 million).

During the first half of 2016, the successful completion of the mediation proceedings in the legal dispute with Lehman Brothers International Europe had also resulted in income of approximately €50 million from the reversal of provisions to cover the cost of legal proceedings and attorneys.

One of the key influences on capital markets during the period under review was the aforementioned continuation of the ECB's program of quantitative easing.

Also in the reporting period, the Fed raised the key interest rate by 25 basis points in mid-March and then again, by the same amount, in mid-June.

The lack of clarity about the future direction of the US government's economic policy – so far, there have only been announcements of tax reforms, an infrastructure program, and protectionist measures – and the impact of the ongoing Brexit negotiations depressed the capital markets for short periods, as did the uncertainty as to how people would vote in the elections in the Netherlands and France.

The results of these elections and, in particular, anticipation of global economic recovery and the continued stability of the economy in the eurozone caused share prices on the European stock markets to soar above the average level seen in the first half of last year. At the same time, prices were a lot less volatile in the reporting period than in the corresponding period of 2016.

The regulatory environment also impacted on the markets and market players, which again had to cope with the demanding requirements imposed by banking regulators in the period under review.

Nonetheless, DZ BANK's contribution from trading income during the reporting period improved considerably year on year, as can be seen from the information above regarding gains and losses on trading activities.

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 low interest rates, German retail investors' top priorities are safety and understandable investment solutions. Catering to this customer need, DZ BANK works closely with the local cooperative banks and managed to further strengthen its position in the German derivatives market. DZ BANK's performance – as measured by data from the Deutscher Derivate Verband (DDV) [German Derivatives Association] – has been impressive, confirming its market leading position with a market share of 17.8 percent as at the end of March 2017, based on the market volume invested in structured securities.

During the first half of 2017, DZ BANK continued with the targeted stepping up of activities in relation to selling exchange-traded derivative securities products, maintaining its third-place ranking at the end of the reporting period with a market share of 10.4 percent. Furthermore, DZ BANK's focus on continuously and effectively digitalizing and optimizing securities processes in retail banking was recognized by renowned experts when it received the Best Process Award 2016. DZ BANK also has an advanced quality management system for customer service and product development in the Capital Markets Retail Clients division based on the new ISO 9001:2015 standard. The system has been comprehensively audited and certified by DQS GmbH Deutsche Gesellschaft zur Zertifizierung von Managementsystemen.

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. This customer segment enjoyed a very successful start to the year. There was increased investment in credit-rating-linked products such as corporate bonds and simply structured credit products in the form of credit-linked notes. Demand for structured bullet maturity bonds and share bonds was also brisk. Business involving bonds issued by financial institutions increased significantly in the second quarter of 2017. The cooperative banks also aimed for broad diversification in their securities portfolios, particularly with regard to investments in equities and real estate. Demand in this respect was increasingly focused on fund products from the Union Investment Group.

Business with financial institutions proved to be structurally robust in the reporting period. Here too, investment patterns were determined by the ECB's monetary policy of negative interest rates and the accompanying distortion of market prices and thus risk premiums. Income sources were widely spread, ranging across the entire fixed-income product segment but primarily bond trading in the secondary market. Sales of bank bonds, bonds from agencies, covered bonds, and corporate bonds and, in addition, interest-rate derivatives and solution-oriented interest-rate structures, were particularly strong. Trading via electronic systems, which are increasingly replacing traditional telephone trading, continues to gain significance for DZ BANK.

Insurance companies' investment decisions were particularly focused on foreign and supranational issuers. Interest was particularly high in long maturities. The same was true of investments in alternative assets, which include not only infrastructure investments but also real estate, private equity, and loans. The first life insurers began to hedge against interest-rate risk by means of payer swaps. Asset managers focused on purchasing companies' new issues and senior bonds from banks in the primary market. Banks showed great interest in corporate and bank bonds.

The corporate customer securities business was characterized by the lack of liquidity in capital markets caused by the ECB's bond-buying program. Demand for commercial paper and bonds was up slightly on the first 6 months of 2016. Customers continued to show increasing interest in structured investment alternatives, some with optional components.

As a result of the sharply appreciating euro, foreign exchange business was particularly brisk in the first half of 2017 – both with large and medium-sized companies and major corporate customers. Very modest capital market rates meant that large and medium-sized corporate customers were reluctant to enter into interest-rate hedges. The main interest-hedging instruments used were classic payer swaps and interest-rate caps in the medium maturity band. There was less focus on structured products, although customers in this area were also looking for the integration of floors on the variable swap side.

As the reporting period progressed, money market investment customers demonstrated a greater acceptance of the continuing burden of negative interest rates, with the result that DZ BANK was able to gradually win back deposits from institutional investors in the first half of 2017.

New bond issuance business was significantly influenced by the ECB's bond-buying program and policy of zero interest rates. The number of covered bond issues and issues by Germany's federal states was at a lower level in the first 6 months of 2017. By contrast, new issues business with corporate customers (bonds and promissory notes) continued to follow a positive trajectory. Overall, the volume generated by DZ BANK for new issuance mandates in the primary market for bonds was not quite at the level achieved in the first half of 2016.

Gains and losses on investments fell by €31 million to a net gain of €67 million (first half of 2016: net gain of €98 million). In the reporting period, this figure included in particular a gain of €69 million on the disposal of long-term securities.

The figure for the first half of 2016 had included a gain of €98 million on the disposal of the long-term equity investment held by DZ BANK in VISA Europe Ltd., London.

Administrative expenses at DZ BANK amounted to €745 million, an increase of €145 million, or 24.2 percent, on the comparable figure in the first half of 2016 (€600 million) that was primarily the result of the merger.

Other administrative expenses went up by €93 million to €416 million (first half of 2016: €323 million), mainly because of the larger project portfolio.

The rise in staff expenses of €52 million to €329 million (first half of 2016: €277 million) was attributable, above all, to growth in the number of employees as a consequence of the merger and to salary increases.

Other net operating income for the first 6 months of 2017, which totaled €22 million (first half of 2016: €22 million), largely comprised income from the reversal of provisions – as had been the case in the prior-year period.

Net income from the business combination with WGZ BANK, which amounted to a net expense totaling €58 million in the period under review, related to general and administrative expenses of the same amount that were incurred in connection with data migration.

Profit before taxes for the reporting period amounted to €405 million. The decline of €58 million compared with the figure of €463 million reported for the prior-year period was mainly a consequence of the changes described above.

DZ BANK's **cost/income ratio** came to 66.6 percent in the first half of 2017 (first half of 2016: 46.3 percent).

Regulatory RORAC was 11.0 percent (first half of 2016: 37.8 percent).

3.2.2. BSH

At BSH, **net interest income** rose by 6.3 percent to €423 million (first half of 2016: €398 million).

In the period under review, net interest income was again influenced by the persistently low level of interest rates. Income from using the equity method amounted to €12 million (first half of 2016: loss of €9 million); the figure for the prior-year period had been affected by 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.

Markedly higher demand for advance and interim financing resulted in a volume-related increase in interest income, despite average interest rates continuing to fall. This rise in income partly offset the decline in interest income from home savings loans. Interest income from investments was down on the level of income in the first half of 2016, even though there was a further increase in the volume of investment in registered securities and bearer bonds.

Under interest cost, the positive impact of the decline in the interest rates paid on home savings deposits was offset to some degree by the negative impact on net interest income of the growth in the volume of home savings deposits. These deposits swelled again during the reporting period, rising by €1.5 billion to a record volume of €56.9 billion (December 31, 2016: €55.4 billion).

The strong demand registered in building society operations reflects the particular benefits of home savings. At a time of historically low interest rates, the main advantage of home savings – securing long-term interest rates in the form of calculable, affordable loan finance – gains more importance. Furthermore, the savings that customers accumulate guarantee a stable way of building up capital that is protected against inflation and volatility in capital markets.

Bausparkasse Schwäbisch Hall continued to build on the market success of the Schwäbisch Hall rates and charges in the reporting period by enhancing its innovative offline and online product variants, in particular FuchsChance. This new scale of rates and charges added in early July 2016 enables customers to benefit from rising interest rates in the capital markets (interest on deposits of up to 1.25 percent per year).

In the reporting period, **allowances for losses on loans and advances** amounted to a net addition of €2 million, which was only slightly changed on the figure for the first half of 2016 of €3 million. Allowances for losses on loans and advances are benefiting from the stable economic conditions that prevail in Germany.

The BSH subgroup's **net fee and commission income** improved by €11 million to a net expense of €22 million (first half of 2016: net expense of €33 million).

Bausparkasse Schwäbisch Hall pays fees and commissions to the cooperative banks and to the integrated, bank-supported field sales force on the basis of Bausparkasse Schwäbisch Hall contracts signed with customers. These payments decreased year on year.

In the home savings business, Bausparkasse Schwäbisch Hall signed approximately 303,000 new home savings contracts, generating another impressive level of new home savings business with a volume of €15.1 billion (first half of 2016: €15.1 billion).

Bausparkasse Schwäbisch Hall achieved a new business volume of €6.4 billion in the home finance business, which was €0.8 billion more than the corresponding amount for the first half of 2016 of €5.6 billion. This figure does not include home savings loan contracts and bridging loans from Bausparkasse Schwäbisch Hall or other referrals totaling €0.9 billion (first half of 2016: €0.9 billion). If the latter is included, the total volume of new home finance business came to €7.3 billion, a year-on-year increase of 12.3 percent (first half of 2016: €6.5 billion).

The impressive rate of growth in home savings and home finance is a reflection of demand for housing, particularly in urban areas, which has been buoyed by a favorable economic climate and by immigration. There is, however, a continued shortage of housing stock and this is further exacerbated by an increase in the number of households, primarily as a result of a decrease in the average number of people per household, and a simultaneous rise in the living space occupied by each household. Against this backdrop, the Institut der deutschen Wirtschaft (IW) [Cologne Institute for Economic Research] has forecast that the number of new homes needed to be built each year up to 2020 is approximately 400,000, whereas only 277,000 homes were completed in 2016.

There is also potential for additional demand in the two core business areas of home savings and home finance owing to the large amount of housing in need of modernization.

In addition to improvements to energy efficiency aimed at lowering costs for homeowners, the German government's efforts to combat climate change and reduce environmental damage are gaining particular significance.

Age-appropriate housing is another key area for future growth, and there is likely to be a substantial increase in the renovation of current housing stock because currently only around 5 percent of the approximately 11 million households made up of older people are in a property with barrier-free access.

Since 2014, legislation has been in place extending the scope of the Riester subsidy in order to encourage the conversion of homes to make them accessible to the elderly and people with disabilities. Bausparkasse Schwäbisch Hall is well placed in this regard as market leader for Riester home savings business with its tried-and-tested Fuchs WohnRente products. In the first half of 2017, it won a total of 34,000 new contracts in this area.

By cross-selling supplementary pension products, Bausparkasse Schwäbisch Hall field sales staff sold cooperative bank pension products, Union Investment Group investment funds, and insurance policies from R+V Versicherung AG, Wiesbaden.

The **gains and losses on investments** amounting to a net gain of €15 million (first half of 2016: net gain of €2 million) were primarily attributable to the sale of securities.

Administrative expenses increased by €4 million to €233 million (first half of 2016: €229 million). Staff expenses fell by €3 million to €113 million (first half of 2016: €116 million). Other administrative expenses went up by €7 million to €120 million (first half of 2016: €113 million), predominantly due to a €3 million rise in IT costs to €33 million and a €3 million rise in amortization of intangible assets to €11 million.

The €7 million growth in **other net operating income** to €23 million (first half of 2016: €16 million) was primarily the result of an increase in the reversal of provisions and an increase in own work capitalized.

Profit before taxes for the 6 months under review advanced by €52 million to €203 million (first half of 2016: €151 million), mainly because of the changes described above.

The **cost/income ratio** in the period under review came to 53.2 percent (first half of 2016: 59.8 percent).

Regulatory RORAC was 39.5 percent (first half of 2016: 32.4 percent).

3.2.3. DG HYP

The **net interest income** at DG HYP of €176 million was up by 19.7 percent compared with the figure of €147 million for the first half of 2016.

This increase is largely explained by the fact that the reporting period was boosted by significantly higher early redemption payments (first half of 2017: €32 million; first half of 2016: €15 million).

The German market for investments in commercial real estate (excluding commercial investments in housing) registered a transaction volume of €25.8 billion in the first half of 2017, a significant year-on-year increase of approximately 47 percent (first half of 2016: €17.6 billion). The volume of transactions in the market for commercial investments in housing swelled by around 40 percent to €6.2 billion (first half of 2016: €4.4 billion).

The German real estate market was shaped not only by the stable economic environment but also by the continuation of the ECB's expansionary monetary policy; the central bank intends to carry on with its extensive bond-buying program until at least the end of 2017. The sustained policy of low interest rates ensured that funding conditions remained favorable for investors, although it also increased the pressure on investments due to a lack of sufficient alternative returns and thus pushed up demand for commercial real estate investments even further.

The resulting increase in competition that has been observable for some years has now led to a dramatic shortage of supply in prime locations and therefore to substantial price rises and steadily falling yields. In respect of residential property, this trend is compounded both by progressive urbanization and by the high demand for housing created by more and more people moving to urban areas.

For this reason, German and international investors – particularly those with a long-term investment horizon – increasingly focused on more provincial locations in their investment strategy, not least because some of these places offer higher rental yields than can be achieved in major cities. In the first half of 2017, the markets outside Germany's top-seven prime locations recorded a transaction volume for commercial real estate amounting to €13.4 billion, which equates to roughly 52 percent of the total investment volume (excluding commercial investments in housing).

However, to make this broader strategic focus succeed in the 160 or so locations outside Germany's real estate hotspots, investors need in-depth knowledge of the regional property markets, local infrastructure, and economic conditions.

Through its long-standing close collaboration with around 400 local cooperative banks across Germany, DG HYP, a specialist provider of commercial real estate finance, ensures access to regional markets, has the necessary proximity to customers, and boasts detailed knowledge of the local markets. DG HYP combines this extensive know-how with specific real estate expertise, nationwide networks, market comparisons between competitors, and individual risk assessments. Supported by its six real estate centers in major cities and a further 5 regional offices, DG HYP is a reliable partner to the cooperative banks in the regions. At the same time, DG HYP's decentralized market presence creates an advantage in terms of the allocation of risk because greater differentiation between portfolios based on region, sector, and customer group is possible.

Continuing to take a conservative, selective approach to the granting of commercial real estate loans, particularly in view of the persistently challenging market and competitive environment, DG HYP generated €2,703 million of new business in the first 6 months of 2017 (first half of 2016: €3,420 million). Of this total, €2,573 million (first half of 2016: €3,299 million) was accounted for by the German market.

DG HYP successfully expanded its joint marketing activities with the local cooperative banks during the reporting period by continually intensifying this partnership. The volume of jointly generated new lending business amounted to €1,543 million, which was significantly more than the volume achieved in the first half of 2016 of €1,128 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 €71 million (first half of 2016: €99 million).

Allowances for losses on loans and advances amounted to a net reversal of €14 million (first half of 2016: net reversal of €4 million), including a net reversal of specific loan loss allowances of €12 million (first half of 2016: net addition of €1 million) and a net reversal of portfolio loan loss allowances of €2 million (first half of 2016: net reversal of €5 million).

Net fee and commission income declined by €12 million to a net gain of €5 million (first half of 2016: net gain of €17 million).

Other gains and losses on valuation of financial instruments included a net gain of €112 million arising from the narrowing of credit spreads in the reporting period on bonds issued by countries on the periphery of the eurozone, contrasting with a net loss of €182 million in the first half of 2016 resulting from the widening of these credit spreads.

The **administrative expenses** of €72 million were on a par with the first half of 2016 (€73 million). This figure included a slight rise in staff expenses during the reporting period, which rose by €1 million to €28 million (first half of 2016: €27 million). Other administrative expenses decreased slightly, by €2 million, to €44 million (first half of 2016: €46 million). Within this total, the contribution for 2017 to the bank levy declined by €5 million to €10 million (2016: €15 million), but was offset by a €5 million increase to €11 million in expenses for consultancy services. Of the total expenses for these services, €3.3 million related to the following two projects: firstly the 'integration of the commercial real estate finance portfolios' project, as part of which expenses for transferring the commercial real estate portfolio of the former WGZ BANK to DG HYP were recognized, and secondly the 'reorganization of real estate finance business' project, which necessitates consultancy and other services in connection with the planned merger of DG HYP and WL BANK. Furthermore, other general and administrative expenses declined by €2 million to €3 million (first half of 2016: €5 million).

Profit before taxes improved substantially during the period under review, increasing by €322 million to €246 million (first half of 2016: loss of €76 million).

The primary reason behind this increase was the positive change in other gains and losses on valuation of financial instruments as a consequence of the factors described above.

The **cost/income ratio** in the period under review came to 23.7 percent (first half of 2016: greater than 100.0 percent).

Regulatory RORAC was 45.3 percent (first half of 2016: minus 13.1 percent).

3.2.4. DVB

Net interest income at DVB contracted by 20.2 percent year on year to €103 million (first half of 2016: €129 million).

The reduction in net interest income was largely attributable to higher special accelerated depreciation allowances on assets subject to operating leases and to narrower margins. A smaller volume of new business and contraction of the portfolio following further early repayments of loans also had an adverse impact. Moreover, income from using the equity method decreased by €11 million in the reporting period to a loss of €7 million (first half of 2016: income of €4 million).

The international transport industry suffered overcapacity within some segments of the international maritime shipping market, resulting in sharply falling freight rates and considerable pressure on shipping prices. Offshore markets were depressed by persistently low oil prices during the 6 months under review.

The DVB subgroup generated new transport finance lending business of €1.8 billion in the first half of 2017 based on a total of 65 deals (first half of 2016: 63 deals). This equates to a year-on-year decrease of €1 billion. DVB Bank continues to maintain representative offices in Amsterdam, London, Oslo, and Singapore.

The increase in **allowances for losses on loans and advances** of €363 million to €446 million (first half of 2016: €83 million) largely related to the growth in allowances for losses on loans and advances in the shipping finance business, which were up by €137 million to €191 million (first half of 2016: €54 million), and in the offshore finance business, which were up by €230 million to €247 million (first half of 2016: €17 million). The reasons for the increase were firstly that the crisis in some sections of the shipping industry spiraled during the first half of 2017, above all due to significant overcapacity, and secondly that the situation in offshore finance remained very difficult owing to the weak oil price.

At €52 million, **net fee and commission income** was down by €5 million year on year (first half of 2016: €57 million).

In ongoing lending, fee and commission income advanced by €2 million to €13 million. Such income generated from new transport finance business declined by €11 million to €21 million. In contrast, fee and commission income from asset management and consulting increased by €3 million to €8 million and by €1 million to €10 million respectively.

Gains and losses on trading activities fell by €18 million to a net loss of €19 million (first half of 2016: net loss of €1 million), largely due to the change in the US dollar/euro exchange rate.

Other gains and losses on valuation of financial instruments saw a market-driven decline of €149 million to a net loss of €131 million (first half of 2016: net gain of €18 million), partly because of interest-rate-related changes in the measurement of cross-currency swaps.

Overall, **administrative expenses** were virtually unchanged year on year at €103 million (first half of 2016: €104 million), with staff expenses rising slightly, by €1 million, to €56 million (first half of 2016: €55 million) and other administrative expenses falling slightly, by €2 million, to €47 million (first half of 2016: €49 million).

The €11 million increase in **other net operating income** to €16 million (first half of 2016: €5 million) was primarily attributable to an increase in the reversal of provisions and to proceeds from disposals.

In the first half of 2017, DVB generated a **loss before taxes** of €532 million. The decline of €547 million compared with the profit before taxes of €15 million reported for the prior-year period was mainly a consequence of the factors described above.

The **cost/income ratio** in the period under review was greater than 100.0 percent (first half of 2016: 51.5 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2016: 6.5 percent).

3.2.5. DZ PRIVATBANK

Net interest income at DZ PRIVATBANK contracted by 14.3 percent year on year to €60 million (first half of 2016: €70 million).

The main reasons behind this decline in net interest income were the persistently low level of interest rates, the ongoing implementation of a risk-conscious investment strategy, and the expiry of securities exposures bearing higher rates of return combined with a virtually unchanged contribution to income from the LuxCredit foreign-currency lending business.

DZ PRIVATBANK acts as the competence center for foreign-currency lending and investing in the interest-earning business. The average volume of guaranteed LuxCredit loans was €4.8 billion during the reporting period, which was lower than in the first half of 2016 (€5.1 billion).

The decentralized collaboration with the cooperative banks in Germany is coordinated through the eight branches of DZ PRIVATBANK in Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Nuremberg, and Stuttgart.

Net fee and commission income rose by 8.8 percent to €62 million (first half of 2016: €57 million).

The increase in net fee and commission income can be explained by the larger contribution to income from the fund services business and the slightly higher contribution to income from private banking.

As at June 30, 2017, the value of funds under management had grown by €4.5 billion to €104.5 billion (December 31, 2016: €100.0 billion). The number of fund-related mandates as at June 30, 2017 was 590 (December 31, 2016: 590).

At the end of the first half of 2017, the funds managed on behalf of high-net-worth individuals was virtually unchanged compared with the end of 2016 at €16.8 billion (December 31, 2016: €16.9 billion). The funds under management comprise the volume of securities, derivatives, and deposits of customers in the private banking business.

Other gains and losses on valuation of financial instruments climbed by €4 million to a net gain of €5 million (first half of 2016: net gain of €1 million) as a result of market conditions.

The small €2 million increase in **administrative expenses** to €116 million in the reporting period (first half of 2016: €114 million) included a reduction of €1 million in staff expenses to €65 million and, in particular, a rise in other administrative expenses of €3 million to €51 million. The latter increase was primarily attributable to the €1.5 million higher annual contribution to the bank levy, which amounted to €3.8 million for 2017 compared with €2.3 million in the first half of 2016.

Other net operating income amounted to a net expense of €6 million (first half of 2016: net expense of €29 million) and included an amortization expense of €8 million in respect of acquired customer relationships (first half of 2016: €8 million). The figure for the prior-year period had also included additions to provisions of €18 million in connection with retail banking risks and costs of €5 million relating to the realignment of subsidiaries.

In view of the effects from the factors described above, **profit before taxes** improved by €22 million to €12 million (first half of 2016: loss of €10 million).

The **cost/income ratio** for DZ PRIVATBANK in the period under review came to 90.6 percent (first half of 2016: greater than 100.0 percent).

Regulatory RORAC was 8.4 percent (first half of 2016: minus 6.3 percent).

3.2.6. R+V

Net premiums earned rose by 3.6 percent to €7,403 million (first half of 2016: €7,149 million), exceeding the impressive level of premiums earned in the first half of 2016.

Premium income in the life insurance and health insurance business of R+V decreased slightly, by 0.1 percent.

The decrease of 0.8 percent in the life insurance business included a reduction in premium income outside Germany and an increase in premium income in Germany in the bAV and pV Fonds businesses, while premium income contracted in the IndexInvest business. One-off premiums increased during the reporting period, as did regular premiums.

In the health insurance business, premium income went up by 9.2 percent due, in particular, to encouraging year-on-year growth in regular premiums.

Premium income from non-life insurance advanced by 4.4 percent. This growth was predominantly generated from vehicle insurance and from corporate customers.

In the first 6 months of 2017, there was also a year-on-year rise of 16.2 percent in premiums earned from inward reinsurance, driven mainly by the vehicle insurance sectors and the fire and non-life insurance sector.

Gains and losses on investments held by insurance companies and other insurance company gains and losses declined by 8.1 percent to a net gain of €1,883 million (first half of 2016: net gain of €2,050 million).

Long-term interest rates went back up in the first half of 2017, whereas they had fallen sharply in the corresponding prior-year period. Equities markets relevant to R+V did better over the course of the reporting period than they had in the first half of last year. The euro performed less well against a variety of currencies in the first six months of 2017 than it had in the first half of 2016.

Overall, these trends in the reporting period essentially resulted in a decrease in unrealized gains and losses and a reduction in the contribution to income resulting from the weaker performance of the euro against a variety of currencies, although this effect was offset, in particular, by an improvement in realized gains and losses.

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 half-year period.

Net insurance benefit payments increased by 0.6 percent from €7,495 million in the first half of 2016 to €7,543 million in the first 6 months of 2017.

In line with the change in premium income and in gains and losses on investments held by insurance companies and other insurance company gains and losses, higher additions were made to insurance liabilities at companies offering personal insurance. Furthermore, an amount of €341 million was added to the supplementary change-in-discount-rate reserve (first half of 2016: €101 million).

In inward reinsurance, the discount rate used by courts in the United Kingdom to determine the lump-sum payments for insured personal injury claims was lowered significantly during the reporting period. However, the negative impact of this change of €120 million was more than offset by an exceptionally small number of loss events and, at the same time, the low claims amount in non-life insurance business in the first half of this year.

Insurance business operating expenses incurred in the course of ordinary business activities went up by 6.4 percent to €1,350 million (first half of 2016: €1,269 million).

Given the factors described above, **profit before taxes** for the reporting period declined by €41 million to €389 million (first half of 2016: €430 million).

3.2.7. TeamBank

Net interest income at TeamBank amounted to €211 million, a rise of 3.4 percent compared with the figure of €204 million in the first half of 2016. This increase was the consequence of a higher level of new business and a greater portfolio of existing contracts in the easyCredit business.

TeamBank is the consumer finance specialist in the cooperative financial network. With buoyant consumer demand in the first half of this year, it delivered a strong performance despite continued fierce competition and a challenging environment of low interest rates. At the same time, it needed to align its business model with market requirements in respect of digitalization.

The fair and flexible consumer finance product, which was developed with an emphasis on cooperative values, enjoyed a further increase in customer interest. Loans and advances to customers increased by 7.3 percent to €7,814 million (December 31, 2016: €7,284 million). Furthermore, the number of customers had risen by a further 38,000 as at June 30, 2017 to reach 822,000.

Efforts continued in the reporting period to integrate all customer touchpoints – mobile, online, and offline – in a digital ecosystem for liquidity management combining all of TeamBank's innovative products and services in order to give customers easy access to liquidity wherever and whenever they want. The intelligent combination of traditional branch-based advice with digital services is paving the way for the bank's future growth in a technologically sophisticated environment. The digital ecosystem is helping to strengthen the customer relationships already in place, utilize the potential offered by existing customers, and win new customers for the cooperative financial network.

An important element of the ecosystem, a seamlessly integrated process for entering into an easyCredit agreement online, had been launched on the market in 2016. Already available for use on a computer, this option has also been offered to customers as a mobile solution for their smartphone since the start of 2017. Having introduced the seamless cross-media payment process 'ratenkauf by easyCredit' last year, TeamBank is so far the only provider, both in e-commerce and at the point of sale, to offer a simple and uniformly designed installment purchase function. Moreover, a new app called 'fymio' gives customers a projection of their future liquidity based on intelligent analysis of the transactions across all of their accounts.

In the first half of 2017, TeamBank continued to strengthen the market presence of its product variants, which have been successfully established as part of its customer business. In addition to Finanzreserve with a credit card, customers have also been able to benefit from easyCredit-Finanzreserve without a card since October 2016, providing them free of charge with a cash reserve incorporating a simple drawdown function. As at June 30, 2017, around 12 percent of customers had either signed up for the easyCredit-Finanzreserve or were already using this fair and flexible means of borrowing.

The innovative advisory concept known as easyCredit-Liquiditätsberater has been helping the cooperative idea to gain more prominence. Approximately 77,000 members benefited from advice in the first half of 2017, of whom around 14,000 were new to the cooperative financial network.

Allowances for losses on loans and advances amounted to €34 million in the reporting period (first half of 2016: €32 million), primarily because of the year-on-year growth in new business, an age structure of outstanding receivables that remained favorable, and a still small volume of terminations.

Administrative expenses rose by €8 million to €105 million (first half of 2016: €97 million), including an increase in staff expenses of €1 million to €42 million (first half of 2016: €41 million) and an increase in other administrative expenses of €7 million to €63 million (first half of 2016: €56 million). The rise in other administrative expenses was predominantly due to higher IT expenses in connection with the leasing and maintenance of software and to projects.

Profit before taxes decreased by €2 million to €78 million (first half of 2016: €80 million) as a consequence of the factors described above. This decline was consistent with the budget.

TeamBank's **cost/income ratio** in the period under review came to 48.4 percent (first half of 2016: 46.4 percent).

Regulatory RORAC was 36.8 percent (first half of 2016: 41.1 percent).

3.2.8. UMH

Net fee and commission income at UMH rose by 24.6 percent to €750 million (first half of 2016: €602 million).

The change in net fee and commission income was predominantly due to the factors described below. The strong growth in the Union Investment Group's average assets under management resulted in a sharp year-on-year rise in the volume-related contribution to this net income in the half-year period. This contribution accounted for 76.2 percent of the net fee and commission income in the first 6 months of 2017.

The assets under management of the Union Investment Group comprise the assets and securities portfolios measured at their current market value, also referred to as free assets or asset management, for which Union Investment offers investment recommendations (advisory) or bears responsibility for portfolio management (insourcing). The assets are managed both for third parties and in the name of the group. Changes in the managed assets occur as a result of factors such as net inflows, changes in securities prices, and exchange-rate effects.

Performance-related management fees were also significantly higher than in the corresponding prior-year period. Income from real estate fund transaction fees decreased compared with the first half of 2016.

In the first 6 months of 2017, international capital markets were influenced by the bounce-back of global growth. The eurozone's economic recovery also continued. The considerable injection of liquidity provided by the ECB's extensive bond-buying program triggered marked price rises, particularly in the equity markets, during the reporting period.

In this economic environment, Union Investment registered net inflows of €14.0 billion in the period under review, which was the second-highest figure for a half-year period (the highest was achieved in the first half of 2015) in the company's 62-year history. This impressive level of inflows was attributable to its broadly based cooperative retail business, with more than 4 million customers opting for fund-based savings, and strong institutional business involving over 1,600 German and international investors.

In its retail business, the Union Investment Group generated net inflows of €4.1 billion (first half of 2016: €4.0 billion). The continuation of this exceptionally high level of inflows shows that Union Investment, working alongside its partners in the cooperative banking group, is increasingly succeeding in encouraging customers to focus on a structured and balanced investment portfolio.

The multi-asset solutions offered by Union Investment enjoyed brisk demand in the reporting half-year. These solutions have proven themselves to be an investment instrument of choice in the present period of low interest rates. The 6 variants in the innovative PrivatFonds product range, which are focused on customers' need for security, together attracted net inflows of €2.2 billion, taking the overall volume to €18.5 billion as at June 30, 2017. This represented an increase of 14.9 percent on the figure of €16.1 billion as at December 31, 2016.

The Union Investment Group's open-ended real estate funds invest in tangible assets and provide a further way of diversifying investments. Offering an attractive risk/return profile, they generated net new business of €1.0 billion in the retail business in the first half of 2017.

In periods of low interest rates, fund-linked savings plans represent an extremely rewarding type of investment and enable customers to start accumulating wealth on the basis of a diversified strategy using long-term savings processes. The number of traditional fund-linked savings plans had risen to 1.7 million contracts by the end of the period under review, with an increase in the 12-month savings volume to €3.3 billion (June 30, 2016: €2.0 billion).

Once again, the fund-based Riester pension products (UniProfiRente and UniProfiRente Select) – reliable cornerstones of long-term private wealth accumulation – of the Union Investment Group, which is the market leader in this area, made a significant contribution to total net inflows in the retail business, generating net inflows of €0.6 billion in the reporting period. The total assets in the portfolio of Riester pension solutions swelled by €0.7 billion in the first half of 2017 to €15.7 billion (December 31, 2016: €15.0 billion).

In its institutional business, the Union Investment Group generated net inflows amounting to €9.9 billion (first half of 2016: €6.7 billion). A total of 47 new institutional clients were gained in the first half of 2017.

In an environment of persistently low returns, the investment objective of many investors during the reporting period was not only security but also an adequate return on their investment. Investors therefore focused on risk-controlled and broadly diversified investment solutions in the first half of 2017. Demand was mainly concentrated on money market-linked products, corporate bonds, equity and multi-asset investments, and investments in emerging markets.

Moreover, the Union Investment Group's outstanding reputation as a professional risk and portfolio manager was particularly reflected in the popularity of capital preservation strategies, which had attracted a volume of investment of €25.2 billion by the end of the first half of 2017.

Strategies for sustainable investment that contribute to optimized risk management are also becoming increasingly important. For this reason, Union Investment systematically incorporates sustainability criteria into the investment process. This expertise is also integrated into classic portfolio strategies. At the end of the reporting period, a total of €29.9 billion was invested with Union Investment, one of Germany's leading asset managers, in accordance with sustainability criteria (December 31, 2016: €25.3 billion).

The improvement in **other gains and losses on valuation of financial instruments** of €5 million to a net gain of €2 million (first half of 2016: net loss of €3 million) was mainly attributable to the reduction in expenses for the valuation of guarantee commitments compared to the corresponding prior-year period. However, the positive contribution from the valuation of own-account investments was lower than in the first half of 2016.

Administrative expenses rose by €35 million to €393 million (first half of 2016: €358 million). This included an increase in staff expenses of €12 million to €187 million, which mainly resulted from average salary increases and appointments to new and vacant posts. The rise in other administrative expenses of €23 million to €206 million was mostly accounted for by higher expenses for consulting, IT, and procurement of information.

Other net operating income decreased by €12 million to €0 million (first half of 2016: €12 million), largely due to the recognition of expenses in connection with the Next Generation Sourcing reconciliation of interests.

Profit before taxes went up by €105 million to €362 million (first half of 2016: €257 million), above all due to the changes described above.

The **cost/income ratio** came to 52.0 percent in the first half of this year (first half of 2016: 58.2 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2016: greater than 100.0 percent).

3.2.9. VR LEASING

Net interest income at VR LEASING contracted by 5.4 percent year on year to €70 million (first half of 2016: €74 million).

This reduction in net interest income was entirely explained by the scaling back of non-core business in line with the strategy; the affected areas include the real estate leasing, automotive trade, and vehicle fleet businesses, plus international business at VR LEASING. Net interest income in core business was unchanged on the first half of 2016.

The strategy for VR LEASING's business activities is geared to providing decentralized support for the cooperative banking sector with an innovative range of products offering simple, rapid, and flexible financing solutions for Germany's small and medium-sized enterprises, which have strong regional ties. The products cater to market requirements in a digital age and are aimed at both small-scale and large-volume business. These products include leasing, factoring, rental, hire purchase, loans, and centralized settlement. The various digitalized solutions are designed to enable the banks in the cooperative financial network to make even better use of the income potential offered by their small business and self-employed customers.

VR Leasy-Online, an online, automated system, can be used by the cooperative banks to make decisions on financing up to an amount of €200,000 within minutes, particularly for small business customers and the self-employed. Through VR Leasy-Online, customers can also access the 'VR Leasing express' hire purchase solution and the 'VR Leasing flexibel' business lending product, providing particularly flexible and rapid instant financing up to a sum of €60,000.

If an individual transaction involves more than €200,000, a simplified financing check and semi-automated processing of the customer inquiry ensures a lending decision can be made within 2 to 3 days.

The growing importance of internet financing solutions was underlined by the year-on-year rise of around 43.2 percent (first half of 2016: 10.7 percent) in the volume of online business (leasing and lending) transacted with the cooperative banks in the first half of 2017. The proportion of total new business (leasing and lending) accounted for by contracts concluded online increased from 75.5 percent in the first half of 2016 to 83.4 percent in the reporting period. Digitalization does not prevent a personal customer relationship, however. Rather, the new digital channels strengthen the regional primary banks' customer focus in line with the cooperative principle.

Nevertheless, rapid market changes in the era of digitalization require solutions and processes to be refined on an ongoing basis. For this reason, VR LEASING will soon be launching a new application on the market: SmartBuchhalter (smart bookkeeper), which underwent an extensive pilot phase in the first half of 2017, is designed to give self-employed people and small businesses a simple overview of their financial situation. This target group will therefore be able to maintain their accounts easily in the future, even when not in the office.

Allowances for losses on loans and advances rose by €3 million to a total of €6 million (first half of 2016: €3 million). In Germany, allowances for losses on loans and advances decreased by €2 million to €6 million (first half of 2016: €8 million). Outside Germany, there was neither a net reversal nor a net addition in the first half of 2017 (first half of 2016: net reversal of €5 million).

Net fee and commission income declined by €5 million to a net gain of €8 million (first half of 2016: net gain of €13 million). The main reason for this change was the level of trailer fees to be paid to the local cooperative banks, which climbed by €3 million to €6 million in line with the volume of business.

Gains and losses on investments amounted to a net gain of €6 million (first half of 2016: net loss of €2 million). In the reporting period, this figure included the reversal in an amount of €6 million of an impairment loss on VR-LEASING AG's 50 percent long-term equity investment in VB-Leasing International Holding GmbH, Vienna, (VBLI), which is accounted for using the equity method.

Administrative expenses fell by €11 million to €69 million (first half of 2016: €80 million), which included a decline in staff expenses of €6 million to €44 million (first half of 2016: €50 million) caused by the disposal of Lombard Lízing at the end of April 2016 and by a reduction in headcount in Germany. Other administrative expenses went down by €5 million to €25 million (first half of 2016: €30 million), predominantly because of efficiency measures.

The €10 million decrease in **other net operating income** to €4 million (first half of 2016: €14 million) was mainly attributable to inclusion in the prior-year period of effects totaling €8.6 million arising from the disposal of Lombard Lízing at the end of April 2016. The latter amount for the first half of 2016 had comprised other operating income of €4.5 million and income of €4.1 million arising from the deconsolidation of the Hungarian company Lombard Lízing.

VR LEASING's **profit before taxes** amounted to €13 million (first half of 2016: €16 million), largely as a consequence of the factors described above.

The **cost/income ratio** in the period under review came to 78.4 percent (first half of 2016: 80.8 percent).

Regulatory RORAC was 8.1 percent (first half of 2016: 10.1 percent).

3.2.10. WL BANK

WL BANK was included as a separate operating segment entity with its pro-rata earnings for the second half of 2016 for the first time in the consolidated financial statements of DZ BANK for the period ended December 31, 2016. In accordance with IFRS 3, the consolidation was applied on the basis of a remeasurement of all of WL BANK's assets and liabilities as part of the purchase price allocation (PPA) as at June 30, 2016. WL BANK has been reported in the income statement of the DZ BANK Group for the first half of 2017 as a separate operating segment entity with its earnings for the period January 1 to June 30, 2017, but without any comparative figures for the first half of last year (see figure 2 of this interim group management report).

Against a backdrop of favorable market conditions for real estate finance, WL BANK's real estate lending business again performed well in the first half of 2017 despite intensive competition and a risk policy that remained conservative. The volume of new business generated in real estate finance amounted to €1.9 billion in the first 6 months of 2017 (first half of 2016: €1.8 billion).

Within the DZ BANK Group, WL BANK operates as the center of excellence for business involving public-sector customers. This area of business primarily consists of customer relationships with federal, regional, and local authorities in Germany, and with their legally dependent municipal enterprises. These relationships are managed nationwide with the close involvement of the local cooperative banks.

The volume of public-sector customer finance business in the first half of 2017 stood at €0.4 billion (first half of 2016: €0.4 billion) and was therefore on a par with the corresponding period of the previous year.

Net interest income in the first half of 2017 amounted to €106 million. This figure reflected the positive performance of real estate lending and the local authority loans business. Effects from subsequent measurement in connection with the PPA also had a positive overall impact on net interest income in the reporting period.

At €7 million, **allowances for losses on loans and advances** were again at a low level in the reporting period.

Other gains and losses on valuation of financial instruments came to a net gain of €49 million in the first half of 2017. This figure largely comprised gains or losses arising from the fair value measurement of securities, local authority loans, and own issues.

Administrative expenses for the reporting period amounted to €54 million. The main cost components of other administrative expenses were consulting and project expenses resulting from growing regulatory requirements plus expenses caused by the integration of WL BANK into the DZ BANK Group and the planned merger of DG HYP and WL BANK. This line item also included expenses for the further development of the bank21 and agreeBAP IT platforms, which are jointly used with partner banks, and expenses of €12.7 million for the European bank levy for 2017.

Profit before taxes at WL BANK amounted to €90 million for the first half of 2017, largely as a result of the factors described above.

The **cost/income ratio** for the first half of 2017 stood at 35.8 percent.

Regulatory RORAC for the reporting period was 45.5 percent.

3.2.11. 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.

4. Net assets

The following information on net assets as at the reporting date relates 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, 2017, the DZ BANK Group's **total assets** had increased by €4.0 billion, or 0.8 percent, to €513.4 billion (December 31, 2016: €509.4 billion). The total assets of R+V and of BSH grew by €3.2 billion and €1.5 billion respectively. DVB's total assets contracted by €2.7 billion.

The **volume of business** amounted to €864,690 million (December 31, 2016: €843,130 million). This figure comprised the total assets, the assets under management at UMH as at June 30, 2016 amounting to €309,592 million (December 31, 2016: €292,272 million), the financial guarantee contracts and loan commitments amounting to €40,626 million (December 31, 2016: €40,287 million), and the volume of trust activities amounting to €1,114 million (December 31, 2016: €1,124 million).

The DZ BANK Group's **loans and advances to banks** rose to €117.6 billion, an increase of €10.3 billion, or 9.7 percent. Loans and advances to banks in Germany went up by €6.2 billion to €104.7 billion, and loans and advances to foreign banks increased by €4.1 billion to €12.9 billion.

The DZ BANK Group's **loans and advances to customers** decreased by €0.5 billion, or 0.3 percent, to €176.0 billion. Loans and advances to customers increased by €1.8 billion at BSH, by €0.5 billion at TeamBank, by €0.5 billion at DZ BANK, and by €0.5 billion at WL BANK. By contrast, loans and advances to customers declined by €2.7 billion at DVB and by €1.1 billion at DG HYP.

As at June 30, 2017, **financial assets held for trading** amounted to €43.9 billion, a decline of €5.4 billion, or 11.0 percent, on the figure as at December 31, 2016. In particular, derivatives (positive fair values) fell by €4.6 billion and money market placements by €0.9 billion.

Investments were down by €6.9 billion, or 9.8 percent, to €63.3 billion. The main reason for this change was the €6.8 billion contraction in bond holdings.

Investments held by insurance companies rose by €3.0 billion, or 3.4 percent, to €93.4 billion (December 31, 2016: €90.4 billion), above all due to a €2.1 billion increase in fixed-income securities to €43.0 billion and a €0.5 billion increase in variable-yield securities to €9.0 billion.

The DZ BANK Group's **deposits from banks** as at June 30, 2017 amounted to €131.6 billion, which was €2.3 billion, or 1.8 percent, higher than the figure reported as at December 31, 2016. Deposits from domestic banks dropped by €1.1 billion to €116.9 billion, while deposits from foreign banks increased by €3.4 billion to €14.7 billion.

Deposits from customers grew by €4.7 billion, or 3.7 percent, to €129.1 billion. Such deposits increased by €3.4 billion at DZ BANK, by €1.5 billion at BSH, and by €1.4 billion at DZ PRIVATBANK, but decreased by €0.7 billion at both DG HYP and WL BANK.

At the end of the reporting period, the carrying amount of **debt certificates issued including bonds**

FIG. 3 – TOTAL ASSETS

in the DZ BANK Group had reached €71.3 billion (December 31, 2016: €78.2 billion). The contraction of €6.9 billion was largely due to the decline of €6.9 billion in DZ BANK's debt certificates issued including bonds.

Financial liabilities held for trading increased by €2.2 billion, or 4.4 percent, to €52.4 billion. The growth in money market deposits by €4.2 billion and bonds issued by €1.3 billion was partly offset by a reduction of €4.6 billion in derivatives (negative fair values).

Insurance liabilities increased by €3.3 billion, or 3.9 percent, to €87.4 billion (December 31, 2016: €84.1 billion). This was largely attributable to rises of €1.8 billion in the benefit reserve and €0.8 billion in the provision for unearned premiums.

As at June 30, 2017, the **equity** reported by the DZ BANK Group was €22.8 billion (December 31, 2016: €22.9 billion). The €0.2 billion increase in subscribed capital, the €0.7 billion rise in the capital reserve, and the €0.9 billion reduction in retained earnings reflect the capital increase from company funds that DZ BANK implemented in the first half of 2017. On May 24, 2017, the DZ BANK Annual General Meeting decided to retire the 93,247,143 treasury shares held by DZ BANK – which were not dividend-bearing – without reducing the share capital.

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 5. (Capital adequacy).

5. Financial position

The following details on **liquidity management** during the reporting period relate to DZ BANK and the DZ BANK Group. Liquidity management for the entities in the DZ BANK Group is carried out by the Group Treasury division at DZ BANK and by the individual subsidiaries. The individual entities are provided with funding by DZ BANK (group funding) or the entities exchange cash among themselves via DZ BANK (group clearing). Liquidity is managed within DZ BANK by head office treasury in Frankfurt and by treasuries in its international branches, although Frankfurt has primary responsibility.

In the context of liquidity management, the DZ BANK Group 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 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 enables local cooperative banks with available liquidity to invest it with DZ BANK, while local cooperative banks requiring liquidity can obtain it from DZ BANK. 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 therefore has a comfortable level of liquidity at its disposal. Funding on the interbank market is not strategically important to the DZ BANK Group.

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

Money market funding also includes collateralized money market activities, 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 DZ BANK's Group Treasury division. Group Treasury also has at its disposal a portfolio of investment-grade liquid securities. These securities can be used as collateral in monetary policy funding transactions with central banks, in bilateral repos, or in the tri-party repo market.

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

Both for the DZ BANK Group and each individual group entity, structural liquidity is measured daily on the basis of total cash flows.

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. Long-term funding that is not covered is secured through systematic integration between the entities in the DZ BANK Group. 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, DG HYP, WL BANK, and DVB.

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

The Group Treasury division at DZ BANK carries out groupwide **liquidity planning** annually. This involves determining the funding requirements of the DZ BANK Group for the next financial year on the basis of the coordinated business plans of the individual companies. Liquidity planning is updated throughout the year.

Monthly **structural analyses** of the various resources available on the liabilities side of DZ BANK's balance sheet are also conducted. The purpose of these analyses is to provide senior management with information that can then be used as the basis for actively managing the liability profile.

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 4. (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 these interim consolidated financial statements.

III. Events after the balance sheet date

There were no events of particular importance after the end of the reporting period.

IV. Outlook

1. Economic conditions

1.1. Global economic trends

The global economy was in robust health in the middle of 2017. Uncertainties surrounding the exit negotiations between the EU and United Kingdom, the outcome of the US presidential election, and the numerous elections held in Europe had no significant negative impact on financial markets or the global economic climate in the first half of this year. However, political imponderables, such as the conflicts in the Middle East and the situation in North Korea, will remain on the agenda in the second half of 2017.

Following expansion of 3.1 percent in 2016, global economic growth is likely to accelerate to roughly 3.4 percent this year.

The modest performance of the price of crude oil during the first 6 months of the year is subduing economic sentiment in some oil-producing countries but, at global level, is keeping prices down – both for producers and for consumers. The oil price is predicted to remain within a narrow range for the rest of the year.

Inflation is expected to be around 1.7 percent in industrialized countries and approximately 3.4 percent worldwide in 2017.

1.2. Trends in the USA

As anticipated by the markets, the Fed decided in June 2017 to increase the key interest rate by 0.25 percent to a range of 1.00 to 1.25 percent. It also raised the prospect of further rate hikes. By providing a high level of transparency, the central bank seems to be successfully returning from its expansionary course to a more normal monetary policy, i.e. market interest rates have not risen sharply so far and nor have there been any negative effects on US growth.

With consumer sentiment remaining very high, personal spending continues to be the driver of growth in the US economy. The services sector is also providing particular growth stimulus. Following a fairly quiet start to 2017, industrial output is now showing signs of recovery too.

As employment remains at a high level, the average rate of unemployment for 2017 will probably be only roughly 4.4 percent and thus back at its pre-crisis 2007 level. The diverse services sector continues to be the main source of jobs. From the current perspective, the rise in employment is likely to be sustained in 2018, with the rate of unemployment possibly falling to around 4.3 percent.

Against this backdrop, the US economy is forecast to grow by approximately 2.2 percent in 2017 and by around 2.5 percent in 2018.

The robust state of the economy is accompanied by a relatively moderate rise in consumer prices. The muted growth in the price of oil is keeping pressure on prices down. Housing costs are the main factors driving up prices. An average inflation rate in the region of 2.2 percent is projected for 2017. It is currently expected to be around 2.4 percent next year.

1.3. Trends in the eurozone

So far, the ECB has maintained its expansionary monetary policy, keeping the key interest rate unchanged at 0.0 percent since March 2016 and intending to continue the bond buying program until the end of 2017. Thanks to the improved outlook for the economy of the eurozone and rising prices, there are increasing cautious signals from the ECB that it will start moving away from its expansionary monetary policy.

Economic conditions in the eurozone were robust in mid-2017. Uncertainties surrounding the exit negotiations between the EU and United Kingdom and the numerous elections held in Europe, including in the Netherlands and France, left no visible mark on the economic climate in the first half of this year.

Overall, the upturn in the eurozone is strengthening and broadening, with further growth in the second quarter. The rate of expansion of 0.6 percent compared with the previous quarter was up slightly on the rate at the start of the year.

Across the eurozone, however, the recovery is very uneven. Spain's economic growth is characterized by significant momentum. Along with Greece, Italy is likely to again be at the bottom of the list of eurozone economies this year, despite some positive developments. The French economy also continues to grow at a below-par rate. It will become clear in the months ahead whether the newly elected French President will be capable of pushing through the urgently required reforms.

The labor market in the eurozone is still on an upward trajectory. In the first quarter of 2017, the number of people in employment rose by 0.4 percent compared with the previous quarter. This growth trend, which began back in the fourth quarter of 2013, not only continued but also gathered pace. Unemployment is predicted to fall to around 9.3 percent in 2017. In 2018, unemployment is currently expected to drop even further to roughly 9.0 percent.

The eurozone is likely to again generate solid growth overall, with a forecast for 2017 of approximately 2.0 percent. Next year, growth is predicted to be slightly slower at around 1.7 percent. The euro has recently surged against the US dollar and this could be detrimental to exports.

As anticipated, inflation rose sharply in the eurozone at the start of 2017. However, pressure on prices then diminished again on the back of the muted growth of the price of crude oil. There are currently no indications that the rate of inflation will rise again over the remainder of the year. Consequently, the average inflation rate for 2017 is expected to be in the region of 1.6 percent. An inflation rate of roughly 1.6 percent is also currently projected for 2018.

1.4. Trends in Germany

The German economy remains on a path of growth this year. In the first quarter of 2017, GDP increased by 0.6 percent compared with the previous quarter. The strength of the domestic economy is particularly bolstering the performance of the economy as a whole. During the first quarter, economic output was boosted by very buoyant capital spending and an increase in exports.

In mid-2017, the sentiment indicators in Germany continued on the whole to paint a very positive picture of the country's economy. The ifo Business Climate Index rose from 115.2 to 116.0 points in July, the third record high in succession. Sentiment among German consumers also remained upbeat in July. Both economic expectations and income expectations climbed once again, although inclination to spend fell slightly from its very high level. From the current perspective, the exceptionally positive sentiment overall bodes well for a continuation of the growth of the German economy.

Against this backdrop, Germany's unemployment rate for 2017 is predicted to fall to around 5.8 percent. A rate of approximately 5.9 percent is forecast for 2018.

The economy is likely to expand by around 1.7 percent in 2017. In 2018, economic conditions are expected to remain positive, with economic output probably rising by roughly 1.8 percent.

Despite the latest fall in the oil price, the inflation rate in July 2017 was slightly higher than in the previous two months. In particular, prices for food and rent went up significantly in the first half of 2017. The projected rate of inflation for 2017 as a whole is around

1.7 percent. Inflation of roughly 1.6 percent is anticipated for 2018.

1.5. Trends in the financial sector

Since the financial crisis, the financial sector has faced considerable pressure in terms of both adjustment and costs caused by the need to comply with regulatory reforms, involving greater capital requirements and changes to regulatory systems.

Another milestone, the issue of Capital Requirements Directive (CRD) V and Capital Requirements Regulation (CRR) II, is on the agenda for this year. This legislation includes the final implementation of the requirements decided by the Basel Committee on Banking Supervision (BCBS) relating to the leverage ratio, net stable funding ratio, and total loss absorbing capacity.

An ongoing challenge faced by the financial sector is the persistently low level of interest rates accompanied by a relatively flat yield curve. Probably in response to the ECB's expected gradual move away from its expansionary monetary policy, the yield curve in the market for German government securities was slightly steeper in June 2017 than it had been in December 2016. If this trend is sustained, as is anticipated, banks and insurance companies' difficult financial performance may ease, although the exit from expansionary monetary policy may lead to volatility in financial markets.

In the first half of 2017, the volume of lending in Germany increased overall thanks to the good economic environment and the rise in investing activities. This positive trend is expected to continue during the remainder of 2017. The brightening economic picture in the eurozone raises expectations of a further increase in capital investment and gradual growth of banks' lending business.

From today's perspective, it is not yet possible to make a final assessment of the implications of uncertain political developments for capital markets and ultimately for the financial performance and financial position of entities in the financial sector. Another risk factor in this context, besides the aforementioned exit negotiations between the EU and United Kingdom, is the persistently high level of national debt in various southern European countries, which may rise even more if the banking industry were to receive government assistance.

An indicator of the difficult situation is provided by Deutsche Bundesbank's current receivables within the euro system. These are aggregated to form the TARGET2 balance and stood at a record high of €861 billion as at June 30, 2017.

2. Financial performance

The outlook for the business performance of the DZ BANK Group for the financial year must be viewed against the background of the good earnings performance in previous years, which in some cases was boosted by positive non-recurring items.

Based on a current assessment, the target of achieving a **profit before taxes** within the long-term range of between €1.5 billion and €2.0 billion in the current financial year has become more ambitious. While profit before taxes in the BSH, R+V, and UMH operating segments is expected to be significantly above the budgeted figures, the DVB operating segment will report a loss significantly higher than that of the previous year.

Profit before taxes is predicted to recover to a level within the aforementioned long-term earnings range in 2018.

As a result of the merger of DZ BANK and the former WGZ BANK, cost synergies are expected to be achieved and growth and earnings potential to be unlocked.

The DZ BANK Group's earnings will also be influenced by the bundling of real estate activities in DZ HYP, which is planned for 2018. Alongside the resulting potential opportunities, there will also be initial expenses in connection with implementing the merger.

The future financial performance of the DZ BANK Group could be subject to risks arising from the general economic environment described above and, in particular, from monetary policy, above all in the US, the eurozone, and Germany. The management of the associated implications for financial position and financial performance arising from these risks forms part of the DZ BANK Group's strategic and operational management of its business and resources.

In 2017, **net interest income** including income from long-term equity investments is likely to be higher than in 2016, partly because of the first-time full consolidation of WL BANK and also due to DG HYP.

Net interest income is also expected to go up in all management units in 2018, assuming that the eurozone economy continues to recover and interest rates rise moderately.

The possible slowdown of economic growth in the eurozone, coupled with a yield curve that continues to hold steady at a low level, may lead to income volatility, especially given the interest-rate-sensitive business models within the DZ BANK Group.

Expenses for **allowances for losses on loans and advances** in 2017 are currently anticipated to rise substantially compared with 2016. While the level of allowances for losses on loans and advances in the DZ BANK operating segment will probably be favorable due to the good economic situation, the allowances required in the DVB operating segment as a result of conditions remaining challenging in the shipping finance and offshore finance businesses could continue to have an adverse impact.

Following the charges in 2017, expenses for allowances for losses on loans and advances are likely to return to normal levels in 2018 and change in line with the lending portfolio, the targeted volume of new business, and the long-term costs for covering expected losses arising from the lending business.

Allowances for losses on loans and advances could increase if the markets relevant to DZ BANK's earnings (e.g. the international transport sector) deteriorated significantly or if there was an adverse impact from political risk combined with rising government debt in Europe.

Net fee and commission income is predicted to rise in 2017 to above its prior-year level. This assessment is based mainly on the anticipated rise in income from management fees in the UMH operating segment.

Net fee and commission income is expected to see a further increase in 2018. From the current perspective, the main influences are likely to be the projected growth in assets under management[1] in the UMH operating segment and in funds under management[2] in the DZ PRIVATBANK operating segment.

Any lasting uncertainty in capital and financial markets could have a negative impact on confidence and sentiment among retail and institutional investors, thereby depressing net fee and commission income.

In all probability, net gains under **gains and losses on trading activities** will decline year on year because the net gains in 2016, particularly in the DZ BANK operating segment, benefited from positive non-recurring items, for example, arising from the remeasurement of own issues.

According to the planning for 2018, gains and losses on trading activities will be on a par with 2017. Impetus is particularly likely to come from customer-driven capital markets business.

The factors enabling a steady level of net gains under gains and losses on trading activities will be the continuation of the stable capital markets environment and the successful positioning of DZ BANK so that it can unlock market potential.

Gains and losses on investments will benefit from sales of securities in 2017. However, the net gain is likely to be lower than the figure reported for 2016, because the disposal of shares in VISA Europe was recognized as a one-off item in this period.

1 Assets under management: The assets under management equate to the assets and securities portfolios measured at their current market value, also referred to as free assets or asset management, for which Union Investment offers investment recommendations (advisory) or bears responsibility for portfolio management (insourcing). The assets are managed both for third parties and in the name of the group. Changes in the managed assets occur as a result of factors such as net inflows, changes in securities prices, and exchange-rate effects.
2 The funds under management comprise the volume of securities, derivatives, and deposits of customers in the private banking business.

From the current perspective, gains and losses on investments will deteriorate significantly in 2018 because no substantial non-recurring items are expected.

Other gains and losses on valuation of financial instruments are likely to be better in 2017 than they were in 2016. However, the expected significant positive effects from the measurement of the portfolio of instruments from government issuers in the DG HYP and WL BANK operating segments will be diminished by negative interest-rate-related measurement effects in the DVB operating segment.

The expected net gain may be adversely affected by volatility in capital markets and especially by the widening of credit spreads on securities from government issuers.

Net income from insurance business is currently expected to be at a high level in 2017, albeit lower than in 2016. The growth-related increases in premiums earned will be accompanied by a sharp year-on-year decline in gains and losses on investments held by insurance companies.

In 2018, net income from insurance business is expected to be at roughly the same level as 2017.

Exceptional events in financial and capital markets, changes in underwriting practices, or potential changes in the regulatory requirements faced by insurers may adversely affect the level of net income expected to be earned from insurance business.

Administrative expenses are set to rise as budgeted this year. The main expense factors will be not only the first-time full consolidation of the former WGZ BANK and of WL BANK but also the sustained high level of expenses for strategic and regulatory projects.

By the end of the current financial year, significantly more than 50 percent of the targeted job cuts resulting from the merger will already have been implemented or contractually agreed.

As projected, **net income from the business combination with WGZ BANK** will amount to a net expense in 2017 because of migration projects.

The **other net operating income** for 2017 as a whole will provide a substantial one-off boost to the DZ BANK Group's earnings owing to the sale of shares in Concardis GmbH.

Given the higher expenses coupled with lower income forecasts, the **cost/income ratio** for the DZ BANK Group is likely to rise in 2017. In view of rising administrative expenses, one of the main strategic aims is to bring the cost/income ratio back down by rigorously managing costs and ensuring long-term synergy management in the DZ BANK operating segment on the one hand and by accelerating growth in the operating business on the other. The DZ BANK group has initiated strategic measures to this end.

As expected, **regulatory RORAC**, the risk-adjusted performance measure based on regulatory risk capital, will decrease in 2017 because of the forecast of lower earnings.

3. Liquidity and capital adequacy

The DZ BANK Group is assuming that it can continue to maintain a sufficient level of liquidity in 2017 and 2018 in terms of both economic and regulatory **liquidity adequacy** requirements.

The operational management of liquidity is based on ensuring the availability of both a sufficient level of liquid securities and stable local cooperative bank deposits. In addition, money market business with institutional investors, central banks, other banks, and corporate customers will continue to make a long-term contribution to the broadly diversified funding of the DZ BANK Group.

As regards management of the DZ BANK Group's structural liquidity, it is assumed the group will continue to enjoy steady sales of its various capital market products to its broad, well-established customer base, consisting in particular of local cooperative banks and institutional customers.

As matters currently stand, the DZ BANK Group's **capital adequacy** is assured for 2017 and 2018 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital necessary to cover the risks associated with the finance business and other risks arising from the group's business operations.

V. Opportunity and risk report

DZ BANK Group

1. Summary

1.1. Opportunity and risk management system

The features of the DZ BANK Group's opportunity and risk management system are described in detail in the opportunity and risk report ('2016 opportunity and risk report') in the 2016 group management report. Those disclosures are also applicable to the first half of this year, unless otherwise indicated in this report. The main features of the opportunity and risk management system and the material changes that occurred in the first half of 2017 are summarized below.

1.1.1. Principles

The DZ BANK Group defines **opportunities** as unexpected positive variances from the forecast financial performance.

Risks result from adverse developments affecting financial position or financial performance, and essentially comprise the risk of an unexpected future liquidity shortfall or unexpected future losses. A distinction is made between liquidity and capital. Risks that materialize can affect both of these resources.

The **management of opportunities** in the DZ BANK Group is integrated into the annual strategic planning process. Strategic planning enables the group to identify and analyze market discontinuities based on different macroeconomic scenarios, trends, and changes in the markets, and forms the basis for evaluating opportunities. Attractive opportunities are taken into account in the business strategies.

Reports on future business development opportunities are based on the business strategies. As part of the general communication of the business strategies, employees are kept up to date about potential opportunities that have been identified.

The DZ BANK Group has a comprehensive **risk management system** that generally meets its own business management needs and the statutory requirements. Furthermore, the management of opportunities and risks forms an integral part of the groupwide strategic planning process. The risk management system is based on risk strategies that are derived from the business strategies and approved by the Board of Managing Directors.

The risk management system is more detailed than the system for the management of opportunities because risk management is subject to comprehensive statutory requirements and is also of critical importance to the continued existence of the DZ BANK Group as a going concern. The management of opportunities is based on a qualitative approach and is tightly integrated into the strategic planning process.

Liquidity and capital resources are managed on the basis of groupwide liquidity risk management and groupwide risk capital management. The purpose of **liquidity risk management** is to ensure adequate levels of liquidity reserves are in place in respect of risks arising from future payment obligations (liquidity adequacy). The aim of **risk capital management** is to ensure the availability of capital resources that are commensurate with the risks assumed (capital adequacy).

Economic liquidity adequacy and economic capital adequacy are the **key figures used to manage risk** in the DZ BANK Group. Disclosures relating to how these key figures are calculated and how they link to the balance sheet are included in the 2016 opportunity and risk report. The calculation method is explained in sections 6.2.4. and 7.2.2. and the link to the balance sheet is explained in sections 6.2.6. and 7.2.2. of the 2016 opportunity and risk report. The changes made on January 1, 2017 to how economic capital adequacy is determined are presented in section 1.1.3. of this opportunity and risk report.

Economic liquidity adequacy and economic capital adequacy cannot be reconciled directly to individual line items in the interim consolidated financial statements because they are forward looking considerations. Although these key figures are based on the interim consolidated financial statements, a number of other factors are used in their calculation. The use of these figures in the opportunity and risk report complies with the financial reporting standards to be applied in external risk reporting.

Efficient management and control tools are used in all areas of risk. These tools are subject to continual further development and refinement. The development of these tools is derived from business management requirements and is based on regulatory requirements. The methods used for the measurement of risk are integrated into the risk management system. Risk model calculations are used for the management of the DZ BANK Group and the entities included within the group.

DZ BANK and its subsidiaries have organizational arrangements, methods, and IT systems in place that enable them to identify material opportunities and risks at an early stage and initiate appropriate control measures, both at group level and at the level of the individual management units. This applies in particular to the early detection of risks that could affect the group's continuation as a going concern.

The tools used for the purposes of risk measurement provide the necessary transparency for the DZ BANK Group to respond appropriately to significant market movements. Possible changes in risk factors, such as a deterioration in credit ratings or the widening of credit spreads on securities, are reflected in adjusted risk parameters in the mark-to-model measurement of credit risk and market risk. Conservative crisis scenarios for short-term and medium-term liquidity are intended to ensure that liquidity risk management also takes adequate account of market crises. A risk limit system based on risk-bearing capacity, stress testing encompassing all material risk types, and a flexible internal reporting system ensure that management is in a position to initiate targeted corrective action if required.

1.1.2. Management units

All DZ BANK Group entities are integrated into the groupwide opportunity and risk management system. DZ BANK and its main subsidiaries – also referred to as **management units** – form the core of the financial services group. Each entity 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

DG HYP and **WL BANK** apply the **waiver** pursuant to section 2a (1), (2), and (5) of the German Banking Act (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 not required to apply the provisions of Parts 2 to 5 or Parts 7 and 8 CRR, which are instead covered at DZ BANK Group level.

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 DZ BANK Group's 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.

1.1.3. Material changes

The DZ BANK Group holds a capital buffer ('**capital buffer requirement**') to allow for a possible lack of precision in the measurement of the risks backed by capital. Up to 2016, the capital buffer was deducted from the available internal capital without further differentiation. Since January 1, 2017, a distinction has been made between decentralized and centralized capital buffer requirements in the management of economic capital adequacy. Decentralized capital buffer requirements are managed within the upper loss limits for the individual risk types, whereas the centralized capital buffer is managed on the basis of an upper loss limit covering all sectors and risk types.

Freely available internal capital remains unchanged by this adjustment. As of this financial year, this figure has been calculated as the difference between available internal capital and the risk capital requirement including the capital buffer requirement (aggregate risk). Up to the end of the prior year, freely available internal capital was calculated as the difference between available internal capital (after deduction of the capital buffer requirement) and the risk capital requirement. Consequently, economic capital adequacy, which was previously calculated as the ratio of available internal capital after deduction of the capital buffer to the risk capital requirement, is now calculated as the ratio of available internal capital to aggregate risk. Economic capital adequacy had fallen slightly as at June 30, 2017 because of this change to the calculation method.

Owing to the changed definition of the capital buffer, the disclosures on the risk capital requirement and the upper loss limits as at March 31, 2017 and June 30, 2017 are not directly comparable with the corresponding disclosures as at December 31, 2016.

At present, the **merger of DG HYP and WL BANK** planned for 2018 is not expected to result in material changes to the opportunity and risk management system or to the DZ BANK Group's key risk indicators.

1.2. Risk factors, risks, and opportunities

1.2.1. Risk factors

Apart from those listed below, the risk factors described in the 2016 opportunity and risk report continued to be relevant to the DZ BANK Group in the first 6 months of this year. They apply equally for the remainder of the year.

The crisis that has emerged in shipping markets continued in the first half of 2017. The current overcapacity in some shipping sectors, particularly in the container ship and bulk freighter sectors, exerted further downward pressure on ship asset values and charter rates. Exhausted liquidity reserves have led to a rise in defaults. Increased default rates are now also being observed in the offshore finance business. There is currently no end in sight to the crisis in the shipping and offshore markets.

The risk factors below failed to materialize in the reporting period and are also not expected to have any negative impact on the financial position and financial performance of the DZ BANK Group in the remaining months of the year.

– Conditions in the **German economy** are currently stable. A strong rise in employment and a low rate of unemployment are fueling robust domestic demand. There are currently no signs of increased risk of a recession.
– As a result of the victory of Prime Minister Rutte's conservative-liberal people's party in the **Dutch parliamentary election** on March 15, 2017, there is less of a risk that an anti-EU faction could exert influence on government affairs in the Netherlands.
– Since the **French parliamentary election** on June 18, 2017, France's President Macron (elected in May 2017) and his La République en Marche movement have held an absolute majority in the National Assembly. Consequently, the risk has receded that anti-EU forces will hamper or even prevent the implementation of Macron's agenda of reforms and thus weaken political and economic cohesion in the EU.
– In Germany too, the results of parliamentary elections held in some federal states this year and the latest polls suggest that, in the **Bundestag election** this autumn, populist parties with an anti-euro and anti-EU agenda will not play a significant role and are thus unlikely to gain any notable influence on the formation of the government.

1.2.2. Risks and opportunities

The **solvency** of the DZ 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. It also complied with regulatory requirements for liquidity adequacy at all times. The DZ BANK Group remained within its economic **risk-bearing capacity** in the first half of 2017 and also complied with regulatory requirements for capital adequacy at all times. 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.

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

2. Risk strategies and risk appetite

2.1. Risk strategies

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 hold appropriate reserves of cash and to cover risks with adequate capital 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 an adequate understanding of, and 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 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 one year.

The annual updating of the risk strategies is integrated with the strategic planning process and is carried out by the Group Risk Controlling, Credit, Credit Special, and Group Strategy and Controlling divisions in close consultation with other relevant divisions at DZ BANK and its subsidiaries.

In March of this year, the credit risk strategy was amended in order to create more latitude for new business in exposures to ABS investments at DZ BANK.

2.2. Risk appetite

The 'risk appetite statement' formulates principles of risk policy relating to risk tolerance in the DZ BANK Group that apply to all risk types and sectors. The qualitative principles are supplemented by quantitative key figures, for which minimum targets are set. These key figures constitute the DZ BANK Group's risk-oriented key performance indicators.

3. Potential opportunities

The potential opportunities whose assessment has changed compared with December 31, 2016 are set out below.

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. The expected developments in the market and business environment are crucial factors in the **strategic positioning** and the resulting opportunities for increasing earnings and cutting costs.

During the first half of the year, the **rating agencies** reviewed **the** credit ratings issued for DZ BANK, resulting in changes compared with December 31, 2016.

Due to the changed legal requirements regarding the recognition of the various liabilities in the event of a bail-in (i.e. a bank's creditors have to step in if it gets into financial difficulties), Standard & Poor's and Fitch have split up the rating for unsecured, non-subordinated bonds. They now issue individual ratings for unsecured, non-subordinated bonds, making a distinction between preferred and non-preferred bonds. Furthermore, Fitch introduced a long-term rating for

FIG. 4 – DZ BANK RATINGS

	Standard & Poor's		Moody's		Fitch	
	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Covered bonds (DZ BANK BRIEFE)	AA+	AA+	Aaa	–	–	–
Long-term rating for deposits	–	–	Aa1	Aa1	AA-	AA-
Long-term counterparty risk assessment/ derivative counterparty rating	–	–	Aa1	Aa1	AA-	AA-
Long-term rating for unsecured, 'preferred' bonds	AA-	–	Aa1	Aa1	AA-	–
Long-term rating for unsecured, 'non-preferred' bonds	A+	AA-	Aa3	Aa3	AA-	AA-
Short-term rating	A-1+	A-1+	P-1	P-1	F1+	F1+

deposits in December 2016. In June 2017, Moody's awarded a rating for the covered bonds (DZ BANK BRIEFE) for the first time. These changes did not have any impact on the DZ BANK Group's funding.

Figure 4 provides an overview of DZ BANK's credit ratings. The table contains more information than in the 2016 opportunity and risk report because of the aforementioned changes.

The other potential opportunities described in the 2016 opportunity and risk report continue to apply unchanged for the second half of 2017.

Potential opportunities may also arise from the planned **merger of DG HYP and WL BANK** in connection with the pooling of the DZ BANK Group's strategic real estate expertise, the increased benefits for local cooperative banks, the bundling of operating strengths in order to leverage income and cost synergies, and the enhancement of products, structures, and processes.

4. Liquidity adequacy

4.1. Economic liquidity adequacy

4.1.1. Quantitative variables

The available liquid securities and the unsecured short-term and medium-term funding are the main factors determining the minimum liquidity surplus. Additional contractual obligations that would be owed if DZ BANK's own rating 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 or in the portfolios held by DZ BANK's Capital Markets Trading division. 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 the securities 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, 2017 amounted to €53.5 billion (December 31, 2016: €62.8 billion). Consequently, liquid securities represent the largest proportion of the counterbalancing capacity and make

FIG. 5 – LIQUID SECURITIES

€ billion	Jun. 30, 2017	Dec. 31, 2016
Liquid securities eligible for GC Pooling (ECB Basket)[1]	**30.5**	**38.0**
Securities in own portfolio	30.9	36.5
Securities received as collateral	13.8	11.8
Securities provided as collateral	-14.1	-10.3
Liquid securities eligible as collateral for central bank loans	**16.1**	**17.7**
Securities in own portfolio	14.9	16.2
Securities received as collateral	3.6	4.6
Securities provided as collateral	-2.5	-3.1
Other liquid securities	**6.9**	**7.1**
Securities in own portfolio	6.6	6.9
Securities received as collateral	0.4	0.2
Securities provided as collateral	-0.1	-0.1
Total	**53.5**	**62.8**
Securities in own portfolio	52.4	59.6
Securities received as collateral	17.8	16.6
Securities provided as collateral	-16.7	-13.4

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

a major contribution to maintaining solvency 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 is determined by the short-term and medium-term funding structure. The main sources of funding on the unsecured money markets are shown in figure 6. The change in the composition of the main sources of funding compared with December 31, 2016 is attributable to a change in the behavior

FIG. 6 – UNSECURED SHORT-TERM AND MEDIUM-TERM FUNDING

(%)	Jun. 30, 2017	Dec. 31, 2016
Local cooperative banks	46	46
Other banks, central banks	16	11
Corporate customers, institutional customers	15	12
Commercial paper (institutional investors)	23	30

of customers and investors resulting from money market policy implemented by the ECB.

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

Additional contractual obligations

Some OTC collateral agreements that entities in the DZ BANK Group 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 DZ BANK's credit rating be downgraded. The figures reflect the situation in virtually the entire DZ BANK Group because the additional contractual obligations of the other entities in the group to provide further collateral are negligible.

The changes in the additional contractual obligations compared with December 31, 2016 were mainly the result of new transactions and changes in fair value and/or notional amounts.

FIG. 7 – ADDITIONAL CONTRACTUAL OBLIGATIONS

	One-notch deterioration in credit rating		Two-notch deterioration in credit rating		Three-notch deterioration in credit rating	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Additional contractual obligations based on collateral agreements	114	120	181	212	763	822

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

4.1.2. Risk position

Economic liquidity adequacy is assured if none of the four stress scenarios with defined limits exhibit a negative value for the internal key risk indicator 'minimum liquidity surplus'. Figure 8 shows the results of measuring liquidity risk. 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.

Measured as at the reporting date on the basis of a forecast period of 1 year, the minimum liquidity surplus for the stress scenario with defined limits that had the lowest minimum liquidity surplus (economic liquidity adequacy), was €16.3 billion as at June 30, 2017 (December 31, 2016: €11.2 billion).

During the period under review, liquidity did not fall below the internal minimum figures specified by the Board of Managing Directors for 2017 (€4.0 billion observation threshold, €1.0 billion minimum limit – in both cases unchanged year on year).

The results demonstrate that economic liquidity adequacy was maintained at all times in the reporting period. The minimum liquidity surplus as at June 30, 2017 was positive in the stress scenarios with defined limits that were determined on the basis of risk appetite. 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.

4.2. Regulatory liquidity adequacy

The liquidity coverage ratio (LCR) for the DZ BANK banking group calculated in accordance with Delegated Regulation 2015/61 as at June 30, 2017 is shown in figure 9.

In the reporting period, the regulatory minimum requirement for the LCR of 80 percent was significantly exceeded on every reporting date at the level of the DZ BANK banking group. The decrease in the LCR from 151.0 percent as at December 31, 2016 to 134.8 percent as at June 30, 2017 is largely attributable to a higher volume of maturing commercial paper and a decline in short-term deposits from the cooperative financial network at DZ BANK.

5. Capital adequacy

5.1. Economic capital adequacy

It was necessary to **recalculate the overall solvency requirement** as at December 31, 2016 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 2017 for the Insurance sector on the basis of R+V's 2016 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.

The recalculation led to changes in the key risk indicators at DZ BANK Group level. The figures as at December 31, 2016 given in this opportunity and risk report have been restated accordingly and are

FIG. 8 – LIQUIDITY UP TO 1 YEAR IN THE STRESS SCENARIOS WITH DEFINED LIMITS: MINIMUM LIQUIDITY SURPLUSES

	Forward cash exposure		Counterbalancing capacity		Minimum liquidity surplus	
€ billion	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Downgrading	-45.1	-62.0	83.8	85.4	38.7	23.3
Corporate crisis	-48.7	-62.5	69.2	73.8	20.6	11.2
Market crisis	-54.1	-65.4	82.5	84.4	28.3	19.1
Combination crisis	-31.5	-66.6	47.9	79.8	16.3	13.2

FIG. 9 – LIQUIDITY COVERAGE RATIO AND ITS DETERMINING FACTORS

€ billion	Jun. 30, 2017	Dec. 31, 2016
Total high-quality liquid assets	75.5	67.8
Total net cash outflows	56.0	44.9
LCR	134.8%	151.0%

not directly comparable with the figures in the 2016 opportunity and risk report.

The DZ BANK Group's **available internal capital** as at June 30, 2017 was measured at €27,811 million. The comparable figure as at December 31, 2016 amounted to €27,623 million before deduction of the capital buffer requirement and €25,694 million after deduction of the capital buffer requirement. The figure originally measured as at December 31, 2016 and disclosed in the 2016 opportunity and risk report came to €26,408 million before deduction of the capital buffer requirement and €24,479 million after deduction of the capital buffer requirement. The value at the end of last year is higher mainly because the capital buffer requirement is no longer deducted. The increase in available internal capital also arose because of the positive financial performance in the period under review.

The **upper loss limit** derived from the available internal capital amounted to €23,575 million as at June 30, 2017 (December 31, 2016: €22,299 million).

As at June 30, 2017, **aggregate risk** was calculated at €16,940 million. The comparable figure as at December 31, 2016 excluding the capital buffer requirement stood at €15,108 million. The risk capital requirement excluding the capital buffer requirement originally measured as at December 31, 2016 and disclosed in the 2016 opportunity and risk report was €14,975 million.

The rise in the upper loss limit was largely due to the integration of the capital buffer requirement. The increase in the risk capital requirement including the capital buffer requirement also resulted largely from this effect and from the raising of capital buffer components.

As at June 30, 2017, the **economic capital adequacy ratio** for the DZ BANK Group was calculated at 164.2 percent. The comparable figure as at December 31, 2016 was 170.1 percent. The figure originally measured as at December 31, 2016 and disclosed in the 2016 opportunity and risk report was 163.5 percent. Figure 10 provides an overview of the DZ BANK Group's economic capital adequacy.

The upper loss limits and risk capital requirements including the decentralized capital buffer requirements for the Bank sector, broken down by risk type, are shown in figure 11.

Figure 12 sets out the upper loss limits and overall solvency requirements for the Insurance sector, broken down by risk type, and includes policyholder 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.

In addition to the amounts shown in figures 11 and 12, there was a centralized capital buffer requirement for all risk types in the first half of the year. This stood

FIG. 10 – ECONOMIC CAPITAL ADEQUACY OF THE DZ BANK GROUP

€ million	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Available internal capital[1]	27,811	27,843	25,694
Upper loss limit	23,575	23,575	22,299
Aggregate risk[2]	16,940	16,746	15,108
Economic capital adequacy	**164.2%**	**166.3%**	**170.1%**

1 As at December 31, 2016, a capital buffer requirement of €1,929 million was deducted from the available internal capital of €27,623 million, which meant that available internal capital after deduction of the capital buffer requirement amounted to €25,694 million.
2 Dec. 31, 2016: Risk capital requirement excludes capital buffer requirement.

FIG. 11 – UPPER LOSS LIMITS AND RISK CAPITAL REQUIREMENT INCLUDING THE CAPITAL BUFFER REQUIREMENT IN THE BANK SECTOR

	Upper loss limits			Risk capital requirement including the decentralized capital buffer requirement[1]		
€ million	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Credit risk	7,474	7,474	6,606	5,959	5,674	4,472
Equity investment risk	1,422	1,422	1,468	1,214	1,223	1,263
Market risk[2]	7,043	7,043	7,582	4,381	4,580	4,347
Technical risk of a home savings and loan company[3]	558	558	600	558	558	541
Business risk[4]	1,025	1,025	1,024	767	762	912
Operational risk	1,147	1,147	1,152	927	944	892
Total (after diversification)	**17,805**	**17,805**	**17,089**	**12,477**	**12,407**	**11,105**

1 Mar. 31, 2017 and Jun. 30, 2017 figures include capital buffer requirement; Dec. 31, 2016 figure excludes capital buffer requirement.
2 Market risk contains spread risk and migration risk.
3 Including business risk and reputational risk of BSH.
4 Apart from that of BSH, reputational risk is contained in the risk capital requirement for business risk.

FIG. 12 – UPPER LOSS LIMITS AND OVERALL SOLVENCY REQUIREMENT IN THE INSURANCE SECTOR

	Upper loss limits			Overall solvency requirement		
€ million	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Life actuarial risk	1,200	1,200	1,200	623	583	574
Health actuarial risk	370	370	330	151	178	214
Non-life actuarial risk	3,580	3,580	3,250	2,927	2,822	2,835
Market risk	3,800	3,800	3,540	2,875	2,809	2,802
Counterparty default risk	130	130	110	58	92	65
Operational risk	650	650	640	543	545	509
Non-controlling interests in insurance companies and entities in other financial sectors	140	140	120	116	110	110
Total (after diversification)	**5,420**	**5,420**	**5,210**	**4,131**	**4,016**	**4,004**

at €323 million as at March 31, 2017 and at €332 million as at June 30, 2017. The corresponding upper loss limit as at March 31, 2017 and June 30, 2017 was €350 million.

5.2. Regulatory capital adequacy

5.2.1. DZ BANK financial conglomerate

Financial conglomerate solvency is reported to the regulatory authority annually. Consequently, solvency ratios for the DZ BANK financial conglomerate as at June 30, 2017 have not been disclosed.

The solvency ratios as at December 31, 2016 were finalized in the first half of this year. The DZ BANK financial conglomerate's eligible own funds as at December 31, 2016 amounted to €26,368 million (provisional figure given in the 2016 opportunity and risk report: €25,637 million). On the other side of the ratio, the solvency requirement was €14,624 million (provisional figure given in the 2016 opportunity and risk report: €14,358 million). This gives a coverage ratio of 180.3 percent (provisional figure given in the 2016 opportunity and risk report: 178.6 percent), which is significantly in excess of the regulatory minimum requirement of 100 percent.

5.2.2. DZ BANK banking group

Regulatory capital ratios in accordance with the CRR

The regulatory **own funds** of the DZ BANK banking group as at June 30, 2017 amounted to a total of €22,290 million (December 31, 2016: €22,066 million).

The rise in own funds was mainly attributable to a total increase of €307 million in **common equity Tier 1 capital**. The increase in common equity Tier 1 capital was primarily attributable to the earnings for the first half of the year, as recognized by the regulator, and a 20 percent increase in the eligibility of the revaluation reserve in accordance with the CRR transitional guidance. It was adversely affected by an increase in the capital deduction as a result of a higher write-down deficit. The higher write-down deficit resulted from an increase in own funds requirements caused largely by the discontinuation of grandfathering arrangements at various long-term equity investments.

There were no changes in the year under review in the portfolio of issued additional Tier 1 bonds (AT1 bonds). The reduction of €38 million in this class of capital from €1,835 million as at December 31, 2016 to €1,797 million as at June 30, 2017 is largely explained by the higher write-down deficit, by which the AT1 capital is to be partially reduced in accordance with the CRR transitional guidance.

Tier 2 capital declined marginally by €45 million compared with December 31, 2016, mainly because of the reduced level of eligibility under the CRR in the last 5 years before the maturity date.

As at June 30, 2017, the regulatory **own funds requirements** for the DZ BANK banking group were calculated at €10,661 million (December 31, 2016: €9,477 million). The rise in own funds requirements resulted mainly from the discontinuation of grandfathering arrangements at various long-term equity investments. This is because DZ BANK, with regard to the long-term equity investments acquired through the merger with the former WGZ BANK, is no longer applying the Standardized Approach to credit risk with 100 percent risk weighting in accordance with the CRR transitional guidance, but instead using approaches with 190 percent and 370 percent risk weightings on the basis of internal assessments. In particular, DZ BANK has decided to discontinue the grandfathering arrangements in relation to its long-term equity investment in R+V and to apply a 370 percent risk weighting to this company. The increase in own funds requirements can also be attributed to the first-time inclusion, of the interest-rate 'smile' in the internal market risk modeling.

The DZ BANK banking group's **common equity Tier 1 capital ratio** as at June 30, 2017 was 13.1 percent (December 31, 2016: 14.5 percent). As at June 30, 2017, the **Tier 1 capital ratio** was calculated at 14.5 percent (December 31, 2016: 16.0 percent). The **total capital ratio** as at June 30, 2017 was 16.7 percent (December 31, 2016: 18.6 percent). The capital ratios had fallen significantly as at the reporting date because of the increase in own funds requirements.

The ratios were well above the regulatory minimum CRR capital ratios at all times during the first half of the year.

Figure 13 provides an overview of the DZ BANK banking group's regulatory capital ratios in accordance with the CRR.

SREP minimum capital requirements

The ECB is using a modified approach to determine the SREP minimum capital requirements for this year. With the additional Pillar 2 own funds requirement (Pillar 2 requirement), it is specifying a mandatory add-on that is factored in to the basis of calculation for the maximum distributable amount (MDA). The add-on will be determined from the findings of the Supervisory Review and Evaluation Process (SREP). In addition to this mandatory component, there is a recommended own funds amount under Pillar 2 (Pillar 2 guidance), which likewise is determined from the SREP, but unlike the mandatory component relates only to common equity Tier 1 capital. Failure to comply with the own funds guidance under Pillar 2 does not constitute a breach of regulatory own funds requirements. Nevertheless, this figure is relevant as an early warning indicator for capital planning.

The mandatory SREP minimum capital requirements and their components are shown in figure 14.

For the Tier 1 capital ratio and the total capital ratio, the SREP minimum requirements are respectively 1.5 percentage points and 3.5 percentage points higher than the minimum capital requirements for the common equity Tier 1 capital ratio.

In the first half of 2017, the group complied with both the mandatory and the recommended SREP minimum capital requirements.

FIG. 13 – REGULATORY CAPITAL RATIOS IN ACCORDANCE WITH CRR

€ million	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Capital			
Common equity Tier 1 capital	17,461	17,460	17,154
Additional Tier 1 capital	1,797	1,776	1,835
Tier 1 capital	**19,258**	**19,236**	**18,989**
Total Tier 2 capital	3,032	3,122	3,077
Total capital	**22,290**	**22,358**	**22,066**
Own funds requirements			
Credit risk (including long-term equity investments)	9,290	9,403	8,153
Market risk	548	456	510
Operational risk	823	823	814
Total	**10,661**	**10,682**	**9,477**
Capital ratios			
Common equity Tier 1 capital ratio	13.1%	13.1%	14.5%
Tier 1 capital ratio	14.5%	14.4%	16.0%
Total capital ratio	16.7%	16.7%	18.6%

Future regulatory capital ratios with full application of the 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 will be as shown in figure 15.

At all times in the first half of the year, the ratios were in excess of the minimum values planned for the future and the present ECB requirement specified in the SREP.

Leverage ratio

The DZ BANK banking group's leverage ratio, calculated in accordance with the CRR transitional guidance that is currently applicable, was 4.4 percent as at June 30, 2017. The corresponding ratio assuming full application of the CRR was 4.1 percent. Both ratios were unchanged in comparison with December 31, 2016.

FIGURE 14 – SREP MINIMUM CAPITAL REQUIREMENTS

(%)	Jun. 30, 2017[1]
Minimum requirement for common equity Tier 1 capital	4.50
Additional Pillar 2 own funds requirement	1.75
Capital conservation buffer	1.25
Countercyclical capital buffer	0.02
O-SII buffer	0.33
Compulsory minimum requirement for common equity Tier 1 capital	**7.85**
Minimum requirement for additional Tier 1 capital	1.50
Compulsory minimum requirement for Tier 1 capital	**9.35**
Minimum requirement for Tier 2 capital	2.00
Compulsory minimum requirement for total capital	**11.35**

1 Percentage values based on risk-weighted assets.

5.2.3. R+V Versicherung AG insurance group

In the first half of the year, 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.

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, 2017.

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 it maintains its risk-bearing capacity.

FIG. 15 – REGULATORY CAPITAL RATIOS WITH FULL APPLICATION OF THE CRR

	Jun. 30, 2017	Dec. 31, 2016
Common equity Tier 1 capital ratio	13.0%	14.5%
Tier 1 capital ratio	13.6%	15.1%
Total capital ratio	16.7%	18.8%

Bank sector

6. Credit risk

6.1. Lending volume

6.1.1. 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.

6.1.2. Change in lending volume

The **total lending volume** decreased by 2 percent, from €387.7 billion as at December 31, 2016 to €381.0 billion as at June 30, 2017.

There was a 1 percent increase in the volume of **traditional lending business**, which rose from €275.8 billion as at December 31, 2016 to €277.4 billion as at June 30, 2017. 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 7 percent, from €95.5 billion as at December 31, 2016 to €88.4 billion as at June 30, 2017. This reduction was largely attributable to DZ BANK.

At €15.3 billion, the lending volume in the **derivatives and money market business** was down by 6 percent as at June 30, 2017 compared with the figure of €16.3 billion as at December 31, 2016. This reduction primarily related to the derivatives business at DZ BANK.

6.1.3. Sector structure of the credit portfolio

Figure 16 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, 2017, a significant proportion (34 percent) of the lending volume in the Bank sector continued to be concentrated in the financial sector (December 31, 2016: 33 percent). 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 central institution for the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK provides funding for the entities in the Bank sector 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, the direct business of DZ BANK, DG HYP, and DVB with corporate customers in Germany and abroad, the retail real-estate business under the umbrella of BSH, TeamBank's consumer finance business, and WL BANK's real estate lending and local authority loans businesses determine the sectoral breakdown of the remainder of the portfolio.

6.1.4. Geographical structure of the credit portfolio

Figure 17 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.

FIG. 16 – BANK SECTOR: LENDING VOLUME, BY SECTOR

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Financial sector	90.4	88.7	27.5	28.2	11.5	11.5	129.3	128.4
Public sector	11.0	11.1	49.3	54.5	0.8	1.0	61.1	66.6
Corporates	106.9	110.4	8.0	8.6	2.5	2.9	117.3	122.0
Retail	61.9	58.6	2.5	2.8	–	–	64.4	61.4
Industry conglomerates	6.7	6.5	1.1	1.4	0.5	0.9	8.3	8.8
Other	0.5	0.5	–	–	–	–	0.5	0.5
Total	277.4	275.8	88.4	95.5	15.3	16.3	381.0	387.7

FIG. 17 – BANK SECTOR: LENDING VOLUME, BY COUNTRY GROUP

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Germany	238.2	232.9	56.0	60.3	9.5	10.7	303.7	303.8
Other industrialized countries	27.5	29.5	28.6	31.3	5.1	5.1	61.2	65.8
Advanced economies	3.3	3.5	0.7	0.5	0.1	0.1	4.1	4.1
Emerging markets	8.4	9.9	0.8	0.8	0.3	0.1	9.4	10.9
Supranational institutions	–	–	2.3	2.7	0.3	0.4	2.6	3.0
Total	277.4	275.8	88.4	95.5	15.3	16.3	381.0	387.7

As at June 30, 2017, 96 percent (December 31, 2016: 95 percent) of the total lending volume was concentrated in Germany and other industrialized countries.

6.1.5. Residual maturity structure of the credit portfolio

Residual maturities in the overall credit portfolio

The breakdown of the credit portfolio by residual maturity presented in figure 18 as at June 30, 2017 shows that the lending volume had increased by €1.3 billion in the short-term maturity band compared with the figure as at December 31, 2016. This was mainly attributable to DZ BANK. The decrease in the medium-term maturity band amounted to €10.1 billion and was also accounted for by DZ BANK. The biggest growth in lending volume was in the longer-term maturity band, where the figure rose by a total of €2.2 billion and was primarily attributable to BSH.

Lending volume past due but not impaired

Figures 19 and 20 show the portion of the lending volume that is past due but not impaired. The disclosures largely relate to traditional lending business.

No valuation allowances are recognized for these loans because it can generally be assumed that the amounts past due will be repaid promptly. 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 provisioning policy of the entities in the Bank sector, past-due loans only account for a relatively small proportion of the overall credit portfolio.

The sharp drop in loans in the corporates sector that were past due but not impaired, which went down from €1,134 million as at December 31, 2016 to €585 million as at June 30, 2017, was largely attributable to the restructuring of past-due loans at DVB.

FIG. 18 – BANK SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Traditional lending business Jun. 30, 2017	Traditional lending business Dec. 31, 2016	Securities business Jun. 30, 2017	Securities business Dec. 31, 2016	Derivatives and money market business Jun. 30, 2017	Derivatives and money market business Dec. 31, 2016	Total Jun. 30, 2017	Total Dec. 31, 2016
≤ 1 year	50.0	49.9	16.2	15.0	11.0	11.0	77.1	75.9
> 1 year to ≤ 5 years	52.1	55.2	31.8	38.5	1.8	2.1	85.7	95.8
> 5 years	175.3	170.7	40.4	42.1	2.4	3.3	218.2	216.0
Total	**277.4**	275.8	**88.4**	95.5	**15.3**	16.3	**381.0**	387.7

FIG. 19 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED, BY SECTOR

€ million	Past due up to 5 days Jun. 30, 2017	Past due up to 5 days Dec. 31, 2016	Past due > 5 days to 1 month Jun. 30, 2017	Past due > 5 days to 1 month Dec. 31, 2016	Past due > 1 month to 2 months Jun. 30, 2017	Past due > 1 month to 2 months Dec. 31, 2016	Past due > 2 months to 3 months Jun. 30, 2017	Past due > 2 months to 3 months Dec. 31, 2016	Past due > 3 months Jun. 30, 2017	Past due > 3 months Dec. 31, 2016	Total Jun. 30, 2017	Total Dec. 31, 2016
Financial sector	1	13	3	1	–	–	–	–	–	–	4	14
Public sector	–	–	–	–	1	–	–	–	–	–	1	–
Corporates	133	18	78	301	5	127	39	5	330	684	585	1,134
Retail	38	37	131	123	56	63	37	38	125	128	388	388
Industry conglomerates	–	9	–	–	–	–	–	–	–	–	–	9
Other	–	–	–	–	–	–	–	–	–	–	–	–
Total	**173**	76	**212**	425	**62**	190	**76**	42	**455**	812	**979**	1,545

FIG. 20 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED, BY COUNTRY GROUP

€ million	Past due up to 5 days Jun. 30, 2017	Past due up to 5 days Dec. 31, 2016	Past due > 5 days to 1 month Jun. 30, 2017	Past due > 5 days to 1 month Dec. 31, 2016	Past due > 1 month to 2 months Jun. 30, 2017	Past due > 1 month to 2 months Dec. 31, 2016	Past due > 2 months to 3 months Jun. 30, 2017	Past due > 2 months to 3 months Dec. 31, 2016	Past due > 3 months Jun. 30, 2017	Past due > 3 months Dec. 31, 2016	Total Jun. 30, 2017	Total Dec. 31, 2016
Germany	171	64	137	201	60	91	40	42	146	188	554	585
Other industrialized countries	2	10	47	224	–	1	33	1	78	175	162	410
Advanced economies	–	3	5	–	–	29	3	–	144	217	152	248
Emerging markets	–	–	23	–	1	69	–	–	87	233	111	302
Supranational institutions	–	–	–	–	–	–	–	–	–	–	–	–
Total	**173**	76	**212**	425	**62**	190	**76**	42	**455**	812	**979**	1,545

FIG. 21 – BANK SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion		Traditional lending business		Securities business		Derivatives and money market business		Total	
		Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Investment grade	1A	5.8	6.1	33.9	38.4	1.2	1.4	40.9	45.9
	1B	2.1	2.5	10.3	10.1	2.3	1.9	14.6	14.5
	1C	85.7	82.5	8.5	9.2	3.0	4.3	97.2	96.0
	1D	4.5	4.8	2.4	2.4	0.2	0.2	7.1	7.5
	1E	7.1	7.0	2.0	2.2	2.0	1.9	11.2	11.1
	2A	12.3	12.7	3.1	2.5	1.0	0.7	16.3	16.0
	2B	11.8	11.7	9.8	10.4	2.0	1.9	23.6	24.0
	2C	14.6	14.5	3.6	4.8	0.8	0.9	19.0	20.2
	2D	15.9	15.6	3.1	2.5	0.5	0.7	19.5	18.8
	2E	19.8	21.4	5.7	7.2	0.9	1.0	26.5	29.6
	3A	18.5	17.3	1.8	1.4	0.7	0.7	21.0	19.3
Non-investment grade	3B	18.2	17.5	0.6	0.6	0.1	0.2	19.0	18.3
	3C	16.2	16.4	1.3	1.3	0.1	0.1	17.7	17.8
	3D	15.3	13.9	0.7	0.8	0.1	0.1	16.0	14.8
	3E	4.6	4.6	0.2	0.2	–	–	4.8	4.9
	4A	2.1	2.3	0.1	0.1	–	–	2.1	2.4
	4B	6.0	7.2	–	0.2	–	–	6.1	7.4
	4C	4.9	6.2	0.1	0.1	–	–	5.0	6.3
	4D	0.6	0.6	–	–	–	–	0.7	0.6
	4E	4.1	3.8	0.1	0.1	–	–	4.2	3.9
Default		5.4	5.6	0.2	0.2	–	–	5.6	5.8
Not rated		1.9	1.7	0.8	0.8	0.3	0.4	2.9	2.8
Total		**277.4**	275.8	**88.4**	95.5	**15.3**	16.3	**381.0**	387.7

6.1.6. Rating structure of the credit portfolio

Rating structure of the total lending volume

Figure 21 shows the 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 78 percent as at June 30, 2017. Rating classes 3B to 4E (non-investment grade) represented 20 percent of the total lending volume as at the reporting date, which was unchanged compared with the end of last year. Defaults in rating classes 5A to 5E accounted for 1 percent of the total lending volume as at June 30, 2017 and thus remained at the low level reported as at December 31, 2016.

Single borrower concentrations

As at June 30, 2017, the 10 counterparties associated with the largest lending volumes accounted for 9 percent of total lending. This was unchanged compared with the end of last year. These counterparties largely comprised financial-sector and public-sector borrowers domiciled in Germany with an investment-grade rating.

6.1.7. Collateralized lending volume

Figure 22 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 on a netted basis.

As at June 30, 2017, the collateralized lending volume had fallen slightly to €116.0 billion from €116.2 billion as at December 31, 2016. The collateralization rate was 30.4 percent at the reporting date (December 31, 2016: 30.0 percent).

In the **traditional lending business**, most of the collateralized lending volume – unchanged at 85 percent as at June 30, 2017 – was accounted for by lending secured by charges over physical assets such as land charges, mortgages, and registered ship mortgages. These types of collateral are particularly important for BSH, DG HYP, DVB, and WL BANK.

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

6.1.8. Securitizations

The asset-backed securities (ABS) portfolio is predominantly held by DZ BANK and DG HYP. It had a fair value of €2,886 million as at the reporting date (December 31, 2016: €3,430 million). The decrease is mainly due to redemptions. This particularly applies to the remaining residual balances of the former wind-down portfolio dating back to the period before the financial crisis. In March 2017, the credit risk strategy was opened up to new investments in ABSs, albeit with significant restrictions.

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

6.2. 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.

FIG. 22 – BANK SECTOR: COLLATERALIZED LENDING VOLUME, BY TYPE OF COLLATERAL

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Guarantees, indemnities, risk subparticipation	6.7	7.0	–	–	0.3	0.3	7.0	7.3
Credit insurance	3.2	3.1	–	–	–	–	3.2	3.1
Land charges, mortgages, ship mortgages	98.8	98.0	–	–	–	–	98.8	98.0
Pledged loans and advances, assignments, other pledged assets	5.4	5.8	–	–	–	–	5.4	5.8
Financial collateral	1.4	1.5	–	–	0.1	0.1	1.5	1.6
Other collateral	0.3	0.4	–	–	–	–	0.3	0.4
Collateralized lending volume	**115.6**	115.7	**–**	–	**0.4**	0.5	**116.0**	116.2
Gross lending volume	277.4	275.8	88.4	95.5	15.3	16.3	381.0	387.7
Uncollateralized lending volume	**161.7**	160.1	**88.4**	95.5	**14.9**	15.8	**265.1**	271.5
Collateralization rate	**41.7%**	41.9%	**–**	–	**2.4%**	3.0%	**30.4%**	30.0%

6.2.1. European sovereign debt portfolio

As at June 30, 2017, loans and advances to borrowers in the countries directly affected by the **European sovereign debt crisis** amounted to €8,005 million (December 31, 2016: €8,721 million).

Figure 23 shows the borrower structure in the eurozone periphery countries by credit-risk-bearing instrument.

6.2.2. Shipping finance and offshore finance portfolio

In view of the crisis that has emerged in shipping markets, the scope of the portfolios presented in this report has been extended in comparison with the 2016 opportunity and risk report. In addition to shipping finance, offshore finance is now shown as a separate segment comprising the various areas of DVB's finance business with broad links to the shipping sector (e.g. drilling platforms, drill ships, offshore construction ships, and supply ships for oil platforms). The shipping finance segment now also includes Transport Finance Suisse AG, Zurich, (ITF Suisse), a subsidiary of DVB.

As at June 30, 2017, the shipping finance portfolio had a value of €11,816 million (December 31, 2016: €12,763 million). As at June 30, 2017, the lending volume in the offshore finance business amounted to €2,073 million (December 31, 2016: €2,358 million).

The figure stated for the shipping finance portfolio as at December 31, 2016 does not include the lending volume of ITF Suisse and is therefore not directly comparable with the figure as at June 30, 2017.

Almost all of the loans and advances reported relate to DVB. DZ BANK plays a far smaller role in the overall shipping finance portfolio of the DZ BANK Group.

Figures 24 and 25 show the structure of the shipping finance portfolio and of the offshore finance portfolio broken down by country group and credit-risk-bearing instrument.

FIG. 23 – BANK SECTOR: LOANS AND ADVANCES TO BORROWERS IN EUROZONE PERIPHERY COUNTRIES

	Traditional lending business[1]		Securities business		Derivatives and money market business		Total	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Portugal	**85**	117	**934**	1,017	**–**	–	**1,019**	1,134
of which: public sector	–	–	815	894	–	–	815	894
of which: non-public sector	85	117	119	122	–	–	204	240
of which: financial sector	–	25	–	3	–	–	–	28
Italy	**160**	190	**3,153**	3,468	**12**	15	**3,325**	3,673
of which: public sector	–	–	2,809	2,920	–	–	2,809	2,920
of which: non-public sector	160	190	343	548	12	15	516	753
of which: financial sector	31	33	66	144	12	14	109	192
Greece	**14**	13	**13**	–	**–**	–	**27**	13
of which: public sector	–	–	–	–	–	–	–	–
of which: non-public sector	14	13	13	–	–	–	27	13
of which: financial sector	–	–	–	–	–	–	–	–
Spain	**247**	319	**3,310**	3,555	**76**	26	**3,634**	3,901
of which: public sector	20	26	2,095	2,132	–	–	2,115	2,158
of which: non-public sector	228	293	1,215	1,423	76	26	1,519	1,742
of which: financial sector	28	39	443	575	74	21	545	636
Total	**506**	639	**7,410**	8,040	**89**	41	**8,005**	8,721
of which: public sector	20	26	5,720	5,947	–	–	5,740	5,973
of which: non-public sector	486	613	1,690	2,093	89	41	2,265	2,748
of which: financial sector	59	98	509	722	86	36	655	855

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

The decline in both portfolios is primarily the result of exchange rate effects, capital repayments and early redemptions of loans at DVB.

6.3. Volume of non-performing loans

6.3.1. Impaired lending volume

Figures 26 and 27 show the impaired lending volume. The collateral shown is available for securing the lending volume after specific loan loss allowances. The disclosures largely relate to traditional lending business.

The lending volume after allowances for losses on loans and advances contracted from €2,622 million as at December 31, 2016 to €1,991 million as at June 30, 2017. The decline in the lending volume before specific loan loss allowances is mostly attributable to exchange rate effects, capital repayments, and the termination of deals at DVB. At the same time, there was also an increase in specific loan loss allowances in the first half of the year, primarily in the shipping finance and offshore finance businesses of DVB.

These two effects combined to reduce the overall volume of lending after specific loan loss allowances.

6.3.2. Volume of non-performing loans

Because the volume of non-performing loans reported decreased from €5.8 billion to €5.6 billion during the first half of the year, while the total lending volume also declined from €387.7 billion to €381.0 billion, the NPL ratio remained unchanged at 1.5 percent as at June 30, 2017.

Figure 28 shows key figures relating to the volume of non-performing loans.

6.4. Allowances for losses on loans and advances

The disclosures in this section relate to the level of allowances for losses on loans and advances. Details of allowances for losses on loans and advances in the income statement of the DZ BANK Group are presented in the business report of this interim group management report (sections II.3.1. and II.3.2.).

FIG. 24 – BANK SECTOR: SHIPPING FINANCE LENDING VOLUME, BY COUNTRY GROUP[1]

	Traditional lending business		Securities business		Derivatives business		Total	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Germany	1,659	1,504	–	–	2	3	1,661	1,507
Other industrialized countries	7,003	7,453	–	–	3	5	7,006	7,458
Advanced economies	1,675	1,907	–	–	–	–	1,675	1,907
Emerging markets	1,470	1,885	–	–	4	5	1,473	1,890
Total	**11,806**	**12,749**	**–**	**–**	**9**	**14**	**11,816**	**12,763**

1 Prior-year figures excluding ITF Suisse.

FIG. 25 – BANK SECTOR: OFFSHORE FINANCE LENDING VOLUME, BY COUNTRY GROUP

	Traditional lending business		Securities business		Derivatives business		Total	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Germany	93	35	–	–	–	–	93	35
Other industrialized countries	1,228	1,360	–	–	3	3	1,231	1,364
Advanced economies	65	91	–	–	–	–	65	91
Emerging markets	683	866	–	–	1	2	684	868
Total	**2,069**	**2,352**	**–**	**–**	**3**	**5**	**2,073**	**2,358**

FIG. 26 – BANK SECTOR: IMPAIRED LENDING VOLUME AND COLLATERAL, BY SECTOR

	Amount before specific loan loss allowances		Specific loan loss allowances		Amount after specific loan loss allowances		Collateral	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Financial sector	82	81	27	41	55	40	44	31
Public sector	–	–	–	–	–	–	–	–
Corporates	3,096	3,517	1,700	1,436	1,396	2,081	1,075	1,237
Retail	904	859	364	358	540	501	523	491
Industry conglomerates	–	2	–	1	–	1	–	–
Other	–	–	–	–	–	–	–	–
Total	4,082	4,458	2,091	1,836	1,991	2,622	1,643	1,758

FIG. 27 – BANK SECTOR: IMPAIRED LENDING VOLUME AND COLLATERAL, BY COUNTRY GROUP

	Amount before specific loan loss allowances		Specific loan loss allowances		Amount after specific loan loss allowances		Collateral	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Germany	2,528	2,521	1,178	1,221	1,350	1,300	968	913
Other industrialized countries	915	1,226	658	365	257	861	331	459
Advanced economies	245	219	147	132	98	87	114	101
Emerging markets	395	492	108	118	287	374	230	285
Supranational institutions	–	–	–	–	–	–	–	–
Total	4,082	4,458	2,091	1,836	1,991	2,622	1,643	1,758

FIG. 28 – BANK SECTOR: KEY FIGURES FOR THE VOLUME OF NON-PERFORMING LOANS

€ billion	Jun. 30, 2017	Dec. 31, 2016
Total lending volume	381.0	387.7
Volume of non-performing loans[1]	5.6	5.8
Balance of allowances for losses on loans and advances[2]	3.0	2.7
Loan loss allowance ratio[3]	0.8%	0.7%
Risk cover ratio[4]	52.8%	47.0%
NPL ratio[5]	1.5%	1.5%

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.

6.4.1. Allowances for losses on loans and advances in the total portfolio

Figure 29 shows the change in the volume of allowances (specific loan loss allowances, including the specific loan loss allowances evaluated on a group basis, and portfolio loan loss allowances), the provisions for loan commitments, and liabilities under financial guarantee contracts in the first half of 2017 and 2016 for the entire credit portfolio.

These items are disclosed in the notes to the interim consolidated financial statements as follows:

- Loan loss allowances: note 23 (allowances for losses on loans and advances)
- Provisions for loan commitments: note 36 (provisions)
- Liabilities under financial guarantee contracts: note 38 (other liabilities).

Over the course of the first half of 2017, the **volume of specific loan loss allowances** rose by €254 million compared with December 31, 2016 (first half of 2016: reduction of €94 million). The increase during the reporting period was primarily attributable to DVB's shipping finance and offshore finance businesses. This was offset to an extent by a decrease in the level of specific loan loss allowances at DG HYP and DZ BANK.

FIG. 29 – BANK SECTOR: ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES IN THE TOTAL PORTFOLIO[1]

€ million	Specific loan loss allowances[2] Jan. 1 – Jun. 30, 2017	Specific loan loss allowances[2] Jan. 1 – Jun. 30, 2016	Portfolio loan loss allowances Jan. 1 – Jun. 30, 2017	Portfolio loan loss allowances Jan. 1 – Jun. 30, 2016	Total loan loss allowances Jan. 1 – Jun. 30, 2017	Total loan loss allowances Jan. 1 – Jun. 30, 2016	Provisions for loan commitments[3] and liabilities under financial guarantee contracts Jan. 1 – Jun. 30, 2017	Provisions for loan commitments[3] and liabilities under financial guarantee contracts Jan. 1 – Jun. 30, 2016
Balance as at Jan. 1	1,836	1,607	558	466	2,394	2,073	254	148
Additions	616	312	148	161	764	473	12	49
Utilizations	-125	-152	–	–	-125	-152	–	–
Reversals	-166	-223	-145	-64	-311	-287	-36	-26
Interest income	-20	-14	–	–	-20	-14	2	1
Other changes	-51	-17	–	9	-51	-8	-3	59
Balance as at Jun. 30	2,090	1,513	561	572	2,651	2,085	229	231
Directly recognized impairment losses	17	20	–	–	17	20		
Recoveries on loans and advances previously impaired	-47	-29	–	–	-47	-29		

1 Comparative figures for the first half of 2016 excluding the former WGZ BANK Group.
2 Including specific loan loss allowances evaluated on a group basis.
3 Excluding other provisions for loans and advances.
Not relevant

Portfolio loan loss allowances increased by €3 million during the reporting period (first half of 2016: increase of €106 million).

The volume of **provisions for loan commitments and liabilities under financial guarantee contracts** fell by €25 million during the reporting period (first half of 2016: increase of €83 million).

6.4.2. Allowances for losses on loans and advances in portfolios with increased risk content

The level of specific loan loss allowances for exposures to the **eurozone periphery countries** decreased by €7 million in the first six months of the year, primarily attributable to DZ BANK (first half of 2016: addition of €4 million). The level of portfolio loan loss allowances decreased slightly during the reporting period (first half of 2016: decrease of €5 million).

Additions of €108 million (first half of 2016: €12 million) and €8 million (first half of 2016: €7 million) were recognized for specific loan loss allowances and portfolio loan loss allowances respectively in relation to the **shipping finance portfolio** in view of the deterioration in international shipping markets.

Over the course of the first half of 2017, the volume of specific loan loss allowances in DVBs **offshore financing portfolio** rose by €226 million compared with December 31, 2016 (first half of 2016: reduction of €5 million). Portfolio loan loss allowances increased by €10 million (first half of 2016: increase of €6 million). The significant increase in loan loss allowances is almost exclusively attributable to DVB.

Changes in the individual components of the allowances for losses on loans and advances for portfolios with increased risk content for the first 6 months of 2017 and 2016 are shown in figure 30.

6.5. Risk position

The risk capital requirement including the decentralized capital buffer requirement for 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.

The risk capital requirement for the **total portfolio** amounted to €4,458 million as at June 30, 2017 (December 31, 2016: €4,472 million). As at June 30, 2017, the risk capital requirement including the decentralized capital buffer requirement for the total portfolio amounted to €5,959 million with an upper loss limit of €7,474 million (December 31, 2016: €6,606 million).

The risk capital requirement including the decentralized capital buffer requirement for the Bank sector was within the applicable upper loss limits at all times during the first 6 months of 2017.

FIG. 30 – BANK SECTOR: ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES FOR PORTFOLIOS WITH INCREASED RISK CONTENT

	Specific loan loss allowances[1]		Portfolio loan loss allowances		Total loan loss allowances		Provisions for loan commitments[2] and liabilities under financial guarantee contracts	
€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Eurozone periphery countries								
Balance as at Jan. 1	10	13	10	14	20	27	–	–
Balance as at Jun. 30	3	17	10	9	13	26	–	–
Shipping finance portfolio[3]								
Balance as at Jan. 1	581	327	46	43	627	369	–	2
Balance as at Jun. 30	689	339	54	50	744	388	–	–
Offshore finance								
Balance as at Jan. 1	61	20	14	3	76	23	–	–
Balance as at Jun. 30	287	15	24	9	311	24	1	–

1 Including specific loan loss allowances evaluated on a group basis.
2 Excluding other provisions for loans and advances.
3 Prior-year figures excluding ITF Suisse.

FIG. 31 – BANK SECTOR: FACTORS DETERMINING THE CREDIT VALUE-AT-RISK

	Average probability of default		Expected loss (€ million)		Credit value-at-risk[1] (€ million)	
	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Traditional lending business	0.7%	0.7%	501	503	2,569	2,566
Securities business	0.2%	0.2%	61	70	1,571	1,571
Derivatives and money market business	0.1%	0.2%	9	12	318	335
Total			571	585	4,458	4,472
Average	0.5%	0.5%				

1 Excluding the decentralized capital buffer requirement.

Not relevant

Figure 31 shows the risk capital requirement together with the average probability of default and expected loss. In contrast to the presentation of total credit risk, the risk is presented solely as the risk capital requirement (and thus excluding the decentralized capital buffer requirement) in this table.

The difference between the risk capital requirement including the decentralized capital buffer requirement (€5,959 million) and the risk capital requirement (€4,458 million) amounted to €1,501 million at the overall portfolio level as at June 30, 2017. This discrepancy is primarily attributable to the fact that migration risk in the traditional lending business is taken into consideration in the capital buffer requirement for certain management units as this risk is not currently included in the portfolio-model-based calculation of the risk capital requirement.

The risk capital requirement excluding the decentralized capital buffer requirement for credit portfolios exposed to increased credit risk was calculated to be as follows as at June 30, 2017:

– Eurozone periphery countries: €915 million (December 31, 2016: €946 million)
– Shipping finance: €419 million (December 31, 2016: €361 million)
– Offshore finance: €72 million (December 31, 2016: €176 million)

The figure stated for the shipping finance portfolio as at December 31, 2016 does not include ITF Suisse and is therefore not directly comparable with the figure as at June 30, 2017.

The decrease of 3 percent compared with December 31, 2016 in the risk for exposures to **European periphery countries** was the result of a contraction in the volume of lending to these countries. The increase in the risk associated with **shipping finance** is mainly attributable to an adjustment in the value of collateral held by DVB. Conversely, the level of risk associated with **offshore finance** fell considerably in the first half of the year. This was due to a reduction in the volume of lending, exchange rate effects, and the adjustment of the value of collateral held by DVB.

7. Equity investment risk

The **carrying amounts of long-term equity investments** relevant for the measurement of equity investment risk amounted to €2,756 million as at June 30, 2017 (December 31, 2016: €2,786 million).

As at the reporting date, the **risk capital requirement including the decentralized capital buffer requirement** for equity investment risk was measured at €1,214 million, which was slightly lower than the corresponding figure at the end of 2016 of €1,263 million. The upper loss limit was €1,422 million (December 31, 2016: €1,468 million). The upper loss limit was not exceeded at any time during the first 6 months of the year.

8. Market risk

8.1. Risk capital requirement including the decentralized capital buffer requirement

As at June 30, 2017, the risk capital requirement including the decentralized capital buffer requirement for market risk used to determine the risk-bearing capacity amounted to €4,381 million (December 31, 2016: €4,347 million) with an upper loss limit of €7,043 million (December 31, 2016: €7,582 million).

The risk capital requirement including the decentralized risk capital requirement includes the **asset-management risk** of UMH. The asset-management risk for guarantee funds was measured at €42 million as at June 30, 2017 (December 31, 2016: €50 million). The asset-management risk for UniProfiRente as at the reporting date amounted to €35 million (December 31, 2016: €28 million).

FIG. 32 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK IN THE TRADING AND NON-TRADING PORTFOLIOS [1] [2]

€ million	Interest-rate risk	Spread risk	Equity risk[3]	Currency risk	Commodity risk	Diversification effect[4]	Total
Aggregate risk[5]							
Jun. 30, 2017	27	72	4	4	–	-31	76
Dec. 31, 2016	18	108	7	2	–	-15	119
Trading portfolios							
Jun. 30, 2017	2	2	1	1	–	-2	2
Average	2	2	–	1	–	-3	3
Maximum	2	3	1	1	–	-2	3
Minimum	2	2	–	–	–	-3	2
Dec. 31, 2016	2	4	1	1	–	-4	4
Non-trading portfolios							
Jun. 30, 2017	27	72	4	3	–	-30	76
Average	23	73	5	3	–	-28	77
Maximum	33	75	6	5	–	-15	80
Minimum	9	72	4	2	–	-36	75
Dec. 31, 2016	19	104	7	2	–	-13	119

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 Bank sector. 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 stem from 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 into constituent parts.
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.

The upper loss limit was not exceeded at any time during the first 6 months of the year.

8.2. Value-at-risk

Figure 32 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 half of 2017.

In addition, figure 33 shows the daily changes in risk and the results of daily backtesting of trading portfolios.

As at June 30, 2017, the **aggregate risk** was measured at €76 million (December 31, 2016: €119 million). The main reason for this significant drop in risk was that credit spreads were less volatile during the reporting period.

The value-at-risk for the **trading portfolios** as at June 30, 2017 was €2 million and thus remained at the low level reported at the end of last year (December 31, 2016: €4 million).

In the first half of 2017, hypothetical changes in fair value exceeded the forecast risk value on 3 trading days. They exceeded the forecast risk values on January 6, 2017 and April 21, 2017 due to extreme market movements outside the quantile used to determine value-at-risk. On March 27, 2017, they were slightly higher than the forecast risk value owing to a measurement adjustment.

As at June 30, 2017, the value-at-risk for the **non-trading portfolios** was calculated at €76 million (December 31, 2016: €119 million). This decrease was also attributable to the diminishing volatility of credit spreads.

9. Technical risk of a home savings and loan company

As at June 30, 2017, the risk capital requirement for the technical risk of a home savings and loan company amounted to €558 million (December 31, 2016: €541 million) with an upper loss limit also of €558 million (December 31, 2016: €600 million). A decentralized capital buffer requirement was not calculated for the technical risk of a home savings and loan company as at the reporting date.

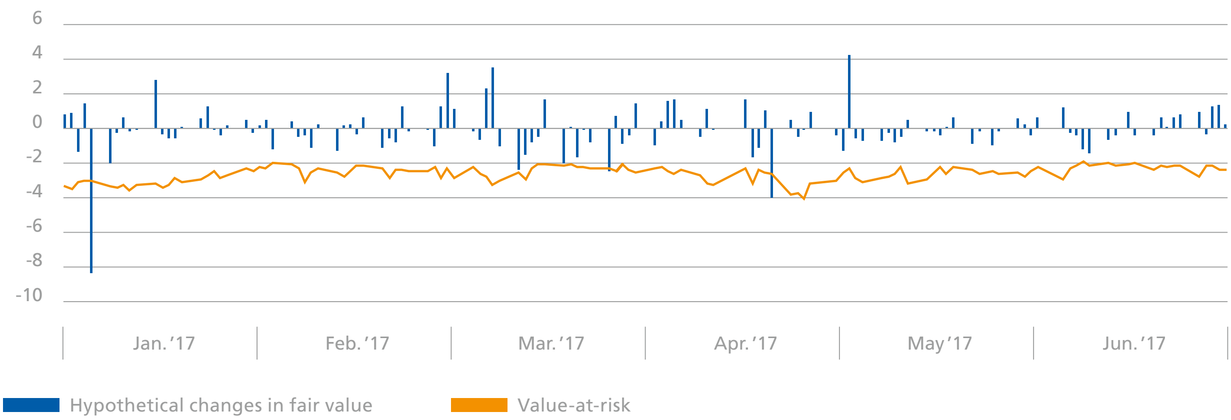
The risk capital requirement for the financial year is calculated annually on November 30 of the previous year and, due to the nature of building society operations, remains constant throughout the financial year. This is why the upper loss limit is deliberately set so close to the risk capital requirement. Its utilization does not fluctuate during the year. Full utilization of the upper loss limit is acceptable.

10. Business risk and reputational risk

As at June 30, 2017, the risk capital requirement including the capital buffer requirement for business risk (including reputational risk) amounted to €767 million (December 31, 2016: €912 million). The decrease is primarily attributable to the adjustment of cost time series at DZ BANK to remove non-recurring items. The upper loss limit as at the reporting date was €1,025 million (December 31, 2016: €1,024 million). The upper loss limit was not exceeded at any time during the first 6 months of the year.

FIG. 33 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK AND HYPOTHETICAL CHANGES IN FAIR VALUE IN THE TRADING PORTFOLIOS

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



11. Operational risk

11.1. 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. The analysis of loss data is based on historical losses in the DZ BANK Group.

Figure 34 shows the losses reported in the first half of 2017 classified by loss event category. Over the course of time, there are regular fluctuations in the pattern of losses as the frequency of relatively large losses in each individual case is very low. The losses are selected on the date on which the expense results in a cash outflow, thus ensuring consistency with the internal reporting.

The 'Clients, products, and business practices' event category accounted for the majority (83 percent) of net losses. The net loss in the 'Clients, products, and business practices' category was partly attributable to provisions for possible legal disputes. Two loss events resulted from changes arising from court decisions and legal interpretation. Another loss event related to the ending of business activities in another European country outside Germany.

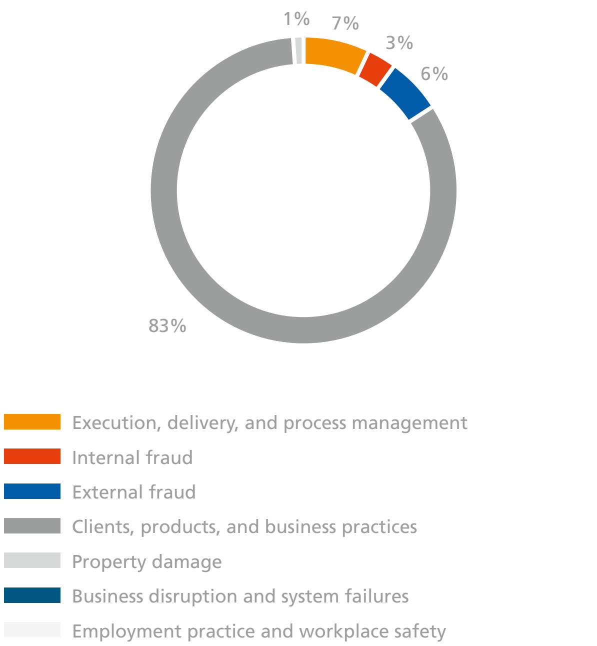
Losses did not reach a critical level relative to the expected loss from operational risk at any point during the reporting period.

11.2. Risk position

Using the internal portfolio model, the risk capital requirement including the capital buffer requirement for operational risk as at June 30, 2017 was calculated as €927 million (December 31, 2016: €892 million) with an upper loss limit of €1,147 million (December 31, 2016: €1,152 million).

The upper loss limit and alert threshold for contributions to operational risk were not exceeded at any time during the first 6 months of the year.

FIG. 34 – BANK SECTOR: NET LOSSES BY EVENT CATEGORY IN THE FIRST HALF OF 2017[1]



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

Insurance sector

12. Actuarial risk

As at June 30, 2017, the **overall solvency requirement for life actuarial risk** amounted to €623 million (December 31, 2016: €574 million). The **upper loss limit** was set at €1,200 million as at the reporting date. This was the same as the figure at the end of 2016. The upper loss limit was not exceeded at any time during the first 6 months of the year.

As at June 30, 2017, the **overall solvency requirement for health actuarial risk** was measured at €151 million (December 31, 2016: €214 million) with an **upper loss limit** of €370 million (December 31, 2016: €330 million). The risk capital requirement was below the upper loss limit at all times during the first 6 months of 2017.

As at June 30, 2017, the **overall solvency requirement for non-life actuarial risk** amounted to €2,927 million (December 31, 2016: €2,835 million). The increase was primarily the result of the growth in the volume of business. The **upper loss limit** was set at €3,580 million as at the balance sheet date (December 31, 2016: €3,250 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 35.

In the first 6 months of 2017, the claims rate trend in the **direct non-life insurance** business was unremarkable, and there were no significant major claims.

The claims rate trend in **inward reinsurance** was slightly higher than anticipated. This reflects the impact of the lowering of the discount rate used for personal injury claims in motor insurance in the United Kingdom (known as the Ogden rate).

13. Market risk

13.1. Lending volume

As at June 30, 2017, the total lending volume of R+V had advanced by 2 percent to €83.7 billion (December 31, 2016: €81.7 billion). The expansion of the investment portfolios was caused by the growth in insurance business.

The volume of lending in the home finance business totaled €9.6 billion as at June 30, 2017 (December 31, 2016: €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 compared with December 31, 2016. The volume of home finance was broken down by finance type as at the reporting date as follows (figures as at December 31, 2016 shown in parentheses):

– Consumer home finance: €9.1 billion (€9.1 billion)
– Commercial home finance: €0.1 billion (€0.2 billion)
– Commercial finance: €0.3 billion (€0.3 billion).

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

The financial sector and the public sector, which are the dominant **sectors**, together accounted for 72 percent of the total lending volume as at June 30, 2017, as had also been the case at the end of 2016. 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.

FIG. 35 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR NON-LIFE ACTUARIAL RISK

€ million	Jun. 30, 2017	Dec. 31, 2016
Premium and reserve risk	1,725	1,671
Non-life catastrophe risk	1,973	1,909
Lapse risk	20	57
Total (after diversification)	**2,927**	**2,835**

Figure 36 shows the sectoral breakdown of the lending volume in the Insurance sector.

An analysis of the **geographical breakdown** of lending in figure 37 reveals that Germany and other industrialized countries continued to account for the lion's share of the lending volume as at the reporting date – as they also did at December 31, 2016 – with a share of 92 percent. 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 38. As at June 30, 2017, 81 percent of the total lending volume had a residual maturity of more than 5 years, a situation that was unchanged compared to the end of 2016. By contrast, just 3 percent of the total lending volume was due to mature within one year as at the reporting date (December 31, 2016: 4 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 39. Of the total lending volume as at June 30, 2017, 79 percent was attributable to investment-grade borrowers (December 31, 2016: 80 percent). This reflects the regulatory

FIG. 36 – INSURANCE SECTOR: LENDING VOLUME, BY SECTOR

€ billion	Jun. 30, 2017	Dec. 31, 2016
Financial sector	39.0	37.5
Public sector	21.6	21.5
Corporates	13.4	12.9
Retail	9.1	9.1
Industry conglomerates	0.6	0.7
Other	–	–
Total	**83.7**	**81.7**

FIG. 37 – INSURANCE SECTOR: LENDING VOLUME, BY COUNTRY GROUP

€ billion	Jun. 30, 2017	Dec. 31, 2016
Germany	32.8	32.5
Other industrialized countries	43.9	42.4
Advanced economies	1.1	1.1
Emerging markets	3.8	3.6
Supranational institutions	2.2	2.1
Total	**83.7**	**81.7**

FIG. 38 – INSURANCE SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Jun. 30, 2017	Dec. 31, 2016
≤ 1 year	2.8	2.9
> 1 year to ≤ 5 years	13.1	12.9
> 5 years	67.8	65.9
Total	**83.7**	**81.7**

FIG. 39 – INSURANCE SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion		Jun. 30, 2017	Dec. 31, 2016
Investment grade	1A	22.8	23.2
	1B	6.5	5.8
	1C	–	–
	1D	10.6	8.9
	1E	–	–
	2A	5.8	6.1
	2B	4.8	5.2
	2C	5.2	6.3
	2D	9.0	8.5
	2E	–	–
	3A	1.5	1.3
Non-investment grade	3B	0.6	0.5
	3C	0.3	0.3
	3D	–	–
	3E	0.4	0.5
	4A	0.3	0.2
	4B	0.1	0.2
	4C	0.2	0.2
	4D	–	–
	4E	–	–
Default		0.1	0.1
Not rated		15.4	14.8
Total		**83.7**	**81.7**

requirements and the safety-oriented risk strategy of R+V. The lending volume that is not rated, which remained unchanged at 18 percent of the total lending volume, 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 DZ BANK credit rating master scale using the methodology shown in section 8.4.1. of the 2016 opportunity and risk report.

As at the reporting date, the 10 counterparties associated with the largest lending volumes accounted for 22 percent of R+V's total lending volume (December 31, 2016: 23 percent).

13.2. 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.

Figure 40 shows the borrower structure in the eurozone periphery countries.

13.3. Risk position

As at June 30, 2017, the **overall solvency requirement for market risk** amounted to €2,875 million (December 31, 2016: €2,802 million) with an **upper loss limit** of €3,800 million (December 31, 2016: €3,540 million). The upper loss limit was not exceeded at any time during the first 6 months of the year.

Figure 41 shows the overall solvency requirement for the various types of market risk.

14. Other risks

14.1. Counterparty default risk

As at June 30, 2017 the **overall solvency requirement** for counterparty default risk was €58 million (December 31, 2016: €65 million) with an **upper loss limit** of €130 million (December 31, 2016: €110 million). The upper loss limit was not exceeded at any time during the first 6 months of the year.

FIG. 40 – INSURANCE SECTOR: EXPOSURE IN EUROZONE PERIPHERY COUNTRIES

€ million	Jun. 30, 2017	Dec. 31, 2016
Portugal	**4**	7
of which: public sector	–	–
of which: non-public sector	4	7
of which: financial sector	1	1
Italy	**5,540**	5,763
of which: public sector	4,141	4,257
of which: non-public sector	1,399	1,506
of which: financial sector	906	986
Spain	**1,970**	1,917
of which: public sector	1,304	1,239
of which: non-public sector	666	678
of which: financial sector	413	429
Total	**7,514**	7,687
of which: public sector	5,445	5,496
of which: non-public sector	2,069	2,190
of which: financial sector	1,319	1,415

FIG. 41 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR MARKET RISK

€ million	Jun. 30, 2017	Dec. 31, 2016
Interest-rate risk	1,115	960
Spread risk	1,269	1,184
Equity risk	1,337	1,320
Currency risk	190	203
Real-estate risk	270	374
Total (after diversification)	**2,875**	2,802

14.2. Operational risk

As at June 30, 2017, the **overall solvency requirement** for operational risk amounted to €543 million (December 31, 2016: €509 million) The **upper loss limit** applicable at the reporting date was set at €650 million (December 31, 2016: €640 million). This limit was not exceeded at any time during the reporting period.

14.3. Non-controlling interests in insurance companies and entities in other financial sectors

As at June 30, 2017, the **overall solvency requirement** for non-controlling interests in insurance companies and entities in other financial sectors stood at €116 million (December 31, 2016: €110 million) with an **upper loss limit** of €140 million (December 31, 2016: €120 million). This limit was not exceeded at any time in the first half of the year.

Interim consolidated financial statements

Income statement for the period January 1 to June 30, 2017

€ million	(Note)	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Net interest income	(5)	1,427	1,363
Allowances for losses on loans and advances	(6)	-396	-219
Net fee and commission income	(7)	977	822
Gains and losses on trading activities	(8)	304	501
Gains and losses on investments	(9)	88	90
Other gains and losses on valuation of financial instruments	(10)	34	-154
Premiums earned	(11)	7,403	7,149
Gains and losses on investments held by insurance companies and other insurance company gains and losses	(12)	1,847	2,000
Insurance benefit payments	(13)	-7,543	-7,495
Insurance business operating expenses	(14)	-1,256	-1,193
Administrative expenses	(15)	-1,942	-1,703
Other net operating income	(16)	54	50
Net income from the business combination with WGZ BANK		-58	363
Profit before taxes		939	1,574
Income taxes	(17)	-451	-416
Net profit		**488**	**1,158**
Attributable to:			
Shareholders of DZ BANK		430	1,066
Non-controlling interests		58	92

Statement of comprehensive income for the period January 1 to June 30, 2017

€ million	(Note)	Jan. 1 – Jun 30, 2017	Jan. 1 – Jun. 30, 2016
Net profit		488	1,158
Other comprehensive income/loss		-187	-17
Items that may be reclassified to the income statement		**-189**	**205**
Gains and losses on available-for-sale financial assets	(18)	-302	282
Gains and losses on cash flow hedges	(18)	17	5
Exchange differences on currency translation of foreign operations	(18)	-22	-6
Gains and losses on hedges of net investments in foreign operations	(18)	12	7
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method		-9	-7
Income taxes	(19)	115	-76
Items that will not be reclassified to the income statement		**2**	**-222**
Gains and losses arising from remeasurement of defined benefit plans		4	-314
Income taxes	(19)	-2	92
Total comprehensive income		**301**	**1,141**
Attributable to:			
Shareholders of DZ BANK		258	967
Non-controlling interests		43	174

Income statement (quarterly breakdown)

€ million	Apr. 1 – Jun. 30, 2017	Jan. 1 – Mar. 31, 2017
Net interest income	721	706
Allowances for losses on loans and advances	-333	-63
Net fee and commission income	529	448
Gains and losses on trading activities	117	187
Gains and losses on investments	22	66
Other gains and losses on valuation of financial instruments	73	-39
Premiums earned	3,679	3,724
Gains and losses on investments held by insurance companies and other insurance company gains and losses	626	1,221
Insurance benefit payments	-3,506	-4,037
Insurance business operating expenses	-555	-701
Administrative expenses	-900	-1,042
Other net operating income	31	23
Net income from the business combination with WGZ BANK	-31	-27
Profit before taxes	473	466
Income taxes	-288	-163
Total	**185**	**303**
Attributable to:		
Shareholders of DZ BANK	160	270
Non-controlling interests	25	33

Statement of comprehensive income (quarterly breakdown)

€ million	Apr. 1 – Jun. 30, 2017	Jan. 1 – Mar. 31, 2017
Net profit	185	303
Other comprehensive income/loss	-77	-110
Items that may be reclassified to the income statement	**-80**	**-109**
Gains and losses on available-for-sale financial assets	-90	-212
Gains and losses on cash flow hedges	12	5
Exchange differences on currency translation of foreign operations	-26	4
Gains and losses on hedges of net investments in foreign operations	14	-2
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	-4	-5
Income taxes	14	101
Items that will not be reclassified to the income statement	**3**	**-1**
Gains and losses arising from remeasurement of defined benefit plans	5	-1
Income taxes	-2	–
Total	**108**	**193**
Attributable to:		
Shareholders of DZ BANK	87	171
Non-controlling interests	21	22

Balance sheet as at June 30, 2017

ASSETS

€ million	(Note)	Jun. 30, 2017	Dec. 31, 2016
Cash and cash equivalents	(20)	12,703	8,515
Loans and advances to banks	(21)	117,624	107,253
Loans and advances to customers	(22)	176,048	176,532
Allowances for losses on loans and advances	(23)	-2,651	-2,394
Derivatives used for hedging (positive fair values)	(24)	1,434	1,549
Financial assets held for trading	(25)	43,851	49,279
Investments	(26)	63,285	70,180
Investments held by insurance companies	(27)	93,425	90,373
Property, plant and equipment, and investment property	(28)	1,567	1,752
Income tax assets		1,153	1,280
Other assets	(29)	5,032	4,970
Non-current assets and disposal groups classified as held for sale	(30)	157	182
Fair value changes of the hedged items in portfolio hedges of interest-rate risk		-270	-24
Total assets		**513,358**	**509,447**

EQUITY AND LIABILITIES

€ million	(Note)	Jun. 30, 2017	Dec. 31, 2016
Deposits from banks	(31)	131,565	129,280
Deposits from customers	(32)	129,075	124,425
Debt certificates issued including bonds	(33)	71,296	78,238
Derivatives used for hedging (negative fair values)	(34)	3,310	3,874
Financial liabilities held for trading	(35)	52,403	50,204
Provisions	(36)	3,712	4,041
Insurance liabilities	(37)	87,430	84,125
Income tax liabilities		746	780
Other liabilities	(38)	6,438	6,662
Subordinated capital	(39)	4,459	4,723
Liabilities included in disposal groups classified as held for sale	(30)	–	25
Fair value changes of the hedged items in portfolio hedges of interest-rate risk		129	180
Equity	(40)	22,795	22,890
Shareholders' equity		20,001	20,064
Subscribed capital		4,926	4,657
Capital reserve		5,551	4,904
Retained earnings		6,927	7,822
Revaluation reserve		1,270	1,448
Cash flow hedge reserve		1	-11
Currency translation reserve		48	70
Additional equity components		848	848
Unappropriated earnings		430	326
Non-controlling interests		2,794	2,826
Total equity and liabilities		**513,358**	**509,447**

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, 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**
Equity as at Jan. 1, 2017	4,657	4,904	8,148	1,448	-11	70	848	20,064	2,826	22,890
Net profit	–	–	430	–	–	–	–	430	58	488
Other comprehensive income/loss	–	–	2	-164	12	-22	–	-172	-15	-187
Total comprehensive income/loss	–	–	432	-164	12	-22	–	**258**	43	**301**
Capital increase/capital repaid	269	647	-916	–	–	–	–	–	2	2
Changes in scope of consolidation	–	–	14	-14	–	–	–	–	–	–
Acquisition/disposal of non-controlling interests	–	–	1	–	–	–	–	1	-4	-3
Dividends paid	–	–	-322	–	–	–	–	-322	-73	-395
Equity as at Jun. 30, 2017	**4,926**	**5,551**	**7,357**	**1,270**	**1**	**48**	**848**	**20,001**	**2,794**	**22,795**

Statement of cash flows

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Net profit	**488**	1,158
Non-cash items included in net profit	-1,659	575
Subtotal	-1,171	1,733
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	-10,713	-6,763
Other assets and liabilities from operating activities	2,305	45
Derivatives used for hedging (positive and negative fair values)	109	-739
Financial assets and financial liabilities held for trading	8,282	8,019
Deposits from banks and customers	7,604	-1,241
Debt certificates issued including bonds	-6,760	-1,672
Interest payments, dividends, and operating lease payments received (net cash flow)	1,607	1,384
Income taxes paid	-189	-160
Cash flows from operating activities	**1,074**	**606**
Cash flows from investing activities	**3,464**	**288**
Cash flows from financing activities	**-350**	**1,623**

€ million	2017	2016
Cash and cash equivalents as at January 1	8,515	6,542
Cash flows from operating activities	1,074	606
Cash flows from investing activities	3,464	288
Cash flows from financing activities	-350	1,623
Cash and cash equivalents as at June 30	**12,703**	**9,059**

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.

There were no cash inflows as a result of the first-time consolidation of subsidiaries (first half of 2016: cash inflow of €236 million). There were no cash outflows as a result of the deconsolidation of subsidiaries (first half of 2016: €2 million).

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 2017 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 2016 financial year.

First-time application in 2017 of changes in IFRS

No changes to accounting standards were applied for the first time in DZ BANK's interim consolidated financial statements for the first half of 2017 because the EU had not endorsed any changes published by the International Accounting Standards Board (IASB) by the reporting date.

Changes in IFRS endorsed by the EU but not yet adopted

The DZ BANK Group has decided against voluntary early adoption of the following new financial reporting standards that have been endorsed by the EU:
– IFRS 9 *Financial Instruments*,
– IFRS 15 *Revenue from Contracts with Customers*.

The provisions of IFRS 9 *Financial Instruments* will supersede the content of IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes requirements relating to the following areas, which have been fundamentally revised: classification and measurement of financial instruments, the impairment model for financial assets, and hedge accounting.

As a result of the classification and measurement rules in IFRS 9, financial assets need to be reclassified. In the case of debt instruments, both the business models of the portfolios and the characteristics of the contracted cash flows for the individual financial assets must be taken into account for the purposes of the reclassification. The outcome of the analysis is that financial assets can be classified as 'measured at fair value through profit or loss', 'measured at fair value through other comprehensive income', or 'measured at amortized cost'. If individual financial assets are classified as 'measured at fair value through other comprehensive income' or 'measured at amortized cost', the standard also allows the reporting entity the option of designating the financial assets concerned as 'measured at fair value through profit or loss' (fair value option). The DZ BANK Group plans to use the fair value option. In the case of equity instruments, it is mandatory to assign these instruments to the category 'measured at fair value through profit or loss' if the instruments concerned are held for trading. For equity instruments not held for trading, reporting entities may optionally use the fair value through OCI option; the DZ BANK Group plans to make general use of this option. If the fair value through OCI option does not apply, equity instruments must be assigned to the category 'measured at fair value through profit or loss'.

Unlike IAS 39, IFRS 9 specifies that, as regards financial liabilities measured at fair value through profit or loss (fair value option), any changes in such liabilities resulting from a change in default risk must be recognized in other comprehensive income. The other requirements relating to financial liabilities have been largely carried over from IAS 39 unchanged.

The new impairment model requirements for financial instruments result in a fundamental change in the recognition of impairment losses because losses that are expected to occur now have to be recognized, rather than simply losses that have been incurred. The amount at which expected losses must be recognized depends on whether the credit risk attaching to the financial assets has increased significantly or not since initial recognition. If there has been a significant increase, all expected losses over the entire lifetime of the asset concerned must be recognized from this point. Otherwise, the only losses expected over the lifetime of the instrument that need to be recognized are those that result from possible loss events within the next 12 months. The DZ BANK Group generally identifies whether there has been a significant increase in credit risk by comparing the current probability of default over the maturity of the instrument (as determined at the reporting date) with the probability of default originally expected for the same period. This test has been extended to look at qualitative criteria that increase credit risk unless these criteria have already been incorporated into the probability of default. In the case of securities, the DZ BANK Group will make use of the exemption provided for in the standard whereby the requirement to test for a significant increase in credit risk can be disregarded for instruments subject to low credit risk.

IFRS 9's new hedge accounting model helps to improve presentation of internal risk management and entails numerous disclosure requirements. The changes in IFRS 9 do not apply to the rules on applying the portfolio fair value hedge, which continue to be governed by the provisions of IAS 39. Under IFRS 9, the particular risk management strategy and risk management objectives must be documented at the inception of the hedging relationship, as is currently the case. But in the future, the ratio between the hedged item and the hedging instrument must also, as a rule, adhere to the stipulations in the risk management strategy. If this ratio changes during a hedging relationship but the risk management objective remains the same, the quantity of the hedged item and the quantity of the hedging instrument in the hedging relationship must be adjusted without the latter being discontinued. Under IFRS 9, it will no longer be possible to discontinue a hedging relationship without reason at any time. The requirements relating to evidence of hedge effectiveness will also change. Under IFRS 9, retrospective evidence and the effectiveness threshold have been eliminated. Evidence of countervailing changes in fair value owing to the economic relationship between the hedged item and the hedging instrument is provided using methods that document the relevant features of the hedges. The method can be either a qualitative or a quantitative assessment.

The DZ BANK Group carried out simulation analyses on the reference dates of December 31, 2015, June 30, 2016, and December 31, 2016 to assess the impact of the new provisions under IFRS 9. These analyses identified that the quantitative effects of the introduction of IFRS 9 will depend to a large extent on market trends up to the date of initial application, with the result that it is not yet possible to come to any definitive conclusion about the quantitative impact on equity. However, it can be assumed at the moment that the implications will arise primarily from the new requirements relating to measurement categories.

The provisions of IFRS 9 must be applied to financial years beginning on or after January 1, 2018. They are generally required to be adopted retrospectively, although there are exemptions regarding the restatement of comparative prior-year figures. The DZ BANK Group intends to make use of these exemptions.

The provisions and definitions in IFRS 15 *Revenue from Contracts with Customers* will supersede the content of both IAS 18 *Revenue* and IAS 11 *Construction Contracts*. Under IFRS 15, revenue must be recognized when control of the agreed goods or services passes to the customer and the customer can benefit from these goods or services. In the future, the question of how much revenue is to be recognized and at what point in time, or over what period of time, will be answered in 5 steps. Firstly, the contract with the customer and the separate performance obligations in the contract must be identified. Next, the transaction price for the customer contract must be determined and allocated to the individual performance obligations. Variable elements of the transaction price must be estimated using the expected value method or the most likely amount approach and incorporated into the transaction price in accordance with the requirements governing the inclusion of variable consideration. Finally, the new model requires that revenue be recognized for each performance obligation in an amount equaling the proportion of the transaction price allocated to the obligation as soon as the agreed performance obligation is satisfied and/or control passes to the customer. Specified criteria must be used to distinguish between a performance obligation being satisfied at a point in time or over time. The new standard does not distinguish between different types of orders and goods/services but instead provides uniform criteria for determining whether a performance obligation is satisfied at a point in time or over time. Furthermore, IFRS 15 requires additional qualitative and quantitative disclosures regarding the nature, amount, and timing of revenue, and regarding cash flows, together with the related uncertainties. The new provisions under IFRS 15 do not have any impact on the recognition of income reported in connection with financial instruments in accordance with IFRS 9 or IAS 39.

The amendments must be applied to financial years beginning on or after January 1, 2018. IFRS 15 must be adopted using either a fully retrospective approach or a modified retrospective approach. The DZ BANK Group is not planning any early application of the standard.

IFRS 15 will be adopted using the modified retrospective application method as specified in IFRS 15.C3(b) by recognizing the cumulative effect of initially applying the standard at the date of initial application. In this method, IFRS 15 will be applied to new contracts and to existing contracts that have not yet been completed on the date of initial application. Existing contracts must be measured as if the provisions of IFRS 15 had always been applied to these contracts.

The DZ BANK Group started a preliminary assessment of the impact of IFRS 15 in 2016 and is continuing with it this year. All group companies have started to analyze their contracts and to implement IFRS 15 from both an accounting and a technical perspective. Following the evaluations so far, the identified items have been judged to be either insignificant or not affected by the new rules. Implementation of the changes will not have any material impact on the consolidated financial statements. It is not yet possible to quantify the effects of applying the new standard for the first time.

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 interim 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

There were no material changes in the first half of 2017 apart from the deconsolidation of DZ BANK Ireland plc, Dublin (since June 30, 2017: WGZ FINANCE plc), which is no longer included in the scope of consolidation owing to its minor significance to the financial position and financial performance of the DZ BANK Group.

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, 2017

€ million	DZ BANK	BSH	DG HYP
Net interest income	533	423	176
Allowances for losses on loans and advances	90	-2	14
Net fee and commission income	183	-22	5
Gains and losses on trading activities	298	–	7
Gains and losses on investments	67	15	3
Other gains and losses on valuation of financial instruments	15	-1	112
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	-745	-233	-72
Other net operating income	22	23	1
Net income from the business combination with WGZ BANK	-58	–	–
Profit/loss before taxes	**405**	**203**	**246**
Cost/income ratio (%)	66.6	53.2	23.7
Regulatory RORAC (%)	11.0	39.5	45.3
Average own funds/solvency requirement	5,403	1,026	1,088
Total assets/total equity and liabilities as at Jun 30, 2017	274,166	67,310	42,504

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	22	16	7
Net income from the business combination with WGZ BANK	-139	–	–
Profit/loss before taxes	**463**	**151**	**-76**
Cost/income ratio (%)	46.3	59.8	>100.0
Regulatory RORAC (%)	37.8	32.4	-13.1
Average own funds/solvency requirement	3,848	929	1,126
Total assets/total equity and liabilities as at Dec. 31, 2016	275,054	65,852	43,629

	DVB	DZ PRIVATBANK	R+V	TeamBank	UMH	VR LEASING	WL BANK	Other/ Consolidation	**Total**
	103	60	–	211	4	70	106	-259	**1,427**
	-446	–	–	-34	-1	-6	-7	-4	**-396**
	52	62	–	3	750	8	-5	-59	**977**
	-19	7	–	–	–	–	–	11	**304**
	-4	–	–	–	–	6	–	1	**88**
	-131	5	–	–	2	–	49	-17	**34**
	–	–	7,403	–	–	–	–	–	**7,403**
	–	–	1,883	–	–	–	–	-36	**1,847**
	–	–	-7,543	–	–	–	–	–	**-7,543**
	–	–	-1,350	–	–	–	–	94	**-1,256**
	-103	-116	–	-105	-393	-69	-54	-52	**-1,942**
	16	-6	-4	3	–	4	1	-6	**54**
	–	–	–	–	–	–	–	–	**-58**
	-532	**12**	**389**	**78**	**362**	**13**	**90**	**-327**	**939**
	>100.0	90.6	–	48.4	52.0	78.4	35.8	–	**58.2**
	>100.0	8.4	–	36.8	>100.0	8.1	45.5	–	**–**
	581	295	–	425	351	314	401	–	**–**
	24,942	18,175	100,490	7,714	1,967	4,571	43,437	-71,918	**513,358**

	DVB	DZ PRIVATBANK	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**
	6.5	-6.3	21.0	41.1	>100.0	10.1		–	**26.3**
	607	320	4,107	401	293	325		–	**11,956**
	27,658	17,669	97,286	7,284	2,038	4,463		-31,486	**509,447**

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 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 AG Westfälische Landschaft Bodenkreditbank, Münster, (WL BANK) has been added to the management units for 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 December 31, 2016 also includes the total assets of WL BANK, which amounted to €43,761 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. For the reporting period, it reflected the relationship between adjusted profit before taxes (profit before taxes largely taking into account income and capital structure effects on performance) and average own funds for a year (determined on a quarterly basis) in accordance with the own funds/solvency requirements for the financial conglomerate. It therefore shows the return on the regulatory risk capital employed. Regulatory RORAC for the R+V 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.

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 for the prior-year period were the income from the recognition of the negative goodwill arising on the business combination with WGZ BANK and income from the elimination of business relationships that existed before the business combination.

» 05 Net interest income

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
INTEREST INCOME AND CURRENT INCOME AND EXPENSE	**3,663**	**3,164**
Interest income from	**3,649**	**3,064**
Lending and money market business	3,498	2,962
Fixed-income securities	392	401
Portfolio hedges of interest-rate risk	-160	-264
Financial assets with a negative effective interest rate	-81	-35
Current income and expense from	**–**	**78**
Shares and other variable-yield securities	10	74
of which: income from other shareholdings	8	71
Investments in subsidiaries	2	2
Investments in associates	2	1
Operating leases	-14	1
Income from using the equity method for	**13**	**10**
Investments in joint ventures	23	4
Investments in associates	-10	6
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	**1**	**12**
INTEREST EXPENSE ON	**-2,236**	**-1,801**
Deposits from banks and customers	-1,993	-1,479
Debt certificates issued including bonds	-242	-286
Subordinated capital	-80	-77
Portfolio hedges of interest-rate risk	-4	14
Financial liabilities with a positive effective interest rate	85	30
Provisions and other liabilities	-2	-3
Total	**1,427**	**1,363**

» 06 Allowances for losses on loans and advances

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Allowances for losses on loans and advances to banks	**18**	**-15**
Additions	-1	-29
Reversals	13	14
Recoveries on loans and advances previously impaired	6	–
Allowances for losses on loans and advances to customers	**-441**	**-162**
Additions	-763	-444
Reversals	298	273
Directly recognized impairment losses	-17	-20
Recoveries on loans and advances previously impaired	41	29
Other allowances for losses on loans and advances	**27**	**-42**
Change in provisions for loan commitments	16	-24
Change in other provisions for loans and advances	2	-19
Change in liabilities from financial guarantee contracts	9	1
Total	**-396**	**-219**

» 07 Net fee and commission income

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Fee and commission income	**1,803**	**1,553**
Securities business	1,360	1,142
Asset management	110	80
Payments processing including card processing	104	89
Lending business and trust activities	91	110
Financial guarantee contracts and loan commitments	26	25
International business	7	3
Building society operations	11	9
Other	94	95
Fee and commission expenses	**-826**	**-731**
Securities business	-493	-437
Asset management	-75	-49
Payments processing including card processing	-42	-46
Lending business	-61	-57
Financial guarantee contracts and loan commitments	-4	-2
Building society operations	-45	-54
Other	-106	-86
Total	**977**	**822**

» 08 Gains and losses on trading activities

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Gains and losses on non-derivative financial instruments and embedded derivatives	-61	131
Gains and losses on derivatives	224	209
Gains and losses on exchange differences	141	161
Total	304	501

» 09 Gains and losses on investments

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Gains and losses on bonds and other fixed-income securities	**85**	–
Disposals	83	-1
Impairment losses	-3	-7
Reversals of impairment losses	5	8
Gains and losses on shares and other variable-yield securities	**1**	103
Disposals	1	103
Gains and losses on investments in subsidiaries	**–**	-5
Impairment losses	–	-5
Gains and losses on investments in joint ventures	**5**	-3
Impairment losses	-1	-3
Reversals of impairment losses	6	–
Gains and losses on investments in associates	**-3**	-5
Disposals	1	–
Impairment losses	-4	-5
Total	88	90

» 10 Other gains and losses on valuation of financial instruments

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Gains and losses from hedge accounting	**-12**	4
Gains and losses on derivatives used for purposes other than trading	**-46**	12
Gains and losses on financial instruments designated as at fair value through profit or loss	**92**	-170
Gains and losses on non-derivative financial instruments and embedded derivatives	100	63
Gains and losses on derivatives	-8	-233
Total	34	-154

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, 2017	Jan. 1 – Jun. 30, 2016
Net premiums written	**8,243**	7,925
Gross premiums written	8,296	7,986
Reinsurance premiums ceded	-53	-61
Change in provision for unearned premiums	**-840**	-776
Gross premiums	-849	-790
Reinsurers' share	9	14
Total	**7,403**	7,149

» 12 Gains and losses on investments held by insurance companies and other insurance company gains and losses

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Income from investments held by insurance companies	**2,654**	2,916
Interest income and current income	1,291	1,332
Income from reversals of impairment losses and unrealized gains	22	134
Gains on valuation through profit or loss of investments held by insurance companies	559	844
Gains on disposals	782	606
Expenses in connection with investments held by insurance companies	**-955**	-1,019
Administrative expenses	-74	-62
Depreciation/amortization expense, impairment losses, and unrealized losses	-446	-438
Losses on valuation through profit or loss of investments held by insurance companies	-349	-273
Losses on disposals	-86	-246
Other gains and losses of insurance companies	**148**	103
Other insurance gains and losses	159	72
Other non-insurance gains and losses	-11	31
Total	**1,847**	2,000

» 13 Insurance benefit payments

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Expenses for claims	**-4,686**	**-4,778**
Gross expenses for claims	-4,700	-4,831
Reinsurers' share	14	53
Changes in the benefit reserve and in other insurance liabilities	**-2,443**	**-1,648**
Gross changes in provisions	-2,441	-1,646
Reinsurers' share	-2	-2
Expenses for premium refunds	**-414**	**-1,069**
Gross expenses for premium refunds	-210	-303
Expenses for deferred premium refunds	-204	-766
Total	**-7,543**	**-7,495**

» 14 Insurance business operating expenses

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Gross expenses	-1,264	-1,204
Reinsurers' share	8	11
Total	**-1,256**	**-1,193**

» 15 Administrative expenses

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Staff expenses	-904	-827
General and administrative expenses	-951	-806
Depreciation and amortization	-87	-70
Total	**-1,942**	**-1,703**

» 16 Other net operating income

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Other income from leasing business	1	–
Gains and losses on non-current assets and disposal groups classified as held for sale	–	6
Income from the reversal of provisions and accruals	41	43
Residual other net operating income	12	1
Total	**54**	50

» 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 amounts were reclassified from other comprehensive income/loss to the income statement in the reporting period:

€ million	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Gains and losses on available-for-sale financial assets	**-302**	282
Gains (+)/losses (-) arising during the reporting period	-66	447
Gains (-)/losses (+) reclassified to the income statement	-236	-165
Gains and losses on cash flow hedges	**17**	5
Gains (+)/losses (-) arising during the reporting period	10	2
Gains (-)/losses (+) reclassified to the income statement	7	3
Exchange differences on currency translation of foreign operations	**-22**	-6
Gains (+)/losses (-) arising during the reporting period	-22	-9
Gains (-)/losses (+) reclassified to the income statement	–	3
Gains and losses on hedges of net investments in foreign operations	**12**	7
Gains (+)/losses (-) arising during the reporting period	16	5
Gains (-)/losses (+) reclassified to the income statement	-4	2

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, 2017 Amount before taxes	Income taxes	Amount after taxes	Jan. 1 – Jun. 30, 2016 Amount before taxes	Income taxes	Amount after taxes
Items that may be reclassified to the income statement	**-304**	**115**	**-189**	281	-76	205
Gains and losses on available-for-sale financial assets	-302	130	-172	282	-73	209
Gains and losses on cash flow hedges	17	-5	12	5	-2	3
Exchange differences on currency translation of foreign operations	-22	2	-20	-6	1	-5
Gains and losses on hedges of net investments in foreign operations	12	-12	–	7	-2	5
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	-9	–	-9	-7	–	-7
Items that will not be reclassified to the income statement	**4**	**-2**	**2**	-314	92	-222
Gains and losses arising from remeasurement of defined benefit plans	4	-2	2	-314	92	-222
Total	**-300**	**113**	**-187**	-33	16	-17

C Balance sheet disclosures

» 20 Cash and cash equivalents

€ million	Jun. 30, 2017	Dec. 31, 2016
Cash on hand	207	205
Balances with central banks and other government institutions	12,496	8,310
of which: with Deutsche Bundesbank	2,555	3,333
Total	**12,703**	**8,515**

» 21 Loans and advances to banks

	Repayable on demand		Other loans and advances		Total	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Domestic banks	**29,129**	**23,608**	**75,584**	**74,880**	**104,713**	**98,488**
Affiliated banks	2,378	3,126	67,456	65,964	69,834	69,090
Other banks	26,751	20,482	8,128	8,916	34,879	29,398
Foreign banks	**10,741**	**6,051**	**2,170**	**2,714**	**12,911**	**8,765**
Total	**39,870**	**29,659**	**77,754**	**77,594**	**117,624**	**107,253**

» 22 Loans and advances to customers

€ million	Jun. 30, 2017	Dec. 31, 2016
Loans and advances to domestic customers	138,641	136,344
Loans and advances to foreign customers	37,407	40,188
Total	**176,048**	**176,532**

The following table shows the breakdown of loans and advances to customers by type of business:

€ million	Jun. 30, 2017	Dec. 31, 2016
Local authority loans	22,407	23,540
Mortgage loans and other loans secured by mortgages on real estate	47,271	46,753
Loans secured by ship mortgages	1,183	1,413
Home savings loans advanced by building society	39,054	37,253
Finance leases	3,059	3,156
Money market placements	1,306	1,075
Other loans and advances	61,768	63,342
Total	**176,048**	**176,532**

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		Allowances for losses on loans and advances to customers		Total
	Specific loan loss allowances	Portfolio loan loss allowances	Specific loan loss allowances	Portfolio loan loss allowances	
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**
Balance as at Jan. 1, 2017	7	29	1,829	529	2,394
Additions	–	1	616	147	764
Utilizations	–	–	-125	–	-125
Reversals	-5	-8	-161	-137	-311
Interest income	–	–	-20	–	-20
Other changes	–	–	-51	–	-51
Balance as at Jun. 30, 2017	**2**	**22**	**2,088**	**539**	**2,651**

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, 2017	Dec. 31, 2016
Derivatives used as fair value hedges	**1,424**	1,545
Interest-linked contracts	1,424	1,545
Derivatives used as cash flow hedges	**5**	2
Currency-linked contracts	5	2
Derivatives used for hedges of net investments in foreign operations	**5**	2
Currency-linked contracts	5	2
Total	**1,434**	1,549

» 25 Financial assets held for trading

€ million	Jun. 30, 2017	Dec. 31, 2016
DERIVATIVES (POSITIVE FAIR VALUES)	**18,964**	**23,585**
Interest-linked contracts	16,477	20,438
Currency-linked contracts	804	1,794
Share-/index-linked contracts	332	298
Other contracts	1,008	811
Credit derivatives	343	244
BONDS AND OTHER FIXED-INCOME SECURITIES	**9,696**	**9,459**
Money market instruments	**222**	**172**
from public-sector issuers	169	172
from other issuers	53	–
Bonds	**9,474**	**9,287**
from public-sector issuers	2,400	1,676
from other issuers	7,074	7,611
SHARES AND OTHER VARIABLE-YIELD SECURITIES	**1,056**	**1,047**
Shares	1,035	1,026
Investment fund units	16	16
Other variable-yield securities	5	5
RECEIVABLES	**14,135**	**15,188**
Money market placements	**13,294**	**14,238**
with banks	10,077	10,742
of which: with affiliated banks	982	1,181
with other banks	9,095	9,561
with customers	3,217	3,496
Promissory notes, registered bonds, and other loans and advances	**841**	**950**
with banks	489	532
of which: with other banks	489	532
with customers	352	418
Total	**43,851**	**49,279**

» 26 Investments

€ million	Jun. 30, 2017	Dec. 31, 2016
BONDS AND OTHER FIXED-INCOME SECURITIES	**60,515**	**67,384**
Money market instruments	**320**	**366**
from other issuers	320	366
Bonds	**60,195**	**67,018**
from public-sector issuers	29,376	32,144
from other issuers	30,819	34,874
SHARES AND OTHER VARIABLE-YIELD SECURITIES	**1,395**	**1,609**
Shares and other shareholdings	348	327
Investment fund units	1,040	1,274
Other variable-yield securities	7	8
INVESTMENTS IN SUBSIDIARIES	**451**	**270**
INVESTMENTS IN JOINT VENTURES	**544**	**562**
INVESTMENTS IN ASSOCIATES	**380**	**355**
Total	**63,285**	**70,180**

The carrying amount of investments in joint ventures accounted for using the equity method totaled €541 million (December 31, 2016: €560 million). €376 million of the investments in associates has been accounted for using the equity method (December 31, 2016: €349 million).

» 27 Investments held by insurance companies

€ million	Jun. 30, 2017	Dec. 31, 2016
Investment property	2,514	2,470
Investments in subsidiaries	637	604
Investments in joint ventures	15	16
Investments in associates	1	1
Mortgage loans	9,051	9,049
Promissory notes and loans	8,096	8,211
Registered bonds	9,366	9,338
Other loans	674	768
Variable-yield securities	8,966	8,430
Fixed-income securities	42,990	40,927
Derivatives (positive fair values)	248	360
Deposits with ceding insurers and other investments	202	188
Assets related to unit-linked contracts	10,665	10,011
Total	**93,425**	**90,373**

» 28 Property, plant and equipment, and investment property

€ million	Jun. 30, 2017	Dec. 31, 2016
Land and buildings	945	953
Office furniture and equipment	152	158
Assets subject to operating leases	219	388
Investment property	251	253
Total	**1,567**	**1,752**

» 29 Other assets

€ million	Jun. 30, 2017	Dec. 31, 2016
Other assets held by insurance companies	3,570	3,719
Goodwill	169	169
Other intangible assets	455	462
of which: software	330	326
acquired customer relationships	71	79
Other loans and advances	315	213
Residual other assets	523	407
Total	**5,032**	**4,970**

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

€ million	Jun. 30, 2017	Dec. 31, 2016
Intangible assets	145	156
Reinsurance assets	221	224
Receivables	687	633
Credit balances with banks, checks and cash on hand	636	738
Residual other assets	1,881	1,968
Total	**3,570**	**3,719**

» 30 Non-current assets and disposal groups classified as held for sale

The non-current assets and disposal groups classified as held for sale include individual non-current assets and assets from disposal groups not qualifying as discontinued operations. As at December 31, 2016, there had also been assets and liabilities of subsidiaries to be sold within one year; these were sold in the first half of 2017.

The individual non-current assets classified as held for sale comprise a long-term equity investment and items of property, plant and equipment. The assets from disposal groups not qualifying as discontinued operations are investment fund units in various funds. The long-term equity investment is measured at fair value through other comprehensive income. The cumulative fair value gains of €123 million are reported under equity in the revaluation reserve.

» 31 Deposits from banks

€ million	Repayable on demand		With agreed maturity or notice period		Total	
	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Domestic banks	**33,823**	38,793	**83,068**	79,154	**116,891**	117,947
Affiliated banks	29,704	33,982	22,435	21,883	52,139	55,865
Other banks	4,119	4,811	60,633	57,271	64,752	62,082
Foreign banks	**2,320**	2,075	**12,354**	9,258	**14,674**	11,333
Total	**36,143**	40,868	**95,422**	88,412	**131,565**	129,280

» 32 Deposits from customers

€ million	Jun. 30, 2017	Dec. 31, 2016
DEPOSITS FROM DOMESTIC CUSTOMERS	**111,611**	109,677
Home savings deposits	**53,358**	51,905
Other deposits	**58,253**	57,772
Repayable on demand	15,768	13,722
With agreed maturity or notice period	42,485	44,050
DEPOSITS FROM FOREIGN CUSTOMERS	**17,464**	14,748
Home savings deposits	**1,939**	1,865
Other deposits	**15,525**	12,883
Repayable on demand	9,429	7,998
With agreed maturity or notice period	6,096	4,885
Total	**129,075**	124,425

» 33 Debt certificates issued including bonds

€ million	Jun. 30, 2017	Dec. 31, 2016
Bonds issued	**52,618**	52,629
Mortgage Pfandbriefe	17,535	16,792
Public-sector Pfandbriefe	2,276	3,089
Other bonds	32,807	32,748
Other debt certificates issued	**18,678**	25,609
Total	**71,296**	78,238

All other debt certificates issued are commercial paper.

» 34
Derivatives used for hedging (negative fair values)

€ million	Jun. 30, 2017	Dec. 31, 2016
Derivatives used as fair value hedges	**3,308**	**3,858**
Interest-linked contracts	3,308	3,858
Derivatives used as cash flow hedges	**2**	**16**
Currency-linked contracts	2	16
Total	**3,310**	**3,874**

» 35
Financial liabilities held for trading

€ million	Jun. 30, 2017	Dec. 31, 2016
DERIVATIVES (NEGATIVE FAIR VALUES)	**20,462**	**25,123**
Interest-linked contracts	16,027	19,568
Currency-linked contracts	1,375	1,171
Share-/index-linked contracts	835	791
Other contracts	2,137	3,492
Credit derivatives	88	101
SHORT POSITIONS	**1,862**	**508**
BONDS ISSUED	**18,800**	**17,465**
DEPOSITS	**11,279**	**7,108**
Money market deposits	**11,133**	**6,939**
from banks	10,302	6,345
of which: from affiliated banks	1,449	1,375
from other banks	8,853	4,970
from customers	831	594
Promissory notes and registered bonds issued	**146**	**169**
to banks	120	133
of which: to affiliated banks	120	133
to customers	26	36
Total	**52,403**	**50,204**

Bonds issued mainly comprise share certificates and index-linked certificates.

» 36 Provisions

€ million	Jun. 30, 2017	Dec. 31, 2016
Provisions for employee benefits	**2,181**	**2,467**
Provisions for defined benefit plans	1,819	2,058
Provisions for other long-term employee benefits	123	139
of which: for semi-retirement schemes	14	15
Provisions for termination benefits	211	232
of which: for early retirement schemes	12	15
for restructuring	169	187
Provisions for short-term employee benefits	28	38
Provisions for share-based payment transactions	**37**	**39**
Other provisions	**1,494**	**1,535**
Provisions for onerous contracts	13	10
Provisions for restructuring	13	15
Provisions for loan commitments	120	137
Other provisions for loans and advances	82	85
Provisions relating to building society operations	952	915
Residual provisions	314	373
Total	**3,712**	**4,041**

» 37 Insurance liabilities

€ million	Jun. 30, 2017	Dec. 31, 2016
Provision for unearned premiums	1,963	1,119
Benefit reserve	56,992	55,167
Provision for claims outstanding	10,573	10,071
Provision for premium refunds	8,492	8,918
Other insurance liabilities	65	65
Reserve for unit-linked insurance contracts	9,345	8,785
Total	**87,430**	**84,125**

» 38 Other liabilities

€ million	Jun. 30, 2017	Dec. 31, 2016
Other liabilities of insurance companies	4,946	4,948
Liabilities from financial guarantee contracts	110	117
Accruals	755	1,048
Other payables	177	139
Residual other liabilities	450	410
Total	**6,438**	**6,662**

The table below gives a breakdown of insurance companies' other liabilities.

€ million	Jun. 30, 2017	Dec. 31, 2016
Other provisions	335	329
Payables and residual other liabilities	4,611	4,619
Total	**4,946**	**4,948**

» 39 Subordinated capital

€ million	Jun. 30, 2017	Dec. 31, 2016
Subordinated liabilities	4,136	4,391
Profit-sharing rights	283	291
Other hybrid capital	19	19
Share capital repayable on demand	21	22
Total	**4,459**	**4,723**

Subscribed capital

» 40
Equity

The subscribed capital of DZ BANK consists of 1,791,344,757 registered non-par-value shares each with an imputed value of €2.75. All shares in issue are fully paid-up. As at December 31, 2016, DZ BANK held 93,247,143 of these shares as treasury shares, reducing the subscribed capital by €243 million.

In the first half of 2017, the Annual General Meeting decided to retire the 93,247,143 treasury shares held by DZ BANK without reducing the share capital. This means that the retirement simply decreased the total number of DZ BANK shares by 93,247,143 non-par-value shares from 1,884,591,900 non-par-value shares. Consequently, the imputed value of each remaining non-par-value share of the share capital went up. To smooth out the imputed value per non-par-value share at €2.75, the Annual General Meeting decided to increase the share capital from company funds. This was done by withdrawing €26,259,141.75 from the capital reserve and reclassifying it to the share capital. As a result, the share capital rose from a total of €4,899,938,940.00 to €4,926,198,081.75 in the first half of 2017.

In the first half of 2017, a dividend of €0.18 per share was paid for the 2016 financial year (first half of 2016: €0.16).

D Financial instruments and fair value disclosures

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):

» 41
Classes, categories, and fair values of financial instruments

€ million	Jun. 30, 2017 Carrying amount	Jun. 30, 2017 Fair value	Dec. 31, 2016 Carrying amount	Dec. 31, 2016 Fair value
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**162,998**	**162,998**	**172,583**	**172,583**
Financial instruments held for trading	**44,099**	**44,099**	**49,639**	**49,639**
Financial assets held for trading	43,851	43,851	49,279	49,279
Investments held by insurance companies	248	248	360	360
Fair value option	**19,911**	**19,911**	**21,300**	**21,300**
Loans and advances to banks	2,088	2,088	2,053	2,053
Loans and advances to customers	7,083	7,083	7,564	7,564
Investments	10,094	10,094	11,013	11,013
Investments held by insurance companies	646	646	670	670
Derivatives used for hedging	**1,434**	**1,434**	**1,549**	**1,549**
Derivatives used for hedging (positive fair values)	1,434	1,434	1,549	1,549
Available-for-sale financial assets	**97,554**	**97,554**	**100,095**	**100,095**
Loans and advances to customers	21	21	22	22
Investments	45,331	45,331	50,527	50,527
Investments held by insurance companies	52,202	52,202	49,546	49,546
FINANCIAL ASSETS MEASURED AT AMORTIZED COST	**325,938**	**333,159**	**312,778**	**322,074**
Held-to-maturity investments	**1,950**	**1,917**	**2,561**	**2,524**
Investments	1,950	1,917	2,561	2,524
Loans and receivables	**323,656**	**330,910**	**309,879**	**319,212**
Cash and cash equivalents	12,496	12,496	8,310	8,310
Loans and advances to banks	115,495	116,832	105,150	107,118
Loans and advances to customers	163,287	164,912	163,464	166,070
Investments	4,736	4,867	4,919	5,031
Investments held by insurance companies	26,873	30,764	27,041	31,664
Other assets	1,039	1,039	1,019	1,019
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	-270		-24	
Available-for-sale financial assets	**332**	**332**	**338**	**338**
Investments	257	257	251	251
Investments held by insurance companies	75	75	87	87
FINANCE LEASES	**3,047**	**3,118**	**3,138**	**3,226**
Loans and advances to banks	17	14	14	15
Loans and advances to customers	3,030	3,104	3,124	3,211

€ million	Jun. 30, 2017 Carrying amount	Jun. 30, 2017 Fair value	Dec. 31, 2016 Carrying amount	Dec. 31, 2016 Fair value
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**86,591**	**86,591**	**84,494**	**84,494**
Financial instruments held for trading	**52,456**	**52,456**	**50,309**	**50,309**
Financial liabilities held for trading	52,403	52,403	50,204	50,204
Other liabilities	53	53	105	105
Fair value option	**30,825**	**30,825**	**30,311**	**30,311**
Deposits from banks	5,314	5,314	5,178	5,178
Deposits from customers	11,070	11,070	11,544	11,544
Debt certificates issued including bonds	13,820	13,820	12,957	12,957
Subordinated capital	621	621	632	632
Derivatives used for hedging	**3,310**	**3,310**	**3,874**	**3,874**
Derivatives used for hedging (negative fair values)	3,310	3,310	3,874	3,874
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	**307,083**	**309,967**	**307,811**	**311,873**
Deposits from banks	126,251	127,598	124,102	126,145
Deposits from customers	118,005	119,378	112,881	114,839
Debt certificates issued including bonds	57,476	57,553	65,281	64,785
Other liabilities	1,384	1,385	1,276	1,276
Subordinated capital	3,838	4,053	4,091	4,828
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	129		180	
FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS	**230**	**230**	**254**	**254**
Financial guarantee contracts	**110**	**110**	**117**	**117**
Other liabilities	110	110	117	117
Loan commitments	**120**	**120**	**137**	**137**
Provisions	120	120	137	137

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 was €27,755 million (December 31, 2016: €28,079 million), such investments being measured at amortized cost and reported under loans and receivables.

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 €328 million (December 31, 2016: €335 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, a small volume of other shareholdings measured at cost and investments in associates measured at cost were sold. This resulted in negligible losses on disposal.

In the first half of 2016, 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 had been sold. This had resulted in gains on disposal of €1 million.

Fair value hierarchy

» 42
Assets and liabilities measured at fair value on the balance sheet

The fair value measurements are assigned to the levels of the fair value hierarchy as follows:

	Level 1		Level 2		Level 3	
€ million	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Assets	**66,481**	63,503	**100,395**	112,610	**6,944**	6,663
Loans and advances to banks	–	–	1,858	1,824	230	229
Loans and advances to customers	–	–	6,021	6,507	1,083	1,079
Derivatives used for hedging (positive fair values)	–	–	1,434	1,549	–	–
Financial assets held for trading	1,262	1,217	41,994	47,621	595	441
Investments	14,476	14,168	38,922	45,480	2,027	1,892
Investments held by insurance companies	50,743	48,092	10,132	9,609	2,886	2,886
Non-current assets and disposal groups classified as held for sale	–	26	34	20	123	136
of which: non-recurring measurement	–	26	–	–	–	–
Liabilities	**1,192**	1,170	**93,835**	90,865	**2,128**	2,393
Deposits from banks	–	–	5,314	5,177	–	1
Deposits from customers	–	–	11,070	11,544	–	–
Debt certificates issued including bonds	488	492	12,798	11,951	534	514
Derivatives used for hedging (negative fair values)	–	–	3,310	3,874	–	–
Financial liabilities held for trading	703	647	50,339	48,047	1,361	1,510
Financial liabilities arising from unit-linked insurance products	–	–	10,564	9,909	–	–
Other liabilities	1	6	37	80	15	19
Subordinated capital	–	–	403	283	218	349
Liabilities included in disposal groups classified as held for sale	–	25	–	–	–	–

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, 2017	Jan. 1 – Jun. 30, 2016	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Assets measured at fair value	**121**	209	**211**	1,347
Financial assets held for trading	34	–	3	18
Investments	17	–	4	1,042
Investments held by insurance companies	70	209	204	287
Liabilities measured at fair value	**3**	–	**–**	10
Financial liabilities held for trading	3	–	–	10

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 are changes in the inputs that are 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 input 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 (DCF) 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 unstructured bonds. Otherwise, it mainly uses the DCF 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 DCF 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 (CVAs) are recognized to mitigate counterparty credit risk and debt valuation adjustments (DVAs) 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 the spreads of the unobservable inputs 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	230	DCF method	Credit spread	0.4 to 4
Loans and advances to customers	Loans	419	DCF method	Credit spread	0 to 8.3
		12	DCF method	Internal spread	1.5 to 9.5
		631	DCF method	BVAL price adjustment	-1.2 to 2.3
	Receivables arising from silent partnerships	21	DCF method	Internal credit ratings	6.9
Financial assets held for trading	ABSs	56	DCF method	Credit spread	0.7 to 5.6
	Bearer securities	237	DCF method	BVAL price adjustment	-0.9 to 0.6
	Equity/commodity basket products	15	Local volatility model	Correlation of the risk factors considered	9.9 to 87.9
	Collateralized loan obligations	44	Gaussian copula model	Liquidity spread	0 to 1.6
	Syndicated loans	15	DCF method	Credit spread	0 to 8.3
	Loans and advances to issuers in default	6	DCF method	Recovery rate	–
	Registered securities	189	DCF method	BVAL price adjustment	-1.2 to 2.3
	Option in connection with acquisition of long-term equity investments	33	Black-Scholes model	Earnings indicators	–
Investments	Bearer securities	607	DCF method	BVAL price adjustment	-0.9 to 0.6
		184	DCF method	Recovery rate	61.3 to 131.4
	VR Circle	543	DCF method	Multiple-year default probabilities	0 to 100
	Investments in subsidiaries	18	Income capitalization approach	Future income	–
		36	DCF method	Assumptions for measurement of risk parameters	9.2 to 14.6
		479	Income capitalization approach, net asset value method	Future income	–
	Other shareholdings	13	DCF method	Assumptions for measurement of risk parameters	9.2 to 14.6
	Investment fund units	33	Net asset value	–	–
	ABSs	68	DCF method	Credit spread	0.7 to 5.6
	Collateralized loan obligations	46	Gaussian copula model	Liquidity spread	0 to 1.6

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	1,426	Net asset value	–	–
	Investments in subsidiaries and associates, other long-term equity investments, and shares in cooperative banks	361	Income capitalization approach	Future income	6.1 to 8.9
		321	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	238	DCF method	Credit spread	5.8 to 6.1
	Fixed-income securities, shares, and shares in cooperative banks	454	Prices offered by external suppliers of market prices	–	–
Non-current assets and disposal groups classified as held for sale	Other shareholdings	123	Income capitalization approach	Future income	–
Debt certificates issued including bonds	VR Circle	534	DCF method	Multiple-year default probabilities	0 to 100
Financial liabilities held for trading	Equity/commodity basket products	1,352	Local volatility model	Correlation of the risk factors considered	9.9 to 87.9
	Basket credit-linked notes	2	Gaussian copula model	Credit correlation	55
	Option in connection with acquisition of long-term equity investments	7	Black-Scholes model	Earnings indicators	–
Other liabilities	Derivatives (negative fair values)	15	DCF method	Correlation of the risk factors considered	41.8
Subordinated capital	Loans	218	DCF method	Credit spread	0.4 to 4

The following table shows the valuation techniques, the unobservable inputs, and the spreads of the unobservable inputs used for the fair value measurements at Level 3 of the fair value hierarchy as at December 31, 2016.

Class according to IFRS 13	Assets/ liabilities	Fair value (€ million)	Valuation technique	Unobservable inputs	Spread of unobservable inputs (%)
Loans and advances to banks	Loans	229	DCF method	Credit spread	0.5 to 4.5
Loans and advances to customers	Loans	525	DCF method	Credit spread	0 to 8.3
		17	DCF method	Internal spread	1.5 to 9.5
		515	DCF method	BVAL price adjustment	-1.9 to 1.3
	Receivables arising from silent partnerships	22	DCF method	Internal credit ratings	6.7
Financial assets held for trading	ABSs	58	DCF method	Credit spread	0.7 to 150
	Bearer securities	30	DCF method	BVAL price adjustment	-0.2 to 0.6
	Equity/commodity basket products	12	Local volatility model	Correlation of the risk factors considered	-14.6 to 82.8
	Collateralized loan obligations	3	Gaussian copula model	Liquidity spread	0
	Syndicated loans	66	DCF method	Credit spread	0 to 8.3
	Loans and advances to issuers in default	7	DCF method	Recovery rate	–
	Registered securities	265	DCF method	BVAL price adjustment	-1.9 to 1.3
Investments	Bearer securities	752	DCF method	BVAL price adjustment	-0.2 to 0.6
		62	DCF method	Recovery rate	88.7 to 132.5
	VR Circle	515	DCF method	Multiple-year default probabilities	0 to 100
	Investments in subsidiaries	12	Income capitalization approach	Future income	–
		30	DCF method	Assumptions for measurement of risk parameters	9.3 to 14.6
	Other shareholdings	311	DCF method	Assumptions for measurement of risk parameters	9.3 to 14.6
	Investment fund units	44	Net asset value	–	–
	ABSs	166	DCF method	Credit spread	0.3 to 150

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	1,427	Net asset value	–	–
	Investments in subsidiaries and associates, investment fund units, profit-participation certificates, long-term equity investments	354	Income capitalization approach	Future income	6.1 to 11.3
		360	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	262	DCF method	Credit spread	0 to 6.1
	Fixed-income securities, shares	396	Prices offered by external suppliers of market prices	–	–
	Derivatives (positive fair values)	1	Prices offered by external suppliers of market prices	–	–
Non-current assets and disposal groups classified as held for sale	Other shareholdings	136	Income capitalization approach	Future income	–
Deposits from banks	Loans	1	DCF method	Credit spread	0.5 to 4.5
Debt certificates issued including bonds	VR Circle	514	DCF method	Multiple-year default probabilities	0 to 100
Financial liabilities held for trading	Equity/commodity basket products	1,486	Local volatility model	Correlation of the risk factors considered	-14.6 to 82.8
	Basket credit-linked notes	22	Gaussian copula model	Credit correlation	55 to 80
	Products with quanto correlation	2	Libor market model	Correlation of the risk factors considered	32.7 to 70
Other liabilities	Derivatives (negative fair values)	1	Prices offered by external suppliers of market prices	–	–
	Derivatives (negative fair values)	18	DCF method	Correlation of the risk factors considered	41.8
Subordinated capital	Loans	349	DCF method	Credit spread	0.5 to 4.5

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, 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**	**–**
Balance as at Jan. 1, 2017	229	1,079	441	1,892	2,886	136
Additions (purchases)	–	115	33	207	215	–
Transfers	–	–	194	210	27	–
from Level 3 to Levels 1 and 2	–	–	-79	-69	-87	–
from Levels 1 and 2 to Level 3	–	–	273	279	114	–
Disposals (sales)	–	-79	-88	-278	-241	–
Changes resulting from measurement at fair value	1	-6	16	2	-14	-13
through profit or loss	1	-6	16	3	-17	–
through other comprehensive income	–	–	–	-1	3	-13
Other changes	–	-26	-1	-6	13	–
Balance as at Jun. 30, 2017	**230**	**1,083**	**595**	**2,027**	**2,886**	**123**

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	Debt certificates issued including bonds	Financial liabilities held for trading	Other liabilities	Sub-ordinated capital
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**
Balance as at Jan. 1, 2017	1	514	1,510	19	349
Additions (issues)	–	20	25	–	–
Transfers	-1	–	-175	–	–
from Level 3 to Levels 1 and 2	-1	–	-216	–	–
from Levels 1 and 2 to Level 3	–	–	41	–	–
Disposals (settlements)	–	–	–	-2	–
Changes resulting from measurement at fair value through profit or loss	–	–	1	-2	-2
Other changes	–	–	–	–	-129
Balance as at Jun. 30, 2017	**–**	**534**	**1,361**	**15**	**218**

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 inputs 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 inputs used in the valuation methods. Transfers from Level 3 to Levels 1 or 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 inputs 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 gain of €15 million during the reporting period (first half of 2016: loss of €25 million). The gains or losses are included 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 €12 million loss in the income statement (December 31, 2016: loss of €16 million) and a loss of €20 million under other comprehensive income/loss (December 31, 2016: loss of €15 million). In the case of the fair values of loans and advances to customers, the same change would lead to the recognition of a €9 million loss in the income statement (December 31, 2016: loss of €13 million) and a loss of €1 million under other comprehensive income/loss (December 31, 2016: loss of €1 million). For the fair values of investments, there would be a €9 million loss under other comprehensive income/loss (December 31, 2016: loss of €3 million) and a €16 million loss in the income statement (December 31, 2016: loss of €12 million). There would be no changes in the income statement within financial assets held for trading as at the balance sheet date (December 31, 2016: loss of €4 million). Under equity and liabilities, there would be changes within other liabilities giving rise to a loss of €1 million in profit or loss (December 31, 2016: loss of €1 million), and changes within financial liabilities held for trading giving rise to a gain of €2 million recognized in profit or loss. As at December 31, 2016, there would have been no changes within financial liabilities held for trading.

The fair values of bonds without liquid markets that are reported within financial assets held for trading, investments, loans and advances to banks, and loans and advances to customers are given an individual adjustment spread or are measured using Bloomberg Valuation Service prices, which are observable 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 €37 million loss in the income statement (December 31, 2016: loss of €76 million) and a gain of €5 million under other comprehensive income/loss (December 31, 2016: gain of €7 million). Historical spreads are used for bonds recognized under 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 €2 million increase in fair value that would be recognized in the income statement (December 31, 2016: increase of €4 million).

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 and under investments. All other things being equal, an increase of 1 percent would lead to the recognition of a €4 million loss in the income statement (December 31, 2016: loss of €3 million) and a loss of €1 million in other comprehensive income/loss (December 31, 2016: loss of €1 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 €5 million in the income statement (December 31, 2016: gain of €28 million).

An alternative assumption about the liquidity spreads used could lead to a significant change in respect of collateralized loan obligations reported under investments and financial assets held for trading. All other things being equal, a rise in the liquidity spread assumptions by 1 percent would lead to a €3 million decrease in the fair values of these financial assets that would be recognized in the income statement. There would have been no changes as at December 31, 2016.

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, 2017	Jan. 1 – Jun. 30, 2016
Gains and losses on fair value hedges	**-3**	-1
Gains and losses on hedging instruments	-90	107
Gains and losses on hedged items	87	-108
Gains and losses on portfolio fair value hedges	**-9**	4
Gains and losses on hedging instruments	463	-744
Gains and losses on hedged items	-472	748
Gains and losses on cash flow hedges	**–**	1
Total	**-12**	4

» 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 and fair values 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, 2017 Carrying amount	Jun. 30, 2017 Fair value	Dec. 31, 2016 Carrying amount	Dec. 31, 2016 Fair value
Portugal	**638**	**645**	679	659
Fair value option	349	349	317	317
Available-for-sale financial assets	–	–	69	69
Held-to-maturity investments	239	240	244	221
Loans and receivables	50	56	49	52
Italy	**6,032**	**5,992**	6,228	6,202
Financial instruments held for trading	20	20	20	20
Fair value option	1,342	1,342	1,413	1,413
Available-for-sale financial assets	4,196	4,196	4,317	4,317
Held-to-maturity investments	474	434	478	452
Spain	**2,186**	**2,182**	2,161	2,157
Financial instruments held for trading	215	215	218	218
Fair value option	1,104	1,104	1,119	1,119
Available-for-sale financial assets	675	675	631	631
Held-to-maturity investments	192	188	193	189
Total	**8,856**	**8,819**	9,068	9,018

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.

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, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016	Jun. 30, 2017	Dec. 31, 2016
Portugal	**349**	317	**–**	69	**–**	–
Fair value option	349	317	–	–	–	–
Available-for-sale financial assets	–	–	–	69	–	–
Italy	**4,378**	4,609	**1,041**	1,141	**139**	–
Financial instruments held for trading	–	–	20	20	–	–
Fair value option	1,207	1,331	79	82	56	–
Available-for-sale financial assets	3,171	3,278	942	1,039	83	–
Spain	**1,305**	1,304	**591**	664	**98**	–
Financial instruments held for trading	–	–	215	218	–	–
Fair value option	1,011	1,069	50	50	43	–
Available-for-sale financial assets	294	235	326	396	55	–
Total	**6,032**	6,230	**1,632**	1,874	**237**	–

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, 2017

€ million	≤ 1 month	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Portugal	–	–	25	101	848
Italy	27	102	344	1,780	5,380
Spain	10	1	220	450	2,651
Total	**37**	**103**	**589**	**2,331**	**8,879**

AS AT DECEMBER 31, 2016

€ million	≤ 1 month	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Portugal	20	–	28	151	859
Italy	95	100	345	1,727	5,264
Spain	5	4	120	533	2,142
Total	**120**	**104**	**493**	**2,411**	**8,265**

The maturity analysis shows the contractually agreed cash inflows.

E Other disclosures

» 46 Contingent liabilities

€ million	Jun. 30, 2017	Dec. 31, 2016
Contingent liabilities in respect of litigation risk	3	2
Other contingent liabilities	11	–
Total	**14**	**2**

The contingent liabilities in respect of litigation risk comprise a small number of court proceedings relating to different cases. Where provisions have been recognized for particular claims, no contingent liabilities are recognized.

The other contingent liabilities consist almost exclusively of irrevocable payment commitments that were made after the applications to furnish collateral in partial settlement of the annual contribution to the European bank levy for 2017 was accepted by the Single Resolution Board (SRB).

» 47 Financial guarantee contracts and loan commitments

€ million	Jun. 30, 2017	Dec. 31, 2016
Financial guarantee contracts	**7,167**	**7,157**
Loan guarantees	3,936	3,817
Letters of credit	550	512
Other guarantees and warranties	2,681	2,828
Loan commitments	**33,459**	**33,130**
Credit facilities to banks	5,339	4,596
Credit facilities to customers	14,978	14,936
Guarantee credits	333	150
Letters of credit	1	5
Global limits	12,808	13,443
Total	**40,626**	**40,287**

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

» 48 Trust activities

Trust assets and trust liabilities amounted to €1,114 million at the balance sheet date (December 31, 2016: €1,124 million).

» 49
Business combinations

DZ BANK AG acquired control (as defined by IFRS 10) over WGZ BANK AG with effect from June 28, 2016. 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 on the basis of a preliminary purchase price allocation. The purchase price allocation pursuant to IFRS 3 and the related determination of the fair values of the assets acquired and liabilities assumed was completed on June 30, 2017. There were no adjustments resulting from completion of the purchase price allocation.

» 50
Employees

Average number of employees by employee group:

	Jan. 1 – Jun. 30, 2017	Jan. 1 – Jun. 30, 2016
Female employees	**13,712**	**12,956**
Full-time employees	8,546	8,232
Part-time employees	5,166	4,724
Male employees	**16,572**	**15,525**
Full-time employees	15,633	14,701
Part-time employees	939	824
Total	**30,284**	**28,481**

A total of 1,712 employees were added as at June 30, 2016 as a result of the business combination with WGZ BANK. These are not included in the average number of employees for the first half of 2016.

» 51
Board of Managing Directors

Wolfgang Kirsch
(Chief Executive Officer)
Responsibilities: Communication, Marketing, CR; Group Audit; Legal; Research and Economics

Hans-Bernd Wolberg
(Deputy Chief Executive Officer)
Responsibilities: Cooperative Banks/Verbund

Uwe Berghaus
Responsibilities: Corporate Banking Northern and Eastern Germany; Corporate Banking Western Germany; Investment Promotion

Dr. Christian Brauckmann
Responsibilities: IT; Organization

Lars Hille
(Member of the Board of Managing Directors until June 9, 2017)
Responsibilities: Capital Markets Trading Düsseldorf; Capital Markets Trading Frankfurt; Capital Markets Retail Clients

Wolfgang Köhler
Responsibilities: Capital Markets Trading; Capital Markets Institutional Clients; Capital Markets Retail Clients; Group Treasury

Karl-Heinz Moll
(Member of the Board of Managing Directors until June 30, 2017)
Responsibilities: Group Treasury; Research and Economics

Dr. Cornelius Riese
Responsibilities: Group Finance; Group Strategy and Controlling

Michael Speth
Responsibilities: Compliance; Group Risk Controlling; Credit; Credit Special

Thomas Ullrich
Responsibilities: Group Human Resources; Operations; Payments & Accounts; Transaction Management

Frank Westhoff
(Member of the Board of Managing Directors until April 30, 2017)
Responsibilities: Compliance; Credit; Credit Special

Stefan Zeidler
Responsibilities: Corporate Banking Baden-Württemberg; Corporate Banking Bavaria; Corporate Banking Central Germany; Structured Finance

» 52
Supervisory
Board

Helmut Gottschalk
(Chairman of the Supervisory Board)
Spokesman of the
Board of Managing Directors
Volksbank Herrenberg-Nagold-
Rottenburg eG
(until June 30, 2017)

Ulrich Birkenstock
(Deputy Chairman of the
Supervisory Board)
Employee
R+V Allgemeine Versicherung AG

Werner Böhnke
(Deputy Chairman of the
Supervisory Board)
Bank director (ret.)

Heiner Beckmann
Senior manager
R+V Allgemeine Versicherung AG

Hermann Buerstedde
Employee
Union Asset Management Holding AG

Henning Deneke-Jöhrens
Chief Executive Officer
Volksbank eG Hildesheim-Lehrte-
Pattensen

Martin Eul
Chief Executive Officer
Dortmunder Volksbank eG

Uwe Fröhlich
President
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V. (BVR)

Uwe Goldstein
Spokesman of the
Board of Managing Directors
Raiffeisenbank Frechen-Hürth eG

Dr. Peter Hanker
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

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

Gregor Scheller
Chief Executive Officer
Volksbank Forchheim eG

Uwe Spitzbarth
Head of the Financial Services Division
ver.di Bundesverwaltung

Sigrid Stenzel
Regional Group Director
ver.di Bayern

Dr. Wolfgang Thomasberger
Chief Executive Officer
VR Bank Rhein-Neckar eG

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, August 22, 2017

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

The Board of Managing Directors

Kirsch Wolberg

Berghaus Dr. Brauckmann Köhler Dr. Riese

Speth Ullrich 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, 2017, 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, August 22, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Freiling	Mai
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Editorial information

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form on our website at www.halfyearreport.dzbank.com.

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