WGZ BANK
Die Initiativbank

2014 Annual Report

Cooperative central institution
and SME bank since 1884

WGZ BANK – Die Initiativbank

WGZ BANK has been the central institution to what are now 187 local cooperative banks in Germany's Rhineland and Westphalia regions since 1884. In addition to its traditional functions as a central institution, it proactively complements the services of its member banks in domestic and international transactions. Beyond its role as a central institution, WGZ BANK has a tradition of working in collaboration with small and medium-sized enterprises (SMEs) in the Rhineland and Westphalia regions and acts as a reliable financial partner for businesses in this sector. As a modern corporate bank, it offers its clients a broad range of suitable products and services tailored to their specific needs.

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

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

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

Key figures for WGZ BANK

Dec. 31, € million	2013 (HGB)	2014 (HGB)	Change	%[3]
Assets				
Loans and advances to				
affiliated banks	**15,844**	**15,336**	-508	-3.2
other banks	**6,046**	**3,168**	-2,878	-47.6
customers	**8,286**	**8,509**	223	2.7
Securities	**8,450**	**8,470**	20	0.2
Trading securities	**9,620**	**9,592**	-28	-0.3
Long-term equity investments and shares in affiliated companies	**2,571**	**2,694**	123	4.8
Other assets	**543**	**482**	-61	-11.2
Equity and liabilities				
Deposits from/amounts owed to				
affiliated banks	**10,227**	**10,177**	-50	-0.5
other banks	**16,767**	**16,701**	-66	-0.4
customers	**6,148**	**6,254**	106	1.7
Debt certificates including bonds	**8,174**	**7,415**	-759	-9.3
Trading securities	**6,063**	**2,979**	-3,084	-50.9
Subordinated liabilities	**517**	**740**	223	43.1
Profit-sharing rights	**-**	**-**	0	0.0
Fund for general banking risks	**819**	**829**	10	1.2
Subscribed capital	**649**	**714**	65	10.0
Reserves	**1,495**	**1,814**	319	21.3
Distributable profit	**77**	**108**	31	40.3
Other liabilities	**424**	**520**	96	22.6
Total assets / total equity and liabilities	**51,360**	**48,251**	-3,109	-6.1
Contingent liabilities	**3,096**	**3,500**	404	13.0
Volume of business	**54,456**	**51,751**	-2,705	-5.0
Derivatives – notional amount –	**137,976**	**161,033**	23,057	16.7
Tier 1 capital	**2,987**	**2,743**	-244	-8.2
Capital	**2,508**	**3,438**	930	37.1
Total capital ratio (%)	**16.6**	**18.8**		
Results of operations				
Net interest income	**291**	**289**	-2	-0.7
Net fee and commission income	**110**	**116**	6	5.5
Net trading income	**80**	**81**	1	1.3
Other net operating income	**0**	**-2**	-2	>100.0
Administrative expenses	**229**	**240**	11	4.8
Operating profit before allowances for losses on loans and advances	**252**	**244**	-8	-3.2
Net income from other business[1]	**-41**	**-69**	-28	<-100
Allowances for losses on loans and advances[2]	**-37**	**68**	105	-283.8
Addition to fund for general banking risks	**-**	**-**	0	0.0
Tax expense	**63**	**77**	14	22.2
Net income for the year	**111**	**166**	55	49.5
Cost/income ratio (%)	**47.7**	**49.6**		

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

Key figures for the WGZ BANK Group

Dec. 31, € million	2013 (IFRS)	2014 (IFRS)	Change	%[3]
Assets				
Loans and advances to				
affiliated banks	**16,368**	**15,596**	-772	-4.7
other banks	**6,598**	**7,242**	644	9.8
customers	**37,007**	**37,621**	614	1.7
Financial assets held for trading	**8,199**	**10,013**	1,814	22.1
Companies accounted for using the equity method	**949**	**980**	31	3.3
Long-term equity investments portfolio and securities portfolio	**20,615**	**21,682**	1,067	5.2
Other assets	**1,190**	**1,739**	549	46.1
Equity and liabilities				
Deposits from/amounts owed to				
affiliated banks	**10,388**	**10,342**	-46	-0.4
other banks	**25,585**	**26,729**	1,144	4.5
customers	**21,911**	**22,555**	644	2.9
Debt certificates including bonds	**22,790**	**21,239**	-1,551	-6.8
Financial liabilities held for trading	**4,871**	**7,004**	2,133	43.8
Subordinated capital	**646**	**770**	124	19.1
Subscribed capital	**649**	**714**	65	10.0
Reserves	**2,562**	**2,955**	393	15.3
Convertible bonds	**0**	**98**	98	>100.0
Non-controlling interests	**-15**	**-8**	7	-47.7
Distributable profit attributable to the group	**77**	**108**	31	41.1
Other liabilities	**1,462**	**2,367**	905	61.9
Total assets / total equity and liabilities	**90,926**	**94,873**	3,947	4.3
Contingent liabilities	**902**	**1,026**	124	13.8
Volume of business	**91,828**	**95,899**	4,071	4.4
Derivatives – notional amount –	**183,851**	**207,499**	23,648	12.9
Tier 1 capital	**3,074**	**3,772**	698	22.7
Liable capital	**2,552**	**3,466**	914	35.8
Total capital ratio (%)	**14.8**	**15.1**		
Financial performance				
Net interest income	**468**	**514**	46	9.8
Allowances for losses on loans and advances	**-8**	**-23**	-15	>100.0
Net fee and commission income	**67**	**69**	2	2.1
Gains and losses arising on hedging transactions	**-36**	**-25**	11	-31.5
Gains and losses on trading activities	**152**	**212**	60	39.4
Gains and losses on investments	**-87**	**-133**	-46	53.1
Profit/loss from companies accounted for using the equity method	**17**	**17**	0	0.6
Administrative expenses	**284**	**296**	12	4.2
Other net operating income	**17**	**-27**	-44	>100.0
Operating profit	**306**	**308**	2	0.6
Tax expense	**79**	**74**	-5	-6.3
Net profit for the year	**227**	**234**	7	3.1
Cost/income ratio (%)	**47.5**	**47.2**		

WGZ BANK
Die Initiativbank

2014 Annual Report


ABO WIND

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Supervisory Board

Werner Böhnke
– Chairman – (from June 24, 2014)
Bank Director (ret.)
Düsseldorf

Dieter Philipp (until June 24, 2014)
– Chairman –
Honorary President of the German Association of Skilled Trades,
President of the Aachen Chamber of Skilled Trades

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

Johannes Berens (until June 24, 2014)
Bank Director (ret.)
Lohmar

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

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Bank Director, Chief Executive Officer
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Dortmund

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Bank Director, Spokesman of
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of Raiffeisenbank Frechen-Hürth eG
Hürth

Ludger Hünteler
WGZ BANK
Düsseldorf

Manfred Jorris
WGZ BANK
Düsseldorf

Ina Maßmann
WGZ BANK
Düsseldorf

Herbert Pfennig (from June 24, 2014)
Bank Director, Spokesman of
the Board of Managing Directors
of Deutsche Apotheker- und Ärztebank eG
Düsseldorf

Board of Managing Directors

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Advisory Council

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– Chairman –
Bank Director (ret.)
Düsseldorf

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– Chairman –
Honorary President of the German Association of Skilled Trades,
President of the Aachen Chamber of Skilled Trades

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

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Düsseldorf

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Münster

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Paderborn

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Koblenz

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Neustadt

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Münster

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Bonn

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Bank Director (ret.)
Münster

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Petershagen

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Arnsberg

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Eschweiler

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of Raiffeisenbank Frechen-Hürth eG
Hürth

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Meerbusch

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Chief Executive Officer of AGRAVIS
Raiffeisen AG
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Greven

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Board of Managing Directors
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Bocholt

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Nottuln

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Mönchengladbach

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Lüdenscheid

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Brakel

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Erkelenz

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Directors of WESTFLEISCH eG
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Kempen

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Bank Director, Member of the
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Waltrop

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

Claus-Dieter Toben
(from November 7, 2014)
Chief Executive Officer of GAD eG
Münster

Helmut Vilmar
Bank Director, Member of the
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of Volksbank Wipperfürth-Lindlar eG
Wipperfürth

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

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

SME Initiative Group

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

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

Initiativkreis
Mittelstand

Jürgen Abromeit
Chief Executive Officer,
INDUS Holding AG

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

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

Andreas Busacker

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

Peter van Hüllen
Chief Executive Officer,
Georgsmarienhütte Holding GmbH

Philipp Koecke
Chief Financial Officer,
SolarWorld AG

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

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

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

Heinz-Peter Schlüter
Chairman of the Supervisory Board,
TRIMET ALUMINIUM SE and
owner of the TRIMET Group

Professor Dr. Günther Schuh
Professor at RWTH Aachen University

Ulrich Schümer
Chief Executive Officer,
Schmitz Cargobull AG

Albert ten Brinke
Managing Director,
Ten Brinke Group

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

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

Introduction by the Board of Managing Directors

Dear reader,

The economic and political environment did not make life particularly easy for banks last year. Although the German economy once again bucked the general European trend by generating better-than-expected growth of 1.4 percent, the banking sector was seriously affected by persistently low – and in some cases negative – interest rates, tighter regulatory requirements, and increasing geopolitical and economic risks. Business conditions will remain difficult this year, with terrorism and violence continuing to dominate the headlines, major challenges for the European political scene making it harder to achieve sustained economic stability, and the low level of interest rates showing no signs of change. On the contrary, the ECB is pumping more cheap money into the economy than ever before. But this is not the way to unleash the forces of growth in the eurozone, as is urgently required, because it will not resolve the fundamental problems of unstable structures and poor competitiveness coupled with a lack of budgetary discipline.

WGZ BANK maintained its successful trajectory in the past financial year. The overall results speak for themselves: Our net profit for the year under IFRS was on a par with the good level achieved in 2013, while the net income figure under HGB rose significantly year on year. Despite high regulatory expenses, the cost/income ratio was encouragingly stable and remains one of the best in the financial services sector. We also continued to make good progress in our operational business with our member banks, corporate customers, capital market partners, real estate customers, and public-sector customers.

Our absolute priority remains our business with the local cooperative banks. The joint sales efforts that we undertook last year in the securities and investment certificates business paid off, with unit sales of share certificates and the number of new investment accounts both reaching record highs. Moreover, the number of mobile brokerage transactions virtually tripled. A particular challenge for the primary institutions, besides persistently low interest rates, is the growth in regulatory requirements. We will significantly increase the support that we offer in relation to regulation and securities settlement, allowing the member banks to focus on their customer business.

Once more, we proved to be a dependable and effective partner to our small and medium-sized corporate customers. Although companies generally continued to shy away from capital expenditure funded by borrowing, the volume of loans and advances to corporate customers rose by €350 million or 4.5 percent to in excess of €8 billion. We also signed up almost 200 new corporate customers. In addition, we are currently working hard to expand our international business so that we can tap into more of the potential that it offers, both for ourselves and for our member banks.

Development lending remains a domain of the cooperative banks, and we and our member banks maintained our leading market position in key development programs run by Germany's KfW development bank. In real estate business, our real estate subsidiary WL BANK exceeded its ambitious targets by achieving a new business volume of €2.8 billion.

We also impressed our capital market partners and remain one of the top ten banks for export finance covered by the EBRD in eastern Europe. We consolidated our market position as a custodian for open-ended and closed-end investment funds, increasing the assets under our custody by approximately €3.8 billion to over €26 billion as at December 31, 2014.

Of huge significance to ensuring the future viability of the WGZ BANK Group were the steps we took to further strengthen our intrinsic value in 2014. We implemented three successful capital increases, thereby boosting our capital base by more than €500 million overall. The WGZ BANK Group's equity rose by roughly 18 percent to over €3.9 billion. The comfortable Tier 1 capital ratio of 13.6 percent at the end of last year is considerably higher than the ECB threshold of 8 percent that applies to our group.

The Board of Managing Directors of WGZ BANK at the Kö-Bogen in Düsseldorf

From left to right:

Dr. Christian Brauckmann

Karl-Heinz Moll

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Michael Speth

The outcome of the stress tests conducted by the ECB in autumn 2014 also confirmed that we have an adequate, solid level of capital resources. Furthermore, our respectable results from the ECB's comprehensive assessment underlined not only the resilience of our group in stress situations but also the good quality of the credit portfolios. Although the first few months since the ECB took over the Single Supervisory Mechanism role have been characterized by constructive cooperation, the large contribution to the European Single Resolution Fund is having a huge adverse impact and requires us to make a payment amounting to tens of millions of euros year after year from now on.

In any case, we have noticed a worrying tendency in European banking regulation for some time now: Small institutions with local operations are facing a disproportionately large burden because, in some cases, they have to comply with the same regulatory requirements as major banking groups. As time passes, this will ultimately result in bank branches disappearing from economically weaker regions. This means that customers will be unable to obtain the face-to-face, personal banking advice that many of them still prefer.

At the same time, demand for digital banking services is rising. So that we can offer our customers a wider range of such services than in the past, we are working hard to develop suitable solutions, not least in the context of projects headed up by the BVR that encompass the entire cooperative financial network – Beratungsqualität (quality of advice), webErfolg (web success), and KundenFokus 2020 (customer focus). The particular challenge for the cooperative data center, which will be formed by merging those of Fiducia & GAD IT, will be to develop innovative, banking-specific IT solutions to ensure that the cooperative financial network continues to perform effectively against a backdrop of increasingly fierce competition.

In 2014, we extended our 'No. 1' strategy, launched in 2009, for a further five years. We are confident that, with this strategy, we have set the right course for the future of WGZ BANK, not least because we have the backing of our shareholders. In the spring of this year, we received a further boost in the form of positive assessments from renowned credit rating agencies, which issued particularly good credit ratings for the cooperative financial network as a whole, while those for WGZ BANK specifically were significantly better than before. This improvement is a recognition of the successful capital increases implemented in 2014, which we also believe are a sign of the great confidence that our shareholders have in us.

We owe our shareholders a particular debt of gratitude for the multitude of ways in which they have supported us throughout 2014. Of course we would also like to thank the members of our Supervisory Board and Advisory Council for their constructive cooperation and valuable advice. In addition, our thanks go to our customers, who continued to place their trust in us in 2014. And, last but not least, we would like to thank our employees for their hard work and outstanding achievements.

The success of our cooperative financial network is rooted in the cooperative principle, which was recently nominated for inclusion on UNESCO's international list of intangible cultural heritage. Not only does this make us proud, it also makes us all the more committed to being an effective and reliable partner to our members and customers, now and in the future. We will continue to do our utmost to live up to this commitment.

The Board of Managing Directors

Hans-Bernd Wolberg
– Chief Executive Officer –

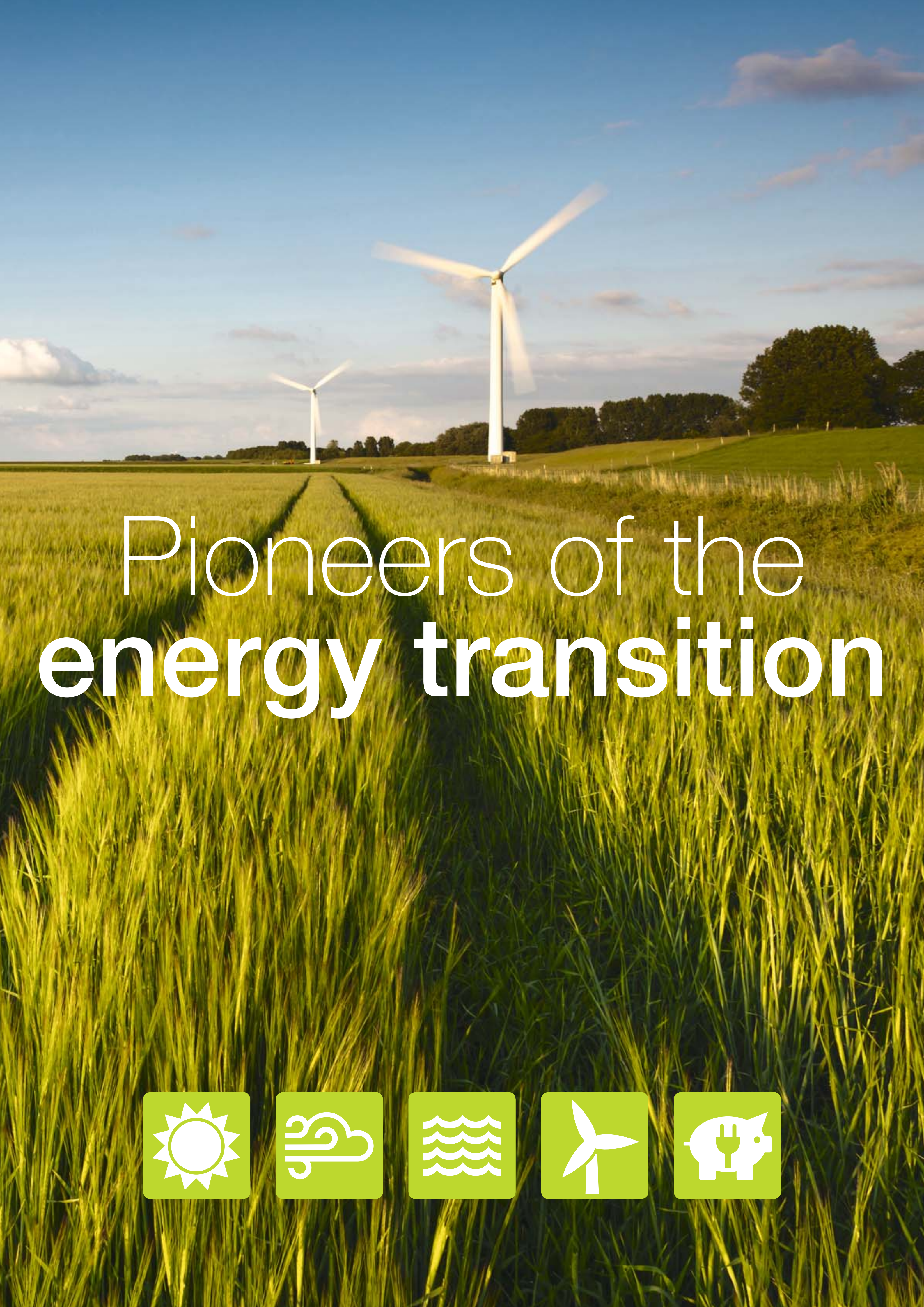
Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Pioneers of the energy transition



There are certainly arguments about the best approach, but nearly all political camps and business leaders have been in agreement about the goal for a long time: Germany is moving on from the age of **fossil fuels and nuclear power** and emerging as a global leader in the **switch to renewable energy sources**.

If the shift in German energy policy is to actually succeed and be held up as an example for others, a great deal of technical expertise, political resolve, entrepreneurial courage and pioneering spirit will be required – but also the backing of a strong funding partner. WGZ BANK and its local cooperative banks in the Rhineland and Westphalia regions of Germany have long been among the most active supporters and shapers of the energy transition. The Volksbanken Raiffeisenbanken cooperative financial network's engagement ranges from traditional project finance and corporate funding to proven expertise in brokering subsidized development loans and active support for energy cooperatives set up by local communities in villages, towns, and cities.

The energy transition plays to the cooperatives' strengths. For the switch to renewable energy sources to happen, it needs to succeed with local communities, companies, and authorities and to get all of them involved. Decentralized and democratized power generation is the formula for success.

On the following pages, we have profiled seven exemplary companies from across Germany that embody the energy transition – and some of them have done so for the past three decades. Each of them works closely with WGZ BANK. Why not take this opportunity to become better acquainted with these pioneers.


ABO WIND
CAPITAL STAGE
RENEWABLE ENERGIES
ENERCON
ENERGIE FÜR DIE WELT
Green City Energy
Der alternative Energiedienstleister
RAG
Montan Immobilien
WESSLING
Quality of Life
B+K
BISCHOF + KLEIN
Schomaker
GmbH & Co. KG

A fair **wind**

ABO Wind AG has been planning and developing wind energy projects in Germany and other European countries for almost 20 years. The Wiesbaden-based company's success is a professional structure, a good eye for suitable locations, a strong network of investors, and close contact with local citizens and municipal utility companies.

Above all, the switch to renewable energy sources is a regional phenomenon with Germany-wide relevance. What were once the four top dogs in the energy market are now struggling to shed their fossil fuel legacy and deal with a sharp decline in business. It is the municipal utility companies and community energy cooperatives that are implementing the shift in German energy policy on the ground.

Dr. Jochen Ahn and Matthias Bockholt founded what is now ABO Wind AG as a two-man operation in 1996 and are still involved as majority shareholders and members of the Managing Board. They recognized the potential of wind power long before many other people did. The business model of the company, which is headquartered in Wiesbaden and now employs around 300 people in Germany, France, Ireland, the United Kingdom, Finland, Spain, and Argentina, is primarily focused on decentralized power generation.

PIPELINE REMAINS WELL STOCKED

ABO Wind plans and develops wind farm projects from start to completion. "We obtain suitable sites in Germany and other countries, draw up all the technical and commercial plans, prepare national and international funding from banks, and finally build and deliver turnkey wind farms," says Dr. Jochen Ahn. "To date, we have connected 500 or so wind turbines with a total capacity of more than 1,000 megawatts to the grid." And the product pipeline remains well stocked: "We expect to add 60 to 70 new turbines in 2015," reports co-founder and fellow Managing Board member Matthias Bockholt. With an annual project volume of approximately €250 million, ABO Wind considers itself to be one of Europe's most experienced developers of wind power projects.

Dr. Jochen Ahn, member of the Managing Board, ABO Wind AG

Jan Hölzmann, renewable energies specialist, corporate customer division, WGZ BANK (right)

ABO Wind builds the turbines as turnkey projects, but rarely operates them itself afterwards. Usually, it sells the finished wind farms to municipal utility companies and institutional investors. The latter include pension funds and insurance companies that, faced with today's persistently low interest rates, are looking for higher-interest alternatives to investing in government bonds. Some of the wind farms are acquired and operated by ABO Invest AG, which owns a stake of around 20 percent in ABO Wind. The other shares are held by some 4,000 citizens, charitable foundations, and cooperatives.

THREE TO **FOUR** PROJECT FINANCE TRANSACTIONS **PER YEAR**

When it comes to its own project finance, ABO Wind has relied on WGZ BANK for a long time. "We have had a close business relationship for five years now, with three to four joint project finance transactions on average per year," says Ralf Theile, head of department for specialized sales and head of the renewable energies team in WGZ BANK's corporate customer division. Ideally, WGZ BANK also involves local cooperative banks in the debt financing.

Another pillar of ABO Wind's business is combined heat and power generation, in which ABO Wind supplies heat and electricity in the form of heat-power cogeneration to large building units with heat consumption of at least 250,000 kilowatt hours per year. "In this business, we build the block-type thermal power station at our own expense and upgrade the existing heating system. In exchange, the users of the property obtain the heat on a long-term basis, which is billed according to consumption," explains Andreas Höllinger, the third member of the Managing Board.

ABO Wind actively seeks out investors. "Thanks to its longstanding, close contacts with municipal utility companies and other investors, the company is always very good at signing up reliable funding partners for its projects," says Jan Hölzmann, an authorized representative on the renewable energies team at WGZ BANK. ABO Wind offers sound investments including its 'citizen wind power shares' in ABO Invest AG, which are traded over the counter on the Düsseldorf Stock Exchange, as well as profit-sharing rights, wind power funds, and direct investment in wind farms and bioenergy projects.

There are currently no indications that ABO Wind's business could stagnate. "Although good wind turbine sites are gradually becoming scarce as well as increasingly expensive, particularly in Germany, they do still exist," believes Ralf Theile. Moreover, the turbines are getting better, taller, and more efficient. This means that even locations with supposedly less favorable wind conditions remain lucrative for everyone involved. "Despite the reduced feed-in tariffs, this business model is still viable. Sustained low interest rates are one of the main reasons why institutional investors are increasingly showing an interest in our business," says Dr. Jochen Ahn.

A sunny outlook

Hamburg-based **Capital Stage AG** is expanding in step with the rapid growth of renewable energies. And this expansion is now likely to accelerate even more thanks to a new partnership between the company, which describes itself as Germany's largest independent solar farm operator, and the insurance sector. WGZ BANK's primary markets and equity sales teams have been assisting Capital Stage AG, which is included in the SDAX, with its various different capital market transactions for a number of years.


CAPITAL STAGE
RENEWABLE ENERGIES

Any doubts about the commercial track record of renewable energies in Germany will be quickly dispelled by a glance at the key financials of Capital Stage AG. Whether revenue, EBITDA, or EBIT– Capital Stage has seen remarkable growth almost across the board in the past few years.

A **LANDMARK PARTNERSHIP**

This is a success story that is not likely to end any time soon. At the end of 2014, for example, the company announced an alliance that CEO Felix Goedhart describes as “a milestone in our company’s history”: Capital Stage and a major insurer have agreed to enter into a long-term partnership in the field of renewable energies. As part of this strategic partnership, the insurance company will provide profit-sharing rights totaling €150 million over a period of 20 years.

In an age of minimal interest rates, the insurer – like the insurance industry as a whole – is looking for alternative investments offering higher interest rates that will enable it to honor the guarantee promises that it has made to the holders of endowment insurance and private pension insurance policies.

Against this backdrop, renewable energies are gaining appeal as a form of investment. Despite the reforms to the German Renewable Energy Sources Act (EEG) in summer 2014, investing in solar and wind farms continues to offer good opportunities. “This is particularly true when a company is as thorough in its planning and takes such a risk-minimizing approach as Capital Stage,” says Dr. Reiner Selbach, divisional director for primary markets at WGZ BANK.

UNDER THE ITALIAN **SUN**

As at the end of December 2014, Capital Stage operated 58 solar and wind farms with a total capacity of around 313 megawatts. Most of them are located in central Germany, eastern Germany, or Bavaria. There is also one wind farm in Tuscany and a large number of photovoltaic arrays in the sun-kissed regions of France and Italy.

“The funds raised from the issue of profit-sharing rights will enable us to boost our generation capacity to roughly 600 megawatts within a foreseeable period,” explains Felix Goedhart in reference to the successful partnership with the insurance company. And by “foreseeable period” Capital Stage really does mean “foreseeable” as it plans to have invested all of the funds by the end of 2015. The €150 million in new profit-sharing rights brings the total volume available for investment to around €600 million, taking into account the leverage effects between equity and borrowing at project level. Capital Stage now wants to redouble its efforts, particularly in the area of solar farms in the safe European market beyond Germany.

DEVELOPMENT **RISKS?** VIRTUALLY **NONE**

Capital Stage’s major advantage is that it combines green credentials with business acumen in admirable fashion. The company assumes virtually no development risk because it only ever takes over existing facilities. Moreover, the land on which the wind turbines or solar panels are installed is only leased, never purchased.

The wholly owned subsidiary Capital Stage Solar Service GmbH, which is headquartered in Halle, is also seeing its business grow exponentially. Its workforce specializes in the technical aspects of operating

Thomas Aldenrath, group leader for equity sales, WGZ BANK

Felix Goedhart, chief executive officer, Capital Stage AG

Dr. Reiner Selbach, divisional director, group leader for primary markets, WGZ BANK

(from left to right)

Capital Stage's solar farms but also provides services to third parties. Facilities with a total volume of around 180 megawatts now benefit from the subsidiary's expertise. On site, the engineers take care of everything, from repairing defective wiring to mowing the grass to ensure the solar panels do not become overgrown.

Sound economic conditions, a dependable management team, stable cash flows: These are messages that the capital markets like to hear. Capital Stage AG is a listed company with a number of anchor shareholders and a free float of approximately 55 percent. It has been included in Deutsche Börse AG's SDAX index for small caps since spring 2014.

DECENTRALIZED POWER GENERATION, **DECENTRALIZED** BANKING STRUCTURE

Since 2011, Capital Stage's regular partner in many of its capital market transactions has been WGZ BANK – mainly in the person of Thomas Aldenrath and Dr. Reiner Selbach from the cooperative central institution's equity sales and primary markets teams in Düsseldorf. "We have assisted Capital Stage with numerous capital market transactions, including four rights issues for cash as sole lead manager, one as joint leader, and two as co-manager," reports Thomas Aldenrath, who, together with Capital Stage's Management Board, organized the investor roadshows in Germany and Luxembourg that were necessary to secure the placement. There are also regular capital increases in connection with a stock option plan for executives. "Many blocks of shares have been placed with new shareholders too," adds Thomas Aldenrath. "The volume placed via WGZ BANK in the transactions carried out so far adds up to almost €80 million."

"We appreciate the excellent, personalized support and expertise of WGZ BANK, but above all we appreciate its extensive network of potential small cap investors and the way it understands the needs of small and medium-sized enterprises," says CEO Felix Goedhart. He sees the collaboration between Capital Stage and WGZ BANK as proof positive of the good fit between local power generation and a banking group with a decentralized structure of local banks.

Energy giant

For more than a quarter of a century, the **ENERCON Group** has been one of the leading suppliers of technology for the wind power sector, and has captured an almost 45 percent share of its home market of Germany. The Aurich-based company's success can be attributed, above all, to the high quality of its products and an unwavering passion for innovation.

ENERCON
ENERGIE FÜR DIE WELT

Thirty years ago, most Germans were still full of optimism about the opportunities presented by the peaceful use of nuclear power for the country's energy supply. In 1985, for example, 'initial partial approval under German atomic energy law' was granted for the construction of a reprocessing plant in Wackersdorf in the Upper Palatinate region, but the plant was never completed owing to the many objections raised.

POWER OF 37 **NUCLEAR REACTORS** INSTALLED

Wind power pioneers like engineering graduate Aloys Wobben were thin on the ground in Germany during the mid-1980s. So when a small team headed up by Aloys Wobben began to write the first chapter in ENERCON's economic and ecological success story in 1984, they needed plenty of entrepreneurial spirit and vision. The team of engineers from the East Friesland region developed their first wind turbine, the E-15/16, which had a total capacity of 55 kilowatts – an impressive output for its time. Since then, they have gone from strength to strength, as the numbers show. ENERCON GmbH is headquartered in Aurich and has other sites in Emden, Haren, and Magdeburg as well as in Sweden, Brazil, Turkey, Portugal, Canada, and Austria. To date, it has produced and erected more than 23,000 wind turbines in over 30 countries of the world. This adds up to a total installed capacity of some 37 gigawatts, which is roughly equivalent to the power output of 37 nuclear reactors.

According to the calculations of BTM Consult, ENERCON has a global market share of 9.8 percent based on installed capacity (2013), putting it ahead of international giants of industry such as Siemens and General Electric. However, the mainstay of the company's business is its home market of Germany and Europe, where ENERCON had a market share of almost 44 percent in 2014 according to an analysis by Deutsche WindGuard GmbH.

ENERGY MADE IN **AURICH** FOR THE **WORLD**

From day one, ENERCON has also been a hotbed of innovation. Company founder Aloys Wobben, for example, is regarded as a co-inventor of the inverter that converts the direct current from a wind turbine into the alternating current that is required for the power grid. While the first turbines were fitted with gear boxes, the arrival of the ENERCON E-40/500 kilowatts in 1992 marked the start of the switch to gearless turbine technology. "The innovative drive system, consisting of just a few rotating parts, ensures an almost frictionless flow of energy. The performance and reliability of this system are impeccable. Mechanical wear, operating costs, and maintenance expense are reduced, while the useful life of the turbines is increased," explains Hans-Dieter Kettwig. Kettwig, who studied business administration, and Nicole Fritsch-Nehring are ENERCON GmbH's managing directors.

The main reason for the outstanding quality of the wind turbines made by ENERCON, the German market leader for wind power, is the extremely high degree of vertical integration: The company manufactures its wind turbines almost entirely inhouse – in giant buildings that could easily accommodate the production of an airliner. "It's almost a complete production line," says Ralf Theile, head of department for specialized sales at WGZ BANK. ENERCON operates its own rail company, e.g.o.o. Eisenbahngesellschaft Ostfriesland-Oldenburg mbH, to ensure smooth-running logistics. The rail company carries turbine components manufactured by the parent company, but also provides transport services to external customers.

From its base in Aurich, a town of 40,000 inhabitants in Germany's far north-west, ENERCON delivers 'energy for the world' as the company's slogan proclaims. And the company has always done things its own way. "We are synonymous with the highest quality standards," emphasizes Hans-Dieter Kettwig. His customers know that their turbines will almost never break down – a promise that they also receive in writing. If a problem does ever occur, a service engineer is quickly on site. According to the company's stipulations, an available service engineer should never be more than 50 kilometers away from an ENERCON wind turbine.

MARKET OF THE **FUTURE: DIRECT** MARKETING

The ENERCON PartnerConcept (EPK) provides customers with a “guarantee of a consistently high level of turbine availability at calculable running costs for up to 20 years of operation,” promises managing director Hans-Dieter Kettwig. The Aurich-based company also has great hopes for direct marketing and its new service package, EPK+: If requested by the wind farm’s management, ENERCON will not only operate the wind farm but also take care of all the energy logistics processes, from direct marketing of the energy produced to the supply of energy from the wind farms, from remote management of the turbines to delivery to end customers. This new service package was launched in response to the stricter regulations that were introduced for the operation of wind turbines in mid-2014. By reforming the Renewable Energy Sources Act (EEG) last summer, the German government’s aim was to improve the integration of renewable energies into the electricity market.

Since August 2014, anyone in Germany who starts operating a new wind turbine must directly market the electricity generated from wind power on the electricity exchange – a complicated task if going it alone, but easy with the assistance of a wind power expert such as ENERCON.

The business strategy and funding structure of ENERCON are rock solid and well thought-out. The company has a very healthy balance sheet. Moreover, it deliberately avoids expensive and risky ventures into the low-margin, fiercely competitive Chinese market and the turbulent offshore sector.

WGZ BANK has been one of the company’s core banks for years, according to Ralf Theile. “Our support is threefold. We help ENERCON customers to buy wind turbines with classic project finance. But we also assist with the funding of the wind farms that ENERCON operates itself and with traditional corporate funding,” he explains.

Ralf Theile,
head of department for specialized sales,
corporate customer division,
WGZ BANK

Dipl.-Ing. Egbert Terholsen,
regional sales manager,
ENERCON GmbH (right)

A **community**

At the start of their journey some 25 years ago, the founders of what is today the Munich-based **Green City Energy AG** needed a great deal of vision about the future of the energy sector. Much of this vision has long since become a reality. The company believes that there has to be local involvement if the energy transition in Germany and elsewhere is to succeed. This is particularly applicable to the funding for projects in which the expert support provided by the WGZ BANK Group includes monitoring the application of funds.


initiative
Green City Energy
Der alternative Energiedienstleister

Elected politicians are also playing their part. Solar panels were installed on the roof of the Maximilianeum, seat of Bavaria's state parliament and headquarters of the Maximilianeum Foundation, over a decade ago and have since been providing around 18,000 kilowatt hours of clean solar energy per year. Just a minute's walk away is the next flagship project of Green City Energy AG, albeit one that is rather more hidden: the underground Prater hydropower plant at the Maximilian bridge, which crosses the river Isar in central Munich.

FROM **COMMUNITY** ASSOCIATION TO **STOCK** CORPORATION

Looking back 25 years, the founders at the company's helm have to pinch themselves to believe their success is real. Green City e.V. was founded in 1990 and quickly grew into 'Munich's largest environmental organization', with 725 members, 500 volunteers, and 20 employees. The association remains active in four areas to this day: climate and energy, sustainable city planning, alternative transportation, and environmental education.

At the end of the 1990s, the eco-activists also became solar power pioneers. By 2005, Green City e.V. had successfully set up five community solar farms. The next step toward becoming a professional business was the foundation of the wholly owned subsidiary Green City Energy GmbH in 2005. Then in October 2011, Green City Energy became a stock corporation (Aktiengesellschaft, AG) so that the original investors could share in the company on the terms that applied at that time. Green City Energy is not listed on a stock exchange, however. The association continues to be the majority shareholder, enabling it to lay down environmental guidelines for its fully fledged subsidiary.

"Today, we are an alternative energy service provider," says Jens Mühlhaus, summing up the company's business model in a sentence. He is one of the two CEOs and a company veteran. Having originally studied structural engineering, he played a central role in the expansion into other energy sources besides the sun. Green City Energy also made a name for itself in wind energy and hydropower projects a long time ago, particularly in southern Germany and the core European markets of France and Italy.

400,000-TONNE **REDUCTION** IN CO_2 EMISSIONS

Up to mid-2014, Green City Energy had already implemented

in excess of 260 energy projects with a total installed capacity of over 100 megawatts. This has reduced carbon emissions by more than 400,000 tonnes. The majority of projects so far have been in the field of solar power, but the wind turbine business is now really taking off. Small hydropower plants are also an increasingly important market segment.

There is no shortage of future plans. “We want to emerge as an alternative energy generating company in the next few years and, going forward, set up regional energy supply systems,” emphasizes Jens Mühlhaus. In other words, Green City Energy wants to bring power generation and local consumers together. According to Jens Mühlhaus, the energy transition “has reached the stage where it is no longer simply a question of building up regenerative power station capacity but also of distributing, storing, and marketing the electricity that is generated.” However, the focus of the pioneers at Green City Energy is and will remain the construction of renewable energy power plants. After all, a complete switch to renewable energies is the only way to make the exit from fossil fuels and nuclear power possible.

PROJECT **BUSINESS** AT THE **HEART OF EUROPE**

Going forward, the four pillars of the company’s business will continue to be project development, ecological investments, plant management, and energy advice for local authorities. But the focus will increasingly widen to Europe as a whole. After all, good ideas that work in Bavaria are also in demand elsewhere. “Green City Energy’s core business will increasingly expand outside Germany – not just in our own project development but also in the due diligence and funding for renewable energy power plants,” says the chief financial officer Frank Wolf. “Gaining a foothold in other highly promising European markets will open up access to a wide range of energy projects, whether development, modernization, or purchase,” predicts Jens Mühlhaus. But apart from in France, Green City Energy will not necessarily set up separate subsidiaries or branch offices in its European target markets. Jens Mühlhaus: “We prefer to develop new markets by forming alliances with project partners so that our company remains streamlined and can operate flexibly.” For example, the company has entered into a partnership agreement with an Italian hydropower project developer to take over a number of small power plants that are to be built. The first of these exciting projects has now been acquired: the Vallesina plant in the Dolomites, in which water flows under pressure through a pipe to generate hydroelectricity.

For all its success in Germany and abroad, Green City Energy is always keen to involve local communities. “We are putting the switch to renewable energy sources in the hands of the people,” says Jens Mühlhaus. The company as a whole has around 90 employees, who have become long-term partners to local authorities, cooperatives, and municipal utility companies alike and are working with them to implement the shift in German energy policy at a local and regional level. Local citizens are also approached as potential investors. To date, approximately 3,800 investors have paid more than €53 million of equity into Green City Energy’s closed-end investment funds.

Patrick Westerhoff, group leader for custodian bank services, WGZ BANK

Jens Mühlhaus, member of the Management Board, Green City Energy AG

Frank Wolf, member of the Management Board, Green City Energy AG

Susanne Zyrus, head of department for custody business, WGZ BANK

(from left to right)

When the time came to place a new green bond called Kraftwerkspark II, the company sought out an expert partner to monitor the application of funds. This is a mandatory requirement because it ensures that the cash paid in by investors really is used for the projects listed in the prospectus, such as the hydropower plant in Vallesina, Italy, which came on stream at the end of 2013, and a wind farm in Altertheim in Germany’s Lower Franconia region, which was connected to the grid in December 2014. The partner chosen was the WGZ BANK Group, whose experts have been monitoring the application of funds for Kraftwerkspark II since late 2013.

CREATING **TRUST** FOR **SMALL INVESTORS**

Green City Energy AG’s official contractual partner for the monitoring of the application of the bond’s funds is WGZ BANK’s wholly owned subsidiary, WGZ Immobilien + Treuhand GmbH.

Susanne Zyrus, head of department for custody business at WGZ BANK, is delighted that the group has signed up Green City Energy as a customer through WGZ Immobilien + Treuhand: “As experts in custodian bank and custody services, we now have a foot in the door in this sector. And this door will open ever wider as the success of the energy transition gathers pace.”

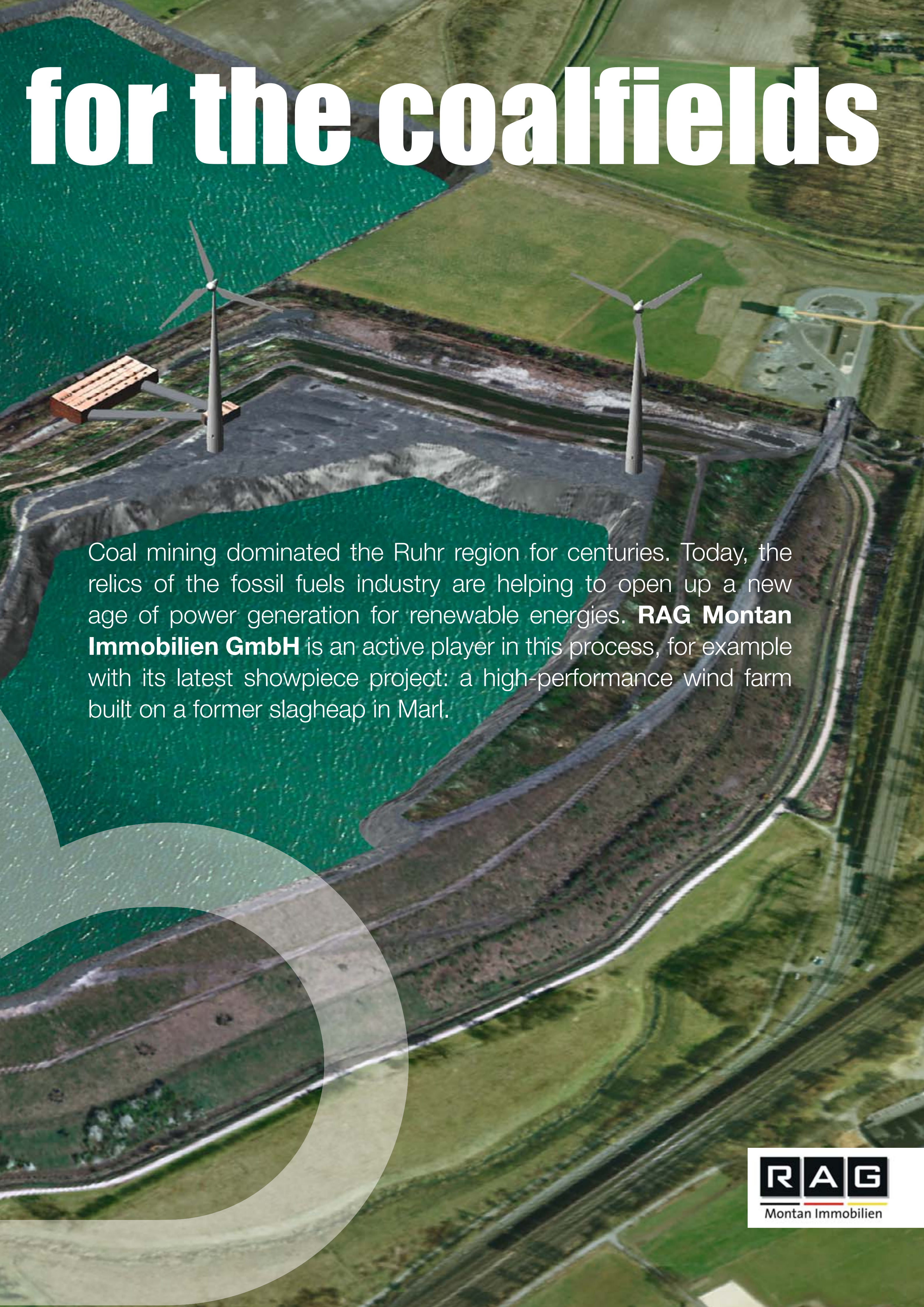
Since mid-2013,WGZ BANK’s role as a custodian bank and custody services provider has expanded from purely open-ended mutual and special funds and now also includes closed-end alternative investment funds (AIFs) as defined by the German Capital Investment Code (KAGB). Susanne Zyrus and her team in Düsseldorf currently look after almost 90 investment funds with approximately 140 managed units and a consolidated fund value of over €26 billion.

Such figures are a far cry from the amount of cash received from the many private and small-scale institutional investors in Green City Energy's bond. With a value of some €22.5 million, however, Kraftwerkspark II has already reached almost half of the maximum bond volume of €50 million. The investors include charitable foundations and one large institutional investor. The amounts invested in Kraftwerkspark II mostly range between €10,000 and €20,000 and are made by what are often long-standing customers. When it comes to investors' savings, conscientious monitoring of the application of funds is crucial. "Our main tasks are checking payments going in and out of the account, monitoring compliance with the defined investment conditions, and approving payments for investments, remuneration, and reimbursement of expenses – but not until we have seen genuine receipts," explains Patrick Westerhoff, group leader for custodian bank services at WGZ BANK.

Green City Energy was also particularly keen to find a banking partner that takes sustainability seriously. And this is certainly the case with the WGZ BANK Group. Both the WGZ BANK Group and Green City Energy have been awarded prime investment status in the corporate rating awarded by oekom research AG, a respected sustainability rating agency.

A green future

for the coalfields



Coal mining dominated the Ruhr region for centuries. Today, the relics of the fossil fuels industry are helping to open up a new age of power generation for renewable energies. **RAG Montan Immobilien GmbH** is an active player in this process, for example with its latest showpiece project: a high-performance wind farm built on a former slagheap in Marl.

RAG
Montan Immobilien

Drivers on the A43 and A52 autobahns south of the Marl-Nord intersection have a new landmark to look out for. And they are unlikely to miss it: The tips of the rotor blades at the top of the powerful steel and concrete giants reach up to a height of more than 200 meters. The slagheap on which the turbines stand is itself almost 60 meters high. Two new wind turbines on the 130-hectare site, formerly the Brinkfortsheide slagheap in Marl-Sinsen, went into service at the end of 2014. With a power output of just over six megawatts, they are expected to produce around 18,000 megawatt hours of electricity a year, equating to the annual electricity needs of more than 5,000 average German households.

PLENTY OF **EXCELLENT SITES** UP THEIR **SLEEVES**

Here in the heart of the Ruhr region, the shift in German energy policy is almost palpable. On the one hand, there is the long tradition of coal mining and the ongoing task and obligation of dealing with the after-effects of this industry. On the other is a great opportunity but also a challenge for the future: renewable energies. Ulrich Porath is expecting great things from wind as a source of energy, and not simply for professional reasons. "We still have many sites available that are just as suitable as the one in Marl-Sinsen," says the head of the wind power division at RAG Montan Immobilien GmbH.

RAG Montan Immobilien GmbH is the successor of Montan-Grundstücksgesellschaft (MGG), which supported structural change in the Ruhr and Saar mining regions for more than 35 years, and has developed into a modern real-estate and service company. Its diverse business is divided into four areas: development, management, environment, and renewable energies. Appropriately, the company and its 300 or so employees are based at a site that is intrinsically linked to the history of the energy industry: the Zollverein coal mine industrial complex in Essen, a UNESCO World Heritage site.

"In certain circumstances, the slagheaps in the topographically flat areas of the northern Ruhr region are ideal locations for wind turbines," explains Ulrich Porath. He and his team plan and build wind farms as part of projects with local utility companies. "Some sites are suitable for multi-purpose use, with both photovoltaic arrays and wind turbines being installed," he says. The company's subsidiary, montanSolar GmbH, has specialized in the construction of photovoltaic facilities on former mining sites. For some time now, the company has been operating its flagship photovoltaic array, with power output of more than 3.5 megawatts, on the site of the former Mellin coal storage area in Sulzbach in the Saarland.

MULTI-TONNE LOAD ON **POROUS** GROUND

While turning a slagheap into a wind farm might sound like a simple conversion project, in practice it is a technically complex and expensive undertaking because special foundations have to be laid within the heaps in order to support the enormously heavy wind turbines.

WGZ BANK acted as a competent and dependable provider of funding for RAG Montan Immobilien GmbH, with the added

Ulrich Porath,
head of the wind power division,
RAG Montan Immobilien GmbH

Michael Stipp,
renewable energies team,
corporate customer division,
WGZ BANK

Ludger Katz,
real estate customer
relationship manager,
corporate customer division,
WGZ BANK

(from left to right)

benefit of being familiar with its business. “We have maintained a good relationship with RAG and the RAG Foundation for a long time,” says Ralf Theile, who is head of department for specialized sales at WGZ BANK and also in charge of the renewable energies team in the corporate customer division. RAG Montan Immobilien GmbH and WGZ BANK first began to discuss wind power projects in late 2011, culminating in the project at the Brinkfortsheide slagheap two years later. “The contracts were signed just a few weeks later at the start of 2014,” recalls Ralf Theile. WGZ BANK had sole responsibility for organizing and structuring the funding. RAG Montan Immobilien GmbH borrowed the bulk of the total investment volume, which amounted to around €12 million. The deciding factor was the project’s good level of profitability.

LEADING PARTNER FOR **MIDSIZE** PLANTS

“The Brinkfortsheide project is a prime example of our bank’s involvement, particularly in the wind energy segment,” says Michael Stipp, an authorized representative on WGZ BANK’s renewable energies team. “WGZ BANK has been assisting with funding for the wind power sector for more than 16 years. The projects differ in terms of volume, ranging from individual turbines to large-scale wind farms in the high tens of millions of euros. Over the years, WGZ BANK has developed a huge amount of expertise and has therefore secured a good position in the market,” concludes Michael Stipp.

Searching for efficiency gains

Energy costs are becoming an increasingly significant factor, particularly for small and medium-sized manufacturers. But identifying what drives up their energy bills and taking appropriate counteraction is no simple task. This is where it can be useful to obtain the expert view of an outsider – such as an engineer from the **WESSLING Group**, a cooperation partner of WGZ BANK that is helping SMEs to reduce their energy consumption.

The packaging made by Bischof + Klein GmbH & Co. KG (B+K), headquartered in Lengerich, Germany, is used worldwide. Its customers include large chemicals and agricultural companies from around the globe. Bischof + Klein's flexible packaging is also popular with big-name manufacturers of branded articles, hygiene products, food and drink, animal food, detergent, and cleaning products. The family-owned business employs around 2,400 people and has six production facilities – in Germany, France, the United Kingdom, Poland, and Saudi Arabia.

One issue has become especially relevant to B+K in recent years: its energy efficiency. “For business reasons alone, it is imperative that we address this issue. Our energy costs run to many millions of euros per year,” explains Dennis Lienkamp, head of the utilities infrastructure for machinery and buildings department at B+K in Lengerich. The company has long kept a close eye on its energy efficiency. For example, it uses the heat given off by its machines to heat up rooms and consciously chooses energy-efficient forms of lighting. Moreover, B+K has engaged an external engineering firm to advise it on energy matters for many years.

FROM **ENGINEER** TO **ENGINEER**

Nevertheless, Dennis Lienkamp and his managers were very taken with the idea of getting another independent perspective on B+K's energy footprint. In spring 2014, he spent a day showing two engineers from the Altenberge-based WESSLING Group around the company. From power, heating, and cooling to compressed air and lighting, everything was carefully inspected and documented by the experts.

Their subsequent report showed that B+K had done good groundwork. Here and there, the experts from WESSLING had a few tips about how the company might be able to achieve further savings on its electricity and heating requirements. “Above all, I was impressed by their vast specialist knowledge and their understanding of the particular issues of our industry,” says Dennis Lienkamp. “It was good to be able to speak from engineer to engineer.”

B+K and two other corporate customers of WGZ BANK were pilots for a partnership that may now become the norm: Corporate customers can ask WGZ BANK to arrange an appointment with consultants from WESSLING, who will then undertake a thorough analysis of the customer's energy situation. The team of consultants consists of over a dozen experts – all civil, industrial, utilities infrastructure, process, or environmental engineers – who have advised more than 100 companies in Germany on their energy efficiency in recent years.

QUICK CHECK FOR CUSTOMERS OF WGZ BANK

One of them is civil engineer Caroline Dierkes, who heads up WESSLING's energy department at its headquarters in Altenberge, Westphalia: "Our services are aimed at customers from a very broad spectrum of sectors, including the steel, waste recycling, and food industries. They vary greatly in size, too. We support them all, from medium-sized companies with 100 employees to customers generating billions of euros in revenue."

As was the case with B+K, the first stage in the advisory process is the quick check, which WGZ BANK customers can also book. Irrespective of the company's industry or size, the inspection lasts one-and-a-half days and costs 1,500 – a good investment given the potential savings to be made. WGZ BANK does not earn a cent from this service. The company being advised can then request a more detailed energy efficiency analysis as a follow-up to the quick check. "If this analysis identifies areas that would benefit from capital investment, we are ready to step in with our funding expertise at any time," promises Ralf Theile, who is head of department for specialized sales at WGZ BANK and thus in charge of the renewable energies team. "Often, it makes sense to incorporate federal or state development loans into the funding arrangements. This is another area where we have outstanding knowledge," states Ralf Theile.

But there are many small and medium-sized enterprises that have not done such exemplary groundwork on energy efficiency as film and packaging specialist Bischof + Klein. According to the mid-2014 'Mittelstandspanel', a regular survey of small and medium-sized enterprises conducted by the Federation of German Industries (BDI) and auditor PwC, seven out of ten industrial SMEs believe energy costs will be a huge burden in the coming years.

WGZ BANK's own recent survey of SMEs, Stimmungsbarometer Mittelstand, revealed a similar picture. In a nutshell: Energy costs are an important issue for small and medium-sized enterprises. They are also high on the agenda for Germany's ruling grand coalition, which recently launched a national energy efficiency action plan.

MANY QUESTIONS CALL FOR A CLEAR STRATEGY

Uwe Berghaus, member of the Board of Managing Directors with responsibility for corporate customers at WGZ BANK: "Rising energy costs make it crucial to improve energy efficiency in all areas. The best way to save money and reduce emissions is to use less electricity in the first place. This is one of the main points of leverage for ensuring a sustainable energy supply in the future. It is not always easy for companies to identify what steps to take and where they can make savings. But WGZ BANK is a reliable partner in this area." Advisors from WGZ BANK are also increasingly raising the issue of energy and its costs during the regular meetings between the bank and its corporate customers.

"Many companies, especially those that use a lot of energy, are worried because, firstly, it is difficult to forecast future energy prices and, secondly, the legal situation is causing growing uncertainty. Companies therefore need clear concepts for their energy strategies that focus on two key questions: How do I structure my energy supply? And what potential do I have to reduce my energy consumption?" explains Jeannette Pazdzior from the renewable energies team at WGZ BANK.

There are no quick answers – the issue is far too complex for that. It requires time, the right staff, and the necessary knowledge – and not every company has the same depth of resources in these areas as B+K. This is precisely where the external energy efficiency experts come in. WGZ BANK and the analytical and consulting company WESSLING have enjoyed a good working relationship for years and are now taking their cooperation to a new level.

Founded in 1983, WESSLING has grown into an international group of companies with 1,200 employees and sites in more than 30 locations in Europe and China. Since then, it has developed a reputation as a successful family-owned business offering laboratory analysis and engineering consultancy services of the highest quality.

Johannes Schabos, energy project manager, WESSLING GmbH

Jeannette Pazdzior, renewable energies team, corporate customer division, WGZ BANK

Dennis Lienkamp, head of utilities infrastructure, Bischof + Klein GmbH & Co. KG

(from left to right)

HUGE **POTENTIAL FOR SAVINGS**, EVEN ON A **SMALL SCALE**

"Some companies come to us with a specific target – for example, they want to reduce their energy consumption by 10 percent – and are looking for ways to achieve this," reports Johannes Schabos on his experience of consultancy in practice.

The consultants always ask the crucial key questions: What are the company's primary energy sources, how much does it buy in, and at what price? "We then analyze the entire value chain: how the energy is used and for what purpose, what the manufacturing processes are, what machinery is used, and how old this machinery is. In addition, we look at the company's organizational structure. Sometimes, improvements can be made by making changes to responsibilities or tightening up workflows."

In each check, the focus is on providing tailored advice, resulting in specific recommendations. For example, companies that use a lot of electricity and heating may benefit from investing in their own block-type thermal power station. But seemingly small changes can also generate significant savings: "By using efficient lighting that, if appropriate, can be controlled according to requirements, companies can save a lot of money, especially those in the industrial, wholesale, retail, and services sectors. Lighting costs can be reduced by between 40 and 60 percent, and lighting generally accounts for a quarter of energy consumption," explains engineer Caroline Dierkes.






Schomaker
Buchbinde- & Registerstanzbetriebe

Daniel & Nuha

A **binding** commitment

When it comes to **energy efficiency**, companies can help the environment and their own bottom line at the same time. Specially designed development programs for capital expenditure on attractive terms are helping small and medium-sized enterprises to significantly reduce their consumption of energy and resources. **WGZ BANK** and the local cooperative banks work closely with each other for the benefit of the customer – as the example of industrial bookbinder **Schomaker GmbH & Co. KG** illustrates.

Despite – or perhaps because of – the way in which electronic media has taken the mass book business by storm, high-quality print products continue to enjoy stable and even growing demand. The employees at Schomaker GmbH & Co. KG, based in Menden in the Sauerland region, are experts in the cutting, folding, and binding of all kinds of documents, including eye-catching catalogs, 'Swiss-bound' brochures, telephone directories, price lists, magazines, and annual reports.

What is now an industrial bookbinding firm can trace its roots back to a small hand bookbinding business established by Walter Schomaker senior in Iserlohn in 1945. The family business is now in the hands of the third generation. In the mid-2000s, daughter Julia joined her (grand)father's business after completing a traineeship in banking and a degree in business administration. Today, she runs the company with support from her father Walter Schomaker and her husband Thomas, who is in charge of sales.

A **COURAGEOUS** MOVE INTO **EASTERN EUROPE**

The small bookbinding business quickly grew into an industrial enterprise with more than 300 employees and operations across Europe. At Schomaker's headquarters in Menden, the focus is on perfect binding, index cutting, and shipping services. "Our two Polish sites, Stargard and Lubartów, specialize in index cutting and shipping, which enables us to offer our customers not only an excellent level of quality but also the largest capacity worldwide," says Julia Schomaker.

When Europe's Iron Curtain came down, Walter Schomaker was quick to recognize the opportunities presented by the eastern European market. The company started to head eastward in 1990. "Poland has proved to be an effective location, both strategically and from a production perspective. We can supply our customers in Scandinavia, eastern Europe and western Europe from there," says Julia Schomaker, praising her father's decision about where to locate the business.

Julia Schomaker,
CEO,
Schomaker GmbH & Co. KG

Roland Krebs,
member of the Board of
Managing Directors,
Volksbank im Märkischen Kreis eG

Jochen Oberlack,
head of department for new
development lending business,
investment subsidies division,
WGZ BANK

Rainer Michalik,
corporate customer relationship manager,
Volksbank im Märkischen Kreis eG

Martin Kleimann,
divisional director and
development lending advisor,
investment subsidies division,
WGZ BANK

(from left to right)


Schomaker
GmbH & Co. KG

SUSTAINABLY MINDED **GRANDCHILDREN**

"The only way to achieve continuity in terms of affordable quality and quantity is to ensure you use the latest technologies." These words of Julia Schomaker are relevant to all German SMEs that, like Schomaker, face fierce competition in markets around the world.

That is why the company regularly invests in modernizing its machinery, which includes perfect binders, index cutting machines, inkjet and polywrapping systems, stackers, bundlers, and many others. Energy efficiency is an increasingly critical factor when it comes to operating and, above all, buying new equipment. With electricity prices in Germany rising, there is growing awareness within companies that the best way to save money and reduce emissions is to use less electricity in the first place. As at Schomaker, the reins in small and medium-sized family businesses are gradually being handed over to the third generation. These grandchildren tend to have a greater interest in sustainable, energy-efficient business.

DEVELOPMENT LENDING **EXPERTISE** PROVIDES A **USP**

In 2014, when Schomaker was looking to invest in a new industrial binder costing millions of euros, it was clear that the replacement would have to outperform the old machine in terms of speed and electricity consumption. The company received advice on the funding from Rainer Michalik, corporate customer relationship manager at Volksbank im Märkischen Kreis eG. This local cooperative bank is headquartered in Lüdenscheid and has been Schomaker's principal bank for a long time.

"We have been very active in development lending for renewable energy projects for years. We advise and support our customers on this type of funding, which is a very good option for them and, what's more, is subsidized," reports Roland Krebs, member of the Board of Managing Directors responsible for corporate banking business at Volksbank im Märkischen Kreis. Jochen Oberlack, head of department for new development lending business at WGZ BANK, praises this decision: "Energy efficiency is the topic of the moment. We're right at the start of what is going to become a very big development," he explains. "Investing in energy efficiency is particularly worthwhile for small and medium-sized enterprises that, like Schomaker, operate in the manufacturing and processing industries," believes Martin Kleimann, divisional director and development lending advisor on the investment subsidies team at WGZ BANK. A large pool of expertise in this area gives banks another ace up their sleeve when it comes to standing out from their competitors.

KEY **PARTNER** OF **KFW**

In addition, the subsidized programs offered by the government development banks enable companies investing for the future to make a profit even more quickly. But how do they know which program to choose? The vast range of development programs – there are around 800 available at EU, federal, state, and local level – means that it is not an easy decision to make. Companies need to draw on the specialist knowledge of experts, such as those on the investment subsidies team at WGZ BANK.

"As a partner to the regional cooperative banks, we provide a classic decentralized service. We help our member banks to identify the best possible development programs for their customers," says Jochen Oberlack, describing his role. The concept is proving successful: As in Schomaker's case, the local cooperative banks are working hand in hand with the central institution, WGZ BANK, in Düsseldorf.

The specialists at WGZ BANK not only maintain close contact with the relevant experts in the development banks, they also keep in touch with the customer advisors in the local cooperative banks. Rainer Michalik particularly appreciates their "knowledgeable, personal support, which includes coming to meetings with my customers."

Although it is a regional bank, WGZ BANK is the fifth largest sales partner nationwide of Germany's KfW development bank. In Rhineland and Westphalia, the regions that make up WGZ BANK's territory, the cooperative financial network is the market leader by some way for the brokerage of commercial development loans from KfW.

Sustainable human resources management

A company is successful if its employees constantly strive for personal development, update their core competencies on an ongoing basis, and readily embrace necessary processes of change. As an employer, we too must prepare for these changes with an efficient program of professional development. That is why our HR activities in 2014 focused on the advancement of women, work-life balance, age management, and reintegration of employees returning to work after a lengthy absence.

Continuous processes of renewal and a high standard of performance require each and every employee to be happy and healthy. As an employer, we can help by creating a working environment in which wellbeing, achievement, and success go hand in hand. Employees who are motivated and at their best enable us as a bank to benefit from the expertise that we have built up over the years and to position ourselves successfully for the challenges of the future. In this report, we set out how we are investing in the sustainable development of our workforce so that we are fit for the future.

Investment in continuing professional development

Employees are more likely to approach their work with energy and enthusiasm when the demands of their job go hand in hand with the development of their skills and potential. In a time of constantly increasing and changing requirements, this balance can be achieved through the particularly important process of continuing professional development.

The total expense on skills training in 2014 amounted to €1,060,000 (2013: €855,000). In the year under review, we also invested €151,000 in the further development of managers as part of the 270° feedback project. Manager training accounted for 40 percent of total training costs. The average training expense per employee in 2014 therefore amounted to €818 (2013: €695). One of the reasons for the increase in the training expense is the growth in regulatory requirements.

Advancement of women; work-life balance

To lay the foundations for shared success, WGZ BANK is placing ever greater emphasis on the specific strengths of women in positions of responsibility. When highly qualified women first have children, they often need to devote a great deal of energy to their new family, but as time passes they will again have more time for their career in the bank. For this reason, we have extended the range of measures that we offer for improving work-life balance and developing the careers of female employees. Besides receiving a subsidy for daycare and help with finding daycare near where they live, mothers with children aged under three are offered nursery places near their place of work in order to facilitate an early return to work. Part-time working arrangements, teleworking, and flexible working-time models are another way in which we make it easier for our dedicated female employees to return to work. In addition, we help high-potential female employees along their career path by providing training courses that are geared specifically to the needs of women. The main activities that we undertook in 2014 are described below.

Daycare for under-threes

The birth of a child marks a new chapter of life, and many employees face the challenge of achieving a balance between family and work.

To support new parents returning to work at WGZ BANK, we offer daycare places for their children under the age of three. Once they are two months old, the children can be looked after at a nursery run by the Kinder, Kinder ... Beruf und Familie e.V. association that is located near the bank. The nursery's convenient opening times, 7.30 a.m. to 6 p.m., help with the practicalities of returning to work. In 2013 and 2014, we successfully trialed this model with three of our female employees.

Daycare during school vacations

Sports-based and reliable: This was the motto of the vacation care that we offered during the 2014 summer and autumn school vacations last year for employees' children aged six to twelve. The vacation camps, which were organized by our cooperation partner kidz-playground, were held at two sites in Düsseldorf. WGZ BANK contributed to the daycare costs. The feedback from the children and parents alike was very positive, so we will be offering the camps again in 2015.

New member of the Münsterland family cooperative

The Münsterland family cooperative, which our Münster branch joined on October 1, 2014, provides answers to family-related questions. Our Münster-based employees can now make use of the confidential information, advice, and support services provided by the family cooperative on matters such as childcare, care and dementia, health, and challenging life situations. Information and contact details are provided for free. Employees bear the cost of agency services themselves.

Children's open days at WGZ BANK

All that glitters is actually gold! Getting to see WGZ BANK's gold was the favorite activity during the open day for employees' children in Düsseldorf. During the 2014 Christmas vacation, we organized two open days for 24 children aged six to twelve. On both days, which formed part of the Together in Dialog series, the children had the chance to explore their parents' workplace and find out how a bank operates. The activities on offer included a tour of the foreign currency cash store and vault, where the young visitors marveled at the international money and gold. The response to the open days that we received from the children and their parents was very positive and encourages us to run this event again in the future.

Together in Dialog series

A need for action often only becomes clear during the course of discussions. In a challenging economic environment, we rely on effective collaboration and constructive debate to be able to achieve our business objectives. To make this possible, we created the Together in Dialog series last year as a platform for sharing information and opinions. By the end of 2014, we had held 22 events on various employee-related issues. They included short lectures and discussions on a wide variety of topics with relevance for the future, such as the advancement of women, teams of employees representing all age groups, and reintegration of employees returning to work after a long period of illness. As the events received good feedback, we will continue with the dialog series in 2015.

Return-to-work and disability management

The purpose of return-to-work and disability management is to promote and improve the health, motivation, and performance of employees who return to work after a long period of illness or frequent bouts of illness. As an employer that strives for sustainability, it is our duty and also our wish to speak to the affected employees in person in order to identify where support is needed and to draw up an appropriate action plan aimed at preventing further incapacity. Long absences do not only affect the employee who is sick; they also lead to high costs for the company and an increased workload for the employee's team, sometimes over many months.

Since autumn 2014, our new return-to-work and disability management meetings have been attended by the employee concerned, his or her line manager, an HR liaison officer, and a member of the works council. After all, the people who work with the employee also have an important role to play because they can quickly make changes if required. In each case, we check beforehand with everyone involved whether a meeting is actually required because a reintegration process is not necessarily needed after every lengthy absence. In 2014, we succeeded in making the return-to-work and disability management process much more efficient by getting everyone affected directly involved in the process, and ascertaining the individual requirements beforehand on a case-by-case basis. Far fewer meetings were held, even though the occurrence of cases of illness last year remained at a similar level to the previous year and the number of measures taken to help returning employees also stayed the same.

Age management

In July 2013, WGZ BANK introduced a range of measures aimed at making better use of the potential offered by older employees – for the benefit of both the bank and employees. While take-up of the seminars on offer has been modest so far, WGZ BANK's new part-time program is showing signs of success. To date, eight employees have signed up to the two part-time models available. Two more employees have expressed serious interest. This means that just over 10 percent of the eligible employees have made use of the offer. The two models are particularly aimed at employees who have reached the age of 63 and want to retire early.

The WGZ BANK models are complemented by an arrangement under a demographics-based collective pay agreement for employees who want to continue working until the standard retirement age. These employees are given the opportunity to reduce their working time to 35 hours per week and, for example, to work one day less every other week. Employees taking up this opportunity receive payments from the bank to make up for some of the lower level of earnings. Two employees have already expressed an interest. We expect demand to rise significantly in the next few years.

Graduate talent

For us, sustainability is also an important aspect of university marketing and our management trainee programs. We want to convince qualified, talented young prospective employees who are at the start of their career or studies of the advantages of working for WGZ BANK by offering placements as interns and/or temporary student employees as a way of establishing a relationship between them and the bank. Last year, for example, we concentrated on expanding and intensifying our partnerships with the Universities of Duisburg-Essen and Münster and gave presentations on WGZ BANK at the Absolventenkongress and three other graduate job fairs in our territory (Düsseldorf, Münster, Paderborn) in order to reach out to this target group.

The success of our recruitment activities speaks for itself. In 2014, we recruited nine general management trainees and four specialist management trainees. Of these graduates, five had already worked for WGZ BANK. After they had successfully completed their management trainee programs, we took on all nine general management trainees and one of the specialist management trainees.

Vocational training

In 2014, twelve out of 1,062 applicants were given the chance to begin their vocational careers at WGZ BANK when they were offered a training place at the bank following the successful completion of their final school examinations. The 2014 year group of trainees included seven general banking trainees and five trainees on our integrated study and work experience program, i.e. trainees who are simultaneously undertaking studies at the FOM University of Economics & Management in Düsseldorf and undergoing Chamber of Industry and Commerce banking training. Following a one-week familiarization phase, the trainees then pass through their mandatory and optional areas of activity. They receive optimum preparation for examinations with additional seminars at the Rhineland-Westphalia Cooperative Association (RWGV), RWGV Genokolleg (RWGV's cooperative business college), and at local chambers of industry and commerce. For the first time, our trainees were able to benefit from Prüfungs.TV, a collection of around 100 educational videos that provide a clear explanation of topics with relevance to their exams. Throughout their training, they also attend classes taught by experienced employees at WGZ BANK.

Headcount

At the end of 2014, WGZ BANK had 1,081 full-time employees (end of 2013: 1,078) and 211 part-time employees (end of 2013: 190), including 31 trainees (end of 2013: 32). The total number of employees was therefore 1,292.

Sustainability at WGZ BANK: An ongoing responsibility

"Everyone is driven by something." For us as a bank, our motivation is to put the idea of sustainability into practice, to translate it into firm action day in, day out. It is good that sustainability is now such a frequent topic of discussion. The critical point is that it has to be more than just a buzzword and lead to decisive action. This is the objective that we have pursued for years and the yardstick by which we wish to be measured.

Since being founded in 1884, WGZ BANK has stood for sustainable business, and it has always been enshrined in the bank's corporate culture. The values that this embodies are fairness, transparency, personal responsibility, and the original cooperative principle of helping people to help themselves. As a result, our shareholders, customers, business partners, and employees always know what we represent and that we have been doing business sustainably since being founded in 1884.

WGZ BANK's understanding of sustainability is multifaceted, incorporating economic, environmental, and social responsibility. In all of the advice and financial services that we provide, we focus on the notion of shared, long-term success and lasting relationships with our customers that are based on a spirit of partnership.

We are proud of this tradition of cooperative sustainability. It lies at the heart of our brand and distinguishes us from many of our competitors. The pursuit of sustainability has long been an important component of our active management of reputational risk. Expressed simply: Companies that operate sustainably reduce their risk. That is why we will continue to position ourselves in this way, with a healthy balance between our commitment to the common good and our own interests.

The comprehensive code of ethics and conduct developed by WGZ BANK in 2013 emphasizes the importance of the ten principles in the United Nations Global Compact, which cover human rights, labor standards, the environment, and the fight against corruption. As long ago as 2008, we became an active member of this program, which is the world's foremost voluntary initiative in the area of corporate social responsibility.

In the annual progress report required by the UN Global Compact, WGZ BANK provides information on the sustainability activities that it has undertaken. After all, we know that sustainability is not an ideal state that, once achieved, is in place forevermore. Rather it is an ongoing responsibility that poses a constant challenge to us as a bank and to each one of us as individuals.

Sustainability is not just an end in itself, especially for a financial services provider like WGZ BANK. A look at the capital markets reveals that institutional and retail investors alike are increasingly inquiring about sustainable investments. Sustainability ratings are frequently a central factor in investment decisions. For some years now, the three independent sustainability rating agencies – oekom research, Sustainalytics, and imug – have been regularly assessing WGZ BANK's sustainability performance. The WGZ BANK Group has been awarded prime status by oekom research.

Sustainability ratings for WGZ BANK

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

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

Sustainalytics rating for WGZ BANK AG:
Score of 72

imug rating for WGZ BANK AG:
Mortgage Pfandbriefe: Positive
Unsecured bonds: Neutral

As a member of the German Association for Environmental Management and Sustainability in Financial Institutions (VfU), WGZ BANK also campaigns within the financial industry to encourage broader adoption of the principle of sustainability. The VfU is the only European association specifically dedicated to the issue of environmental management and sustainability in financial service providers. Its role is to disseminate information, promote discussion, and provide momentum for action among its members. The VfU's areas of focus are sustainable business operations, sustainable financial services, prevention of climate change, and sustainability in corporate policy, corporate governance, and corporate communications.

Sustainability-related financing and services

Lending business

In its finance business, WGZ BANK follows its own sustainability guidelines for lending. We only extend loans when, in our view, there is a good balance between environmental, social, and financial factors. In addition to complying with the legal provisions, WGZ BANK bases each lending decision on whether natural resources, such as air, water, and soil, are adequately protected by the planned investment and whether social aspects have been taken into consideration. This includes respect for human rights and labor standards, but also fighting corruption. If examination and analysis of all of the available, reliable information indicates that a funding project could create unacceptable environmental risks or have an unacceptable negative impact on society, WGZ BANK will not enter into the financial transaction.

Moreover, WGZ BANK has explicitly issued a blanket ban on certain types of transactions in order to ensure the sustainability of its lending. This negative list covers:

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

Once a quarter, as part of the regular reporting to the Board of Managing Directors on credit risk management, WGZ BANK checks whether its lending business is complying with its own sustainability guidelines.
In 2014, these checks did not reveal any breaches of the sustainability guidelines.

Finance for renewable energy projects

In 2014, WGZ BANK continued to step up its business activities in the area of renewable energies. WGZ BANK, backed by its local cooperative banks in the Rhineland and Westphalia regions, is actively championing and assisting with the energy transition at local level. Our generally positive view of the shift in German energy policy has resulted in wide-ranging involvement in this segment.

Nevertheless, the introduction of the revised German Renewable Energy Sources Act (EEG) with effect from August 1, 2014 created a temporary vacuum in the business activities of all renewable energy market players. This situation lasted until the third quarter of 2014 when the new parameters were firmed up, enabling companies to adapt their business models. Changes to the law have led to a virtual standstill in the photovoltaics business. It is therefore all the more encouraging that WGZ BANK was still able to achieve very good figures for 2014 as a whole in its funding of projects relating to renewable energies. Despite the changes to the development lending terms, the prospects for the wind power segment remain very good. WGZ BANK expects this segment to maintain its trajectory of strong growth in 2015.

The volume of new business involving renewable energy projects amounted to €226.7 million last year. As at December

31, 2014, the value of our overall energy business portfolio was up by about €100 million compared with the end of 2013. Over the past five years, our portfolio in this area has increased more than sevenfold: from €100 million to €734 million.

WGZ BANK funded 32 new projects in 2014, compared with 27 in 2013 and 24 in 2012. This total included five photovoltaic projects (2013: five; 2012: 15), 25 wind energy projects (2013: 22; 2012: eight), one biofuel project (2013: 0; 2012: one) and, for the first time, a hydropower project.

Although WGZ BANK funded 15 fewer wind turbines than in 2013, the 62 turbines that were built in 2014 had a total installed capacity of 173 megawatts, which was almost the same as for those built in 2013 (177 megawatts). These 173 megawatts equate to enough electricity to supply around 86,000 average German households.

The five new photovoltaic farms that were built have a total power output of 21.3 megawatts, which is sufficient to supply approximately 5,300 average households with electricity. We are particularly proud that we financed five hydropower stations with a combined power output of 3.3 megawatts for the first time last year. The electricity from this alternative source is enough to supply 2,000 average households.

Reduced demand for development loans to support energy efficiency

In previous years, there had been growth in the number of energy efficiency and environmental projects funded by development programs, but this positive trend was not maintained in 2014. This was true of both corporate funding and funding for the projects of private individuals in relation to house-building.

The market as a whole saw a decline in the take-up of development programs.

WGZ BANK's development finance business in conjunction with the housing construction programs run by Germany's KfW development bank (the two programs focusing on energy-efficient renovation of buildings and construction of new buildings to the German passive house sustainability standards) fell significantly short of the levels achieved in 2013 with the total number of applications reaching 7,801 (down by 21 percent) and the total volume declining to €565.8 million (down by 20.6 percent).

There was also a sharp drop in the bank's business involving the two KfW environmental programs for companies, KfW-Umwelt (environment) and KfW-Energieeffizienz (energy efficiency). There were 108 applications in 2014, a year-on-year fall of 68 percent, while the total volume was down by 49.4 percent to €97.4 million. Businesses use these loans to finance projects aimed at significantly improving the environmental position – for example, by saving on materials or reducing waste water – or at substantially enhancing energy efficiency, for example by optimizing compressed air and pumping technology.

The gradual reduction in the feed-in tariff for renewable energies caused a further drop in demand from retail investors and companies for development products related to the financing of photovoltaic and wind turbine installations (KfW-Erneuerbare Energien Standard and Premium (renewable energies standard and premium)) in 2014. The number of applications declined by 38.6 percent to a total of 1,089. The volume amounted to just €137.4 million in 2014, down by 55.6 percent.

Despite these decreases, the Volksbanken Raiffeisenbanken cooperative financial network in North Rhine-Westphalia was still able to maintain its position as leader in the market for KfW's development programs for companies: KfW-Unternehmerkredit (company loans) and KfW-Programme Erneuerbare Energien (funding for renewable energies).

As at December 31, 2014, the market share of WGZ BANK and its local cooperative banks in North Rhine-Westphalia was 38.9 percent in the standard KfW renewable energies program and 52.9 percent in the premium KfW renewable energies program. The local cooperative banks in North Rhine-Westphalia also hold the largest percentage share (71.5 percent) of the market in KfW's development programs that support general capital investment by SMEs, particularly in the case of KfW-Unternehmerkredit. This encouraging market share data is the result of the strong performance that the Volksbanken Raiffeisenbanken cooperative financial network delivers for its customers in this important area of business.

Permanently low interest rates on development loans

Various development programs now feature a historically low interest rate for end borrowers of 1 percent. This gives investors the chance to fix the current very low interest rates for an extended period. Along with its member banks, WGZ BANK actively helps companies and retail investors to select suitable development loans.

Despite the extremely low interest rates, we registered far less demand for development loans in our territory last year. The volume of applications for public-sector loans brokered and processed by the local cooperative banks in conjunction with WGZ BANK fell by 23.3 percent to just under €2.4 billion. The number of applications processed in WGZ BANK's territory was also down year on year at 23,430, a decrease of 12.7 percent compared with 2013.

By contrast, the total volume of the development lending portfolio grew by 1.3 percent to €13.6 billion, a new record level. The bulk of this portfolio comprises loans to customers of our member banks; the remainder are development loans to direct corporate customers of WGZ BANK.

The constant diversification of the development programs reflects the tighter requirements of EU legislation on state aid and with regard to applications for individual lending programs. The simultaneous increase in the proportion of leasing and the growing trend toward factoring is leading to an overall decline in traditional loan finance based on development loans.

It was not only the renewable energy programs that registered a decrease last year: There was also less demand for other environmental and energy efficiency programs and for traditional corporate and SME development loans in 2014. Uncertainty about future prospects created reluctance among commercial customers, with many choosing to implement their plans using internal funding and other funding options. The number of applications for commercial finance declined by 17.1 percent to 4,354, while the volume fell by 31.5 percent to €1.09 billion. A significant proportion of these applications – albeit with a sharp downward trend – continued to be accounted for by development loans related to renewable energies (photovoltaics, wind power, biomass, heat grids) and other environmentally-related capital investment.

Business start-ups and acquisitions remain part of the local cooperative banks' core business. Specifically, the bank processed 1,561 applications for business start-up and consolidation support in 2014, which equated to a 5.5 percent decrease year on year. The volume amounted to €211.4 million, down by 8.9 percent compared with 2013.

In past years, agricultural customers were often the driving force behind the growth in applications in connection with energy projects. However, in 2013 there had been a change of direction in the politically motivated promotion of renewable energies, leading to a decline in the number of applications. This trend has continued. In 2014, the number of applications in the agricultural sector fell by 17.8 percent to 2,338 with a 23.1 percent contraction in volume to €332.6 million.

There was also a general downward trend in the housing sector and in private house-building, although there was less of a decline than in other areas. Demand from retail customers for development loans for photovoltaic installations and for energy-efficient construction and renovation also went down. The only area to register a year-on-year increase was the support provided by KfW for home ownership.

The cooperative banks in our territory brokered a total of 16,738 house-building development loan applications in 2014, a year-on-year contraction of 10.7 percent. The volume decreased by 11.2 percent to €0.9 billion.

'No. 1 VR Development Bank of the Year'

In 2014, WGZ BANK again conferred the development loan award known as the No. 1 VR Development Bank of the Year prize. First handed out in 2011, it recognizes particularly successful banks in the area of development lending. The prize is awarded to the three member banks (in their respective size categories) that have submitted the most development loan applications to the development banks through WGZ BANK. The winners of the development award in 2014 were Raiffeisenbank Kehrig eG, Volksbank Halle/Westf. eG, and VR-Bank Kreis Steinfurt eG. This prize emphasizes the key role of the local cooperative banks as the first port of call for customers seeking tailored, affordable capital investment finance in all segments.

Finance for social-purpose real estate and green buildings

At the end of 2014, just over 10 percent of WGZ BANK's real estate finance projects had a sustainability aspect. The properties in question were social-purpose real estate (retirement and care homes, assisted living facilities, schools, universities, children's daycare centers, and hospitals) and 'green buildings' that meet the highest efficiency and environmental standards.

Having recently joined the German Sustainable Building Council (DGNB, www.dgnb.de), WGZ BANK now has access to a wide range of information, such as the latest trends and development lending options for sustainable construction.
We are also expanding our expertise in the field of sustainable real estate and increasing the size of our network in this area. One example is the funding of the Photonics Cluster on the campus of RWTH Aachen University, where WGZ BANK is providing finance for the local project developer, Landmarken AG. The planned center for science and research combines top-class architectural design from US architects Kohn Pederson Fox with the highest standards of environmental protection and workplace health and safety. The building, which has been awarded DGNB silver certification, was built without using materials that are harmful to health, ensures optimum indoor temperatures, and has low energy consumption. Moreover, it will be possible to use the building for alternative purposes – an important criterion for investors.

Corporate environmental protection

Environmental management at WGZ BANK focuses on continuously improving the ways in which the bank protects the environment. In 2014, it again reduced its environmental footprint in terms of CO_2 emissions and consumption of resources.

The many individual measures implemented to save energy in recent years together led to a further dramatic reduction in the amount of electricity used in 2014. Consumption fell by 805,178 kilowatt hours, a decrease of 12.1 percent. This is the fifth year in a row in which electricity consumption has declined. WGZ BANK was only able to achieve this outcome as a result of its rigorous implementation of every single one of the announced energy-saving measures. One of the main reasons for the further reduction in electricity consumption was the optimization of building technology.

In 2014, we were able to reduce our consumption of district heating by 1,339,400 kilowatt hours or 25.5 percent. As the weather has a significant impact on consumption, we applied a weather-based adjustment to this figure. Following this adjustment, the year-on-year reduction amounted to 285,783 kilowatt hours or 5.7 percent.

Last year, water consumption fell by 2,051 cubic meters or 11.8 percent compared with 2013. One of the reasons for this reduction was the deployment of intelligent water pumps. Moreover, the circulating air cooling units and heat exchangers in data-processing center 2 have been replaced with more efficient components that use fewer resources.

Last year, we were finally able to identify the cause of the apparent increase in water consumption in previous years: a defective water meter. The positive outcome of this is that WGZ BANK has consumed much less water than it previously thought. We have retrospectively corrected the data to reflect the lower level of water consumption.

Environmental data

	Unit	2014	2013	2012
Electricity consumption	kWh	5,849,577	6,654,755	7,739,741
per employee	kWh	4,842	5,588	6,499
District heating consumption	kWh	3,921,100	5,260,500	5,315,500
per employee	kWh	3,246	4,417	4,463
Water consumption*	m^3	15,384	17,435	20,735
per employee	m^3	12.7	14.6	17.4
Paper consumption	kg	47,366	52,724	52,920
per employee	kg	39.2	44.3	44.4
Recyclable waste	kg	208,350	215,980	219,100
per employee	kg	172	181	184
Non-recyclable waste	kg	72,796	109,194	145,592
per employee	kg	60	92	122
CO_2 emissions	kg	2,667,407	3,147,699	3,722,815
per employee	kg	2,208.1	2,642.9	3,125.8

* Water consumption: A defective water meter meant that the reported volume and the billing of water consumption were higher than they should have been in the previous three years. The figures for 2013 and 2012 have therefore been restated.

Paper consumption also went down for the fifth year in a row, declining by 5,358 kilograms in 2014. This constitutes a decrease of 5.7 percent.

The waste management system introduced in 2011 has resulted in a sustained reduction in the quantity of waste. To achieve this, an inspection of the business was carried out beforehand in order to create an immediate record of any weak points and improvement measures. The inspectors also reviewed the waste logistics and waste segregation systems before drawing up specific solutions for improving them in cooperation with external cleaning staff. The volume of recyclable waste was cut for the fourth year in succession. The reduction amounted to 7,630 kilograms or 3.5 percent. Regular checks on the actual fill levels of non-recyclable waste containers revealed a further year-on-year decrease of 36,398 kilograms or 33.3 percent.

Thanks to the significant reduction in electricity consumption and the improvements made to the electricity mix by the local supplier, resulting in a higher proportion of electricity from renewable sources, our carbon dioxide emissions fell by 480,292 kilograms or 15.3 percent. Measures such as a photovoltaic installation, insulation of the pipes in the cooling and heating systems, replacement of the water pumps with more efficient ones, a switch from halogen lightbulbs to LEDs, and the replacement of PCs with thin clients all contributed to the sharp fall in electricity use.

Environmental management will continue to focus on reducing the consumption of resources in the years to come. In 2015, we are aiming to obtain recertification by ECOPROFIT. This Germany-wide project promotes environmental management in companies and municipal establishments. WGZ BANK has been an active member of the City of Düsseldorf’s ECOPROFIT Club since 2012 and therefore benefits from the opportunity to regularly swap experiences with other companies. The objective is to accumulate and pass on knowledge, and to develop ideas, particularly for cutting carbon dioxide emissions. In 2014, the inhouse technicians at WGZ BANK again regularly attended external training sessions on saving energy. Further action plans to reduce energy consumption will be implemented in 2015. These include continuing to replace lamps with LED lighting and extending the use of automated heating and ventilation control when windows are opened to more areas of the building, including meeting rooms.

Corporate citizenship

Reflecting its values, WGZ BANK has a long tradition not only of engaging in commercial activities in its role as a bank but also of keen involvement as a sponsor, donor, and initiator of social and cultural projects in the region. Last year, WGZ BANK spent a total of €1.03 million on corporate social responsibility activities.

Support for the arts

Supporting culture and the arts is a decades-old tradition at WGZ BANK. We firmly believe that cultural literacy is vital to society's development.

Culture

For many years, WGZ BANK has been principal sponsor of the Deutsche Oper am Rhein opera company as well as the multi-award-winning Ballett am Rhein ballet company, which is headed up by director and chief choreographer Martin Schläpfer. Deutsche Oper am Rhein and Ballett am Rhein have been based at Düsseldorf opera house and Duisburg theater since 1956, putting on around 300 performances per season.

The opera company is committed to developing and training young members of its opera studio. Seven young and talented singers are taken on by the opera studio at a time, usually for a period of two years, enabling them to gain an extensive insight into the practicalities of working as an opera singer. At the end of this training, they attend a one to two-week masterclass in which they receive further singing training from internationally renowned artistes. The masterclass finishes with a public concert at which the participants showcase their new skills. In 2014, WGZ BANK hosted this concert for the first time. This initiative, which ties in well with WGZ BANK's corporate citizenship aims, is to be continued in the coming years.

The close relationship with Deutsche Oper am Rhein exemplifies the corporate philosophy embodied by WGZ BANK in which economic benefit and corporate social responsibility are not mutually exclusive.

True to its motto of 'vitalizing the Ruhr area', the Ruhr Piano Festival runs from mid-April to late July every year and features performances by top pianists, including up-and-coming young talent, from around the world. WGZ BANK has been a sponsoring partner of the Ruhr Piano Festival since 1996.

Art

WGZ BANK celebrated two art-related milestones last year: 2014 marked 30 years of WGZ BANK's art collection and the ten-year anniversary of the first exhibition promoting young artists to be held at WGZ BANK. Since 2004, these exhibitions have featured modern art by young graduates, alternating between students from the Düsseldorf Arts Academy and students from the Academy of Fine Arts Münster.

The strategic concept underlying WGZ BANK's art collection focuses on contemporary art, especially the evolution of modern art since the 1980s. Two of the collection's long-term aims are to expand its portfolio of artworks and to look after the items in its care, including preventive conservation measures and continual professional restoration.

WGZ BANK – together with its art collection – also supports exhibitions at well-established museums and those organized by other supporters of the arts. In 2014, items from the collection were loaned to exhibitions in Spain and the Netherlands. Painter Karin Kneffel requested and arranged for a significant still life from the bank's collection to be included in a major solo exhibition by the artist at the MAC (Museo de Arte Contemporáneo) in La Coruña, Spain.

WGZ BANK also loaned a cycle of 44 works by Dutch artist Herman de Vries to the Stedelijk Museum Schiedam in the Netherlands for its 'herman de vries. all' exhibition.

As part of the collection's anniversary celebrations, WGZ BANK invited 50 experts from the Working Group for Corporate Collecting (ACC) to a conference in Düsseldorf. During the two-day event, representatives and curators of more than 30 collections of German companies discussed various aspects of the long-term management of collections. WGZ BANK is a founding member of the ACC, which was established in 2010 and is one of the cultural working groups of the Federation of German Industries (BDI).

In the autumn of 2014, WGZ BANK hosted a sponsored exhibition with the title 'Brillant' (brilliant), the bank's sixth such exhibition to date in its 'Contemporary Art' series. Held in WGZ BANK's large convention hall in Düsseldorf, the exhibition comprised a total of 75 works produced by 14 talented young artists from the Düsseldorf Arts Academy. The exhibition promoting the work of young artists is held once a year at WGZ BANK and can be visited for free during the bank's opening hours. As in previous years, WGZ BANK employees were able to attend a preview of the 2014 exhibition.

NRW initiative prize

WGZ BANK and the North Rhine-Westphalia newspapers in the Funke media group (Westdeutsche Allgemeine Zeitung (WAZ), Neue Ruhr / Neue Rhein-Zeitung (NRZ), Westfälische Rundschau (WR), and Westfalenpost (WP)) awarded the NRW initiative prize for the seventh time in 2014. With total prize money of €30,000, this award is aimed at predominantly family-run small and medium-sized enterprises in North Rhine-Westphalia. It is awarded in recognition of special achievements in three fields: renewable energies and environmental protection, creation of new jobs in North Rhine-Westphalia, and corporate citizenship in North Rhine-Westphalia.

Last year, BBF BIKE GmbH, which is headquartered in Hoppegarten near Berlin but also has branches in Neukirchen-Vluyn and Bielefeld, received the accolade for creating new jobs in North Rhine-Westphalia. In 2011, BBF BIKE acquired an insolvent bicycle wholesaler in Neukirchen-Vluyn along with its subsidiary in Bielefeld. It offered all of the employees a new employment contract and has created a further 17 jobs since then. Much of the production work is carried out by a workshop for people with disabilities in Düsseldorf, where another 14 new jobs have also been created.

Another winner of the 2014 initiative prize was Crespel & Deiters GmbH & Co. KG from Ibbenbüren in recognition of its exceptional social engagement. Managing Director Gustav Deiters set up In|du|strie Gemeinsam. Zukunft. Leben, an initiative that aims to improve cooperation between schools and businesses and counteract the dwindling number of apprentices and the threat of a shortage of skilled workers in the region. A total of 360 companies in northern Westphalia are actively involved in this initiative.

The 2014 winner in the renewable energies and environmental protection category was Bäckerei Kanne GmbH & Co. KG from Lünen. The bakery specializes in organic bread and other baked goods as well as a bread-based health drink called Brottrunk. Championing the environment has long been part of the company's philosophy. It generates the electricity for its production facilities from a wind turbine and photovoltaic installation, while the residual heat from the ovens is used to heat water for the dishwashers. Returned goods are passed to various food banks, leftovers are made into the bakery's own animal feed, and biodegradable waste is used in its organic market garden.

Ruhr Initiative Group

WGZ BANK has been promoting the Ruhr Initiative Group for many years as an active member. One of the initiative's main aims is to educate young people in the region on economic and financial subjects. In 2014, WGZ BANK supported the annual 'Dialog mit der Jugend' events for schoolchildren with both financial assistance and the direct involvement of bank staff.

A total of 70 seniors from the high schools Gymnasium Märkische Schule Wattenscheid in Bochum, Theodor König-Gesamtschule in Duisburg, and Gymnasium Essen-Überruhr visited WGZ BANK in Düsseldorf in February 2014 to discuss topical financial issues with Chief Executive Officer Hans-Bernd Wolberg. Among other topics, the discussion focused on the business model both of the cooperative banks and of WGZ BANK itself.

sozialgenial

Having extended its sponsorship agreement with the 'Aktive Bürgerschaft' association for a further five years in 2013, many of the bank's activities in 2014 again centered around the 'sozialgenial. schoolchildren get involved' initiative. Aktive Bürgerschaft, a competence center for civic engagement, sponsors the initiative. In this project, young people learn while still at school that it pays off to stand up for social causes, to show personal initiative, and to take shared responsibility for society and individuals. The initiative, which was launched in 2009, also promotes education and work opportunities for young people. The concept is based on the principle of service learning, a modern approach that gives schoolchildren the opportunity to combine traditional studies with social responsibility.

Since 2009, more than 46,000 schoolchildren at around 500 schools in the Rhineland and Westphalia regions have taken part in approximately 1,300 projects.

WGZ BANK Foundation

The WGZ BANK Foundation focuses on promoting the economic, socio-political, and vocational education of young people as well as supporting training and professional development in economic sciences. Since 2011, the foundation has funded two Leuphana summer academies per year, an investment that helps schoolchildren, particularly those requiring additional educational support, to prepare for an apprenticeship or training scheme. The aim is for the young people to be able to successfully apply for a training position or job. The WGZ BANK Foundation works in close partnership with Leuphana University in Lüneburg, government employment agencies in the region, and individual local member banks to deliver the project. The summer academies consist of a three-week summer camp plus a year of follow-up support. During the summer camp, the young people discover their strengths and talents, improve on what they have learned at school, and consider suitable career options. They write draft application letters and practice successful interview techniques during 'HR day', when they are put through their paces by representatives from local business. The summer academies are a shining example of putting into practice the fundamental cooperative principle of helping people to help themselves. That is why the WGZ BANK Foundation's commitment to this project goes back many years.

In 2014, the WGZ BANK Foundation awarded its sponsorship prize for the fourth time. Through the prize, the foundation supports the projects of schools, fundraising organizations, local foundations, and other educational initiatives that are aimed at improving education in socio-political and economic subject areas. The projects are nominated by local cooperative banks in WGZ BANK's territory. The theme of the 2014 sponsorship prize was 'shaping society – encouraging personal initiative'.

First prize went to partners Kleiner Muck e. V., Jugendfarm Bonn e. V., and Evangelische Kirchengemeinde Bonn-Beuel for their Kinderstadt Mini-Beuel initiative. The project was nominated by Volksbank Bonn Rhein-Sieg eG.

Every other year, two Kinderstadt Mini-Beuel projects take place during the summer vacation, each lasting a week. It is aimed at children aged seven to twelve, while young people aged 16 or above can sign up as youth helpers. Mini-Beuel represents a town on a miniature scale, complete with jobs, taxes, a municipal political system, and its own monetary system – all depicted in a realistic way that is easy for children to understand. The participants gain experience of a town community and the social interaction that goes on in a democracy by learning how to develop solutions together and assume shared responsibility.

The Konrad Adenauer school in Asbach was awarded second prize for its Schülergenossenschaft MultiSteps eSG, having been nominated by Raiffeisenbank Neustadt eG. In 2013, 22 of the school's students in years seven to nine founded one of the first school cooperatives in Rhineland-Palatinate. The school company focuses on operating the school's Chill-Step café and producing and selling its own products via Food-Step, a small-scale catering service. Another school company also won second prize: The Sweet-Corner school kiosk project at St. Georg-Hauptschule in Hopsten was nominated by VR-Bank Kreis Steinfurt eG. At this school, children in years nine and ten voluntarily run a kiosk that sells food and school supplies during breaks. They take responsibility for tasks such as procurement planning, planning and execution of marketing campaigns, sales organization, and book-keeping. What is particularly remarkable about the Sweet-Corner kiosk is that it has been self-supporting for many years.

Raiffeisen Association

The objective of the German Friedrich Wilhelm Raiffeisen Association, which was founded in 2012 with a considerable degree of support from WGZ BANK, is to maintain the intellectual legacy of Friedrich Wilhelm Raiffeisen and to promote the cooperative principle and interpret it for the modern age. Werner Böhnke, chairman of the Supervisory Board of WGZ BANK, is the association's chairman.

All kinds of high-profile activities took place in 2014. For example, the first of the new signs that are to point the way along the Raiffeisen Heritage Trail was unveiled to the public in the spring. More signs will gradually be put up along the route, which runs from Hamm to Neuwied. Fifty panels featuring a portrait of Raiffeisen mark the sites associated with the life and legacy of Raiffeisen, one of the main pioneers of the cooperative movement. In April 2014, the Austrian Raiffeisen Association donated a gable cross during a special presentation ceremony in Flammersfeld.

At the end of 2013, the Raiffeisen Association and the German Hermann Schulze-Delitzsch Association submitted a joint application requesting that the 'cooperative principle' be recognized by UNESCO as intangible cultural heritage. In December 2014, the expert committee at the German Commission for UNESCO announced that the cooperative principle had been included on the shortlist for Germany's new Nationwide Inventory of Intangible Cultural Heritage. The expert committee praised the cooperative principle as a very dynamic and influential form of social self-organization. It also cited its contribution to overcoming social challenges and the creativity with which it has changed and adapted to modern life.

The German Commission for UNESCO received 83 applications in total, of which 27 were entered in the nationwide inventory. At the same time, the cooperative principle was selected as the first and only German nomination for UNESCO's Representative List of the Intangible Cultural Heritage of Humanity. UNESCO will make its final decision in 2016.

WGZ BANK Group

WGZ BANK
Die Initiativbank

WGZ BANK has been the central institution to what are now 187 local cooperative banks in Germany's Rhineland and Westphalia regions since 1884. It also has a tradition as a partner to small and medium-sized enterprises in the Rhineland and Westphalia regions and offers tailored financial services to its corporate customers. For capital market partners (banks, institutional customers, major corporate customers), WGZ BANK is a service provider in the trading of cash deposits, foreign exchange, and derivatives, and also takes an active part in the business of issuing securities and undertaking syndicated transactions. In addition, WGZ BANK acts as a bridge to the international markets for its local cooperative banks.

Branches

WGZ BANK Düsseldorf	**WGZ BANK** Koblenz	**WGZ BANK** Münster

WL BANK

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

WGZ Immobilien +Treuhand

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

WGZ BANK
Ireland plc

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

WGZ BANK Group business volume in 2014: €95.9 billion

Member banks 2014 combined total assets: €192 billion

Number of members in 2014: 3.0 million

Domestic long-term equity investments

Bausparkasse Schwäbisch Hall AG

Börse Düsseldorf AG

CardProcess GmbH

Deutscher Genossenschafts-Verlag eG

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

GAD eG

Münchener Hypothekenbank eG

R+V Versicherung AG

Service-Direkt Telemarketing
Verwaltungsgesellschaft mbH

Union Investment Group

VR-BankenService GmbH

VR Consultingpartner GmbH

VR Corporate Finance GmbH

VR Equitypartner GmbH

VR ImmoConsult GmbH

VR-LEASING AG

VR Mittelstandskapital
Unternehmensbeteiligungs AG

VR-NetWorld GmbH

VR VertriebsService GmbH

Foreign long-term equity investments

DZ PRIVATBANK S.A.
Strassen, Luxembourg

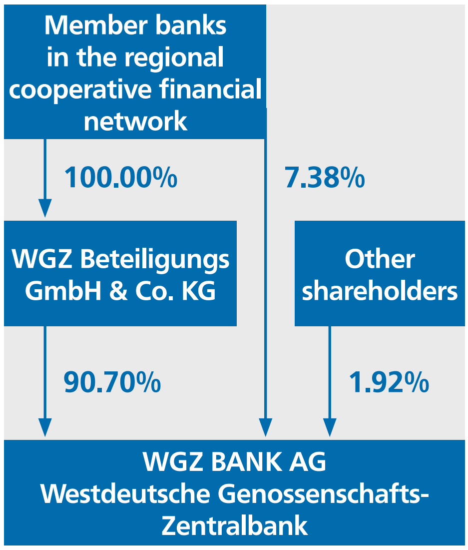
2014 management report of WGZ BANK and the WGZ BANK Group

I. Introduction

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

The parent company WGZ BANK and the member banks constitute the regional cooperative financial network. The member banks are the 187 local cooperative banks in North Rhine-Westphalia, Koblenz, and Trier. One of the main strategic objectives of WGZ BANK is promoting and increasing the competitiveness of the member banks, which are both its customers and its shareholders. WGZ BANK has branches at its Düsseldorf headquarters and in Koblenz and Münster, from where it serves the member banks and other customers.

For the most part, the affiliated member banks have pooled their shareholdings in WGZ BANK in WGZ Beteiligungs GmbH & Co. KG, Düsseldorf. This equity investment company's sole purpose is the management and acquisition of WGZ BANK shares for the member banks. It is obliged to promote the commercial interests of its shareholders – the member banks – and to assist WGZ BANK in fulfilling its duties as set out in its Articles of Association. Following the successful capital increase in 2014, WGZ BANK's share capital stands at €714.34 million. The shareholder structure of WGZ BANK as at December 31, 2014 was as follows:



II. Business activities

WGZ BANK

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

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

The continued fall in interest rates, along with stricter regulatory requirements, had a huge impact on business relating to the local cooperative banks' own-account investing activities. Because of their good levels of liquidity, the member institutions increasingly reduced their low-interest overnight deposits, time deposits, and funding loans. They used this liquidity to further expand their flourishing customer lending business but they also increasingly opted for securities investments offering a higher return. As a result, there was significant year-on-year growth in both trading volumes for own-account investing and inflows relating to own-account investment funds and special funds. Investing activities also increasingly focused on asset classes that have previously not attracted as much attention. We supported our affiliated institutions in their investing and management activities by further expanding our range of information and advisory services. In addition to arranging central information events, we added new and enhanced advisory formats to our bank-specific consulting service. The aim here is to provide these institutions with support that is even more closely aligned with their needs in relation to satisfying regulatory requirements and dealing with the challenges posed by investing and management activities.

WGZ BANK's payments processing division develops products for the local cooperative banks and its own corporate customers, and it worked with them to successfully complete the migration from Germany's national payments processing system to the Single Euro Payments Area (SEPA) standards for bank transfers (SEPA Credit Transfer) and direct debits (SEPA Direct Debit). A large number of customer events were held at local cooperative banks at which speakers from the payments processing division provided these banks' customers with information about the necessary changes. Despite the deadline being postponed by the European Commission at the last minute, the migration ran smoothly without causing disruption. The next step is to migrate card payments to the new processes and standards (SEPA Cards Clearing). The preparations were completed in 2014, and bilateral tests between banks are now under way.

In its card processing business, WGZ BANK added a premium product (PLATINUM CARD) to the range of credit cards offered by the local cooperative banks. This new card, which comes with an exclusive but affordable bundle of services, garnered highly positive feedback when it was piloted.

A major challenge was the restructuring of interbank fees for debit card payments (VR-BankCard), which proved to be extremely complex from a legal perspective, and the accompanying negotiations with major merchants and network operators, which were brought to a successful close in November 2014.

Handling 1.4 billion transactions in 2014, WGZ BANK is one of the largest providers of payments processing services in Germany. For domestic German, SEPA, and international non-SEPA payments processing, WGZ BANK operates a processing system developed jointly with the cooperative computing center, GAD. The system meets the latest standards and is suitably integrated into the local cooperative banks' banking processes. Demand remains strong for the service modules developed in recent years, which offer the local cooperative banks additional assistance with their front-office and back-office activities, e.g. in the documentary business. It also includes the ongoing monitoring of cash flows in order to ensure compliance with the terms of embargoes and sanctions.

The payments processing division is adapting to the increasing digitization of the banking business in a number of ways, including enhancing the InitiativBanking Portal and participating in a payment process for e-commerce transactions that was jointly developed with major banks. Starting in autumn 2015, end customers of the banks taking part will be offered a payment process with a direct link to their account that can compete with any payment methods currently offered by competitors outside the banking world in terms of performance and customer perception. In 2014, work on the project to set up this new payment process overcame its first significant hurdles with the establishment of the central company and central IT components.

As far as the corporate customer business was concerned, 2014 saw companies in Germany continue to improve their balance sheets. They used their increased levels of internal finance to reduce borrowing and strengthen their capital base. Despite the significant geopolitical challenges, which particularly affected export-focused business, profitability stabilized at a high level. The main contributors to this trend were beneficial movements in commodity prices and the favorable level of interest rates.

Spending on expansion investment remained low, whereas more money was channeled into research and development, rationalization, and capital expenditure on resource-efficient energy consumption.

Companies are increasingly opting for a broad mixture of funding types. Despite high levels of internal finance, bank loans remain the biggest source of funding for small and medium-sized enterprises (SMEs), but their importance is declining. Nevertheless, WGZ BANK and the cooperative financial network together managed to increase their volume of business.

The generally low level of interest rates caused demand for development loans to decline in 2014. The volume of applications for public-sector loans brokered by the local cooperative banks in conjunction with WGZ BANK fell by 23.3 percent to just short of €2.4 billion last year. The number of applications decreased by 12.7 percent year on year (23,430 processed applications in WGZ BANK's territory). There was a sharp reduction in the use of public-sector loans for corporate funding, whereas there was only a modest overall drop in demand for development program loans from private individuals in relation to house-building. The corporate sector, in particular, is evidently using the possibilities of internal funding and other funding options to implement its plans.

WGZ BANK actively helps its member banks with the provision of advice about – and the processing of – applications for development lending business in order to identify the best products for investors from among the many different development loan options available. The strong levels of market share continue to underline how frequently development loan products are discussed with customers and are included in the financing of investment activities. The Volksbanken Raiffeisenbanken cooperative financial network is, for example, the market leader in North Rhine-Westphalia in the major programs for companies offered by Germany's KfW development bank, namely KfW-Unternehmerkredite (company loans) and KfW-Programme Erneuerbare Energien (funding for renewable energies). WGZ BANK's development lending volume grew by 1.3 percent to €13.6 billion in 2014.

There were only slight adjustments to development programs at the start of 2015, which meant the range of programs available remained stable. A current Germany-wide campaign headed up by the National Association of German Cooperative Banks (BVR) puts the focus on energy efficiency in companies. Despite the current fall in the oil price, many companies are very interested in saving energy and thereby cutting costs. We offer our member banks targeted support in relation to energy efficiency, providing information materials and intensive advice on reaching out to customers.

Against a backdrop of challenging conditions in the capital markets, WGZ BANK proved once again to be a reliable partner for institutional investors in 2014, both as an issuer and as a trading bank.

With the capital markets evolving at an ever faster rate, institutional clients appreciate all the more the stability provided by a long-standing business relationship. The trust that they have placed in WGZ BANK and the cooperative financial network as a whole was the basis for intensive dialog during one-on-one meetings and at investor conferences, resulting in a steady broadening of the customer base among investors from Germany and abroad.

The dominant theme among investors, whether fund management companies, insurers, pension funds, or pension schemes, was the continuing deterioration due to the persistently low level of interest rates. In these conditions, ever greater importance is being attached to portfolio diversification, security selection, progressive internationalization of the investment universe, and the search for drivers of returns.

WGZ BANK was able to assist its customers in this regard by providing secondary market liquidity and supporting a wide range of primary market issues. Successful support for a number of benchmark issues is proof positive of WGZ BANK's placing power with German and international investors. In recognition of the growing importance of sustainability to the capital markets, WGZ BANK jointly issued a mortgage Pfandbrief with cover assets based on sustainability-related environmental, social, and corporate governance criteria.

WGZ BANK supported the trend toward automated processing of trading business with competitive systems for trading and order routing.

WGZ BANK provided ongoing support to the cooperative banks in their securities business with customers, helping them with their competitive positioning. The focus was on signing up new custody account customers and pursuing a multichannel strategy. Since summer 2014, customers of the local cooperative banks have been able to use VR-ProfiBroker, an innovative information, analysis, and transaction application.

The targeted support from WGZ BANK enabled member banks to notch up considerable success in their securities business with customers. On average, they acquired 1,400 custody accounts per month, generating a volume of new assets under custody of around €1 billion.

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

As at the end of 2014, WGZ BANK was the custodian bank for investment fund assets totaling €26.2 billion in 16 mutual and 68 special funds. Overall, WGZ BANK looked after 143 managed units from 14 different fund management companies.

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

Companies in the WGZ BANK Group

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

WGZ BANK uses its network of other subsidiaries to provide its different customer groups with the services they need. **WGZ BANK Ireland plc** operates the international capital markets business and offers funding to the local cooperative banks in the regional cooperative financial network.

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

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

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

III. Business performance of WGZ BANK

The German economy generated an increase in gross domestic product (GDP) of 1.6 percent in 2014, thereby significantly outperforming the economy of the eurozone, which continued to be held back by the fallout from the sovereign debt crisis. This buoyant economic growth in Germany had a positive impact on the number of unemployed people (2.76 million) and the unemployment rate (6.4 percent), with both dropping to their lowest level since the country's reunification. The reduction in the oil price, which was particularly significant in the fourth quarter, helped to bring down the rate of inflation in Germany, which fell substantially year on year to 0.9 percent. Against this backdrop, companies in Germany were able to operate in a largely stable economic environment last year.

The banking industry continued to be dominated by the regulatory situation in 2014. To underpin confidence in European banks and prepare for its new role as banking supervisor, the European Central Bank (ECB) conducted a thorough asset quality review of the banks in the eurozone that are considered systemically important. This was followed by a stress test. With one exception, all of the participating German banks passed this comprehensive assessment. WGZ BANK also achieved a respectable result in the comprehensive assessment, which entailed a lot of work and expense. The bank thereby demonstrated its resilience in stress situations and the good quality of its credit portfolio.

Other challenges faced by the financial services sector stemmed from measures implemented by the ECB over the course of the year. In June 2014, the ECB lowered the interest rate on its deposit facility to minus 0.1 percent for the first time as part of its remit to maintain price stability and support lending to the real economy. This was followed in September 2014 by a further rate cut to minus 0.2 percent, a decrease of ten basis points. Interest rates subsequently fell in all market and maturity segments; in particular, returns in the money market and on the securities of investment-grade public-sector issuers turned negative. A number of banks announced they would be passing on the negative interest rates to customers in their deposit-taking business. This affected not only the euro but also foreign currencies, some of which exhibited even higher negative rates of return (e.g. the Swiss franc). Although WGZ BANK continues to make every effort to protect its deposit customers from the effects of negative interest rates, it was unable to escape this trend altogether and, in November 2014, decided to introduce negative interest rates for large-volume euro-denominated deposits of institutional clients.

WGZ BANK nevertheless performed well given the aforementioned conditions. It succeeded in consolidating its market position and continued to strengthen its close collaborative relations with customers in 2014. At the same time, it achieved substantially higher net income for the year than in 2013, not least due to the exceptionally high net fair value gains on securities in the liquidity reserve, which were boosted by the low interest rates.

Results of operations and appropriation of profits

WGZ BANK's net operating income in 2014 was satisfactory overall and higher than we had expected, particularly in light of the economic conditions, which remain challenging. We improved upon what had already been a good result in 2013. At 49.6 percent, the cost/income ratio remained below the strategic target of 50 percent. The cost-income ratio is the ratio of administrative expenses to the sum of net interest income (including current income), net fee and commission income, net trading income, and other net operating income.

Net interest income fell by €11.3 million to €173 million due, above all, to the current interest-rate environment. However, current income from long-term equity investments and shares in affiliated companies increased significantly, climbing by €17.8 million to €101.9 million. Income from profit transfers totaled €13.8 million, a deterioration of €8.4 million compared with the prior year. The main reason for this was the year-on-year reduction in the allocation of tax from WL BANK, which is reported under profit transfers.

Net fee and commission income came to €116.5 million, a year-on-year rise of €7 million. The increase primarily resulted from growth in payments processing and in derivatives and lending business.

Net trading income amounted to €80.5 million in 2014, which was up slightly on the previous year (2013: €80 million) despite challenging economic conditions.

Administrative expenses advanced by 5.1 percent to €230.9 million in 2014. Staff expenses rose by 6.5 percent. This rise was attributable to an increase in wages and salaries as a result of hiring new employees and salary increases under collective bargaining agreements, but also to increased year-end bonuses for staff and to higher social security contributions and retirement provision expenses. Other administrative expenses grew by 3.7 percent to €107.1 million. This was mainly due to a €7.9 million increase in auditing costs, which were primarily incurred in connection with the on-site asset quality review conducted by the ECB before it took over as banking supervisor. The average number of employees was up by 16 to 1,242 in 2014. Depreciation expense on property, plant, and equipment and amortization expense on intangible assets amounted to €9.1 million, which was down slightly compared with 2013.

Including the other net operating expense of €2.1 million (2013: income of €0.4 million), WGZ BANK's operating profit before allowances for losses on loans and advances declined by €8 million to €243.6 million. This decrease was predominantly attributable to the higher level of administrative expenses.

The level of net allowances for losses on loans and advances improved by €105.1 million year on year, representing an overall reduction of €68.2 million in the level of net allowances. Whereas the net amount of fair value gains and losses on loans and advances deteriorated slightly compared with 2013, market conditions had a positive effect on the fair value gains and losses on securities in the liquidity reserve.

WGZ BANK generated a net loss from other business of €67.9 million. Of this amount, €17.2 million was attributable to transfers of losses from Phoenix Beteiligungsgesellschaft mbH, which were primarily caused by the planned disposal of Volksbank Romania, and €10.2 million to transfers of losses from Impetus Bietergesellschaft mbH. The extraordinary expenses of €36.2 million related to a subsidy for VBI Beteiligungs GmbH, also in connection with preparations for the Volksbank Romania transaction. Fair value gains and losses on securities in the banking book amounted to a net loss of €5.4 million, one of the reasons being measurement losses on the sale of asset-backed securities to WGZ BANK Ireland plc.

After taking into account a tax expense of €77.4 million, net income climbed by €55.8 million year on year to €166.4 million. From net income, the Board of Managing Directors and the Supervisory Board have added €33.3 million to the reserves provided for by the Articles of Association and €24.9 million to other revenue reserves. In addition, the Board of Managing Directors and the Supervisory Board propose to the Annual General Meeting that, of WGZ BANK's reported distributable profit of €108.2 million, €50 million be appropriated to pay a standard dividend of €5.00 and a bonus dividend of €2.00 for each of the 7,143,400 no-par-value shares and the remaining €58.2 million be added to other revenue reserves.

As at the balance sheet date, WGZ BANK's total capital ratio pursuant to the Capital Requirements Regulation (CRR) was 17.9 percent (December 31, 2013: 15.7 percent under the Solvency Regulation (SolvV)) and its Tier 1 capital ratio was 14.3 percent (December 31, 2013: 14.1 percent). Taking account of both the appropriation of profits already implemented and the proposed appropriation, WGZ BANK's regulatory capital amounted to €3.4 billion. This resulted in a total capital ratio for WGZ BANK pursuant to the CRR of 18.8 percent and a Tier 1 capital ratio of 15 percent. The net income reported in 2014 is proof positive of the sustained success of WGZ BANK's business model, even in an exceptionally difficult market environment.

The forecasts made in 2013 are compared with actual business performance in the Outlook section.

Balance sheet

The total assets of WGZ BANK fell to €48.3 billion, a decrease of €3.1 billion compared with December 31, 2013. This decline is essentially due to derivatives held for trading purposes being netted on a counterparty-specific basis for the first time in 2014, provided they were concluded under master agreements together with a credit support annex (CSA) with daily exchange of collateral. The netting gives a picture of financial circumstances. For each counterparty, the netting encompasses both the carrying amount of the derivatives and the collateral shown under receivables or liabilities. Similarly, the scope of netting for over-the-counter (OTC) derivatives concluded with the same central clearing partner has been extended to include the collateral.

Loans and advances to affiliated banks amounted to €15.3 billion, a small decrease of €0.5 billion. This reduction was mainly attributable to loans and advances with maturities up to one year and over five years, while there was an increase in loans and advances with maturities of between one and five years. Loans and advances to other banks fell significantly, primarily because of the netting arrangements described above. They declined by a total of €2.9 billion to €3.2 billion. The reduction mainly related to loans and advances with maturities of up to three months. Loans and advances to customers advanced by €0.2 billion year on year to €8.5 billion, primarily in connection with the increase in loans and advances with maturities of more than five years.

At €8.5 billion, the securities line item was at roughly the same level as December 31, 2013. Financial assets held for trading were also virtually unchanged year on year at €9.6 billion. The carrying amount of long-term equity investments and paid-up shares in cooperatives plus shares in affiliated companies went up by 4.8 percent to €2.7 billion. This increase resulted in particular from our involvement in the capital increases at DZ BANK AG and R+V Versicherung AG.

In interbank business, deposits from affiliated banks stood at €10.2 billion as at December 31, 2014 and had therefore barely changed from a year earlier. The increases in liabilities repayable on demand and liabilities repayable after more than five years offset the decreases in liabilities repayable within five years. Although there was a contraction in deposits from other banks that were repayable on demand, this was mostly offset by a rise in liabilities repayable in more than one year. Overall, there was a slight reduction in deposits from other banks, which amounted to €16.7 billion. Amounts owed to other depositors advanced slightly, increasing by €0.1 billion to €6.2 billion compared with December 31, 2013. There was particularly significant growth in liabilities repayable on demand.

Debt certificates including bonds declined by €0.8 billion to €7.4 billion.

Financial liabilities held for trading were down by €3.1 billion to €3 billion as at December 31, 2014. Of this decrease, €1.6 billion was attributable to derivative financial liabilities held for trading following netting and €1.2 billion to the repo transactions reported under this line item.

As in the previous year, WGZ BANK's liquidity remained at a comfortable level throughout the reporting period.

IV. Business performance in the WGZ BANK Group

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

Financial performance of the group

The WGZ BANK Group's net profit for the year increased slightly in the year under review and was therefore significantly higher than forecast. This can primarily be attributed to a much improved level of gains and losses on trading activities and fair value gains and losses, which were boosted by positive trends in the capital markets in 2014. The group reported a profit after taxes of €234.3 million in 2014, compared with €227.2 million in 2013. Given the challenging market conditions that continued to prevail, we are satisfied with this result.

The WGZ BANK Group's net interest income including current income from shares and other variable-yield securities and income from long-term equity investments went up by 9.8 percent to €514.3 million. Of this increase, €14.5 million was attributable to current income. Including current income, net interest income advanced by €12.8 million at WGZ BANK and by €23.1 million at WL BANK. In addition, WGZ BANK Ireland plc reported a rise in net interest income of €1.3 million to €16.5 million.

Expenses for allowances for losses on loans and advances in the WGZ BANK Group amounted to €23.1 million, compared with €8.1 million in 2013. This change is mainly accounted for by WGZ BANK, where allowances for losses on loans and advances went up by €7.2 million year on year.

The net fee and commission income earned by the WGZ BANK Group came to €68.8 million, up by €1.4 million compared with 2013. This positive trend was due, in particular, to the increase in net fee and commission income from securities business and payments processing at WGZ BANK, whereas at WL BANK the €1.4 million rise in sales commission in the lending business had a negative impact on this line item.

Under IFRS, gains and losses on trading activities in the WGZ BANK Group – which also comprise the marking-to-market of derivatives plus financial instruments voluntarily recognized at fair value – equated to a gain of €211.9 million, a year-on-year increase of €59.9 million.

This was a reflection of the sustained easing of the sovereign debt crisis and of the performance of financial markets in 2014 on the back of low interest rates.

The following table provides an overview of the WGZ BANK Group's exposure to securities of sovereign and subsovereign issuers in Portugal, Ireland, Italy, Greece, and Spain:

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

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

DEC. 31, 2013 € MILLION	Notional amount	Cost	Carrying amount (IFRS)[1]	Fair value[1]	Impairment
At amortized cost					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	80.0	79.6	82.7	85.3	0.0
Italy	40.0	40.3	40.9	43.4	0.0
Portugal	45.0	45.0	46.2	44.6	0.0
Spain	335.8	336.5	346.6	352.2	0.0
Total	**500.8**	**501.4**	**516.4**	**525.5**	**0.0**
Available for sale					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	0.0	0.0	0.0
Italy	72.0	75.9	77.8	77.8	0.0
Portugal	210.0	190.6	167.2	167.2	0.0
Spain	95.0	92.2	93.9	93.9	0.0
Total	**377.0**	**358.7**	**338.9**	**338.9**	**0.0**
Fair value option					
Greece	0.0	0.0	0.0	0.0	
Ireland	97.4	107.4	114.4	114.4	
Italy	1,077.3	1,119.4	1,146.3	1,146.3	
Portugal	135.0	133.3	108.8	108.8	
Spain	648.8	645.5	619.8	619.8	
Total	**1,958.5**	**2,005.6**	**1,989.3**	**1,989.3**	
Total					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	177.4	187.0	197.1	199.7	0.0
Italy	1,189.3	1,235.6	1,265.0	1,267.5	0.0
Portugal	390.0	368.9	322.2	320.6	0.0
Spain	1,079.6	1,074.2	1,060.3	1,065.9	0.0
Total	**2,836.3**	**2,865.7**	**2,844.6**	**2,853.7**	**0.0**

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

Gains and losses arising on hedging transactions amounted to a loss of €24.6 million in the year under review (2013: €35.9 million). The gains and losses mainly related to the portfolio hedging used by WL BANK and were affected by the high volume of hedged items in this portfolio hedge accounting.

Gains and losses on investments deteriorated from a loss of €86.6 million to a loss of €132.6 million. This was primarily due to impairment losses of €66.4 million at DZ PRIVATBANK and depreciation and amortization expense of €19.5 million in connection with the long-term equity investment in Volksbank Romania. Gains and losses on investments were also adversely affected by expenses resulting from the repurchase of liabilities of €55.4 million.

The WGZ BANK Group's administrative expenses rose by €11.8 million to €296.1 million in 2014. This change was largely attributable to a higher level of staff expenses at all group companies, but also to an increase in other administrative expenses at WL BANK. The average number of employees in the group increased from 1,571 to 1,593.

Including the other net operating expenses of €27.3 million (2013: income of €16.8 million), the WGZ BANK Group reported an operating profit before taxes of €307.9 million (2013: €306.1 million).

Income taxes came to €72.7 million in the reporting year (2013: €78.8 million). Other tax expense totaled €0.9 million, compared with €0.1 million in 2013.

After taxes, the WGZ BANK Group's net profit for the year was €234.3 million (2013: €227.2 million).

The forecasts made in 2013 are compared with actual business performance in the Outlook section.

Consolidated balance sheet

As at the end of 2014, the WGZ BANK Group's total assets stood at €94.9 billion, a year-on-year increase of €4 billion. The volume of business, which comprises total assets and contingent liabilities, rose by €4.1 billion to €95.9 billion.

The group's loans and advances to banks were down by €0.1 billion to €22.8 billion as at December 31, 2014. The bulk of the decrease was attributable to WGZ BANK and was caused by, among other factors, the netting of OTC derivatives with the corresponding collateral reported as loans and advances to banks. Loans and advances to customers advanced by €0.6 billion to €37.6 billion, a rise that was largely accounted for by WGZ BANK.

The portfolio of financial assets held for trading grew by €1.8 billion to €10 billion. Both WGZ BANK and WL BANK reported increases in financial assets held for trading, of €1.3 billion and €0.6 billion respectively. This change was mainly due to interest-rate-related growth in market values.

The long-term equity investments and securities portfolio item, which mainly consists of the securities portfolio, advanced by €1.1 billion to €21.7 billion. The increases before consolidation were as follows: €0.3 billion at both WGZ BANK and WL BANK and €0.2 billion at WGZ BANK Ireland plc. One of the reasons for the rise at WL BANK was the lower level of interest rates and spreads on securities measured at fair value.

At €37.1 billion, deposits from banks were up by €1.1 billion year on year. This increase was due to a rise in deposits from other banks. In the WGZ BANK Group, the amounts owed to other depositors advanced by €0.6 billion to €22.6 billion. Of this increase, €0.4 billion was attributable to WL BANK, €0.1 billion to WGZ BANK, and also €0.1 billion to WGZ BANK Ireland plc. The dominant factor at WL BANK was the €0.3 billion decline in the nominal amount and a rise of approximately €0.7 billion in liabilities measured at fair value owing to the lower level of interest rates and spreads.

Debt certificates including bonds fell by €1.5 billion to €21.2 billion as at December 31, 2014. This decrease was due, in roughly equal measure, to decreases at both WGZ BANK and WL BANK. At WGZ BANK, there was a reduction in the issued bonds reported under debt certificates including bonds and in issued equity index investment certificates, whereas the reduction at WL BANK related to a contraction in the portfolio of public-sector Pfandbriefe (down by €1.5 billion) and a simultaneous increase in mortgage Pfandbriefe (up by €0.6 billion).

The portfolio of financial liabilities held for trading expanded by €2.1 billion to €7 billion as at the reporting date. Of this increase, which was largely caused by a rise in interest-linked and currency-linked contracts, €1.4 billion was attributable to WGZ BANK and €0.9 billion to WL BANK. Subordinated capital grew by €0.1 billion year on year to €0.8 billion, mainly as a result of subordinated bonds placed by WGZ BANK in the year under review.

The group's equity increased by €0.6 billion to €3.9 billion. This increase was primarily due to the net profit reported for the year and the successful capital increase carried out in 2014. Net non-operating income totaled €12.9 million.

As at the balance sheet date, the WGZ BANK Group's total capital ratio pursuant to the CRR was 14.8 percent (December 31, 2013: 13.6 percent under SolvV) and its Tier 1 capital ratio was 13.6 percent (December 31, 2013: 12.2 percent under SolvV). Taking account of both the appropriation of profits already implemented and the proposed appropriation, the WGZ BANK Group's regulatory capital amounted to €3.5 billion. This resulted in a total capital ratio for the WGZ BANK banking group pursuant to the

CRR of 15.1 percent and a Tier 1 capital ratio of 13.9 percent.

The group's contingent liabilities grew from €0.9 billion to €1 billion. The increase was predominantly attributable to a rise in other contingent liabilities.

Financial position

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

WGZ BANK's liquidity ratio pursuant to the German Liquidity Regulation (LiqV) stood at 2.68 as at December 31, 2014 and was thus well above the regulatory minimum of 1.0. The average ratio for the year was 2.52. This key figure expresses the ratio of cash to payment obligations.

WGZ BANK did not borrow any funds under the ECB's open-market operations in 2014; the subsidiaries did, but only to a limited extent.

The WGZ BANK Group was able to meet its long-term funding requirements at all times by issuing unsecured bonds and promissory notes and, in the case of WL BANK, by issuing Pfandbriefe. At group level, total sales in 2014 matched the planned funding volume. Further information on the WGZ BANK Group's liquidity situation can be found in the risk report.

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

Events after the balance sheet date

On January 15, 2015, the Swiss National Bank announced that it was scrapping the minimum exchange rate of CHF 1.2 per euro. This minimum rate had been introduced by Switzerland's central bank in response to the financial crisis and the consequent appreciation of the Swiss franc. However, the Swiss National Bank decided that it would no longer maintain the minimum exchange rate for the Swiss franc against the euro because of differences between the monetary policies of the major currency areas. The announcement that the minimum rate was being dropped caused the Swiss franc to appreciate significantly on January 15, 2015, resulting in a small loss in respect of WGZ BANK's exposures denominated in Swiss francs.

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

WGZ BANK's net assets were largely unchanged year on year. The total assets of the WGZ BANK Group grew, in particular owing to the increase in WL BANK's assets for reasons relating to market value.

This increase was deliberate and particularly benefited the real-estate loans business. The liquidity situation of WGZ BANK and the WGZ BANK Group remained comfortable during the reporting period.
We regard the operating performance of WGZ BANK and the WGZ BANK Group in 2014 as satisfactory overall, especially when all the different aspects and influences are taken into account. The WGZ BANK Group was able to successfully overcome the challenges created by external factors. It also benefited from a further easing of the sovereign debt crisis and the uptrend in financial markets. This business performance means WGZ BANK is able to distribute a generous dividend to its shareholders for 2014.

V. Risk report

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

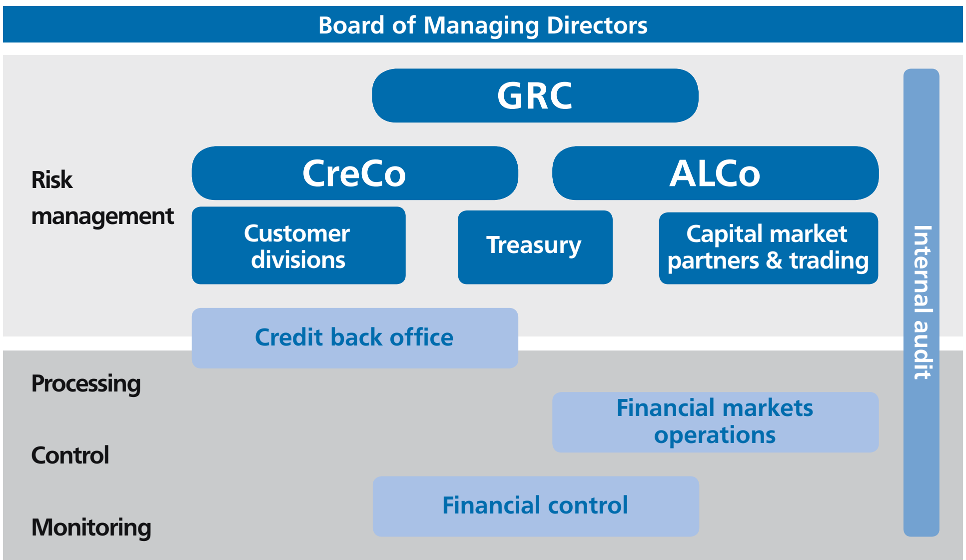
Risk management system of the WGZ BANK Group

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

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

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

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



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

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

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

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

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

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

Credit risk management was enhanced in 2014, building on the portfolio-based limit setting for credit risk that had been introduced for the WGZ BANK Group in

2013. Following implementation of the top-down limit setting for the expected shortfall in 2013, additional key figures were added to the process of setting limits at subportfolio level according to asset class.

In 2014, work on a project to establish a central loss database was begun with the aim of further improving estimates of loss given default (LGD). The project is focusing on the corporates and real estate segments. The database will enable the WGZ BANK Group to systematically collect internal historical loss data for these segments.

Country risk monitoring was fundamentally revised and expanded in 2014. WGZ BANK has implemented a new technical platform for monitoring country risk. The new application simplifies daily monitoring processes and, for example, creates documentation in parallel to the steps in the workflow. In addition, the exposure risk weighting for trading transactions was brought into line with the other risk management processes (counterparty limit monitoring, risk-bearing-capacity calculation, and credit risk reporting).

WGZ made changes in relation to market risk in 2014 in view of the Capital Requirements Regulation (CRR I) and the clarifications made by the European Banking Authority (EBA) in the form of Regulatory Technical Standards (RTS) and Implementation Technical Standards (ITS). In particular, prudent valuation was set up.

Deutsche Bundesbank conducted two regulatory audits pursuant to section 44 KWG on behalf of the German Federal Financial Supervisory Authority (BaFin). The requirements that were identified are being dealt with on the basis of a schedule of work agreed with the regulators, for example expansion of the process for validating the internal market risk model. The findings of the audits confirmed the best possible surcharge factor of 0.0 for the capital requirements.

In mid-2013, WGZ BANK began focusing on conceptual issues of reputational risk management so that it can satisfy external requirements. The aim was to establish standardized groupwide methods and processes for measuring and managing reputational risk. The conceptual work was completed in mid-2014, following which the new methods and processes were implemented. Since then, reputational risk has been included in the WGZ BANK Group's risk-bearing-capacity analysis.

Risk strategy

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

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

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

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

Credit risk is deliberately assumed in the WGZ BANK Group in order to generate income. The extent of credit risk is contained by imposing not only specific limits but also structural requirements, subportfolio limits, and overall portfolio limits. Structural requirements and subportfolio limits also help to limit concentrations of risk. Besides quantitative limits, minimum quality requirements (e.g. minimum ratings) also apply as an expression of risk tolerance. These requirements must be observed when assuming credit risk. Examples of limits are credit policies, country limits, a rules-based system for determining bank limits, and a framework for all transactions of WGZ BANK that are exposed to credit risk (known as the credit portfolio framework). Moreover, the WGZ BANK Group has defined strategies for scaling back some portfolios, predominantly those of

WL BANK containing government bonds of European periphery countries and those of WGZ BANK Ireland plc containing securitizations.

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

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

Credit portfolio management continued to be expanded at WGZ BANK Group level in 2014, taking the form of the aforementioned credit portfolio framework at WGZ BANK. Following implementation of the top-down limit setting for the expected shortfall in 2013, additional key figures were added to the process of setting limits at subportfolio level according to asset class. This enabled the requirements of the credit risk strategy and the former ACPM framework to be combined in a single limit system.

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

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

The most important categories of market risk for the WGZ BANK Group are general interest-rate risk and spread risk. All banks in the group deliberately assume maturity transformation risk within the set limits in order to generate additional income. Compared with other years, however, the WGZ BANK Group's open interest-rate positions were only on a small scale in 2014 owing to uncertainty about future interest rate trends. Another material type of market risk is credit spread risk arising from trading securities and the treasury portfolio. In addition, WGZ BANK and, to a lesser extent, WGZ BANK Ireland plc assume currency risk. Equity risk is essentially only assumed by WGZ BANK.

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

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

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

Operational risk is implicitly assumed with every banking-related activity. The WGZ BANK Group's risk strategy here is aimed exclusively at containing, minimizing, and transferring risk. Operational risk is not assumed deliberately in order to generate income. The group companies contain and minimize operational risk primarily by defining responsibilities (taking separation of functions requirements into consideration) and processes in organizational handbooks. There are also emergency plans for certain events that are particularly risk-relevant. All of the group companies keep a close eye on IT security and, where relevant, activities that they have outsourced.

To transfer risk, the group companies have taken out insurance policies for certain aspects of operational risk.

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

Risk-bearing capacity

The framework for **risk management throughout the group** is provided by regular risk reporting at group level showing the group's risk-bearing capacity and changes in risk in respect of the individual risk types. This group-level reporting is based on monthly reports from the subsidiaries about their risk-bearing capacity and any changes in risk, which they submit to WGZ BANK's financial control and planning division. The risk-bearing-capacity analysis for the WGZ BANK Group covers WGZ BANK, WL BANK, and WGZ BANK Ireland plc. WGZ Immobilien + Treuhand has not been included in the WGZ BANK Group's risk-bearing-capacity analysis since March 31, 2014 because it is no longer one of the companies consolidated for either commercial-law purposes or regulatory purposes.

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

Under its risk-bearing-capacity concept, the WGZ BANK Group analyzes two different risk exposure scenarios: a going concern scenario and a maximum exposure scenario. The going concern scenario describes the situation in a negative normal year in which risks materialize beyond the extent that would constitute a normal year but do not jeopardize the company's ability to continue as a going concern. The potential risks to be analyzed are shown as VaR with a confidence level of 95 percent. In contrast, the maximum exposure scenario describes a situation in which the risks that materialize are so extreme that they jeopardize the company's ability to continue as a going concern. In this scenario, the risks are shown with a confidence level of 99.9 percent. The confidence level is derived from WGZ BANK's external rating. It also reflects the risk tolerance of the Board of Managing Directors. A holding period of one year applies in both exposure scenarios. The risk potential for operational risk is determined using the regulatory Basic Indicator Approach. In 2014, a risk measurement model was introduced for reputational risk that enables a key risk indicator to be determined on the basis of scenario evaluations.

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

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

The financial control and planning division submits a monthly report on risk-bearing capacity, the risk limits, and their current utilization to the WGZ BANK Group's Board of Managing Directors for each of the material group companies and for the group as a whole. The reports also indicate whether the limits have been exceeded so that the Board of Managing Directors can make management decisions as necessary. There were no limit overruns at group level or individual institution level in 2014. In the maximum exposure scenario, WL BANK suffered a risk coverage shortfall at individual institution level. There was no shortfall in the capacity to assume risk at group level.

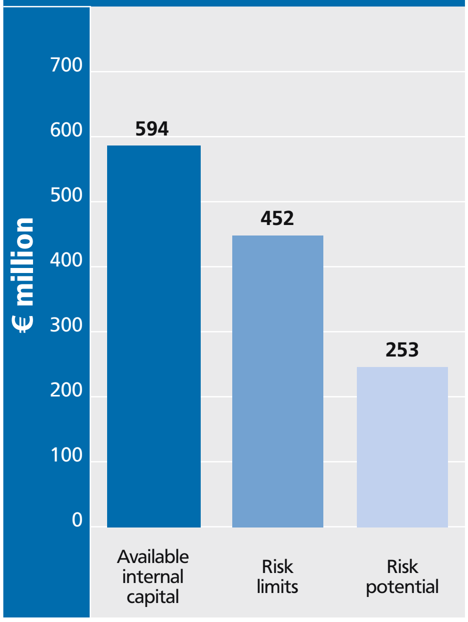
The Supervisory Board receives a condensed report on the group's risk-bearing capacity at all of its meetings.

The available internal capital, risk limits, and potential risks for the WGZ BANK Group were as follows as at December 31, 2014:

Going concern scenario

€ million	Dec. 31, 2014	Highest value 2014	Lowest value 2014	subord.: Dec. 31, 2013
Available internal capital 1	**593.8**	**683.5**	**563.0**	**575.5**
Risk limits	**452.0**			**445.5**
– Credit risk	297.0	297.5	297.0	297.5
– Market risk	86.5	86.8	86.5	86.8
– Liquidity risk	14.5	15.0	14.5	15.0
– Operational risk	46.0	46.2	46.0	46.2
– Reputational risk	8.0	8.0		
Risk potential	**252.6**			**294.1**
– Credit risk	179.0	205.8	179.0	211.4
– Market risk	25.8	30.7	20.2	38.1
– Liquidity risk	0.2	0.9	0.2	0.9
– Operational risk	41.3	44.0	41.3	43.7
– Reputational risk	6.2	6.3		

Risk-bearing capacity of the WGZ BANK Group in a going concern scenario as at Dec. 31, 2014



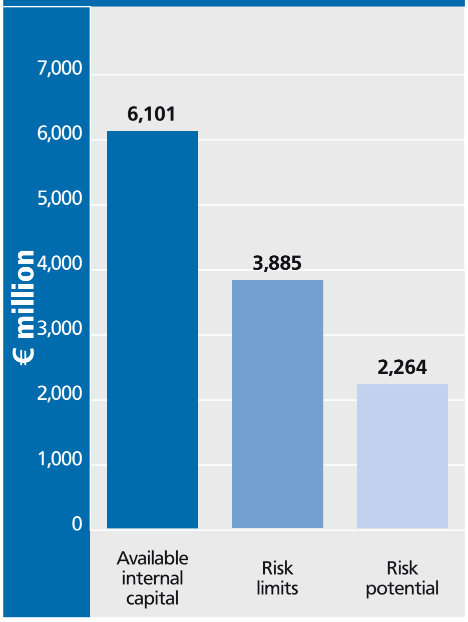
In the going concern scenario, there was an increase in available internal capital 1 on December 31, 2014 compared with the same date a year earlier.

The decrease in risk potential in the going concern scenario over the course of the year was predominantly attributable to credit risk and market risk. Liquidity risk and the value measured for operational risk also declined. Reputational risk was measured for the first time as at June 30, 2014.

Maximum exposure scenario

€ million	Dec. 31, 2014	Highest value 2014	Lowest value 2014	subord.: Dec. 31, 2013
Available internal capital 2	**6,101.2**	**6,101.2**	**5,375.8**	**5,340.0**
Risk limits	**3,885.0**			**3,873.0**
– Credit risk	1,975.0	1,975.5	1,975.0	1,975.5
– Market risk	1,737.0	1,737.3	1,737.0	1,737.3
– Liquidity risk	74.5	75.0	74.5	75.0
– Operational risk	85.0	85.2	85.0	85.2
– Reputational risk	13.5	13.5		
Risk potential	**2,264.0**			**2,537.2**
– Credit risk	1,285.8	1,347.7	1,285.8	1,315.5
– Market risk	889.2	1,046.4	787.3	1,135.6
– Liquidity risk	0.0	4.4	0.0	4.1
– Operational risk	77.7	82.4	77.6	82.0
– Reputational risk	11.4	11.4		

Risk-bearing capacity of the WGZ BANK Group in a maximum exposure scenario as at Dec. 31, 2014



The WGZ BANK Group's available internal capital 2 climbed significantly in 2014, mainly because of the capital increase and the issue of subordinated capital by WGZ BANK. There was also a rise in accumulated profit.

The decrease in risk potential in the maximum exposure scenario over the course of the year was predominantly attributable to credit risk and market risk. Liquidity risk and the value measured for operational risk also declined. Reputational risk was measured for the first time as at June 30, 2014.

Based on the available internal capital and the risk potential, freely available internal capital amounted to €3,837.2 million in the maximum exposure scenario (December 31, 2013: €2,802.8 million) and €341.2 million in the going concern scenario (December 31, 2013: €281.4 million). For details of the regulatory solvency requirements in the WGZ BANK Group and the capital that is available to meet these requirements, please refer to the relevant disclosures in the notes.

Stress tests

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

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

In 2014, the scenarios with the most severe impact on the WGZ BANK Group were those that assumed a substantial deterioration in the sovereign debt crisis, a repeat of the Lehman Brothers crisis, and a major Europe-wide recession. In view of the extremely low market interest rates that prevailed in 2014, a scenario assuming a huge increase in interest rates was added to the program of stress tests. However, the impact of this new scenario on the WGZ BANK Group is lower than that of the other scenarios mentioned.

Credit risk

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

Credit risk from the lending business

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

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

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

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

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

Counterparty and issuer risk from trading activities

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

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

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

Adding to the existing monitoring of limits at counterparty level, the technical requirements for monitoring at group level and risk unit level were implemented in 2014. This enables the automated, flexible replacement of options for utilizing the limits within a group or risk unit. A system-based check has also been implemented in order to ascertain whether a guarantee from the group parent company is available for securities issued by a group company.

Credit rating

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

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

- VR rating for banks,
- VR rating for countries,
- VR rating for SMEs,
- VR rating for large and medium-sized companies,
- VR rating for major corporate customers,
- VR rating for commercial real estate finance – investors, building contractors, project developers, and house-building companies,
- VR rating for open-ended real estate funds (OIF),
- VR rating for retail-customer building loans,
- Rating for local and regional government (LRG),
- Rating for business customers, freelancers, and investors (GFI).

Since 2013, WGZ BANK has assessed the credit risk attaching to open-ended real estate funds (OIF), which are subject to the requirements of the German Investment Act (InvG) and the Austrian Real Estate Investment Fund Act (ImmoInvFG), using a special rating system based on probability of default (PD). This system, known as the OIF rating, was developed collaboratively by the cooperative financial network. WGZ BANK received IRBA approval for this rating system in 2014.

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

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

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

VR master scale:

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

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

Credit portfolio risk

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

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

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

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

Overview of the composition of counterparty risk in the WGZ BANK Group, broken down by rating class, as at December 31, 2014:

Credit rating	Range of default probability	Overall portfolio				Year-on-year change
		Dec. 31, 2014		Dec. 31, 2013		
		Exposures + open commitments	Proportion (%)	Exposures + open commitments	Proportion (%)	
0A-0E	0.00%-0.06%	50,213	54.5	51,768	55.6	-1,556
1A-2A	0.06%-0.63%	35,164	38.2	34,378	36.9	+786
2B-2E	0.63%-3.19%	5,673	6.2	5,707	6.1	-34
3A-3E	3.19%-100.00%	697	0.8	860	0.9	-162
4A-4E	100.00%	367	0.4	379	0.4	-12
Unrated		21	0.0	53	0.1	-31
Total		**92,136**	**100**	**93,146**	**100**	**-1,010**

Exposures + open commitments (€ million)

The table shows that the rating structure for counterparty risk in the WGZ BANK Group remains very good overall. Investment-grade rating classes (0A-0E and 1A-2A) continue to account for roughly 93 percent of the portfolio. The decrease in the proportion of the portfolio made up of the 0A-0E rating classes was mainly due to reductions in the individual holdings of German public-sector debtors and banks in the cooperative financial network.

The breakdown by main asset class was as follows as at December 31, 2014:

Credit rating	Range of default probability	Asset classes, as at Dec. 31, 2014						
		Sovereigns	Specialized service providers in the cooperative sector	Real estate finance	Corporates	Financials	ABSs	Total
0A-0E	0.00%-0.06%	22,706	21,260	648	1,671	3,926		**50,213**
1A-2A	0.06%-0.63%	2,980	0	19,527	8,063	4,171	422	**35,164**
2B-2E	0.63%-3.19%	1,177		1,402	2,845	77	171	**5,673**
3A-3E	3.19%-100.00%	20	11	125	222	170	149	**697**
4A-4E	100.00%			150	215	0	2	**367**
Unrated				1	5	15		**21**
Total		**26,884**	**21,272**	**21,854**	**13,021**	**8,360**	**745**	**92,136**

Exposures + open commitments (€ million)

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

- Sovereigns: This asset class mainly reflects WL BANK's public-sector finance and local-authority business. It also includes the WGZ BANK Group's total exposure arising from public-sector bonds of European periphery countries (Portugal, Ireland, Italy, Greece, and Spain), which amounts to €2.7 billion and is held almost entirely by WL BANK. A table showing a breakdown of this exposure is provided in the management report under 'Business performance'. In line with the strategy to scale back this exposure, the notional amount of the portfolio decreased by almost €200 million in 2014. Over the past four years, the exposure has therefore decreased by approximately €1.4 billion in total.

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

- Real estate finance: The focus of the WGZ BANK Group's business means it is also heavily involved in real estate finance. This exposure increased again in the year under review. Customers in this segment are predominantly served by WL BANK (exposure of approximately €17.7 billion), while a smaller proportion is attributable to WGZ BANK (exposure of approximately €4.1 billion). The overall exposure relates almost exclusively to domestic business and is spread throughout Germany, although the largest proportion is accounted for by North Rhine-Westphalia. More than two thirds of the portfolio is residential real estate, with most of the remainder being used for commercial purposes. The conservative standards applied in lending decisions are reflected in the portfolio's good credit rating structure, with more than 90 percent being investment grade. Another key criterion for assessing the quality of the portfolio is the loan-to-mortgage value, which is the ratio of the loan amount to the mortgage lending value. The average exposure-weighted loan-to-mortgage value is just over 60 percent for the portfolio as a whole, which underlines the good collateralization situation. The proportion of loans with a loan-to-mortgage value of more than 80 percent was less than 20 percent.

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

Sector	As at Dec. 31, 2014	
	Exposures + open commitments	Proportion (%)
Energy supply	1,663	13
Wholesale	1,290	10
Food and animal feed manufacturing	975	7
Information and communications	890	7
Metal production and processing	868	7
Vehicle and engine manufacturing	785	6
Banking and insurance	733	6
Engineering	730	6
Chemicals manufacturing	673	5
Retail	584	4
Provision of services	407	3
Pharmaceuticals manufacturing	373	3
Transport and warehousing	361	3
Mining/non-metallic minerals	345	3
Other	2,344	18
Total	13,021	100%

Exposures + open commitments (€ million)

Credit portfolio model

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

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

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

The key figures Expected Loss and CVaR for the WGZ BANK Group were as follows as at December 31, 2014:

€ million	Expected loss [1]		Credit value-at-risk 95% [2]	
Asset classes	Dec. 31, 2014	(%)	Dec. 31, 2014	(%)
Corporates	26.3	44	83.3	45
Real estate finance	10.6	18	26.1	14
Financials	7.2	12	21.2	11
Sovereigns	5.3	9	39.0	21
Specialized service providers in the cooperative financial network	2.2	4	12.6	7
ABSs	8.7	14	3.5	2
WGZ BANK Group	60.2		185.6	
of which WGZ BANK	38.5		135.3	

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

Internal risk measurement carried out by the credit portfolio model does not cover German local authorities, German development banks, loans and advances with a German guarantee obligation, certain supranational borrowers, and loans that are already in default. It is planned to add these counterparties to risk measurement during the first quarter of 2015.

Stress tests

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

Country risk

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

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

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

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

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

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

Country risk monitoring was fundamentally revised and expanded in 2014. WGZ BANK has implemented a new technical platform for monitoring country risk. The new application simplifies daily monitoring processes and, for example, creates documentation in parallel to the steps in the workflow. In addition, the exposure risk weighting for trading transactions was brought into line with the other risk management processes (counterparty limit monitoring, risk-bearing-capacity calculation, and credit risk reporting).

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

The following table shows the regional distribution of counterparty risk by country group as at December 31, 2014:

Region	Overall portfolio				
	Dec. 31, 2014		Dec. 31, 2013		
	Exposures + open commitments	Proportion (%)	Exposures + open commitments	Proportion (%)	Year-on-year change
Germany	**77,460**	**84**	**79,145**	**85**	**-1,685**
Europe	**11,970**	**13**	**11,673**	**13**	**+297**
– Portugal, Ireland, Italy, Greece, Spain	*3,821*	*4*	*4,107*	*4*	*-286*
– European Monetary Union (excl. Portugal, Ireland, Italy, Greece, Spain)	*4,543*	*5*	*4,267*	*5*	*+276*
– Other EU countries	*1,814*	*2*	*1,800*	*2*	*+15*
– Rest of western Europe	*1,287*	*1*	*1,075*	*1*	*+212*
– Rest of eastern Europe	*504*	*1*	*424*	*0*	*+80*
Rest of world	**1,896**	**2**	**1,495**	**2**	**+401**
– North America	*1,164*	*1*	*855*	*1*	*+309*
– Oceania	*483*	*1*	*402*	*0*	*+81*
– Asia	*98*	*0*	*108*	*0*	*-11*
– Latin America	*85*	*0*	*82*	*0*	*+3*
– Middle East	*34*	*0*	*24*	*0*	*+9*
– Africa	*32*	*0*	*24*	*0*	*+8*
Supranational	**810**	**1**	**833**	**1**	**-22**
Total	**92,136**	**100**	**93,146**	**100**	**-1,010**

Exposures + open commitments (€ million)

Allowances for losses on loans and advances

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

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

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

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

In 2014, WGZ BANK again adhered to the strict standards in its **risk provisioning policy** and fully covered all acute and latent risk. Allowances for losses on loans and advances reported in the separate financial statements amounted to €14.9 million as at December 31, 2014. They mainly consisted of all changes to specific loan loss allowances affecting the income statement, general loan loss allowances, and country risk loan loss allowances. At group level, allowances for losses on loans and advances came to a net figure of €23.1 million and included changes to specific and portfolio loan loss allowances affecting the income statement plus provisions for off-balance-sheet lending business. For details of the changes in allowances for losses on loans and advances in 2014, please refer to the information and breakdown provided in the notes.

Market risk

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

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

Market risk in the trading book

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

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

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

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

The average potential risk amount (VaR) with a confidence level of 99 percent and a holding period of ten days for the year was €4.31 million with a minimum value of €2.89 million and a maximum value of €6.77 million. As at December 31, 2014, the risk amount stood at €3.48 million.

The average risk amount for potential crises (stressed VaR) with a confidence level of 99 percent and a holding period of ten days for the year was €5.85 million with a minimum value of €3.25 million and a maximum value of €12.20 million. As at December 31, 2014, the risk amount for crises stood at €3.26 million.

Backtesting is carried out daily to review the forecasting quality of the calculated value-at-risk for market risk. This involves comparing hypothetical changes in fair value (clean backtesting) and actual changes in fair value (dirty backtesting) against the calculated potential risk amount (VaR with a confidence level of 99 percent and a holding period of one day). Regulatory clean backtesting did not reveal any instances of the forecast risk value being exceeded in 2014. Dirty backtesting found that the VaR forecast was exceeded from November 27, 2014 to November 28, 2014. This was caused not by market risk but by a change in the CVA. Besides daily backtesting, statistical tests and analysis are conducted at least once a year to verify the adequacy of the internal model.

For internal management purposes, risk in the trading book is also shown as VaR with a confidence level of 95 percent and a holding period of one day, broken down into interest-rate risk, spread risk, equity risk, currency risk, and volatility risk. The values-at-risk were as follows in 2014:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2014
Interest-rate risk	0.53	1.32	0.84	0.68
Spread risk	0.83	1.56	1.14	1.16
Equity risk	0.01	0.33	0.12	0.02
Currency risk	0.03	0.15	0.07	0.10
Volatility risk	0.03	0.12	0.06	0.06

Scenario analyses for extreme market changes **(crisis scenarios/stress tests)** are conducted every day. The stress tests include both historical and hypothetical stress tests and are calculated for the entire trading book and for selected subportfolios. The stress test warning limit was raised from €63.5 million to €75 million on March 11, 2014 and was not exceeded on any day during the year. Maximum utilization was 96 percent.

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

Market risk in the banking book

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

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

The values at risk for general interest-rate risk and spread risk (excluding the banking book) were as follows at WGZ BANK during the course of 2014:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2014
General interest-rate risk	0.23	3.18	1.18	0.37
Spread risk (excl. banking book)	1.33	1.93	1.58	1.51

Owing to uncertainties surrounding interest rates, interest-rate risk exposure remained cautious throughout 2014. The VaR for general interest-rate risk was well below the VaR limit of €4.5 million at all times; the VaR for spread risk (excluding the banking book), which is relevant to risk-bearing capacity, was well below the VaR limit of €6 million at all times. As at December 31, 2014, the spread risk in the banking book came to €0.45 million (VaR 95 percent, one day). It is not taken into consideration in operational management although it is in the maximum exposure scenario for the risk-bearing-capacity analysis.

Currency risk and equity risk were of minor significance during 2014. The average utilization of the equities VaR limit of €1 million over the year was €0.26 million (maximum: €0.65 million; minimum: €0.05 million). The average utilization of the currency VaR limit of €0.5 million over the year was €0.06 million (maximum: €0.22 million; minimum: €0.0 million). The average utilization of treasury's overall VaR limit of €12 million was €4.66 million in 2014 (maximum: €9.27 million; minimum: €2.79 million).

The defined stress tests (hypothetical and historical scenarios) are applied to the trading portfolio, the treasury portfolio, and the overall portfolio. Each day, a total of eight market risk stress tests (not including the cross-risk stress tests) are applied to the overall trading and treasury portfolio. During 2014, the scenario involving a hypothetically significant widening of credit spreads gave the worst result.

The warning limit for the overall portfolio was raised from €200 million to €250 million on February 11, 2014. Derived from this limit, a warning limit of €175 million was defined for the treasury portfolio. On February 5, 2014, the warning limit of €200 million that applied to the overall portfolio at that time was exceeded by 0.2 percent. The results for the interest rate shocks defined by the regulators (plus or minus 200 basis points) were also far below the specified threshold of 20 percent of liable capital on each working day.

Market risk in the WGZ BANK Group

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

The values at risk for general interest-rate risk and spread risk were as follows at WL BANK and WGZ BANK Ireland plc during the course of 2014:

WL BANK:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2014
General interest-rate risk	0.07	0.68	0.30	0.17
Spread risk (excl. cover assets)	0.23	6.12	3.01	6.12

WGZ BANK Ireland plc:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2014
General interest-rate risk	0.12	0.33	0.23	0.12
Spread risk	1.86	2.88	2.40	2.86

Liquidity risk

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

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

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

The treasury division's liquidity management/funding department **ensures operational liquidity (short-term liquidity)**, i.e. ensures that payment obligations can be met from day to day. It analyzes the inflows and outflows of liquidity expected over the course of the day. The financial control and planning division assists the liquidity management/funding department by providing detailed daily analysis of the current liquidity position. The analyses showed that WGZ BANK always had ample liquidity over 2014 as a whole. A substantially larger liquidity buffer than the anticipated outflows of liquidity on the following day was made available at all times.

Liquidity gaps and excesses of liquidity are always offset by means of appropriate arrangements by the liquidity management/funding department, in particular to avoid unwanted accumulation of negative daily liquidity balances. Negative daily liquidity balances are contained and monitored on a daily basis using graduated warning limits. Adjustment of the warning limits is linked to the amount of funding available through central banks. The warning limits for managing operational liquidity were not exceeded in 2014.

Changes in the daily liquidity balance in 2014

€ million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2014
Daily liquidity balance	**–1,922**	**2,218**	**28**	**1,168**
Warning limit 1	–3,570	–4,831	–4,152	–4,831
Warning limit 2	–4,462	–6,039	–5,190	–6,039
Warning limit 3	–5,355	–7,247	–6,228	–7,247

An extensive stress test is used to monitor operational liquidity risk over the next seven and 30 days. A bank-related stress scenario, a scenario caused by the market, and a scenario combining both causes are used to stress-test the inflows and outflows of liquidity. These are limited using a liquidity buffer conforming to MaRisk, the scope of which is also based on various stress scenarios. The liquidity buffer remaining after application of each scenario is presented to the Board of Managing Directors as part of group risk reporting on market risk, liquidity risk, and operational risk. Throughout 2014, the stress-tested liquidity buffer was significantly larger than the stress-tested net outflow of liquidity over the subsequent seven and 30 days.

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

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

Structural liquidity risk is calculated on the basis of maturity-related spread premiums (liquidity spreads) on the interest-rate curve, which simulate an increase in current funding costs. A potential rise in liquidity spreads is calculated both idiosyncratically and using market-driven factors. In the idiosyncratic scenario, it is assumed that the funding costs go up by 50 and 67 basis points while the interest rate for liquidity falls by 3.5 basis points. The additional funding costs are then discounted to net present value, contained using a warning limit, and monitored on a daily basis.

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

If a future liquidity gap appears to be emerging, WGZ BANK eliminates the shortfall by placing its own issues and/or raising the internal transfer prices for liquidity. At WGZ BANK and WL BANK, the LVaR with a confidence level of 95 percent and a holding period of ten days remained at zero throughout 2014, which meant there was no structural liquidity risk. At WGZ BANK Ireland plc, the LVaR with a confidence level of 95 percent and a holding period of ten days ranged between €0.2 million and €0.4 million, amounting to €0.2 million as at December 31, 2014.

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

Changes in the liquidity buffer in 2014

€ million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2014
Liquidity obtainable from central banks ('liquidity buffer')	8,843	12,078	9,851	12,078

The banks in the WGZ BANK Group have a large portfolio of unencumbered securities eligible as collateral with central banks. The portfolio of WGZ BANK, which is shown in the table above, ranged between €8,843 million and €12,078 million in 2014. During the same period, WL BANK's portfolio eligible as collateral with the ECB – exclusive of cover funds – ranged between €24 million and €1,208 million, while the portfolio at WGZ BANK Ireland plc ranged between €1,107 million and €2,040 million.

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

A **report** on the key risk indicators for structural and operational liquidity is prepared daily, enabling unscheduled changes to be identified as soon as possible and incorporated into management activities quickly. The special process to be followed in the event of the warning limits being exceeded is defined in writing in escalation procedures. The results of all scenario calculations were significantly below the defined warning limits in 2014.

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

Further information about WGZ BANK's liquidity situation is also provided by the **liquidity ratio pursuant to the Liquidity Regulation (LiqV)**. In 2014, this ratio ranged from 2.30 to 2.80 and was therefore well above the regulatory minimum of 1.0 at all times. The corresponding figure for WL BANK was between 1.12 and 3.27 in 2014.

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

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

Operational risk

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

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

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

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

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

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

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

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

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

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

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

A **central loss database** documents any loss resulting from operational risk. The Board of Managing Directors of WGZ BANK is notified of the situation regarding loss from operational risk in the WGZ BANK Group on a quarterly basis as part of group risk reporting on market risk, liquidity risk, and operational risk. It receives ad-hoc reports in the event of special occurrences of loss.

Reputational risk

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

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

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

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

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

Equity investment risk

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

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

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

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

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

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

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

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

Consolidated financial reporting process

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

Internal audit

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

VII. Outlook

The expansion of the global economy slowed down over the course of 2014. Declining economic momentum in the advanced economies was not offset by the far higher economic growth rates in emerging markets. However, the global economy was shored up by a sharp fall in the oil price caused by structural over-supply and the continuation of expansionary monetary policies in the advanced economies. The subdued economic growth of the industrialized nations was mainly attributable to the lower level of growth generated by the eurozone than had been predicted at the start of the year. This was primarily due to unexpectedly muted growth in capital spending and exports. Furthermore, some governments in the eurozone remained somewhat reluctant to rigorously implement the necessary austerity measures. This acted as a brake on economic growth in the eurozone.

Once again, the German economy bucked the general trend in the eurozone and generated growth of 1.6 percent in 2014. This growth was fuelled not only by the domestic economy, which benefited from the drop in the oil price, especially in the fourth quarter, but also by a rise in demand from abroad. The upturn in Germany's economy was reflected in the number of people unemployed, which fell to 2.76 million in 2014 – the lowest level since reunification. Consequently, the rate of unemployment reduced to 6.4 percent. Decreasing energy prices also had a big impact on the inflation rate in Germany, which was down by 0.9 percent year on year. As at December 31, 2014, the annual rate of inflation was minus 0.2 percent. This was the first time that it had entered negative territory since 2009 and was therefore well below the ECB's target of 2 percent. To counteract the deflationary trend and low level of growth in the eurozone, the ECB continued with its highly expansionary monetary policy and, for the first time, set a negative interest rate for its deposit facility.

Both the World Bank and the ifo Institute of Economic Research expect the global economy to expand by 3 percent in 2015. Whereas the USA, UK, and a number of emerging markets are likely to provide growth impetus this year, only modest contributions to global economic growth are predicted for the eurozone, Japan, and several large emerging markets, such as Brazil. A combination of generally still very expansionary central bank monetary policies and lower commodity prices should bolster the global economy. For the eurozone, the ifo Institute of Economic Research forecasts growth of 0.9 percent. The structural problems that remain in place in some European countries will continue to adversely affect the rate of economic expansion in the euro area in 2015. However, the ECB's announcement in January 2015 that it would be buying government bonds with the aim of stimulating demand for borrowing and increasing inflation to the target rate of 2 percent could inject some momentum into the eurozone's economy. The same is true of the recent devaluation of the euro against the US dollar, as this has made the eurozone's export sector more competitive in the world market in terms of price. Many economic research institutes are forecasting moderate growth in the range of 1.0 to 1.7 percent for the German economy in 2015. This means that economic growth in Germany is expected to again be slightly higher than the rate of economic expansion predicted for the eurozone as a whole. The reasons for this are the healthy state of the domestic economy and the likelihood of stronger growth in German exports, not least as a result of the weaker euro.

In 2015, the banking sector will continue to be affected by the measures already initiated by the regulators as well as those that are planned. Having taken on the role of European banking supervisor for banks that are considered systemically important in November 2014, the ECB now has the option of setting an individual minimum capital ratio for each bank, depending on its risk and business model. Moreover, the contribution to the European Single Resolution Fund for the Single Resolution Mechanism (SRM), which is aimed at harmonizing bank levies in Europe, will significantly increase the burden on banks in 2015. Whereas the national bank levy in Germany has been roughly €600 million per year until now, current estimates indicate that this amount will rise to around €1.9 billion per year for German banks in the years to come. As a result, the impact of low interest rates on profitability in the banking sector will be compounded, with banks' earnings power also taking a hit from the added expense of the European bank levy.

WGZ BANK will not remain totally unscathed in 2015 by the challenges outlined above. However, we firmly believe that we can successfully deal with these difficult conditions, not least thanks to our clearly defined business model. WGZ BANK will maintain the course that it has adopted and continue to focus on working effectively with its member banks and customers. Despite all the imponderables and risks in the current environment, we are confident about the year 2015, to which this outlook relates. The following presentation of segment performance refers to the WGZ BANK Group as a whole.

In our member banks customer segment, 2014 was characterized by a stronger shift away from low-interest investments toward securities investments offering a higher return in our member banks' own-account investing activities. This was due to the fall in interest rates. The switch in asset classes was accompanied by an increase in the popularity of the support services offered by WGZ BANK, particularly in connection with asset management and advice on own-account investment management. WGZ BANK also registered a sharp rise in demand for support services relating to the member banks' implementation of measures to satisfy regulatory requirements. Funding deposits continued to reduce over the course of the year owing to the persistently low level of interest rates.

WGZ BANK will continue with the many different activities in its member banks customer segment this year. It will remain a complete solution provider for its member banks – in respect of both end-customer business and own-account investing – and will support them with new and enhanced services and products, such as mobile payments and expansion of the IT platforms for development lending business. Customer satisfaction remains our top priority, however, and we aim to improve on our already very high level of customer satisfaction in 2015. Operating profit in the member banks customer segment amounted to €14.6 million in 2014, which was less than in 2013 and below our budgeted figure. This decrease is attributable to the reduction in the volume of our member banks' deposits and to the unfavorable interest rate environment. We expect that our member banks will continue to scale back this volume and that the level of interest rates will remain challenging in 2015, which means that we anticipate a sharp fall in the segment's operating profit.

We believe the corporate customer segment will continue to be faced with challenging market conditions in 2015. Besides geopolitical and economic risks, there will be increasingly fierce competition for SME customers. Many companies have seen a considerable improvement in their level of internal finance in the past. This, coupled with the growing significance of alternative forms of funding, means that demand for borrowing is likely to be muted on the whole. Despite this challenging market environment, we and the member banks plan to further increase our volume of business transacted with corporate customers in 2015. To achieve this aim, we intend to use the high level of satisfaction among our customers and member banks and the expansion of customer support capacity as the starting point for stepping up our joint credit business with the member banks and increasing the volume of business with direct customers. Improving customer satisfaction will continue to be our top priority here. The segment's operating profit for 2014 of €74.4 million was significantly below the level of the previous year but higher than we had forecast. The main reason for this decrease in segment operating profit compared with 2013 was a rise in allowances for losses on loans and advances in 2014. We expect a marked decline in this segment's operating profit in 2015 because a further normalization of net allowances for losses on loans and advances is likely.

Although the international capital markets entered a period of minor correction in the first half of 2014, above all due to geopolitical conflicts, hope of a continuation of the central banks' expansionary monetary policies contributed to the uptrend in capital markets during the second half of the year. We anticipate that the program of government bond buying announced by the ECB in January 2015 will, at the least, lead to a further easing of the sovereign debt crisis, even if current political developments in Greece are likely to present a risk that so far has proved almost impossible to predict. The measures announced by the ECB in January 2015 should create conditions that will bolster the capital markets. However, the capital market partners & trading segment will continue to be faced with low interest rates, growing regulatory requirements (e.g. EMIR and MiFID/MiFIR), and increased competition, particularly in view of the arrival of non-German banks in the market.

The strong volatility that has increasingly been observed in the capital markets in the past makes it particularly difficult to forecast what will happen in the capital market partners & trading segment in the future. In view of the high degree of uncertainty that continues to exist in the markets, we have again taken a cautious approach in our planning for this segment. Although operating profit was far better than we had anticipated in 2014 at €74.6 million, we still anticipate a sharp fall in this segment's operating profit in 2015 based on our conservative approach to planning and against the background of our above assessment of the capital markets.

Conditions in the real estate segment remain benign, especially in view of the persistently low interest rates. The favorable funding conditions currently in place have led to an increase in construction activity. Moreover, real estate investments are enjoying growing popularity as a form of investment offering protection against inflation. Investments in German real estate are also becoming more attractive to international investors owing to the country's economic performance and stability in recent years. In major urban centers, increasing demand for real estate is already leading to a shortage of supply and sharp price rises. We are again expecting muted to moderate growth in the real estate market in 2015, with competition in the funding business remaining fierce. The segment's operating profit for 2014 of €39.5 million was below the level of the previous year, which had been affected by one-off items, but did not decline as much as had been forecast. This is because we generated more real-estate lending business than expected. As we plan to increase the volume of new business in 2015, with margins staying at their current level or rising, we anticipate strong growth in the segment's operating profit.

Overall, the treasury and investment segments performed significantly better than expected in 2014 (excluding the effect of remeasurements of long-term equity investments). Based on the good level achieved in 2014, we predict that overall operating profit will normalize in 2015 (excluding the effect of remeasurements of long-term equity investments).

Given the segment performance described here and our cautious estimates for the markets, we anticipate that the WGZ BANK Group's earnings performance will decline slightly in 2015. This is the first year in which we will have to make a contribution to the European Single Resolution Fund, and we expect this to have a negative impact on the WGZ BANK Group in 2015 because we think it is likely to be far higher than the German bank levy that we have had to pay until now.

The analysis of the individual segments essentially also applies to the performance of WGZ BANK. However, the real estate segment relates only to WL BANK. In view of the performance of the segments described above and our conservative planning, we expect WGZ BANK's performance to decline significantly in 2015, thereby returning to normal levels. This is due, above all, to the extraordinarily high net fair value gains on securities in the liquidity reserve in 2014. Our planning not only reflects the predicted normalization of gains and losses on trading activities and of fair value gains and losses in the liquidity reserve but also an increase in administrative expenses resulting from the contribution to the European Single Resolution Fund. Our forecasts for 2015 are also based on the assumption that the sovereign debt crisis will continue to ease this year.

Düsseldorf, March 27, 2015
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

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

Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law and the Articles of Association and continuously monitored WGZ BANK's management team. It was always able to ascertain the bank's current situation from the reports and explanations provided by the Board of Managing Directors at their joint meetings. In addition, the Supervisory Board and the Board of Managing Directors held in-depth discussions on particularly important projects and the strategy of WGZ BANK. The Board of Managing Directors provided the Supervisory Board with regular, timely, and comprehensive reports – both written and verbal – on business performance and material transactions.

At the Supervisory Board's six regular meetings, the Board of Managing Directors presented detailed information about the progress of business at WGZ BANK and in the WGZ BANK Group as well as about significant loan and investment exposures, planning, the risks assumed, risk management, and major projects. During the year under review, the committees established by the Supervisory Board regularly held meetings at which they discussed and adopted resolutions. Each committee chairman reported on the committees' work during the regular Supervisory Board meetings.

Following the audit committee's preliminary audit, on which the committee's chairman provided a report, the Supervisory Board itself reviewed the 2014 annual financial statements and management report of WGZ BANK and the WGZ BANK Group as well as the proposal for the appropriation of profit. There were no grounds for complaint. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was elected as the auditor by the Annual General Meeting on June 24, 2014, audited the annual financial statements of WGZ BANK and the WGZ BANK Group, including the bookkeeping system, and issued an unqualified opinion.

Representatives of the auditors attended both the Supervisory Board meeting held on April 22, 2015 to adopt the financial statements and the preparatory meeting held by the audit committee on April 13, 2015 so that they could report in detail on the findings of their audit. The Supervisory Board did not raise any objections following the concluding findings of its review and it noted the outcome of the audit of the financial statements with approval. It approved the annual financial statements of WGZ BANK and the WGZ BANK Group on this basis. The financial statements have therefore been adopted.

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

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

Düsseldorf, April 22, 2015
The Supervisory Board

Werner Böhnke
– Chairman of the Supervisory Board –

WGZ BANK
annual financial statements for 2014

ASSETS	€ million	€ million	€ million	Dec. 31, 2013 € million		
1. Cash and cash equivalents						
a) Cash on hand		1.5			1.6	
b) Balances with central banks		246.9	**248.4**		307.9	309.5
of which:						
with Deutsche Bundesbank		*246.9*		*307.9*		
2. Loans and advances to banks						
a) Repayable on demand		1,225.7			2,489.6	
b) Other loans and advances		17,277.9	**18,503.6**		19,400.6	21,890.2
of which:						
to affiliated banks	*15,336.0*			*15,844.4*		
3. Loans and advances to customers			**8,509.3**			8,285.8
of which:						
secured by mortgages on real estate	*2,391.9*			*2,209.8*		
local authority loans	*645.1*			*784.1*		
4. Bonds and other						
fixed-income securities						
a) Money market instruments						
aa) from public-sector issuers	-			-		
of which:						
eligible as collateral at Deutsche Bundesbank	-			-		
ab) from other issuers	-	-		-	-	
of which:						
eligible as collateral at Deutsche Bundesbank	-			-		
b) Bonds						
ba) from public-sector issuers	3,931.5			3,611.5		
of which:						
eligible as collateral at Deutsche Bundesbank	*3,900.8*			*3,595.4*		
bb) from other issuers	4,537.8	8,469.3		4,836.3	8,447.8	
of which:						
eligible as collateral at Deutsche Bundesbank	*3,247.3*			*3,475.4*		
c) Own bonds		-	**8,469.3**		0.8	8,448.6
Par value	-			*0.8*		
5. Shares and other variable-yield securities			**0.7**			0.9
Carried forward:			**35,731.3**			38,935.0

EQUITY AND LIABILITIES	€ million	€ million	€ million	Dec. 31, 2013 € million		
1. Deposits from banks						
a) Repayable on demand		6,230.6			6,001.2	
b) With agreed maturity or notice period		20,647.7	**26,878.3**		20,992.8	26,994.0
of which:						
from affiliated banks	*10,177.4*			*10,226.8*		
2. Amounts owed to other depositors						
a) Savings deposits		-			-	
b) Other amounts owed to other depositors						
ba) Repayable on demand	3,149.0			2,827.5		
bb) With agreed maturity or notice period	3,105.1	6,254.1	**6,254.1**	3,320.5	6,148.0	6,148.0
3. Debt certificates including bonds						
a) Bonds issued		7,414.5			8,173.9	
b) Other debt certificates		-	**7,414.5**		-	8,173.9
of which:						
commercial paper	-			-		
own acceptances and promissory notes outstanding	-			-		
3a. Trading securities			**2,979.2**			6,062.9
4. Trust liabilities			**3.7**			4.5
of which:						
trust loans	*3.7*			*4.5*		
5. Other payables			**163.7**			136.9
6. Deferred income and accrued expenses			**49.5**			56.2
7. Provisions						
a) Provisions for pensions and other post-employment benefits		120.0			113.4	
b) Provisions for taxes		88.0			50.7	
c) Other provisions		94.3	**302.3**		61.9	226.0
8. Subordinated liabilities			**740.1**			517.4
9. Profit-sharing rights			**-**			-
of which:						
maturing within two years	-			-		
10. Fund for general banking risks			**829.1**			819.1
of which:						
fund under section 340e (4) HGB	*58.4*			*48.4*		
Carried forward:			**45,614.5**			49,138.9

ASSETS	€ million	€ million	€ million	Dec. 31, 2013 € million		
Brought forward:			35,731.3			38,935.0
5a. Trading securities			9,592.3			9,620.2
6. Long-term equity investments and paid-up shares in cooperatives						
a) Long-term equity investments		1,900.5			1,778.5	
of which:						
in banks	*778.3*			*777.8*		
in financial services institutions	*27.9*			*27.9*		
b) Paid-up shares in cooperatives		4.8	1,905.3		3.0	1,781.5
of which:						
in local cooperative banks	*2.0*			*0.3*		
in financial services institutions	-			-		
7. Shares in affiliated companies			789.1			789.1
of which:						
in banks	*625.9*			*625.9*		
in financial services institutions	-			-		
8. Trust assets			3.7			4.5
of which:						
trust loans	*3.7*			*4.5*		
9. Intangible assets			16.9			10.1
10. Property, plant and equipment			45.5			48.0
11. Other assets			108.1			139.0
12. Prepaid expenses and accrued income			58.9			32.3
Total assets			48,251.1			51,359.7

EQUITY AND LIABILITIES	€ million	€ million	€ million		Dec. 31, 2013 € million	
Brought forward:			45,614.5			49,138.9
11. Equity						
a) Subscribed capital		714.3			649.4	
b) Capital reserves		597.0			369.7	
c) Revenue reserves						
ca) Statutory reserve	354.0			354.0		
cb) Reserves provided for by the Articles of Association	204.0			170.7		
cc) Other revenue reserves	659.1	1,217.1		600.3	1,125.0	
d) Distributable profit		108.2	2,636.6		76.7	2,220.8
Total equity and liabilities			**48,251.1**			51,359.7
1. Contingent liabilities						
a) Contingent liabilities arising from rediscounted bills	-			-		
b) Liabilities under guarantees and indemnity agreements	3,395.2			3,095.6		
c) Liability arising from assets pledged as security for third-party liabilities	105.0	3,500.2		-	3,095.6	
2. Other obligations						
Irrevocable loan commitments		3,651.3			4,323.7	

EXPENSES	€ million	€ million	**€ million**	2013 € million		
1. Interest expense			**704.4**			765.9
2. Fee and commission expenses			**105.0**			90.0
3. General and administrative expenses						
a) Staff expenses						
aa) Wages and salaries	103.3			96.6		
ab) Social security, post-employment and other employee benefit expenses	20.6	123.9		19.7	116.3	
of which:						
post-employment benefit expenses	*7.1*			*6.7*		
b) Other administrative expenses		107.1	**230.9**		103.3	219.6
4. Amortization and write-downs on intangible assets, and depreciation and write-downs on property, plant and equipment			**9.1**			9.5
5. Other operating expenses			**11.6**			9.5
6. Allowances for and write-downs on losses on loans and advances and certain securities, and additions to provisions for losses on loans and advances			**-**			36.9
7. Addition to fund for general banking risks			**-**			-
8. Write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			**4.4**			28.9
9. Expenses from the transfer of losses			**27.4**			19.7
10. Extraordinary expenses			**36.2**			-
11. Income taxes			**75.2**			63.2
12. Other taxes not included under item 5			**2.2**			-0.2
13. Net income for the year			**166.4**			110.6
Total expenses			**1,372.8**			1,353.6

INCOME	€ million	€ million	**€ million**	2013 € million	
1. Interest income from					
a) Lending and money market business		709.2		760.7	
b) Fixed-income securities and book-entry securities		168.2	**877.4**	189.6	950.3
2. Current income from					
a) Shares and other variable-yield securities		0.0		0.0	
b) Long-term equity investments and paid-up shares in cooperatives		101.9		84.1	
c) Shares in affiliated companies		-	**101.9**	-	84.1
3. Income from profit-pooling, profit-transfer and partial profit-transfer agreements			**13.8**		22.3
4. Fee and commission income			**221.5**		199.5
5. Net trading income			**80.5**		80.0
6. Income from the reversal of write-downs on losses on loans and advances and certain securities, and from the reversal of provisions for losses on loans and advances			**68.2**		-
7. Income from the reversal of write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			**-**		-
8. Other operating income			**9.5**		9.9
9. Extraordinary income			**-**		7.5
Total income			**1,372.8**		1,353.6
1. Net income for the year			**166.4**		110.6
2. Profit brought forward from 2013			**-**		-
			166.4		110.6
3. Additions to revenue reserves					
a) To statutory reserve		-		-	
b) To reserves provided for by the Articles of Association		33.3		22.1	
c) To other revenue reserves		24.9	**58.2**	11.8	33.9
4. Distributable profit			**108.2**		76.7

I. Basis of preparation

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

II. Accounting policies

The accounting policies applied in 2014 were essentially the same as those used in 2013. There was a change in the accounting treatment of derivatives held as trading securities, which had to be reported on a net basis with the associated collateral under receivables and liabilities for the first time in 2014.

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

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

Negative interest rates were not incurred on a significant scale in 2014.

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

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

Fixed assets

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

Bonds and other fixed-income securities intended to be held to maturity are recognized at the lower of cost and nominal amount. Within these portfolios, securities with a total carrying amount of €24.9 million (excluding pro rata interest) are not recognized at the lower fair value of €23.8 million because WGZ BANK does not expect the impairment to be permanent given the excellent credit ratings of the securities concerned and the information available to the bank at the present time.

Current assets

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

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

Securities in the liquidity reserve are recognized and measured strictly at the lower of cost and fair value. Fair values are determined by reference to current market prices or by using valuation methods based on the latest data for market parameters, such as yield curves, spreads, and volatility. Securities with a nominal value of €89.1 million within the overall securities portfolio and a portion of credit derivatives (in which WGZ BANK is the protection seller) with a nominal value of €127.5 million are recognized together with credit derivatives in which WGZ BANK is the protection buyer as micro-hedges in order to hedge issuer default risk. Hedge effectiveness is achieved by closely matching hedged items and hedging instruments in terms of credit risk and maturity. In application of section 254 HGB, gains and losses on measurement of specific hedged items and hedging instruments are initially recognized in accordance with the HGB imparity principle, i.e. unrealized losses are recognized, but any unrealized gains are not recognized. Fair value gains and losses on hedges are recognized on the balance sheet under other assets up to a maximum amount of the gains and losses on hedged items, the amount recognized as at December 31, 2014 being €1.4 million. Non-trading credit derivatives in which WGZ BANK is the protection buyer and for which hedge accounting is not applied are measured individually and in accordance with the imparity principle.

Liabilities

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

Provisions

Provisions are recognized at the settlement amount. Provisions for pensions and other post-employment benefits include future changes in wages, salaries, and pension benefit payments; other provisions include future changes in prices and costs. Pension provisions are calculated using the projected unit credit method based on actuarial principles, the key parameters being a discount rate of 4.55 percent, annual growth in wages and salaries of 3.0 percent, an annual increase in pension benefits of 2.0 percent, and an annual employee turnover rate of 5.0 percent. The calculations use the 2005 G mortality tables published by Professor Klaus Heubeck. Based on the requirements of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Public Auditors in Germany] set out in its accounting principle IDW AcP HFA 30, no. 65, a discount rate of 4.55 percent is used. This discount rate was forecast on the basis of the discount rates published by Deutsche Bundesbank up to September 30, 2014 and based on the assumption that current market conditions would continue without change until December 31, 2014. In accordance with section 253 (2) sentence 2 HGB, this discount rate equates to the average market interest rate for the past seven years published by Deutsche Bundesbank for an assumed residual maturity of 15 years.

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

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

Deferred taxes

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

Trading securities

Trading securities comprise bonds and other fixed-income securities, shares and other variable-yield securities, promissory notes, registered bonds, fixed-term foreign currency deposits (placed and accepted), bonds issued (largely investment certificates), and derivatives such as interest-rate, currency, credit, and equity derivatives including internal interest-rate derivatives arranged between trading securities and the banking book. The internal criteria for the classification of financial instruments as trading securities are unchanged on those applied in 2013.

Financial instruments held as trading securities are measured at fair value in accordance with section 340e (3) HGB. Fair value gains and losses are reduced by a value-at-risk adjustment of €6.7 million (based on a confidence level of 99 percent, a holding period of 10 days, with volatilities and correlations computed recursively over an observation period of more than 250 days). The value-at-risk adjustment, which is determined with the help of mathematical models, describes the potential loss from a risk exposure and is based on regulatory requirements specified in the German Solvency Regulation (SolvV). The fair values of the financial instruments are determined by reference to current market prices or by using generally accepted valuation models and methods based on the latest data for market parameters, such as yield curves, spreads, and volatility. Unsecured, positive fair values are adjusted for credit risk on the basis of probabilities of default for the counterparties involved. The computation of fair values is consistent with the valuation models used in the internal risk management system.

Derivatives held for trading purposes were netted on a counterparty-specific basis for the first time in 2014, provided they were concluded under master agreements together with a credit support annex (CSA) with daily exchange of collateral. The netting gives a picture of financial circumstances. For each counterparty, the netting encompasses both the carrying amount of the derivatives and the collateral shown under receivables or liabilities. Similarly, the scope of netting for over-the-counter (OTC) derivatives concluded with the same central clearing partner has been extended to include the collateral. Positive fair values originally reported under financial assets held for trading of €1.9 billion, negative fair values originally reported under financial liabilities held for trading of €3.4 billion, and the corresponding collateral shown under receivables of €1.8 billion and liabilities of €0.3 billion were netted in total.

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

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

Currency translation

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

III. Balance sheet disclosures – assets –

	€ million	Dec. 31, 2013 € million
Loans and advances to banks		
Breakdown by residual maturity:		
Repayable on demand	1,225.8	2,489.6
Up to three months	1,661.7	3,525.6
Between three months and one year	1,388.2	1,581.6
Between one year and five years	5,938.8	5,799.4
More than five years	8,289.1	8,494.0
Total	18,503.6	21,890.2
of which attributable to:		
Affiliated banks	15,336.0	15,844.4
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	5.3	2.9
Affiliated companies	1,190.3	3,079.3
Other long-term investees and investors	107.3	192.2
Loans and advances to customers		
Breakdown by residual maturity:		
Up to three months	957.1	1,064.6
Between three months and one year	858.1	706.2
Between one year and five years	3,266.9	3,337.4
More than five years	2,715.8	2,482.2
No fixed maturity	711.4	695.4
Total	8,509.3	8,285.8
of which attributable to:		
Affiliated companies	63.7	42.3
Other long-term investees and investors	89.2	86.8
Bonds and other fixed-income securities		
Listed on a stock exchange	7,667.1	7,547.9
Not listed on a stock exchange	802.2	900.7
Marketable	8,469.3	8,448.6
of which attributable to:		
Securities maturing in subsequent year	551.8	1,296.4
Affiliated companies	0.0	254.5
Other long-term investees and investors	25.6	14.9
Securities subject to sale and repurchase agreements (repos)	11.4	641.7

	€ million	Dec. 31, 2013 € million
Shares and other variable-yield securities		
of which:		
Listed on a stock exchange	0.0	0.3
Not listed on a stock exchange	-	-
Marketable	0.0	0.3
Trading securities		
Derivatives	2,574.2	2,703.7
Receivables	2,471.1	2,450.5
Bonds and other fixed-income securities	4,546.4	4,468.0
Shares and other variable-yield securities	7.3	5.0
Value-at-risk adjustment	-6.7	-7.0
Total	9,592.3	9,620.2
of which attributable to:		
Affiliated companies	1,231.5	817.2
Other long-term investees and investors	185.7	112.7
Foreign currencies	1,961.0	1,484.5
Securities pledged as collateral	316.0	484.4
Long-term equity investments and paid-up shares in cooperatives		
of which:		
Listed on a stock exchange	-	-
Not listed on a stock exchange	3.4	3.4
Marketable	3.4	3.4
Shares in affiliated companies		
of which:		
Listed on a stock exchange	-	-
Not listed on a stock exchange	-	-
Marketable	-	-
Trust assets		
Loans and advances to banks	3.7	4.5
Loans and advances to customers	-	0.0

	€ million	Dec. 31, 2013 € million
Intangible assets		
Purchased concessions, industrial and similar rights and assets, including licenses for such rights and assets	14.3	5.9
Payments in advance	2.6	4.2
Total	16.9	10.1
Property, plant and equipment		
Land and buildings used for own operations	41.0	43.3
Office furniture and equipment	4.5	4.7
Total	45.5	48.0
Other assets		
Entitlements from long-term equity investments and affiliated companies	40.6	48.5
Premiums on other option purchases	5.2	5.1
Tax assets	41.1	68.4
- of which relating to corporation tax credits	38.1	49.8
Adjustment relating to hedge accounting	1.4	1.8
Other	19.8	15.2
Total	108.1	139.0
Prepaid expenses and accrued income		
of which attributable to:		
Premiums on loans and advances	24.6	8.2
Discounts on liabilities	2.9	4.7
Upfront payments on interest-rate derivatives	28.0	16.7

	€ million	Dec. 31, 2013 € million
Subordinated assets		
are included in:		
Other loans and advances to banks	90.8	90.8
- of which attributable to affiliated companies	90.0	90.0
Bonds and other fixed-income securities	40.0	-
Trading securities	20.9	13.2
Assets denominated in foreign currency		
with a value equivalent to	2,504.5	1,973.1

IV. Balance sheet disclosures – equity and liabilities –

		Dec. 31, 2013
	€ million	€ million
Deposits from banks		
Breakdown by residual maturity:		
Repayable on demand	**6,230.6**	6,001.2
Up to three months	**1,177.5**	1,572.8
Between three months and one year	**2,337.6**	2,490.8
Between one year and five years	**7,263.5**	7,599.2
More than five years	**9,869.1**	9,330.0
Total	**26,878.3**	26,994.0
of which attributable to:		
Affiliated banks	**10,177.4**	10,226.8
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	**59.7**	65.0
Affiliated companies	**49.7**	231.8
Other long-term investees and investors	**1,417.8**	936.5
Amounts owed to other depositors		
Breakdown by residual maturity:		
Repayable on demand	**3,149.0**	2,827.5
Up to three months	**2,592.9**	2,783.0
Between three months and one year	**137.8**	145.6
Between one year and five years	**87.9**	115.4
More than five years	**286.5**	276.5
Total	**6,254.1**	6,148.0
of which attributable to:		
Affiliated companies	**134.2**	119.2
Other long-term investees and investors	**60.3**	135.0
Debt certificates including bonds		
a) Bonds issued	**7,414.5**	8,173.9
b) Other debt certificates		
Breakdown by residual maturity:		
Up to three months	**-**	-
Between three months and one year	**-**	-
Between one year and five years	**-**	-
More than five years	**-**	-
Total	**7,414.5**	8,173.9
of which attributable to:		
Bonds issued maturing in subsequent year	**1,155.5**	1,551.2
Affiliated companies	**-**	-

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

		Dec. 31, 2013
	€ million	€ million
Trading securities		
Derivatives	**1,063.8**	2,627.2
Liabilities	**1,257.5**	2,468.1
Debt certificates including bonds	**657.9**	967.6
Total	**2,979.2**	6,062.9
of which attributable to:		
Affiliated companies	**142.4**	93.6
Other long-term investees and investors	**247.2**	128.5
Foreign currencies	**2,054.8**	1,565.4
Trust liabilities		
Deposits from banks	**3.7**	4.5
Other payables		
Transfer of losses from affiliated companies	**27.4**	19.7
Accrued interest for subordinated liabilities	**12.4**	12.1
Variation margin	**-**	1.2
Premiums on other option sales	**0.3**	1.9
Other	**123.6**	102.0
Total	**163.7**	136.9
Deferred income and accrued expenses		
Premium on bonds issued	**36.2**	38.5
Discounts on loans and advances	**11.1**	15.6
Other	**2.2**	2.1
Total	**49.5**	56.2
Other provisions		
Staff-related	**27.5**	22.5
For losses on loans and advances	**50.0**	18.9
For anticipated losses in connection with derivatives	**2.5**	7.7
Other	**14.3**	12.8
Total	**94.3**	61.9

	€ million	Dec. 31, 2013 € million
Subordinated liabilities	**740.1**	517.4
of which attributable to:		
Affiliated companies	**-**	-
Other long-term investees and investors	**15.0**	15.0
Expenses incurred in connection with subordinated liabilities	**31.2**	31.4

As at December 31, 2014, the subordinated liabilities comprised 54 registered promissory notes, four bearer bonds, and one registered bond with a conversion right. WGZ BANK took up subordinated liabilities totaling €223.2 million during the year under review. In the event of insolvency, the capital will only be repaid after all amounts due to non-subordinated creditors have first been settled. In respect of the registered bond with a conversion right that was issued in 2014 with a nominal value of €128 million, there will be an option of voluntary conversion by the creditors or mandatory conversion by the issuer after the end of December 3, 2019. One unit can be converted into 110 shares. The bond has a coupon of 5 percent. Early redemption by the issuer is possible at any time if necessary for regulatory reasons. There are no other plans or agreements to convert these liabilities into equity; there are no other early redemption obligations. The total amount of subordinated liabilities includes not only the aforementioned registered bond with a conversion right but also another bond, the value of which exceeds 10 percent of the total amount. This bond is a subordinated bearer bond with a value of €95.2 million and a coupon of 2.3 percent, and will mature in 2021. The remaining subordinated liabilities have original maturities of between 10 and 20 years with an average coupon of 5.82 percent.

Profit-sharing rights	**-**	-

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

	€ million	Dec. 31, 2013 € million
Equity		
Subscribed capital		
Balance as at January 1, 2014	**649.4**	649.4
Additions	**64.9**	-
Balance as at December 31, 2014	**714.3**	649.4
Capital reserves		
Balance as at January 1, 2014	**369.7**	369.7
Additions	**227.3**	-
Balance as at December 31, 2014	**597.0**	369.7
Revenue reserves		
Statutory reserve	**354.0**	354.0
Reserves provided for by the Articles of Association	**204.0**	170.7
of which: addition from net income for the year	**33.3**	22.1
Other revenue reserves	**659.1** *)	600.3
of which: addition from distributable profit for prior year	**33.9**	50.0
of which: addition from net income for the year	**24.9**	11.8
	1,217.1	1,125.0
Distributable profit	**108.2**	76.7
of which: from profit brought forward	**-**	-
Total	**2,636.6**	2,220.8

*) Before the addition from the net income for 2014 in accordance with the proposed appropriation of profits.

WGZ BANK's subscribed capital comprises share capital of €714,340,000.00. It is divided into 7,143,400 registered no-par-value shares (subject to transfer restrictions), each with an imputed share of the capital amounting to €100.00. Of the capital contributions received from the capital increase that was successfully implemented in 2014, €64,940,000.00 was paid into the subscribed capital (equates to 649,400 no-par-value shares) and €227,290,000.00 into the capital reserves. At the Annual General Meeting of WGZ BANK on June 24, 2014, the existing authorization to increase capital in return for capital contributions was cancelled and the Board of Managing Directors was authorized, subject to the approval of the Supervisory Board, to increase the share capital of WGZ BANK until June 24, 2019 on one or more occasions by a total of up to €200,000,000.00 by issuing new shares in return for capital contributions. In order to fulfill the conversion rights and/or conversion obligations relating to the convertible bond that was issued, the Board of Managing Directors was also authorized, at the suggestion of the Board of Managing Directors and Supervisory Board, to increase the share capital by up to €35,717,000.00 on a conditional basis by issuing up to 357,170 new, registered no-par-value shares. Article 6 of the Articles of Association of WGZ BANK was amended to reflect the resolutions on authorized capital and conditional capital.

		Dec. 31, 2013
	€ million	€ million
Liabilities denominated in foreign currency		
with a value equivalent to	**3,163.7**	3,111.8
Assets transferred as collateral		
In connection with deposits from banks:		
Receivables assigned to cover liabilities related to funds designated for special purposes	**13,643.8**	13,466.5
In connection with amounts owed to other depositors:		
Pledged as collateral for open-market operations, exchange-traded forward transactions, and in relation to collateral agreements as part of trading business	**3,679.1**	2,750.8
Contingent liabilities		
Arising from guarantees and indemnity agreements	**3,500.2**	3,095.6
Arising from assets pledged as security for third-party liabilities	**105.0**	-
Other obligations		
Irrevocable loan commitments to banks	**1,414.6**	2,158.0
Irrevocable loan commitments to customers	**2,236.7**	2,165.7

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

V. Income statement disclosures

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

This line item contains corporation tax and trade tax gains allocated to the tax groups amounting to €8.9 million. Correspondingly, this amount is included under income taxes.

Other net operating income

Other net operating income included a negative amount of €8.3 million arising from discounting and the unwinding of the discount in connection with the measurement of provisions.

Expenses from the transfer of losses

The expenses from the transfer of losses comprise €17.2 million related to Phoenix Beteiligungsgesellschaft mbH and €10.2 million related to Impetus Bietergesellschaft mbH.

Net extraordinary income

The extraordinary expenses related to a subsidy for VBI Beteiligungs GmbH in connection with the planned disposal of Volksbank Romania S.A.

VI. Other financial obligations and letters of comfort

Other financial obligations

WGZ BANK is a member of the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks]. This scheme comprises a guarantee fund and a guarantee network. As a participant in the guarantee network, WGZ BANK has entered into a guarantee obligation, the value of which is eight times the basic contribution to the guarantee fund (€33.0 million). Other contingencies and commitments that do not appear on the balance sheet are not material to any assessment of the financial position of WGZ BANK. Such contingencies and commitments relate to balancing arrangements in collateral pooling agreements, liability obligations under Articles of Association, and liability up to a certain level in connection with shares in cooperatives.

Letters of comfort

Subject to the exclusion of political risk, WGZ BANK has given undertakings that it will ensure WL BANK AG Westfälische Landschaft Bodenkreditbank and WGZ BANK Ireland plc will be able to meet their obligations, such undertakings being in proportion to WGZ BANK's direct holdings in these entities.

VII. Derivatives

COUNTERPARTY STRUCTURE	Positive fair values € million
OECD central governments and stock exchanges	215.2
OECD banks	3,369.2
OECD financial services institutions	61.2
Other companies, private individuals	310.0
Non-OECD central governments	-
Non-OECD banks	1.2
Non-OECD financial services institutions	-
Total	3,956.8

The positive fair values reflect the maximum counterparty risk as at the balance sheet date. They are the total of all positive contract fair values and exclude any offsetting of negative contract fair values, deduction of collateral, or weighting based on credit rating. As at the balance sheet date, the loan equivalent exposure (LEQ) calculated in accordance with the regulatory provisions of the Capital Requirements Regulation (2013: Solvency Regulation) and relevant to counterparty risk amounted to €3,874 million. After factoring in credit rating weightings, this represents approximately 5 percent of the positions subject to capital charges as defined by the CRR.

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

PRODUCT STRUCTURE AND NOMINAL AMOUNT	Nominal amount by time to maturity				Fair value	
	Up to 1 year € million	1-5 years € million	> 5 years € million	Total € million	Negative € million	Positive € million
Interest-linked contracts	**10,520.7**	**32,852.6**	**34,888.9**	**78,262.2**	**3,411.0**	**2,827.0**
of which attributable to:						
OTC products						
Interest-rate swaps (same currency)	9,145.2	31,519.1	33,190.8	73,855.1	3,339.3	2,787.6
Interest-rate options – call	173.5	368.5	790.0	1,332.0	-	34.3
Interest-rate options – put	390.4	965.0	908.1	2,263.5	67.2	0.8
Exchange-traded products						
Interest-rate futures	811.6	-	-	811.6	4.5	4.3
Currency-linked contracts	**74,844.2**	**1,045.9**	**3.7**	**75,893.8**	**943.0**	**1,018.9**
of which attributable to:						
OTC products						
Forward forex transactions	74,438.8	1,004.1	3.7	75,446.6	936.3	1,013.7
Forex options – call	177.2	20.8	-	198.0	0.3	4.9
Forex options – put	228.2	21.0	-	249.2	6.5	0.3
Share-/index-linked contracts	**271.3**	**350.5**	**224.1**	**845.9**	**26.4**	**16.9**
of which attributable to:						
OTC products						
Share/index swaps	0.0	270.9	215.3	486.2	15.1	2.7
Share/index options – call	76.1	8.6	4.4	89.1	-	14.1
Share/index options – put	147.3	48.0	4.4	199.7	9.0	-
Exchange-traded products						
Share/index futures	2.2	0.1	-	2.3	0.0	-
Share/index options – call	0.5	-	-	0.5	-	0.0
Share/index options – put	45.2	22.9	-	68.1	2.3	-
Other contracts	**1,092.9**	**3,860.6**	**1,077.3**	**6,030.8**	**66.2**	**94.0**
of which attributable to:						
OTC products						
Cross-currency swaps *)	116.5	345.4	907.3	1,369.2	38.7	27.6
Credit default swaps – protection buyer	331.0	978.0	5.0	1,314.0	27.0	5.8
Credit default swaps – protection seller	638.4	2,537.2	165.0	3,340.7	0.5	53.6
Forward securities transactions	7.0	0.0	0.0	7.0	0.0	7.0
Exchange-traded products						
Precious metal futures	-	-	-	-	-	-
Total for all contracts	**86,729.1**	**38,109.6**	**36,194.0**	**161,032.7**	**4,446.6**	**3,956.8**
of which attributable to:						
OTC products	85,869.6	38,086.6	36,194.0	160,150.2	4,439.8	3,952.5
Exchange-traded products	859.5	23.0	-	882.5	6.8	4.3
Contingency risks assumed in connection with credit default swaps	484.1	1,875.5	160.0	2,519.6	0.2	39.6

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

The following table shows a list of derivatives not recognized at fair value where such derivatives are not subject to hedge accounting in accordance with section 254 HGB.

The derivatives in this case are assigned to the banking book and are measured strictly at the lower of cost and market.

PRODUCT STRUCTURE AND NOMINAL AMOUNT	Nominal amount by time to maturity				Fair value	
	Up to 1 year € million	1-5 years € million	> 5 years € million	Total € million	Negative € million	Positive € million
Interest-linked contracts	**3.1**	**-**	**-**	**3.1**	**-**	**0.1**
of which attributable to:						
OTC products						
Interest-rate swaps (same currency)	3.1	-	-	3.1	-	0.1
Exchange-traded products						
Interest-rate futures	-	-	-	-	-	-
Other contracts	**606.4**	**2,045.5**	**160.0**	**2,811.9**	**2.2**	**51.6**
of which attributable to:						
OTC products						
Credit default swaps – protection buyer	115.3	170.0	-	285.3	2.0	5.0
Credit default swaps – protection seller	484.1	1,875.5	160.0	2,519.6	0.2	39.6
Forward securities transactions	7.0	0.0	0.0	7.0	0.0	7.0
Exchange-traded products						
Share/index futures	-	-	-	-	-	-
Total for all contracts	**609.5**	**2,045.5**	**160.0**	**2,815.0**	**2.2**	**51.7**
of which attributable to:						
OTC products	609.5	2,045.5	160.0	2,815.0	2.2	51.7
Exchange-traded products	-	-	-	-	-	-

VIII. Statement of changes in fixed assets

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	Intangible assets € million	Land and buildings € million	Office furniture and equipment € million
Cost	48.7	92.1	42.4
Additions	11.1	-	2.6
Reclassifications	-	-	-
Disposals	-9.4	-	-8.3
Cumulative amortization/depreciation	-33.5	-51.1	-32.2
Carrying amounts as at the balance sheet date	16.9	41.0	4.5
Amortization/depreciation expense in the year under review	4.1	2.4	2.7

INVESTMENTS	Long-term securities € million	Long-term equity-investments and paid-up shares in cooperatives € million	Shares in affiliated companies € million
Cost	1,348.3	1,623.6	799.1
Changes (net)	-548.9	281.7	-10.0
Carrying amounts as at the balance sheet date	799.4	1,905.3	789.1

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

IX. List of shareholdings

NAME AND REGISTERED OFFICE		Shareholding (%)	Equity in the most recent year for which figures are available € million	Net profit/loss € million
a) Affiliated companies				
1. WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster	*1)	90.92	355.1	*2)
2. WGZ BANK Ireland plc, Dublin, Ireland	*1)	100.00	308.2	18.7
3. WGZ Immobilien + Treuhand GmbH, Münster		100.00	1.3	*2)
4. WGZ Immobilien + Management GmbH, Münster		100.00	0.0	*2)
5. Phoenix Beteiligungsgesellschaft mbH, Düsseldorf	*7)	100.00	108.3	*2)
6. IMPETUS Bietergesellschaft mbH, Frankfurt am Main	*8)	100.00	54.1	*2)
7. GENO-Beteiligungsgesellschaft mbH, Düsseldorf		100.00	1.1	0.0
b) Other companies				
1. DZ Holding GmbH & Co. KG, Neu-Isenburg	*3)	36.44	1,307.5	22.2
2. Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	*1)	15.00	1,812.3	*4)
3. R+V Versicherung AG, Wiesbaden	*1)	15.80	1,911.7	*4)
4. Union Asset Management Holding AG, Frankfurt am Main	*1)	17.72	569.3	252.7
5. Union Investment Real Estate GmbH, Hamburg	*1)	5.50	72.2	43.2
6. VR-LEASING AG, Eschborn	*1)	16.54	211.1	*4)
7. VR Corporate Finance GmbH, Düsseldorf		50.00	2.3	-0.7
8. VR Equitypartner GmbH, Frankfurt am Main		22.00	70.5	11.3
9. VR Mittelstandskapital Unternehmensbeteiligungs AG, Düsseldorf		20.00	12.8	0.7
10. DZ PRIVATBANK S.A., Strassen, Luxembourg	*1)	19.04	673.7	45.0
11. Volksbank Romania S.A., Bucharest, Romania	*1) *5)	8.14	282.1	-102.2
12. Service-Direkt Telemarketing Verwaltungsgesellschaft mbH, Stuttgart		32.83	7.1	0.9
13. CardProcess GmbH, Karlsruhe	*1)	10.10	30.8	3.6
14. Heinsberger Volksbank Aktiengesellschaft, Heinsberg		25.00	12.3	0.4
15. Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mbH -Treufinanz-, Düsseldorf		33.14	2.9	-0.2
16. Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in Nordrhein-Westfalen mbh -KBG-, Neuss		23.60	1.6	0.2
17. GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*6)	32.10	58.1	-10.9
18. GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*6)	31.61	69.5	0.6
19. GMS Management und Service GmbH, Nidderau	*6)	33.33	0.1	0.0

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

X. Other disclosures

Disclosure pursuant to section 20 AktG

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

Members of the Supervisory Board and the Board of Managing Directors

Supervisory Board

Werner Böhnke, *Chairman* (from June 24, 2014)	Bank Director (ret.)
Dieter Philipp, *Chairman* (until June 24, 2014)	Honorary President of the German Association of Skilled Trades; President of the Aachen Chamber of Skilled Trades
Franz Lipsmeier, *Deputy Chairman*	Full-time member of the Board of Managing Directors of Volksbank Delbrück-Hövelhof eG
Johannes Berens (until June 24, 2014)	Bank Director (ret.)
Peter Bersch	Full-time member of the Board of Managing Directors of Volksbank Bitburg eG
Martin Eul	Full-time member of the Board of Managing Directors of Dortmunder Volksbank eG
Uwe Goldstein (from June 24, 2014)	Full-time member of the Board of Managing Directors of Raiffeisenbank Frechen-Hürth eG
Ludger Hünteler	Employee of WGZ BANK
Manfred Jorris	Employee of WGZ BANK
Ina Maßmann	Employee of WGZ BANK
Herbert Pfennig (from June 24, 2014)	Full-time member of the Board of Managing Directors of Deutsche Apotheker- und Ärztebank eG

Board of Managing Directors

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

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

Board of Managing Directors of WGZ BANK

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

Employees of WGZ BANK

Rolf Hermes	
Group companies:	
WGZ BANK Ireland plc, Dublin, Ireland	Member of the Board of Directors
Peter Tenbohlen	
Other major corporations:	
Deutsche WertpapierService Bank AG, Frankfurt am Main	Member of the Supervisory Board
Klaus Wellner	
Other major corporations:	
Volksbank Romania S.A., Bucharest, Romania	Member of the Supervisory Board

Total remuneration of the members of decision-making bodies

A total amount of €113 thousand was paid to the members of the Supervisory Board in the form of remuneration and attendance fees. The equivalent amount paid to the members of the Advisory Council was €213 thousand. The total remuneration granted to the members of the Board of Managing Directors in the year under review in return for the fulfillment of their responsibilities was €4.049 million. A sum of €2.652 million was paid to former members of the Board of Managing Directors and their surviving dependants. The provision for pensions and post-employment benefits in respect of this group of persons amounts to €27.052 million, which covers all the associated obligations in full.

Loans and advances to members of decision-making bodies

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

Average number of employees

	Female	Male	Total
Düsseldorf	458	680	1,138
Koblenz	6	13	19
Münster	28	57	85
	492	750	1,242
Staff in vocational training and management trainees	16	24	40

Auditor fees

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

Düsseldorf, March 24, 2015
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Audit opinion (translation)

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and the management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, for the financial year from January 1 to December 31, 2014 (the management report having been combined with the group management report). The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and the supplementary provisions of the Articles of Association are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

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

Our audit has not led to any reservations.

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

Düsseldorf, March 30, 2015
PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mark Maternus	pp Marc Lilienthal
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility statement

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

Düsseldorf, March 24, 2015
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

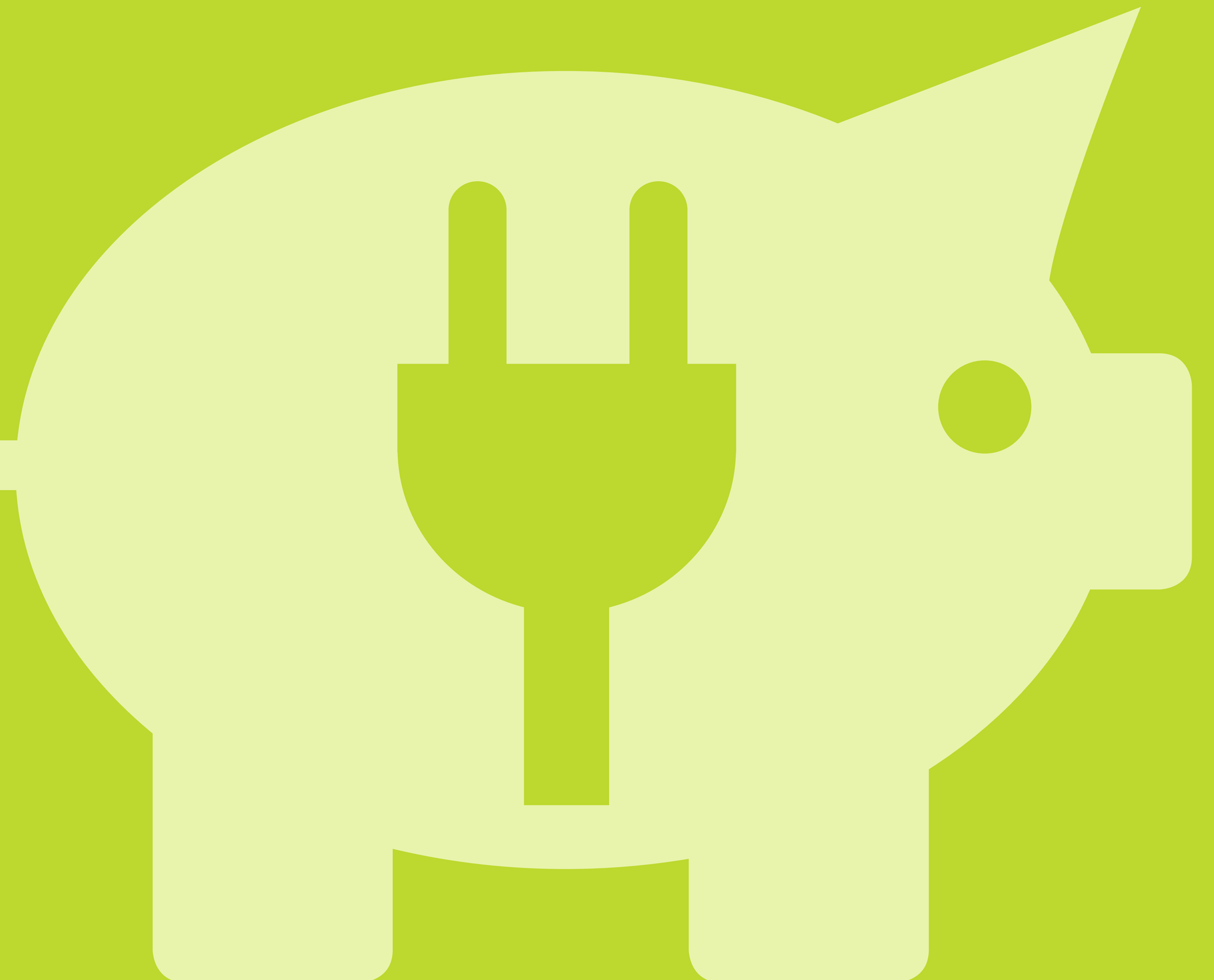
Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth



WGZ BANK consolidated financial statements for 2014 in accordance with International Financial Reporting Standards

I. Consolidated balance sheet

ASSETS	Note	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (%)
1. Cash and cash equivalents	7, 32	249.8	318.4	-21.5
2. Loans and advances to banks	8, 33	22,837.8	22,966.5	-0.6
3. Loans and advances to customers	8, 33	37,621.0	37,006.9	1.7
4. Allowances for losses on loans and advances	9, 34	-176.5	-193.1	-8.6
5. Fair value changes of the hedged items in portfolio hedges of interest-rate risk	6, 35	496.6	87.7	> 100.0
6. Derivatives used for hedging (positive fair values)	6, 36	716.2	494.5	44.8
7. Financial assets held for trading	10, 37	10,012.8	8,198.5	22.1
8. Long-term equity investments and securities portfolio	11, 38	21,681.7	20,615.1	5.2
9. Companies accounted for using the equity method	12, 39	980.0	948.9	3.3
10. Intangible assets	14, 40	18.6	11.9	56.3
11. Property, plant and equipment	14, 40	58.7	61.8	-5.0
12. Investment property	14, 40	0.0	0.0	0.0
13. Tax assets	15, 41	39.7	68.9	-42.4
14. Deferred tax assets	15, 41	279.2	289.7	-3.6
15. Other assets	16, 42	57.5	50.0	15.0
Total assets		94,873.1	90,925.7	4.3

EQUITY AND LIABILITIES	Note	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (%)
1. Deposits from banks	8, 43	37,070.9	35,973.2	3.1
2. Amounts owed to other depositors	8, 43	22,554.5	21,911.4	2.9
3. Debt certificates including bonds	17, 43	21,238.7	22,789.9	-6.8
4. Fair value changes of the hedged items in portfolio hedges of interest-rate risk	6, 44	272.0	215.6	26.2
5. Derivatives used for hedging (negative fair values)	6, 45	1,633.5	910.0	79.5
6. Financial liabilities held for trading	10, 46	7,004.0	4,870.6	43.8
7. Provisions	18, 19, 47	306.8	244.9	25.3
8. Tax liabilities	15, 48	74.7	50.8	47.0
9. Deferred tax liabilities	15, 48	0.0	0.0	0.0
10. Other liabilities	16, 49	81.1	39.9	> 100.0
11. Subordinated capital	20, 50	769.7	646.3	19.1
12. Equity	22, 51	3,867.2	3,273.1	18.2
Subscribed capital		714.3	649.4	10.0
Capital reserves		597.0	369.7	61.5
Retained earnings		2,394.5	2,268.7	5.5
Convertible bond		97.6	0.0	******
Revaluation reserve		-47.4	-83.4	-43.2
Other reserves recognized via other comprehensive income		11.0	7.3	50.7
Distributable profit attributable to the group		108.2	76.7	41.1
Non-controlling interests		-8.0	-15.3	-47.7
Total equity and liabilities		94,873.1	90,925.7	4.3

II. Consolidated income statement

	Note	€ million	2013 € million	Change (%)
1. Interest income	52	**2,221.0**	2,389.7	-7.1
2. Interest expense	52	**1,706.7**	1,921.4	-11.2
3. Net interest income	52	**514.3**	468.3	9.8
4. Allowances for losses on loans and advances	53	**-23.1**	-8.1	> 100.0
5. Net interest income after allowances for losses on loans and advances		**491.2**	460.2	6.7
6. Fee and commission income		**193.8**	177.6	9.1
7. Fee and commission expenses		**125.0**	110.2	13.4
8. Net fee and commission income	54	**68.8**	67.4	2.1
9. Gains and losses arising on hedging transactions	55	**-24.6**	-35.9	-31.5
10. Gains and losses on trading activities	56	**211.9**	152.0	39.4
11. Gains and losses on investments	57	**-132.6**	-86.6	53.1
12. Profit/loss from companies accounted for using the equity method	58	**16.6**	16.5	0.6
13. Administrative expenses	59	**296.1**	284.3	4.2
14. Other net operating income	60	**-27.3**	16.8	> 100.0
15. Operating profit/loss		**307.9**	306.1	0.6
16. Income taxes	61	**72.7**	78.8	-7.7
17. Other taxes	61	**0.9**	0.1	> 100.0
18. Net profit/loss		**234.3**	227.2	3.1
19. Net profit/loss attributable to non-controlling interests		**5.3**	9.8	-45.9
20. Net profit/loss after profit/loss attributable to non-controlling interests		**229.0**	217.4	5.3
21. Change in retained earnings		**120.8**	140.7	-14.1
22. Distributable profit attributable to the group		**108.2**	76.7	41.1

III. Statement of comprehensive income

	2014 € million	2013 € million
Net profit/loss	**234.3**	**227.2**
Balance of income and expenses recognized in other comprehensive income	**12.9**	**26.0**
Amounts not reclassified to the income statement	**-32.6**	**-7.0**
Change in retained earnings	**-29.2**	**-8.0**
Remeasurements of the net liability in connection with defined benefit plans	-42.5	-11.6
Deferred taxes	13.3	3.6
Change in other reserves recognized via other comprehensive income	**-3.4**	**1.0**
Income and expenses with associates recognized in other comprehensive income	-4.8	1.3
Deferred taxes	1.4	-0.3
Amounts reclassified to the income statement	**45.5**	**33.0**
Change in revaluation reserve	**38.4**	**32.7**
Unrealized gains and losses on available-for-sale financial instruments	50.5	50.4
Deferred taxes	-13.0	-15.9
Gains and losses reclassified to the income statement following the sale of available-for-sale financial instruments	0.0	-7.4
Deferred taxes	0.0	2.3
Reclassification to the income statement of gains and losses arising from impairment losses/reversals of impairment losses on available-for-sale financial instruments	1.2	3.1
Deferred taxes	-0.3	0.2
Change in other reserves recognized via other comprehensive income	**7.1**	**0.3**
Income and expenses with associates recognized in other comprehensive income	8.2	0.3
Deferred taxes	-1.1	0.0
Total comprehensive income/loss	**247.2**	**253.2**
Attributable to:		
Shareholders of WGZ BANK	**240.0**	241.1
Non-controlling interests	**7.2**	12.1

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

IV. Statement of changes in equity

2013 € million	Note	Subscribed capital	Capital reserves	Retained earnings	Convertible bond	Revaluation reserve for available-for-sale financial instruments	Other reserves recognized via other comprehensive income[1]	Distributable profit attributable to the group	Equity before non-controlling interests	Non-controlling interests	Total equity
Balance as at Jan. 1, 2013		**649.4**	**369.7**	**2,083.9**	**0.0**	**-1163.7**	**8.7**	**82.5**	**3,080.5**	**-27.4**	**3,053.1**
Net profit/loss								217.4	217.4	9.8	227.2
Other comprehensive income/loss	22			-5.2		30.3	-1.4		23.7	2.3	26.0
Total comprehensive income/loss				**-5.2**		**30.3**	**-1.4**	**217.4**	**241.1**	**12.1**	**253.2**
Appropriation to retained earnings	22			190.7				-190.7	0.0		0.0
Dividends paid	53							-32.5	-32.5		-32.5
Changes in scope of consolidation	3			-0.7					-0.7		-0.7
Balance as at Dec. 31, 2013		**649.4**	**369.7**	**2,268.7**	**0.0**	**-83.4**	**7.3**	**76.7**	**3,288.4**	**-15.3**	**3,273.1**

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

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

Further disclosures can be found in notes 22 and 51. From an economic perspective, the subordinated capital of €769.7 million (December 31, 2013: €646.3 million) should be included as part of equity.

V. Statement of cash flows

	Note	**€ million**	2013 € million
Net profit/loss		**234.3**	227.2
Non-cash items included in net profit/loss and reconciliation to cash flows from operating activities			
Allowances and reversal of allowances for losses on loans and advances, impairment losses and reversal of impairment losses on loans and advances, additions and reversals on provisions for losses on loans and advances	34, 53	24.6	10.1
Amortization/depreciation, impairment losses, and reversal of impairment losses on property, plant and equipment, intangible assets and investments	40, 59	10.4	11.2
Gains and losses on the disposal of property, plant and equipment, intangible assets and investments	27, 57	-1.0	-7.4
Changes in other non-cash items		23.8	51.7
Other adjustments (net)	17, 41, 48	-2,313.2	306.5
Subtotal		-2,021.1	599.3
Changes in assets and liabilities from operating activities after adjustment for non-cash transactions			
Loans and advances to banks	8, 33	128.7	1,355.2
Loans and advances to customers	8, 33	-614.2	472.3
Financial assets held for trading	10, 37	-1,814.3	1,761.7
Other assets from operating activities	3, 6, 9, 14, 16, 25, 35, 36, 40, 42	-667.8	320.7
Deposits from banks	8, 43	1,097.7	-2,182.4
Amounts owed to other depositors	8, 43	643.1	1,783.8
Financial liabilities held for trading	10, 46	2,133.4	-1,721.6
Debt certificates including bonds	17, 43	-1,551.2	-2,543.2
Other liabilities from operating activities	3, 6, 16, 19, 20, 25, 44, 45, 47, 49	860.3	-649.6
Interest and dividends received	52	2,220.0	2,389.7
of which dividends from companies accounted for using the equity method	12, 39, 58	21.0	16.7
Interest paid	52	-1,706.7	-1,921.4
Income taxes paid	15, 41, 48, 61	-9.1	-6.3
Cash flows from operating activities		**-1,301.2**	-341.8
Proceeds from the sale of investments	11, 38, 57	4,903.7	4,998.9
Proceeds from the sale of property, plant and equipment	13, 40	0.0	0.0
Payments for the purchase of investments	11, 38, 57	-4,138.5	-4,289.6
Payments for the purchase of property, plant and equipment	13, 40	-3.0	-2.0
Proceeds from the sale of consolidated entities		0.0	0.0
Payments for the acquisition of consolidated entities		0.0	0.0
Cash flows from investing activities		**762.2**	707.3
Dividends paid	51	-42.9	-32.5
Proceeds from capital increase/convertible bond paid into consolidated equity	51	389.8	0.0
Changes in subordinated capital	20, 50	123.5	-75.1
Cash flows from financing activities		**470.4**	-107.6
Cash and cash equivalents as at December 31, 2013		**318.4**	60.5
Cash flows from operating activities		-1,301.2	-341.8
Cash flows from investing activities		762.2	707.3
Cash flows from financing activities		470.4	-107.6
Effects from changes in exchange rates, scope of consolidation, and measurement		0.0	0.0
Cash and cash equivalents as at December 31, 2014		**249.8**	**318.4**

VI. Notes

Basis of preparation

WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank has prepared its consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) and their interpretations (IFRIC) laid down by the IFRS Interpretations Committee, as adopted by the European Union (EU). In addition, national regulations as determined by section 315a (1) HGB have been applied. Financial reporting complies with the German Transparency Directive Implementing Act (TUG) pursuant to section 37v WpHG in conjunction with section 37y no. 2 WpHG. This legislation requires capital-market-oriented parent companies to prepare an annual financial report comprising the consolidated balance sheet, the consolidated income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows, the notes, and, as an integral component, segment information. The group management report, which is additionally required pursuant to section 315a HGB in conjunction with section 315 HGB, also includes the report on the opportunities and risks of future development (risk report) and complies with the German accounting standard GAS 20. The company's management is required to issue a responsibility statement pursuant to section 297 (2) sentence 4 in conjunction with section 315 (1) sentence 6 HGB. The figures in WGZ BANK's consolidated financial statements are stated in millions of euros.

Key sources of estimation uncertainty

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

Accounting policies and changes in accounting estimates (IAS 8)

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

The valuation technique for measuring loans and advances to customers and banks at fair value was enhanced in accordance with IFRS 13.65 in conjunction with IDW AcP HFA 47 during the reporting period. The effect of this at the transition date was to reduce the fair values by €28.2 million or 0.3 percent. Accordingly, the fair values of the loans and fixed-term deposits measured at amortized cost that are listed in note 28 of the notes to the financial statements decreased by €18.8 million.

In 2014, the method of estimating cross-currency swaps was amended to take into account corresponding cross-currency spreads for the first time. This switch resulted in an expense of €2 million that was recognized in gains and losses on trading activities.

Based on new findings from market observation, when measuring subsovereign financial instruments WL BANK now determines the liquidity spreads depending on the issuer's credit rating, whereas it had previously based them on the spreads of German government and municipal bonds. At the balance sheet date, this method was only applied to one Portuguese subsovereign bond for which there is no active market and that was therefore measured using the discounted cash flow (DCF) method. As a result, the impact on WGZ BANK's consolidated financial statements was insignificant.

(1) Basic principles

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

(2) International Financial Reporting Standards applied

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

Relevant standards and interpretations

The consolidated financial statements of WGZ BANK for the year ended December 31, 2014 are based on the IASB framework and on the following IAS/IFRS standards and SIC/IFRIC interpretations:

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

Standards and interpretations that were not applicable

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

Initial application of standards and interpretations

The following new accounting standards and interpretations have been decided upon by the IASB, adopted by the EU, and were required to be applied for the first time in the year under review:

- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interests in Other Entities.

In May 2011, the IASB published three new standards (IFRS 10, 11, and 12), which were adopted by the EU in December 2012. The standards specify adoption from 2013. However, following a recommendation from the Accounting Regulatory Committee (ARC), they came into force with a different first-time adoption date. They were therefore required to be adopted from the 2014 financial year.

IFRS 10 includes a new definition of control. According to IFRS 10, there are three prerequisites for control: power, rights to variable returns, and the ability to use power to affect the amount of variable returns. SIC 12 ceased to apply once IFRS 10 came into force. IAS 27 now only contains the unchanged provisions relating to the accounting treatment of investments in subsidiaries, joint ventures, and associates in separate financial statements in accordance with IFRS. This does not have any material impact on the consolidated financial statements of WGZ BANK.

IFRS 11 comprises provisions on the accounting treatment of joint ventures and joint operations. The previous pro-rata consolidation option has been removed as a result. Joint ventures have to be accounted for using the equity method in accordance with IAS 28, the scope of which has been extended accordingly. IAS 31 ceased to apply with the application of IFRS 11. This does not have any material impact on the consolidated financial statements of WGZ BANK.

IFRS 12 brings together and extends the existing disclosure requirements relating to subsidiaries, joint ventures, associates, and unconsolidated special-purpose entities. This has resulted in additional disclosure requirements for the notes to WGZ BANK's consolidated financial statements.

The following amendments to accounting standards have been decided upon by the IASB, adopted by the EU, and were required to be applied for the first time in the year under review:

- Amendments to IFRS 10, 11, and 12: Transition Guidance
- Amendments to IFRS 10, 12 and IAS 27: Investment Entities
- Amendments to IAS 27: Separate Financial Statements
- Amendments to IAS 28: Investments in Associates and Joint Ventures (revised 2011)
- Amendments to IAS 32: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39: Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting.

In June 2012, the IASB published amendments to IFRS 10, 11, and 12 that provide transition guidance on the initial application of the standards adopted by the EU in April 2013. According to IFRS 10, the scope of consolidation must be defined at the start of the reporting period in which the standard is adopted for the first time. There were no changes to the scope of consolidation. IFRS 10, 11, and 12 have been applied retrospectively. All three standards include exemptions for comparative disclosures relating to previous periods. This does not have any material impact on the consolidated financial statements of WGZ BANK.

The amendments to IAS 32 published in December 2011 and adopted by the EU in December 2012 set out the current offsetting model in more detail by providing additional application guidance. The guidance did not change the model. This does not have any material impact on the consolidated financial statements of WGZ BANK.

The amendment to IAS 36 published by the IASB in May 2013 and adopted by the EU in December 2013 clarifies that the recoverable amount for an asset must only be disclosed if it is impaired. Furthermore, the amendment also requires disclosure if an impairment loss is recognized on an asset or cash-generating unit, or this impairment loss is reversed, and the recoverable amount was determined on the basis of fair value less costs of disposal. This does not have any material impact on the consolidated financial statements of WGZ BANK.

In June 2013, the IASB published amendments to IAS 39 relating to the continuation of hedge accounting in the event of novation. The EU adopted these amendments in December 2013. As a result, it is possible to continue hedge accounting even if the hedge is novated to a central counterparty, provided that certain criteria are met. This does not have any material impact on the consolidated financial statements of WGZ BANK.

The other amendments are not relevant to WGZ BANK's consolidated financial statements.

Standards and interpretations adopted by the EU but not yet applied

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

- IAS 19: Employee Contributions
- IFRIC 21: Levies
- Annual Improvements to IFRSs: 2010-2012 Cycle
- Annual Improvements to IFRSs: 2011-2013 Cycle.

The amendments to IAS 19 proposed by the IASB in November 2013 are designed to clarify the accounting treatment of employee contributions set out in the formal terms of a defined benefit plan if the contributions are linked to length of service. This is not likely to have any material impact on the consolidated financial statements of WGZ BANK.

In May 2013, the IASB published IFRIC 21, which deals with the recognition of levies imposed by a government that are not income taxes, and when they must be recognized. IFRIC 21 is relevant to the WGZ BANK Group in relation to accrual of the expenses for the bank levy.

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

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

- IAS 1: Presentation of Financial Statements
- IFRS 9: Financial Instruments
- IFRS 10 and IAS 28: Sales or Contributions of Assets between an Investor and its Associate or Joint Venture
- IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14: Regulatory Deferral Accounts
- IFRS 15: Revenue from Contracts with Customers
- IAS 27: Equity Method in Separate Financial Statements
- IAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 and 41: Agriculture: Bearer Plants
- Annual Improvements to IFRSs: 2012-2014 Cycle.

The IASB published amendments to IAS 1 in December 2014. They provide clarification on the materiality of the presentation of line items on the balance sheet and in the statement of comprehensive income, the statement of cash flows, and the statement of changes in equity and for disclosures in the notes. Immaterial information should not be disclosed, even if other standards explicitly stipulate their disclosure. Requirements for the presentation of subtotals, the structure of the notes to the financial statements, and disclosures about accounting policies have been added to IAS 1 and existing requirements have been clarified. There is also clarification on presentation in the statement of comprehensive income of the share of other comprehensive income/loss attributable to long-term equity investments that are accounted for using the equity method. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2016 financial year.

In November 2009, the IASB published IFRS 9 (Financial Instruments: Classification and Measurement) and added further provisions in October 2010 covering the accounting treatment of financial liabilities. Rules on hedge accounting were published in November 2013. The initial application date has now been postponed until 2018. The impact of IFRS 9 on the WGZ BANK Group will be examined as part of the IASB project and is still impossible to predict at the moment.

In September 2014, the IASB published amendments to IFRS 10 and IAS 28 clarifying that the extent of the gain or loss recognized for transactions with an associate or joint venture depends on whether the assets sold or contributed constitute a business. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2016 financial year.

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

The amendments to IFRS 11 published by the IASB in May, in which the accounting for acquisitions of interests in joint operations that constitute a business is clarified, are required to be adopted from the 2016 financial year, subject to their incorporation into EU law.

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

The IASB published IFRS 15 in May 2014. The objective of the standard is, above all, to harmonize the existing IFRS requirements, which are not very extensive, with the US GAAP requirements, which are very detailed and include industry-specific provisions. This will improve the transparency and comparability of financial information. Subject to incorporation into EU law, first-time adoption is likely to be from 2017.

The amendments to IAS 27, which were published by the IASB in August 2014, allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2016 financial year.

In May 2014, the IASB published amendments to IAS 16 and IAS 38. These amendments provide further guidance on which methods can be used for the depreciation of property, plant and equipment and the amortization of intangible assets. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2016 financial year.

Amendments to IAS 16 and IAS 41 were published by the IASB in June 2014 and bring bearer plants into the scope of application of IAS 16. Subject to their incorporation into EU law, the amendments are required to be adopted from the 2016 financial year.

(3) Scope of consolidation

As at December 31, 2014, the four following companies continued to be included in the consolidated financial statements in addition to WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank:

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

Entities in which WGZ BANK directly or indirectly holds more than 50 percent of voting rights, or over which it is otherwise able to exercise control, are fully consolidated.

The reporting date for all fully consolidated entities is December 31, 2014.

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

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

	WL BANK AG, Münster	
NAME AND REGISTERED OFFICE	**2014**	2013
Non-controlling interests (corresponding to share of voting rights)	**9.08%**	9.08%
	€ million	€ million
Profit of the non-controlling interests	**7.2**	12.1
Accumulated non-controlling interests	**-8.1**	-15.3
Dividends allocated to non-controlling interests	**0.4**	0.4
Assets[1]	**3,893.3**	3,748.4
Liabilities[1]	**3,901.4**	3,763.7
Revenue[1]	**13.0**	19.1
Other comprehensive income[1]	**1.9**	2.3
Total comprehensive income[1]	**7.3**	12.1
Cash flow[1]	**-0.6**	0.6

[1] Before elimination of intragroup transactions.

In the WGZ BANK Group, relationships with unconsolidated structured entities exist in the form of investments in structured products issued by these entities. As a rule, the structured entities securitize loans as asset-backed, fixed-rate, and tradable securities whose repayment is tied to the change in credit risk of the securitization. The entities obtain funding by issuing various securities tranches. The WGZ BANK Group has predominantly invested in senior tranches. The structured products are mainly residential mortgage-backed securities (RMBSs), collateralized debt obligations (CDOs), and asset-backed securities (ABSs). They are recognized under the long-term equity investments and securities portfolio item with a carrying amount of €744.3 million. These unconsolidated structured entities accounted for €5.0 million of net interest income, €28.2 million of net fair value gains, and €0.9 million of net losses on investments. The maximum downside risk is €744.3 million and equates to the carrying amount. The aggregate volume issued by all unconsolidated structured entities with which the WGZ BANK Group has a relationship amounts to €60,159.4 million.

(4) Procedures of consolidation

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

The acquisition of subsidiaries is accounted for using the acquisition method from the point at which control is obtained. At this point, the assets and liabilities are remeasured. Any difference between the cost of the investment and the value of the remeasured proportion of equity attributable to the acquirer must either be recognized as goodwill under intangible assets or, if the difference is a negative amount, recognized in profit or loss after a further review of the fair values. Goodwill must be tested for impairment once a year. Currently, no goodwill is reported on WGZ BANK's consolidated balance sheet because, as permitted by the rules, the bank has retained the netting of goodwill and reserves relating to acquisitions before the transition to IFRS. As part of the consolidation process, any holdings in group companies attributable to third parties are reported separately within equity as non-controlling interests. Subsidiaries sold during the course of a year are recognized in the consolidated income statement until the date of disposal.

A joint venture is a contractual agreement between two or more partners in relation to an economic activity that gives both parties a right to the net assets. Joint ventures are accounted for using the equity method (unless they are not material) and reported under companies accounted for using the equity method. Again, as in the case of acquisitions of subsidiaries, any goodwill is determined on the acquisition date. The goodwill included in the carrying amount of an investment is tested for impairment if there is any cause to suspect impairment.

An associate is an entity over which the group can exercise significant influence, but that is neither a subsidiary nor a joint venture. Associates are accounted for using the equity method (unless they are not material) and reported under companies accounted for using the equity method. Again, as in the case of acquisitions of subsidiaries, any goodwill is determined on the acquisition date. The goodwill included in the carrying amount of an investment is tested for impairment if there is any cause to suspect impairment.

Loans, advances, other receivables, deposits, other liabilities, contingent liabilities, intercompany gains and losses, income and expenses between the entities included in the consolidation are eliminated. If required, deferred taxes at country-specific tax rates are recognized for remeasurement and consolidation adjustments recognized in profit or loss.

(5) Classification of financial instruments

Under IAS 39, all financial instruments must be recognized on the balance sheet and measured according to their classification. The following describes the classifications selected in the WGZ BANK Group:

- Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments for which there is no active market. These assets are measured at amortized cost. Premiums and discounts are recognized in profit or loss under net interest income over the term of the liability using the effective interest method.

Held-for-trading financial assets and financial liabilities

In addition to primary instruments held for trading purposes in pursuit of short-term gain (such as interest-bearing securities, shares, and promissory notes), this category also includes derivatives that are not categorized as hedging instruments. These instruments are measured at fair value through profit or loss. Fair value gains and losses are reported under gains and losses on trading activities. Interest, dividends, fees, and commissions related to held-for-trading financial instruments are also recognized under gains and losses on trading activities.

Held-to-maturity financial assets

This category consists of non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity and for which there is an active market. Assets in this category are measured at amortized cost using the effective interest method in which premiums and discounts are allocated over the life of the financial asset concerned and recognized in profit or loss under net interest income.

Available-for-sale financial assets

This category comprises several individually designated portfolios held by WGZ BANK Ireland plc comprising ABSs, a portfolio of bonds held by WL BANK, and all non-derivative financial assets that have not been allocated to any of the other aforementioned categories. In particular, this category includes unlisted long-term equity investments in addition to interest-bearing securities, shares, and promissory notes. These financial instruments are measured at fair value, both on acquisition and subsequently. Exceptions are unlisted equity instruments for which a fair value cannot be reliably determined. These equity instruments are measured on acquisition, and subsequently, at cost net of any necessary impairment losses. Fair value gains and losses are recognized in other comprehensive income under the change in revaluation reserve after taking into account deferred taxes. Interest and dividends related to available-for-sale financial assets are recognized in net interest income.

Other financial liabilities

This category includes all other financial liabilities that are not held for trading or voluntarily measured at fair value. They are measured at amortized cost. Premiums and discounts are recognized in profit or loss under net interest income over the term of the liability using the effective interest method.

Exercising the fair value option

Under IAS 39, a financial instrument can be voluntarily measured at fair value and any changes in fair value recognized in profit or loss in order to avoid or significantly reduce an accounting mismatch. Accordingly, the WGZ BANK Group exercises this fair value option for loans, money market transactions (particularly those denominated in foreign currency), and debt certificates including bonds that would otherwise be measured at amortized cost. If this approach were not taken, an accounting mismatch would arise from these transactions in conjunction with derivatives and securities that have to be measured at fair value in accordance with IAS 39.

Voluntary measurement at fair value in profit or loss is also possible if there is a documented strategy for the management and measurement of changes in the value of a portfolio of financial instruments based on fair value and information determined on this basis is forwarded directly to the Board of Managing Directors. This involves specific portfolios of securities that do not form part of financial assets held for trading, that are managed on the basis of fair value, and whose performance is regularly reported to the decision-making bodies.

Thirdly, fair value measurement can be used if the financial instrument includes one or more embedded derivatives requiring bifurcation. The fair value option has therefore been applied to promissory notes and registered securities that do not form part of financial assets held for trading, debt certificates including bonds, and issued promissory notes and registered securities that represent structured products, provided that the embedded derivatives require bifurcation.

The financial instrument concerned continues to be reported under its original item. Fair value gains and losses are reported under gains and losses on trading activities. Interest income, dividend income, and interest expense in connection with financial instruments voluntarily measured at fair value are reported in net interest income.

■ Reclassifications

As a result of the amendments to IAS 39 and IFRS 7 issued in October 2008 and then adopted by the EU, financial instruments (with the exception of derivatives) that are held for trading and are no longer intended to be sold or repurchased in the near future may in rare circumstances be reclassified. The sovereign debt crisis, which led to the disappearance of active markets in individual segments and to a substantial widening of credit spreads, was considered to be one such circumstance. Financial assets originally held for trading may be reclassified to available-for-sale financial assets, held-to-maturity financial assets, or to loans and receivables, provided that the assets satisfy the criteria for the categories concerned. Financial instruments in the category available-for-sale financial assets that currently could already be reclassified to held-to-maturity financial assets if there were a corresponding intention to retain the asset concerned can now also be reclassified to loans and receivables if there is a positive intention and ability to hold the financial instruments for the foreseeable future or to maturity and the criteria for the loans and receivables category are satisfied on the date of reclassification. Financial instruments for which the fair value option has been exercised may not be reclassified. Information on financial instruments reclassified in WGZ BANK's consolidated financial statements can be found in note 26.

(6) Recognition and measurement of financial instruments

A financial instrument is recognized on the balance sheet when a group company becomes a party to the contractual arrangements for the financial instrument concerned. In the WGZ BANK Group, financial assets are recognized on the settlement date. This does not include derivatives, which are all recognized on the trade date. On initial recognition, a financial instrument is measured at its fair value. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Subsequent measurement of financial instruments recognized at fair value in the WGZ BANK Group is based on the existing three-level hierarchy specified in IFRS 13.72. In this hierarchy, the best evidence of the fair value of the financial instrument is deemed to be the quoted price in an active market. If no transactions took place on the balance sheet date, the last available price prior to the balance sheet date should be used subject to possible adjustments if there have been changes in general parameters. If there is no active market for the financial instrument, the fair value should be derived using valuation methods based on the most recent transactions involving one and the same financial instrument between knowledgeable, willing parties in arm's-length transactions or otherwise based on a comparison with the latest fair value for another, largely identical financial instrument. If this is not possible either, the fair value is determined by using generally accepted industry-standard valuation models. As far as possible, these models use observable market data as the basis for the valuation.

In the WGZ BANK Group, the fair value of listed financial instruments is based first and foremost on market prices (Level 1 input as defined by IFRS 13.72). In the case of financial instruments that are not listed or that are not traded in liquid markets, the present value method or other suitable valuation model is used for subsequent measurement of the instrument. The fair value of interest-rate swaps is determined on the basis of present values of cash flows discounted using up-to-date swap curves. Options are measured with variants of generally accepted option pricing models, depending on the underlying instrument involved (the main models being Black-Scholes, Garman-Kohlhagen). The fair value of credit derivatives is measured using the probability of default for reference assets based on credit spreads. Financial instruments that are repayable on demand, i.e. cash on hand and current-account balances, are recognized at their nominal amounts.

If the lack of market liquidity as a consequence of the sovereign debt crisis is still creating a situation in which quoted prices for affected financial instruments do not represent appropriate evidence of fair value, these prices cannot be used. The criteria used for determining whether a market is inactive include, in particular, a substantial widening of the bid/offer spread, unusual price movements and low trading volumes, or low-frequency price updates. As at the balance sheet date, this was the case for one security with a volume of €20 million. This bond, for which there is only one inactive market, is valued by means of a present-value model (DCF method). The discount rates used are based on the risk-free yield curve on the balance sheet date and a risk-adjusted premium. In this case, the fair value calculated was assigned to Level 3.

Certain structured products for which there was no active market on the balance sheet date have also been valued using DCF methods provided by external valuation agencies (Moody's Wall Street Analytics, ABSnet). Decisions as to whether markets are inactive are made on the basis of analyses and assessments by units familiar with the markets and then verified and confirmed by senior management. These analyses and assessments show that there have been inactive markets since 2007 or 2008 for CDOs, RMBSs, and ABSs held by the WGZ BANK Group, and these financial instruments have in the meantime been valued using appropriate models. The methods used for the valuation are described in valuation guidelines. The structured products held as at December 31, 2014 are largely valued on the basis of non-observable parameters (Level 3 input as defined by IFRS 13.72). The input parameters used to estimate the future cash flows (adjusted for defaults) include liquidity spreads, redemption forecasts, and assumptions about the probability and financial impact of defaults. Fair values determined in this way are verified via internal control structures and validated by comparing the instruments against products with similar terms. A sensitivity analysis is also conducted based on the discount rates used.

The present-value method (DCF method) and all other valuation models applied in the WGZ BANK Group that largely rely on input factors directly or indirectly observable in the market are classified as Level 2 inputs as defined by IFRS 13.72; otherwise, methods are classified as Level 3. Quantitative disclosures on valuations in accordance with the three-level fair value measurement hierarchy are presented in note 28.

- Impairment of financial assets

WGZ BANK accounts for identifiable credit risks in respect of loans and advances by recognizing specific and portfolio loan loss allowances in an appropriate amount. Provisions are recognized to cover the credit risk arising in connection with off-balance-sheet transactions (loan commitments and guarantees). At every balance sheet date, tests are conducted on the basis of uniform groupwide standards to establish whether there is objective evidence indicating any impairment of financial assets. Objective evidence of impairment is deemed to include situations in which a debtor is facing significant financial difficulties, a debtor's equity has been used up, a debtor's solvency is clearly in jeopardy, a debtor's debt service capacity is under strain or inadequate, or a debtor's profits are likely to be insufficient or non-existent now and/or in the future.

Allowances for losses on loans and advances are recognized as a separate line item on the assets side of the consolidated balance sheet and are clearly shown to be deducted from the loans and advances to banks and customers. The allowances for losses on loans and advances and the provisions recognized in the year in question are reported in the consolidated income statement under allowances for losses on loans and advances. Irrecoverable loans and advances are written off immediately in profit or loss. Any receipts relating to loans and advances previously impaired are also recognized in profit or loss. If an allowance for losses on loans and advances has already been recognized, this allowance is utilized if a loan or advance cannot be recovered.

In the case of loans recognized at amortized cost, the amount of the specific loan loss allowance to be recognized in profit or loss is derived from the difference between the carrying amount and the present value of the estimated future cash flows calculated using the original effective interest rate. Cash flows from the recovery of any collateral that has been furnished are also included. In the case of receivables with similar credit risk characteristics, the allowances are estimated on the basis of historical experience of default rates. Changes to the estimated recoverable amount based on new circumstances result in the recognition of an adjustment in profit or loss to the allowances for losses on loans and advances. The amortized cost must not be exceeded as a consequence of any such adjustments. If an allowance has been recognized for a loan or advance, interest income is no longer recognized on the basis of the contractual terms and conditions or the amounts received; instead, interest income is determined and recognized on the basis of the present value of the asset by unwinding the discount at the next balance sheet date.

Portfolio loan loss allowances are recognized for impairment of loans and advances identified at the balance sheet date where such impairment cannot be individually identified and allocated owing to a number of imponderables. Country risk relating to lending exposures in regions with serious transfer risks or currency conversion risks is factored into the allowances for losses on loans and advances at both specific and portfolio levels.

In the case of debt instruments classified as available-for-sale financial assets, the objective evidence sought by impairment tests is the same as that for loans and advances. If such evidence of impairment exists, the cumulative unrealized loss recognized in other comprehensive income is reclassified to profit or loss.

If the impairment ceases to exist in subsequent periods as a result of a change in circumstances, the impairment loss recognized in profit or loss is reversed.

Impairment losses are recognized for securities classified as held-to-maturity financial instruments and for securities reclassified to loans and receivables under the IAS 39 exemptions issued by the IASB in October 2008 provided that there is appropriate objective evidence of impairment on the balance sheet date. A loss equivalent to the difference between the carrying amount of the asset and the present value of the estimated future cash flows is recognized in the income statement under gains and losses on investments.

Equity instruments classified as available-for-sale financial assets are assumed to be permanently impaired if there has been a significant deterioration in the financial and legal circumstances of the entity concerned. Any increase in the fair value of such equity instruments following the recognition of an impairment loss must be recognized in other comprehensive income rather than in profit or loss. Increases in the fair value of equity instruments following recognition of an impairment loss are not recovered where the equity instruments are measured at cost because their fair value can no longer be reliably determined.

■ Hedge accounting

To complement the use of the fair value option, the WGZ BANK Group applies fair value hedge accounting to hedge the exposure to changes in fair value associated with assets and liabilities reported on the balance sheet. Hedging activities focus on the hedging of interest-rate risk using interest-rate swaps as the hedging instrument. For each individual hedge, IAS 39 requires evidence demonstrating whether the hedge is suitable, both retrospectively and prospectively, for eliminating a substantial proportion of the risk inherent in the hedged item (assessment of hedge effectiveness).

WGZ BANK only applies micro-hedge accounting. The measurement of a hedged item reflects changes in fair value attributable to the hedged risk. These changes in fair value are recognized in profit or loss under gains and losses arising on hedging transactions in the same way as the changes in fair value for the derivatives. The adjustment of the hedged item's carrying amount that this entails (hedge adjustment) is amortized over time through net interest income. The interest-rate swaps used for hedging are measured at fair value and reported as a separate item on the balance sheet under derivatives used for hedging, either on the assets side or liabilities side depending on whether the fair values are positive or negative. Hedged items comprise loans and advances, promissory notes, or issued bearer bonds measured at amortized cost.

Portfolio hedge accounting is also used for a portfolio at WL BANK to hedge interest-rate risk. The changes in fair value for the hedged items attributable to the hedged risk and the changes in fair value for the hedges relating to this portfolio are recognized in the income statement under gains and losses arising on hedging transactions. On the balance sheet, the fair values of the derivatives used for hedging and the adjustment of the carrying amounts for the hedged items in portfolio hedges attributable to the hedged risk are reported under separate items, either on the assets side or liabilities side as appropriate. The adjustments to carrying amounts are amortized through net interest income. The portfolio consists of the following hedged items: Pfandbriefe, local authority loans, mortgage loans, and securities not categorized as held to maturity. It also includes hedging instruments, which are exclusively interest-rate swaps.

■ Financial guarantee contracts

In accordance with IAS 39, a financial guarantee contract is defined as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the applicable terms of a debt instrument. The obligation is initially recognized at fair value on the date the offer of the financial guarantee contract is accepted. At the inception of the contract, this fair value is often nil if the obligation is balanced out by the premium; subsequent measurement may result in the recognition of a provision, where appropriate.

■ Embedded derivatives

Under IAS 39, derivatives embedded in financial instruments must be bifurcated from the host contract and accounted for separately if the economic risks of the embedded derivative are not closely related to those of the host contract. On the other hand, bifurcation is not permitted if there are close economic links. If various risk factors mean that bifurcation is necessary, the derivative must then be recognized at fair value. No bifurcation is necessary if the entire instrument is recognized at fair value through profit or loss. The WGZ

BANK Group regularly applies the fair value option for these types of financial instruments with embedded derivatives. The entire, non-bifurcated instrument is therefore recognized as a financial asset or financial liability at fair value through profit or loss.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with central banks. Balances must be recognized at amortized cost.

(8) Loans and advances to banks and customers, deposits from banks, amounts owed to other depositors

Loans and advances to banks and customers, deposits from banks, and amounts owed to other depositors must be recognized at amortized cost unless they are hedged items in a fair value hedge or the fair value option has been exercised. These items are reported on a net basis if this is supported by a right to offsetting that is enforceable at any time.

(9) Allowances for losses on loans and advances

Allowances for losses on loans and advances, comprising both specific and portfolio loan loss allowances, are reported as a separate line item on the assets side of the consolidated balance sheet and as a deduction from the loans and advances to banks and loans and advances to customers.

(10) Financial assets/financial liabilities held for trading

Financial assets held for trading and financial liabilities held for trading include all derivatives that meet the definition set out in IAS 39 unless the derivatives form part of a portfolio hedge or a fair value hedge. Financial assets held for trading also include financial instruments classified as such, i.e. mainly fixed-income securities and promissory notes. All these assets and liabilities are recognized at fair value.

(11) Long-term equity investments and securities portfolio

All non-trading bonds, all other fixed-income securities, shares and other variable-yield securities, long-term equity investments, and shares in subsidiaries that are not consolidated because they are of minor significance are reported under the long-term equity investments and securities portfolio item. However, material investments in associates and joint ventures are reported under companies accounted for using the equity method. Assets not listed on a stock exchange and whose fair value cannot be reliably determined are recognized at cost net of any necessary impairment losses. The latter assets comprise, in particular, investments in entities in the cooperative financial network. Securities classified as held-to-maturity financial instruments and securities reclassified to loans and receivables under the IAS 39 exemptions issued by the IASB in October 2008 are also recognized at amortized cost.

The other financial assets reported under this item are recognized at fair value. Changes in fair value are recognized (after taking into account deferred taxes) under changes in the revaluation reserve in other comprehensive income unless the financial instruments form part of a hedge or the fair value option has been exercised.

(12) Companies accounted for using the equity method

Material associates and joint ventures are accounted for using the equity method. If there are indications of impairment as specified by IAS 39, the impairment loss requirement is determined in accordance with IAS 36.

(13) Securities lending, sale and repurchase agreements (repos)

In the case of securities lending, the lender continues to bear the market risk because the borrower is under an obligation to return the same type, quality, and quantity of securities to the lender. The lender continues to enjoy the current income and any pre-emptive rights during the period of lending. As the lender therefore continues to retain substantially all the risks and rewards, the securities are deemed not to have been derecognized. Conversely, borrowed securities are not recognized on the balance sheet.

The sale and repurchase agreements (repos) entered into by entities in the WGZ BANK Group are exclusively genuine repos. In genuine repos, the securities are not derecognized because the buyer is under an obligation to sell back the securities and the seller is under an obligation to buy them, rather than there simply being an entitlement on either side. The original seller continues to enjoy the current income and any pre-emptive rights during the period of the transaction. The risks and rewards therefore remain with the original seller.

Cash collateral received or furnished as part of these transactions is reported as a deposit or loan/advance (including interest). The securities continue to be measured on the basis of their classification in accordance with IAS 39.

(14) Non-financial assets

Intangible assets include internally generated software, recognized in an amount equivalent to the directly assignable development costs, purchased software and, in particular, works of art. These assets are measured at amortized cost. Software is amortized over three years on a straight-line basis. Works of art are generally not amortized or depreciated because they are assumed to have an indefinite useful life.

Property, plant and equipment includes land and buildings that are largely used by WGZ BANK itself (in contrast to investment property) and office furniture and equipment. Property, plant and equipment as well as investment property is measured at amortized cost. Investment property is real estate held for the purposes of generating rental income and/or capital appreciation. Buildings are depreciated on a straight-line basis over a useful life of 25 to 50 years; office furniture and equipment is depreciated over a useful life of three to ten years, again on a straight-line basis.

Depreciation and amortization expenses are reported under administrative expenses on the income statement. If there are any indications of impairment, impairment losses are recognized to reduce the carrying amount to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Gains or losses on disposal are recognized under other net operating income.

(15) Income tax assets and liabilities

Current and deferred income tax assets and liabilities are each reported separately under assets or liabilities as appropriate. Tax assets and liabilities are netted if there is an enforceable legal right to offsetting in such cases and the assets and liabilities relate to the same tax authority. Furthermore, current income taxes can only be offset if there is an intention to settle on a net basis.

Current income tax assets and liabilities are determined at the prevailing tax rates that apply to the payment to be made to the tax authorities or the refund to be received. The changes in these items relating to the income statement are reported under the income taxes line item.

Deferred taxes are recognized using the balance sheet liability method as specified by IAS 12. This method focuses on the appropriate reporting of the amount of future tax assets and liabilities. Measurement differences between the tax base and carrying amounts under IFRS are multiplied by the income tax rate that is expected to be in force when the differences reverse in the future. Deferred taxes are measured on the basis of tax regulations in force or enacted as at the balance sheet date. If there are changes to the tax rate, existing deferred taxes are restated with a one-time adjustment. As specified by IAS 12, deferred taxes are not discounted. Adjustment amounts are posted to either the income statement or other comprehensive income, depending on how the deferred taxes concerned were originally posted. Deferred tax assets are recognized in respect of loss carryforwards if it is sufficiently probable that the group company in question will generate enough taxable income in subsequent periods to allow the loss carryforwards to be utilized.

Deferred tax assets are reviewed at every balance sheet date to establish whether they should be written down. This review requires management assumptions about the level of future taxable profit as well as other positive and negative variables. The actual utilization of deferred tax assets depends on whether there are opportunities to generate taxable profit in the future at levels that would enable the entity concerned to utilize tax loss carryforwards or temporary differences.

There could be a requirement to reduce the total amount recognized in respect of deferred tax assets if future taxable income and profits turn out to be lower than forecast or are reduced as part of group planning or if changes in tax legislation limit the use of tax loss carryforwards or tax reliefs in terms of either timing or amount. Conversely, the total amount recognized for deferred tax assets may need to be increased if future taxable income and profits prove to be greater than expected.

(16) Other assets/liabilities

Other assets/liabilities relate, in particular, to trade receivables and payables, receivables and payables relating to taxes other than income tax, prepaid expenses/accrued income, and deferred income/accrued expenses. Other liabilities also include interest liabilities in connection with subordinated capital and deductions from salaries to be paid over to the relevant authorities. All these items are recognized at amortized cost.

(17) Debt certificates including bonds

The debt certificates including bonds item comprises bonds issued and other transferable liabilities, provided that these liabilities are not subordinated. These financial instruments are measured at amortized cost or, if the fair value option has been exercised, at fair value.

(18) Provisions for pensions and other post-employment benefits

The pension provisions relate to defined benefit commitments within the meaning of IAS 19. The present value of the obligations in connection with these commitments is determined by independent actuaries in accordance with IAS 19 using the projected unit credit method, factoring in future increases in salaries and pension benefit payments, and taking into account forecasts regarding staff turnover. Generally accepted biometric data is used as the basis for estimating average life expectancy. The discount rate used to discount future payment obligations is the market interest rate for risk-free long-term bonds with a maturity equivalent to that of the defined benefit obligations. Actuarial gains and losses are recognized directly in consolidated equity under retained earnings. The return on plan assets is assumed to correspond to the interest rate used for the accounting of the obligations and is offset against the interest cost on the obligations in profit or loss.

(19) Other provisions

Other provisions are recognized for present legal and constructive obligations in the amount of the obligation that is expected to crystallize, provided that the payment requirement is probable and will lead to an outflow of resources. The timing or amount of the obligation is uncertain. The scope of the obligations can be estimated reliably. Provisions are only recognized in respect of obligations outside the group. Non-current provisions are discounted. Provisions for the costs of litigation and legal redress in respect of pending legal disputes consist of the expected litigation costs and provisions for the obligation. The latter are determined according to the progress of the individual proceedings and the likelihood of a successful outcome as predicted by the mandated attorney or the bank’s legal department. The legal department assesses the legal risks arising from redress, if necessary in consultation with external legal experts. These risks form the basis for recognizing an appropriate provision or contingent liability.

(20) Subordinated capital

Subordinated liabilities and profit-sharing rights issued by the WGZ BANK Group are reported under subordinated capital. Following initial recognition at cost, these items are recognized at amortized cost unless the fair value option is voluntarily selected. Accordingly, premiums and discounts are recognized in profit or loss under net interest income using the effective interest method. The leveraged portion of the convertible bond that was issued in 2014 with a conversion right for the debtor, and which is accounted for as a compound financial instrument, is also recognized under subordinated capital.

(21) Trust activities

Trust activities in connection with the management or placement of assets for the account of third parties are not reported on the balance sheet. Fees and commissions relating to trust activities are recognized under net fee and commission income.

(22) Equity

Subscribed capital comprises the share capital of WGZ BANK. The premium achieved on the issuance of shares, i.e. the amount received in excess of the par value, is reported as capital reserves.

Retained earnings comprise the statutory reserve, reserves provided for by the Articles of Association, and other reserves recognized from net profit. Actuarial gains and losses arising on defined benefit obligations are also reported under retained earnings. The equity portion of the convertible bond that was issued in 2014 with a conversion right for the debtor, and which is accounted for as a compound financial instrument, is also recognized under equity. Revaluation reserves relate to the fair value gains and losses on available-for-sale financial assets (net of deferred taxes). Other reserves recognized via other comprehensive income comprise changes reported in other comprehensive income and currency translation relating to companies accounted for using the equity method. Non-controlling interests consist of shares in the equity of subsidiaries held by third parties.

(23) Currency translation

Monetary assets and liabilities denominated in foreign currency are translated into euros at the balance sheet date in accordance with IAS 21 and any differences recognized in profit or loss. Carrying amounts are translated using the reference rate published by the European Central Bank on the balance sheet date. Gains and losses are recognized under gains and losses on trading activities. Long-term equity investments whose fair value cannot be reliably determined, property, plant and equipment, and intangible assets acquired in foreign currency are translated into euros on the date of acquisition. Income and expenses denominated in foreign currency are translated at the relevant transaction rates. Unsettled forward transactions are measured at the forward rate on the balance sheet date. Currently, the WGZ BANK Group only consolidates annual financial statements of companies in which the functional currency is the euro.

(24) Non-current assets and disposal groups classified as held for sale

A non-current asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and there is a very high probability of a sale. IFRS 5 sets out a number of criteria in this regard that must be satisfied including that appropriate management decisions must have been made and completion of a sale must be expected within one year from the date on which the asset or disposed group is classified in this category. Non-current assets and disposal groups classified as held for sale are generally measured at the lower of carrying amount and fair value less costs to sell, whereby the carrying amounts of the assets and liabilities included in disposal groups are, except in the assessment of this lower amount, updated in accordance with the relevant IFRSs (although this does not include depreciation/amortization, which is not permitted). These assets and disposal groups are reported as separate items on the balance sheet. There were no assets or disposal group in this category on the consolidated balance sheet of the WGZ BANK Group as at December 31, 2014 or as at December 31, 2013.

Financial instruments disclosures

(25) Analysis of financial assets and liabilities

ASSETS AS AT DEC. 31, 2014 € million Measurement category		Amortized cost			Fair value		Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Loans and receivables	Available-for-sale financial instruments[1]	Held-to-maturity financial instruments	Financial instruments held for trading	Available-for-sale financial instruments	Fair value option			
Cash and cash equivalents	249.8								249.8
Loans and advances to banks	20,960.8					1,877.0			22,837.8
Loans and advances to customers	29,974.6					7,646.4			37,621.0
Specific loan loss allowances	-146.9								-146.9
Financial assets held for trading				10,012.8					10,012.8
Long-term equity investments and securities portfolio	78.3	1,031.2	2,162.6		860.3	17,549.3			21,681.7
Companies accounted for using the equity method								980.0	980.0
Other financial instruments	497.1						716.2		1,213.3
Financial instruments total	**51,760.6**	**1,031.2**	**2,162.6**	**10,012.8**	**860.3**	**27,072.7**	**716.2**	**980.0**	**94,449.5**
Other assets									423.6
Total assets									**94,873.1**

LIABILITIES AS AT DEC. 31, 2014 € million Measurement category	Amortized cost	Fair value		Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Other financial liabilities	Financial instruments held for trading	Fair value option			
Deposits from banks	30,952.2		6,118.7			37,070.9
Amounts owed to other depositors	15,052.9		7,501.6			22,554.5
Debt certificates including bonds	13,759.0		7,479.7			21,238.7
Financial liabilities held for trading		7,004.0				7,004.0
Subordinated capital	422.9		346.8			769.7
Other financial instruments	272.0			1,633.5	233.3	2,138.8
Financial instruments total	**60,459.0**	**7,004.0**	**21,446.8**	**1,633.5**	**233.3**	**90,776.6**
Other liabilities						229.3
Equity						3,867.2
Total equity and liabilities						**94,873.1**

[1] Equity instruments for which a fair value cannot be reliably determined. They are therefore measured at cost.

ASSETS AS AT DEC. 31, 2013 € million Measurement category	Amortized cost			Fair value			Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Loans and receivables	Available-for-sale financial instruments[1]	Held-to-maturity financial instruments	Financial instruments held for trading	Available-for-sale financial instruments	Fair value option			
Cash and cash equivalents	318.4								318.4
Loans and advances to banks	20,919.6					2,047.0			22,966.5
Loans and advances to customers	29,654.3					7,352.6			37,006.9
Specific loan loss allowances	-163.1								-163.1
Financial assets held for trading				8,198.5					8,198.5
Long-term equity investments and securities portfolio	92.9	997.0	2,054.4		824.0	16,646.8			20,615.1
Companies accounted for using the equity method								948.9	948.9
Other financial instruments	88.2						494.5		582.7
Financial instruments total	**51,073.4**	**997.0**	**2,054.4**	**8,198.5**	**824.0**	**26,046.4**	**494.5**	**948.9**	**90,473.9**
Other assets									451.8
Total assets									**90,925.7**

LIABILITIES AS AT DEC. 31, 2013 € million Measurement category	Amortized cost	Fair value		Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Other financial liabilities	Financial instruments held for trading	Fair value option			
Deposits from banks	30,043.8		5,929.4			35,973.2
Amounts owed to other depositors	15,390.5		6,520.9			21,911.4
Debt certificates including bonds	12,285.9		10,504.0			22,789.9
Financial liabilities held for trading		4,870.6				4,870.6
Subordinated capital	307.8		338.5			646.3
Other financial instruments	215.6			910.0	186.4	1,312.0
Financial instruments total	**58,243.6**	**4,870.6**	**23,292.8**	**910.0**	**186.4**	**87,503.4**
Other liabilities						149.2
Equity						3,273.1
Total equity and liabilities						**90,925.7**

[1] Equity instruments for which a fair value cannot be reliably determined. They are therefore measured at cost.

The difference between the carrying amount of financial liabilities that were voluntarily classified as at fair value through profit or loss (and included interest components) and the amount that the WGZ BANK Group had to pay when due was €1,757.7 million (December 31, 2013: €1,013.2 million).

(26) Reclassification of financial instruments

	€ million	Dec. 31, 2013 € million
Financial assets reclassified from 'held for trading' to 'loans and receivables':		
Amount of assets reclassified in the reporting period	**0.0**	0.0
Carrying amount of assets reclassified in the reporting period	**0.0**	0.0
Carrying amount of reclassified assets (cumulative)	**78.3**	92.9
Fair value of assets reclassified in the reporting period	**0.0**	0.0
Fair value of all reclassified assets (cumulative)	**75.3**	86.4
For assets reclassified in the reporting period: Fair value gains and losses recognized in the income statement	**0.0**	0.0
For assets reclassified in the reporting period: Fair value gains and losses recognized in the income statement (previous year)	**0.0**	0.0
For reclassified assets: Notional fair value gains and losses[1)]	**3.7**	10.4
For reclassified assets: Gains and losses actually recognized in the income statement	**0.5**	1.9

1) If no reclassification had taken place.

The reclassifications were carried out in 2008 as a result of the financial crisis. The reclassification of financial instruments held for trading enabled WGZ BANK to avoid the recognition of changes in the fair value of these financial instruments under gains and losses on trading activities that would otherwise have been necessary since that time.

(27) Income statement analysis

CLASSIFICATION CATEGORY	Fair value option € million	Financial instruments held for trading € million	Available-for-sale financial instruments € million	Held-to-maturity financial instruments € million	Loans and receivables € million	Other financial liabilities € million
Net gains/losses	1,044.2	-832.3	-34.4	0.0	-0.5	0.0
Net gains/losses, 2013	-281.3	433.3	-33.9	0.0	-5.1	-29.0

The net gains and losses comprise fair value gains and losses and gains and losses on disposals for the assets and liabilities in each classification category together with interest and dividends related to held-for-trading financial assets and financial liabilities. Of the net gains and losses in connection with the fair value option, assets accounted for gains of €1,861.9 million (2013: losses of €712.9 million), and liabilities for losses of €817.7 million (2013: gains of €431.6 million). In the available-for-sale financial instruments category, gains of €50.5 million (2013: gains of €50.4 million) were recognized in other comprehensive income, whereas losses of €1.2 million (2013: gains of €4.3 million) were recognized under gains and losses on investments in profit or loss. Net gains and losses for the loans and receivables category are recognized in allowances for losses on loans and advances. If securities are assigned to this category, they are reported under gains and losses on investments. Net gains and losses for financial instruments classified as held to maturity are also recognized under gains and losses on investments.

The amounts reported as net interest income and net fee and commission income are not included in the net gains and losses.

Financial assets measured at amortized cost were subject to impairment losses of €24.5 million (2013: €44.8 million). These impairment losses were related to loans and advances. However, no impairment was identified for held-to-maturity financial instruments. No loss allowances were recognized for securities in the loans and receivables category in the reporting period, as had also been the case in the previous year. Loss allowances of €1.2 million (2013: €5.6 million) were recognized in the year under review for available-for-sale financial assets measured at fair value, but no reversals of impairment losses were recognized for these assets (2013: €6.1 million). In addition, the loss allowances specified in the statement of changes in non-current assets under long-term equity investments must be taken into account in both years.

Net interest income and net fee and commission income generated in connection with financial assets and financial liabilities not measured at fair value through profit or loss is shown in the following table:

	€ million	2013 € million
Financial assets		
Interest income	**1,514.6**	1,619.5
Fee and commission expenses	**28.1**	24.7
Financial liabilities		
Interest expense	**1,219.4**	1,325.3
Fee and commission income	**12.3**	10.3

Fee and commission income of €0.1 million (2013: €0.1 million) and fee and commission expenses of €0.1 million (2013: €0.1 million) were recognized as part of trust activities.

(28) Fair value of financial instruments

The following table shows a comparison between carrying amounts and fair values of financial instruments.

ASSETS	€ million		Dec. 31, 2013 € million	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	249.8	249.8	318.4	318.4
Loans and advances to banks	22,837.8	22,941.6	22,966.5	23,317.5
Loans and advances to customers	37,474.1	40,986.6	36,843.8	38,748.2
Derivatives used for hedging (positive fair values)	716.2	716.2	494.5	494.5
Financial assets held for trading	10,012.8	10,012.8	8,198.5	8,198.5
Long-term equity investments and securities portfolio[1)]	20,650.5	20,797.8	19,618.1	19,683.2
Other financial instruments	497.1	497.1	88.2	88.2
Financial instruments total	**92,438.3**	**96,201.9**	**88,528.0**	**90,848.5**

LIABILITIES				
Deposits from banks	37,070.9	37,418.8	35,973.2	36,466.5
Amounts owed to other depositors	22,554.5	24,929.6	21,911.4	23,446.4
Debt certificates including bonds	21,238.7	21,786.9	22,789.9	23,187.8
Derivatives used for hedging (negative fair values)	1,633.5	1,633.5	910.0	910.0
Financial liabilities held for trading	7,004.0	7,004.0	4,870.6	4,870.6
Subordinated capital	769.7	833.5	646.3	684.1
Other financial instruments	505.3	505.3	402.0	402.0
Financial instruments total	**90,776.6**	**94,111.6**	**87,503.4**	**89,967.4**

1) Excluding equity instruments for which a fair value cannot be reliably determined.

The following table lists financial instruments for which a fair value cannot be reliably determined and companies that are accounted for using the equity method. The instruments concerned are largely investments within the cooperative financial network (not listed on a stock exchange). The only way a fair value could be established for these investments would be through specific sale negotiations. WGZ BANK has no intention of disposing of them. The instruments are measured at cost less any necessary impairment losses. As had been the case in 2013, there were no gains or losses on the sale of long-term equity investments in the reporting year.

CARRYING AMOUNT		2013
	€ million	€ million
Shares in unlisted corporations	**1,371.3**	1,404.4
Interests in partnerships	**634.7**	538.1
Paid-up shares in cooperatives	**5.2**	3.4
Total	**2,011.2**	1,945.9

The following summary shows the valuation methods used in the WGZ BANK Group for financial instruments measured at fair value and assets measured at amortized cost:

FINANCIAL ASSETS AT FAIR VALUE AS AT DEC. 31, 2014 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Loans and advances to banks	0.0	1,877.0	0.0	1,877.0
Loans and advances to customers	0.0	7,641.7	4.7	7,646.4
Derivatives used for hedging (positive fair values)	0.0	716.2	0.0	716.2
Financial assets held for trading	3,439.0	6,573.8	0.0	10,012.8
Long-term equity investments and securities portfolio	14,587.4	3,141.0	681.2	18,409.6
Total financial assets measured at fair value	**18,026.4**	**19,949.7**	**685.9**	**38,662.0**

FINANCIAL ASSETS AT AMORTIZED COST AS AT DEC. 31, 2014 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Loans and advances to banks	0.0	21,064.6	0.0	21,064.6
Loans and advances to customers	0.0	32,994.9	345.3	33,340.2
Long-term equity investments and securities portfolio[1)]	2,281.2	29.9	77.1	2,388.2
Total financial assets measured at amortized cost	**2,281.2**	**54,089.4**	**422.4**	**56,793.0**
Total financial assets	**20,307.6**	**74,039.1**	**1,108.3**	**95,455.0**

1) Excluding equity instruments for which a fair value cannot be reliably determined.

FINANCIAL LIABILITIES AT FAIR VALUE AS AT DEC. 31, 2014 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Deposits from banks	0.0	6,006.0	112.7	6,118.7
Amounts owed to other depositors	0.0	7,501.6	0.0	7,501.6
Debt certificates including bonds	105.9	7,373.8	0.0	7,479.7
Derivatives used for hedging (negative fair values)	0.0	1,633.5	0.0	1,633.5
Financial liabilities held for trading	26.1	6,977.9	0.0	7,004.0
Subordinated capital	0.0	346.8	0.0	346.8
Total financial liabilities measured at fair value	**132.0**	**29,839.6**	**112.7**	**30,084.3**

FINANCIAL LIABILITIES AT AMORTIZED COST AS AT DEC. 31, 2014 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Deposits from banks	0.0	31,300.1	0.0	31,300.1
Amounts owed to other depositors	0.0	17,428.0	0.0	17,428.0
Debt certificates including bonds	0.0	14,307.2	0.0	14,307.2
Subordinated capital	0.0	486.7	0.0	486.7
Total financial liabilities measured at amortized cost	**0.0**	**63,522.0**	**0.0**	**63,522.0**
Total financial liabilities	**132.0**	**93,361.6**	**112.7**	**93,606.3**

FINANCIAL ASSETS AT FAIR VALUE AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Loans and advances to banks	0.0	2,047.0	0.0	2,047.0
Loans and advances to customers	0.0	7,348.8	3.8	7,352.6
Derivatives used for hedging (positive fair values)	0.0	494.5	0.0	494.5
Financial assets held for trading	2,909.2	5,289.3	0.0	8,198.5
Long-term equity investments and securities portfolio	13,006.1	3,802.9	661.8	17,470.8
Total financial assets measured at fair value	**15,915.3**	**18,982.5**	**665.6**	**35,563.4**

FINANCIAL ASSETS AT AMORTIZED COST AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Loans and advances to banks	0.0	21,270.5	0.0	21,270.5
Loans and advances to customers	0.0	30,950.7	444.9	31,395.6
Long-term equity investments and securities portfolio	2,185.3	1,013.0	11.1	3,209.4
Total financial assets measured at amortized cost	**2,185.3**	**53,234.2**	**456.0**	**55,875.5**
Total financial assets	**18,100.6**	**72,216.7**	**1,121.6**	**91,438.9**

FINANCIAL LIABILITIES AT FAIR VALUE AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Deposits from banks	0.0	5,819.6	109.8	5,929.4
Amounts owed to other depositors	0.0	6,520.9	0.0	6,520.9
Debt certificates including bonds	2,561.3	7,942.7	0.0	10,504.0
Derivatives used for hedging (negative fair values)	0.0	910.0	0.0	910.0
Financial liabilities held for trading	32.5	4,838.1	0.0	4,870.6
Subordinated capital	0.0	338.5	0.0	338.5
Total financial liabilities measured at fair value	**2,593.8**	**26,369.8**	**109.8**	**29,073.4**

FINANCIAL LIABILITIES AT AMORTIZED COST AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Deposits from banks	0.0	30,537.1	0.0	30,537.1
Amounts owed to other depositors	0.0	16,925.5	0.0	16,925.5
Debt certificates including bonds	0.0	12,683.8	0.0	12,683.8
Subordinated capital	0.0	345.6	0.0	345.6
Total financial liabilities measured at amortized cost	**0.0**	**60,492.0**	**0.0**	**60,492.0**
Total financial liabilities	**2,593.8**	**86,861.8**	**109.8**	**89,565.4**

During the course of the year under review, there were changes within the valuation methods in accordance with the three-level hierarchy. These changes are shown in the following overview together with their impact on net profit/loss:

ASSETS RECONCILIATION AS AT DEC. 31, 2014 € million	Loans and advances to banks	Loans and advances to **customers**	Derivatives used for hedging (positive fair values)	Financial assets held for trading	Long-term equity investments & securities portfolio	Total
Level 1	**0.0**	**0.0**	**0.0**	**3,439.0**	**14,587.4**	**18,026.4**
of which still in Level 2 as at Dec. 31, 2013	0.0	0.0	0.0	63.3	853.9	917.3
of which still in Level 3 as at Dec. 31, 2013	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**1,877.0**	**7,641.7**	**716.2**	**6,573.8**	**3,141.0**	**19,949.7**
of which still in Level 1 as at Dec. 31, 2013	0.0	0.0	0.0	37.0	142.9	179.9
of which still in Level 3 as at Dec. 31, 2013	0.0	0.0	0.0	0.0	0.0	0.0
Level 3						
Fair value at start of period	0.0	3.8	0.0	0.0	661.8	665.6
Acquisition – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0
Switch to Level 3 – fair value on addition	0.0	0.5	0.0	0.0	90.0	90.5
Fair value on derecognition (disposal)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (maturity/redemption)	0.0	-3.1	0.0	0.0	-99.4	-102.5
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	0.0	0.0	0.0	0.0	0.0
Total gains/losses for financial instruments in Level 3	0.0	3.5	0.0	0.0	28.8	32.3
of which held as at the balance sheet date	0.0	3.5	0.0	0.0	25.9	29.4
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	-0.2	-0.2
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	-0.2	-0.2
Change in fair value/payment against gains and losses on trading activities	0.0	3.5	0.0	0.0	13.9	17.3
of which held as at the balance sheet date	0.0	3.5	0.0	0.0	11.3	14.8
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	-0.8	-0.8
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	-0.8	-0.8
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	15.9	15.9
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	15.5	15.5
Fair value at period end	**0.0**	**4.7**	**0.0**	**0.0**	**681.2**	**685.9**
Total fair values for financial assets						**38,662.0**

ASSETS RECONCILIATION AS AT DEC. 31, 2013 **€ million**	Loans and advances to banks	Loans and advances to **customers**	Derivatives used for hedging (positive fair values)	Financial assets held for trading	Long-term equity investments & securities portfolio	Total
Level 1	**0.0**	**0.0**	**0.0**	**2,909.2**	**13,006.1**	**15,915.3**
of which still in Level 2 as at Dec. 31, 2012	0.0	0.0	0.0	184.9	802.7	987.6
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**2,047.0**	**7,348.8**	**494.5**	**5,289.3**	**3,802.9**	**18,982.5**
of which still in Level 1 as at Dec. 31, 2012	0.0	0.0	0.0	5.0	26.6	31.6
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0
Level 3						
Fair value at start of period	0.0	15.1	0.0	0.0	839.1	854.2
Acquisition – fair value on addition	0.0	0.1	0.0	0.0	0.0	0.1
Switch to Level 3 – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (disposal)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (maturity/redemption)	0.0	-15.8	0.0	0.0	-200.2	-216.0
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	0.0	0.0	0.0	0.0	0.0
Total gains/losses for financial instruments in Level 3	0.0	4.4	0.0	0.0	22.9	27.3
of which held as at the balance sheet date	0.0	3.8	0.0	0.0	21.6	25.5
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	-0.3	-0.3
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	-0.2	-0.2
Change in fair value/payment against gains and losses on trading activities	0.0	4.4	0.0	0.0	13.1	17.5
of which held as at the balance sheet date	0.0	3.8	0.0	0.0	13.0	16.8
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	10.1	10.1
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	8.9	8.9
Fair value at period end	**0.0**	**3.8**	**0.0**	**0.0**	**661.8**	**665.6**
Total fair values for financial assets						**35,563.4**

LIABILITIES RECONCILIATION AS AT DEC. 31, 2014 € million	Deposits from banks	Amounts owed to other depositors	Debt certificates including bonds	Derivatives used for hedging (negative fair values)	Financial liabilities held for trading	Sub-ordinated capital	Total
Level 1	**0.0**	**0.0**	**105.9**	**0.0**	**26.1**	**0.0**	**132.0**
of which still in Level 2 as at Dec. 31, 2013	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2013	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**6,006.0**	**7,501.6**	**7,373.8**	**1,633.5**	**6,977.9**	**346.8**	**29,839.6**
of which still in Level 1 as at Dec. 31, 2013	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2013	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 3							
Fair value at start of period	109.8	0.0	0.0	0.0	0.0	0.0	109.8
Issuance – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Switch to Level 3 – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (maturity/redemption)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total gains/losses for financial instruments in Level 3	2.9	0.0	0.0	0.0	0.0	0.0	2.9
of which held as at the balance sheet date	2.9	0.0	0.0	0.0	0.0	0.0	2.9
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value/payment against gains and losses on trading activities	2.9	0.0	0.0	0.0	0.0	0.0	2.9
of which held as at the balance sheet date	2.9	0.0	0.0	0.0	0.0	0.0	2.9
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value at period end	**112.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**112.7**
Total fair values for financial liabilities							**30,084.3**

LIABILITIES RECONCILIATION AS AT DEC. 31, 2013 € million	Deposits from banks	Amounts owed to other depositors	Debt certificates including bonds	Derivatives used for hedging (negative fair values)	Financial liabilities held for trading	Sub-ordinated capital	Total
Level 1	**0.0**	**0.0**	**2,561.3**	**0.0**	**32.5**	**0.0**	**2,593.8**
of which still in Level 2 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**5,819.5**	**6,520.9**	**7,942.7**	**910.0**	**4,838.1**	**338.5**	**26,369.7**
of which still in Level 1 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 3							
Fair value at start of period	112.4	0.0	0.0	0.0	0.0	0.0	112.4
Issuance – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Switch to Level 3 – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (maturity/redemption)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total gains/losses for financial instruments in Level 3	2.6	0.0	0.0	0.0	0.0	0.0	2.6
of which held as at the balance sheet date	2.6	0.0	0.0	0.0	0.0	0.0	2.6
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value/payment against gains and losses on trading activities	-2.6	0.0	0.0	0.0	0.0	0.0	-2.6
of which held as at the balance sheet date	-2.6	0.0	0.0	0.0	0.0	0.0	-2.6
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value at period end	**109.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**109.8**
Total fair values for financial liabilities							**29,073.3**

The market data on which the measurements are based is taken from the relevant primary markets to which WGZ BANK has access. The relevant market for the equities traded by WGZ BANK is the Xetra exchange or, in exceptional cases, the local regional stock exchange. Exchange-traded derivatives are measured at their market price or on the basis of their market price. The interbank market is the primary market for all other products. Measurement is based on interbank prices or typical, transparent market data from the interbank market and uses mid-market pricing on the basis of typical mid-market rates.

Given the predominantly positive changes in the market liquidity for different types of bonds, a volume of approximately €0.9 million was switched from Level 2 input to Level 1 input, and roughly €0.2 million from Level 1 input to Level 2 input, during the year under review. Changes at Level 3 are attributable to repayments, additions following changes to market estimates and, above all, to positive valuation effects. Total fair value gains of €16.3 million (2013: €17.2 million) were recognized in profit or loss for securities valued with Level 3 inputs. There are no obvious reasonable alternative valuation methods for these securities that would produce significantly different results.

The financial instruments held by the WGZ BANK Group that are not traded on an active market and that are valued with a valuation method not solely based on observable market parameters are predominantly structured securities, along with southern European subsovereign bonds and, on a small scale, loans and advances to customers. The management decides at its discretion precisely which unobservable parameters are used in the valuation, selecting appropriate values from a range of possible alternative measurements according to the prevailing market conditions. Changes during the reporting period were caused by repayments and by additions following changes to the valuation method as a result of changes to market estimates.

The following table contains a sensitivity analysis that was carried out for structured securities measured at fair value where measurement was not based on observable measurement parameters (Level 3 input as defined by IFRS 13.72). Current market conditions make it difficult to forecast changes in credit spreads. The table therefore shows the impact of a widening of the credit spread for ABSs both by 50 basis points and by 100 basis points as well as the impact of a 50 percent reduction in early repayments. However, in the case of an ABS, the measurement of which reflects an expected recovery rate, the impact of a 50 percent reduction in this recovery rate is shown.

DEC. 31, 2014	Fair value **€ million**	Fair value with spread + 50bp **€ million**	Fair value with spread + 100bp **€ million**	Early repayment decline of 50% **€ million**	Recovery rate decline of 50% **€ million**
ABSs (excluding expected recovery rate)	666.1	651.8	638.1	659.6	
ABSs (including expected recovery rate)	0.0	0.0	0.0	0.0	
Total	**666.1**				
DEC. 31, 2013					
ABSs (excluding expected recovery rate)	666.4	652.3	638.9	660.1	
ABSs (including expected recovery rate)	0				
Total	**666.4**				

A 20bp widening of the spread would reduce the fair value of the subsovereign bonds by €0.1 million. The market value of the loans and advances measured at fair value that are assigned to Level 3 would decrease by €0.1 million if the spread widened by 50bp. The bandwidth of the credit spreads on which the measurement of Level 3 assets was based was 16 to 863 basis points.

Nature and scope of risks arising from financial instruments

The following disclosures cover the risks arising in connection with financial instruments, the origin of such risks, existing risk exposures, the objectives, strategies, and methods involved in the management of these risks, and the measurement of these risks. Please also refer to the risk report within the management report.

(29) Maximum credit risk and credit quality

MAXIMUM CREDIT RISK AND COLLATERAL	Maximum credit risk € million	(%)	Risk-mitigating collateral € million	(%)	Maximum credit risk Dec. 31, 2013 € million	(%)	Risk-mitigating collateral Dec. 31, 2013 € million	(%)
Loans and advances to	**60,458.8**	**60.2**	**19,092.2**	**97.0**	**59,973.4**	**62.1**	**18,020.1**	**98.3**
banks	22,837.8	22.7	681.6	3.5	22,966.5	23.8	955.6	5.2
customers	37,621.0	37.5	18,410.6	93.5	37,006.9	38.3	17,064.5	93.1
Financial assets held for trading	**10,012.8**	**10.0**	**600.2**	**3.0**	**8,198.5**	**8.5**	**316.9**	**1.7**
Bonds and other fixed-income securities	4,380.6	4.4	0.0	0.0	4,231.5	4.4	0.0	0.0
Shares and other variable-yield securities	7.3	0.0	0.0	0.0	4.9	0.0	0.0	0.0
Promissory notes	144.1	0.1	0.0	0.0	133.7	0.1	0.0	0.0
Money market placements denominated in foreign currency	807.3	0.8	0.0	0.0	953.5	1.0	0.0	0.0
Derivatives	4,673.5	4.7	600.2	3.0	2,874.9	3.0	316.9	1.7
Hedging instruments	**716.2**	**0.7**	**0.0**	**0.0**	**494.5**	**0.5**	**0.0**	**0.0**
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	**496.6**	**0.5**	**0.0**	**0.0**	**87.7**	**0.1**	**0.0**	**0.0**
Long-term equity investments and securities portfolio	**21,681.7**	**21.6**	**0.0**	**0.0**	**20,615.1**	**21.3**	**0.0**	**0.0**
Bonds and other fixed-income securities	20,646.9	20.6	0.0	0.0	19,615.1	20.3	0.0	0.0
Shares not qualifying as long-term equity investments	3.6	0.0	0.0	0.0	3.0	0.0	0.0	0.0
Investment fund units	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term equity investments	1,031.2	1.0	0.0	0.0	997.0	1.0	0.0	0.0
Companies accounted for using the equity method	**980.0**	**1.0**	**0.0**	**0.0**	**948.9**	**1.0**	**0.0**	**0.0**
Contingent liabilities	**1,026.0**	**1.0**	**0.0**	**0.0**	**902.0**	**0.9**	**0.0**	**0.0**
Less assigned credit derivatives that mitigate the credit risk	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments	**5,275.5**	**5.3**	**0.0**	**0.0**	**5,570.4**	**5.8**	**0.0**	**0.0**
Allowances for losses on loans and advances	**-221.9**	**-0.2**	**0.0**	**0.0**	**-214.6**	**-0.2**	**0.0**	**0.0**
Total	**100,425.7**	**100.0**	**19,692.4**	**100.0**	**96,575.9**	**100.0**	**18,337.0**	**100.0**

WGZ BANK holds collateral in the form of mortgages on real estate, pledged loans and advances, assigned receivables, guarantees, together with pledged custody accounts and other accounts as security for financial assets. Collateral for loans and advances may only be recovered in the event of default.

As at the balance sheet date, WGZ BANK had not recognized any assets acquired within the reporting period in connection with the recovery of collateral. This had also been the case at the end of 2013.

The quality of loans and advances is determined on the basis of internal rating systems. These systems comprise 20 rating categories (0A to 3E) for loans and advances not in default and five default categories (4A to 4E). The credit quality of bonds is sometimes derived from external ratings if no internal rating is available for the borrower. The following table shows a summary of the loans and advances and bonds classified to each of the rating categories:

	Probability of default (%) or classification criterion for loans and advances	Loans and advances to banks € million	Loans and advances to customers € million	Bonds € million	Loans and advances to banks Dec. 31, 2013 € million	Loans and advances to customers Dec. 31, 2013 € million	Bonds Dec. 31, 2013 € million
Not impaired							
Rating 0A to 0E	0.00-0.06	19,497.2	12,272.0	16,097.2	19,759.7	12,867.1	14,733.1
Rating 1A to 1E	0.06-0.42	2,887.8	18,898.7	6,838.5	2,692.4	18,014.2	6,776.6
Rating 2A to 2E	0.42-3.19	224.5	5,765.5	1,875.3	131.2	5,356.4	2,090.5
Rating 3A to 3E	3.19-100.00	150.6	319.5	203.7	165.6	379.8	215.8
Rating 4A	More than 90 days overdue	0.0	3.1	0.0	0.0	5.0	0.0
Unrated		77.7	90.9	3.4	217.6	71.0	0.7
Carrying amount		22,837.8	37,349.7	25,018.1	22,966.5	36,693.5	23,816.7
Impaired							
Carrying amount before specific loan loss allowance		0.0	271.3	10.5	0.0	313.4	33.5
of which rating 4B	Restructuring exposure	0.0	153.1	10.5	0.0	170.4	33.5
of which rating 4C	Exemption from interest	0.0	9.2	0.0	0.0	8.4	0.0
of which rating 4D	Insolvency	0.0	1.3	0.0	0.0	6.0	0.0
of which rating 4E	Compulsory winding-up	0.0	107.7	0.0	0.0	128.6	0.0
Unrated		0.0	0.0	0.0	0.0	0.0	0.0
Specific loan loss allowance		0.0	146.9	1.1	0.0	163.1	3.6
Carrying amount after specific loan loss allowance		0.0	124.4	9.4	0.0	150.3	29.9
Total		**22,837.8**	**37,474.1**	**25,027.5**	**22,966.5**	**36,843.8**	**23,846.6**

Of the non-impaired loans and advances to customers measured at amortized cost, €13.1 million was up to 90 days past due as at the balance sheet date (December 31, 2013: €11.2 million).

(30) Market risk

TOTAL POTENTIAL MARKET RISK	€ million	Dec. 31, 2013 € million
Interest-rate risk	**4.9**	9.5
Equity risk	**0.1**	0.3
Spread risk	**5.2**	4.9
Other market risk	**0.3**	0.2
Total (excluding correlation)	**10.5**	14.9

The potential market risk disclosed above is calculated with a parametric variance-covariance model on the basis of the value-at-risk method. This model has been approved by the regulators as an internal model. Taking into account historical price fluctuations and correlations, value-at-risk quantifies the maximum potential loss from future market fluctuations within a specified holding period and for a given probability (confidence level). The values presented in the above table are based on a confidence level of 95 percent and a holding period of one day. Other market risks primarily comprise volatility risk and currency risk.

(31) Liquidity risk

€ million	Carrying amount	Total	Gross outflows (not discounted) < 3 months	3 to 12 months	> 12 months
Deposits from banks	37,070.9	37,072.9	11,325.3	3,994.0	21,753.6
Amounts owed to other depositors	22,554.5	22,554.5	6,205.4	654.7	15,694.4
Debt certificates including bonds	21,238.7	21,238.7	637.0	2,613.7	17,988.0
Derivatives used for hedging (negative fair values)	1,633.5	1,633.5	0.6	25.4	1,607.5
Financial liabilities held for trading	7,004.0	7,004.0	1,041.8	598.5	5,363.7
of which derivatives	5,987.1	5,984.5	213.9	413.7	5,356.9
Subordinated capital	769.7	769.7	12.5	0.0	757.2
Other financial liabilities	505.3	505.3	505.3	0.0	0.0
Loan commitments	0.0	5,275.5	5,275.5	0.0	0.0
Total	**90,776.6**	**96,054.1**	**25,003.4**	**7,886.3**	**63,164.4**

Dec. 31, 2013 € million	Carrying amount	Total	Gross outflows (not discounted) < 3 months	3 to 12 months	> 12 months
Deposits from banks	35,973.2	35,982.2	10,936.6	4,377.5	20,668.1
Amounts owed to other depositors	21,911.4	21,911.4	6,200.1	467.1	15,244.2
Debt certificates including bonds	22,789.9	22,790.0	2,082.5	3,635.9	17,071.6
Derivatives used for hedging (negative fair values)	910.0	910.0	11.6	24.9	873.5
Financial liabilities held for trading	4,870.6	4,870.6	1,151.1	456.3	3,263.2
of which derivatives	3,865.0	3,865.0	349.7	270.4	3,244.9
Subordinated capital	646.3	646.3	42.9	12.2	591.2
Other financial liabilities	402.0	402.0	402.0	0.0	0.0
Loan commitments	0.0	5,570.4	5,570.4	0.0	0.0
Total	**87,503.4**	**93,082.9**	**26,397.2**	**8,973.9**	**57,711.8**

The figures are based on contractually agreed cash flows. The WGZ BANK Group enjoyed ample long-term liquidity at all times in 2014. Further information can be found in the risk report within the management report.

Balance sheet disclosures – ASSETS –

(32) Cash and cash equivalents

	€ million	Dec. 31, 2013 € million
Cash on hand	**1.6**	1.7
Balances with central banks	**248.2**	316.7
Total	**249.8**	318.4

(33) Loans and advances

	€ million	Dec. 31, 2013 € million
Loans and advances to banks		
Breakdown by residual maturity:		
Repayable on demand	**4,595.5**	3,480.0
Up to three months	**1,214.9**	1,338.7
Between three months and one year	**2,205.5**	2,374.8
Between one year and five years	**6,207.5**	6,938.6
More than five years	**8,614.4**	8,834.4
Total	**22,837.8**	22,966.5
of which attributable to:		
Affiliated banks	**15,596.1**	16,368.3
DZ BANK AG	**231.4**	134.4
Other long-term investees and investors	**105.5**	190.4
Associates	**56.8**	66.8
of which money market placements denominated in foreign currency	**1.0**	1.0
Loans and advances to customers		
Breakdown by residual maturity:		
Up to three months	**2,250.8**	2,594.3
Between three months and one year	**2,581.8**	2,258.8
Between one year and five years	**9,643.7**	9,920.2
More than five years	**23,116.5**	22,177.3
No fixed maturity	**28.2**	56.3
Total	**37,621.0**	37,006.9
of which attributable to:		
Other long-term investees and investors	**89.0**	86.9
Associates	**69.8**	74.6
Joint ventures	**0.0**	4.5
Subsidiaries	**0.0**	0.0
of which money market placements denominated in foreign currency	**0.0**	0.0

(34) Allowances for losses on loans and advances

Allowances for losses on loans and advances comprise specific loan loss allowances for loans and advances in the category 'loans and receivables' and portfolio loan loss allowances – these allowances being reported separately on the assets side of the balance sheet – as well as provisions for losses on loans and advances.

	€ million	Dec. 31, 2013 € million
Specific loan loss allowances		
Loans and advances to banks	**0.0**	0.0
Loans and advances to customers	**146.9**	163.1
Portfolio loan loss allowances	**29.6**	30.0
Total allowances for losses on loans and advances	**176.5**	193.1
Provisions for losses on loans and advances	**45.4**	21.4
Total	**221.9**	214.5

The changes in the specific and portfolio loan loss allowances in the year under review and in 2013 were as follows:

	Specific loan loss allowances € million	Portfolio loan loss allowances € million	**Total** **€ million**
Balance as at January 1, 2013	191.2	30.4	221.6
Utilizations	-27.1	0.0	-27.1
Reversals	-31.8	-5.8	-37.6
Unwinding of discount	-4.9	0.0	-4.9
Additions	35.7	5.4	41.1
Balance as at December 31, 2013/January 1, 2014	163.1	30.0	**193.1**
Utilizations	-14.2	0.0	**-14.2**
Reversals	-21.4	-1.1	**-22.5**
Unwinding of discount	-4.2	0.0	**-4.2**
Additions	23.6	0.7	**24.3**
Balance as at December 31, 2014	**146.9**	**29.6**	**176.5**

(35) Fair value changes of the hedged items in portfolio hedges of interest-rate risk

Fair value changes of the (asset) hedged items in portfolio hedges of interest-rate risk amounted to €496.6 million (December 31, 2013: €87.7 million). These changes resulted from changes in interest rates.

(36) Derivatives used for hedging (positive fair values)

	€ million	Dec. 31, 2013 € million
Positive fair values from micro fair value hedges	**16.7**	23.3
Positive fair values from portfolio fair value hedges	**699.5**	471.2
Total	**716.2**	494.5

(37) Financial assets held for trading

	€ million	Dec. 31, 2013 € million
Derivatives (positive fair values)		
Currency-linked contracts	**1,019.9**	424.7
Interest-linked contracts	**3,554.4**	2,311.2
Share-/index-linked contracts	**39.8**	90.1
Other contracts	**59.4**	48.9
	4,673.5	2,874.9
Bonds and other fixed-income securities		
Money market instruments from public-sector issuers	**0.0**	0.0
Money market instruments from other issuers	**16.8**	16.5
Bonds from public-sector issuers	**1,193.8**	1,288.6
Bonds from other issuers	**3,170.0**	2,926.4
	4,380.6	4,231.5
Shares and other variable-yield securities	**7.3**	4.9
Money market placements denominated in foreign currency	**807.3**	953.5
Promissory notes and registered bonds	**144.1**	133.7
Total	**10,012.8**	8,198.5

(38) Long-term equity investments and securities portfolio

	€ million	Dec. 31, 2013 € million
Bonds and other fixed-income securities	**20,646.9**	19,615.1
of which due after more than one year	**18,098.7**	16,935.6
Shares and other variable-yield securities	**3.6**	3.0
Investments	**1,024.3**	991.9
Paid-up shares in cooperatives	**5.2**	3.4
Investments in subsidiaries	**1.7**	1.7
Total	**21,681.7**	20,615.1

The following table shows the change in long-term equity investments and paid-up shares in cooperatives:

	Long-term equity investments and paid-up shares in cooperatives € million
Cost	
Balance as at Jan. 1, 2013	1,041.7
Additions	12.0
Disposals	-0.5
Balance as at Dec. 31, 2013	1,053.2
Additions	54.2
Disposals	-0.4
Balance as at Dec. 31, 2014	**1,107.0**
Impairment losses	
Balance as at Jan. 1, 2013	36.9
Additions	21.5
Disposals	-0.5
Balance as at Dec. 31, 2013	57.9
Additions	19.6
Disposals	0.0
Balance as at Dec. 31, 2014	**77.5**
Carrying amount as at Dec. 31, 2013	995.3
Carrying amount as at Dec. 31, 2014	**1,029.5**

(39) Companies accounted for using the equity method

As at the balance sheet date, the consolidated financial statements included, as they did in the previous year, investments in 13 associates in which significant influence could be exercised based on the voting rights held. Of these associates, six (December 31, 2013: six) were accounted for using the equity method. WGZ BANK's holding in DZ PRIVATBANK S.A., Luxembourg, is 19.04 percent. As a result of the arrangement agreed between the shareholders that consent should be required for all key corporate decisions, WGZ BANK can exercise significant influence over DZ PRIVATBANK S.A.

With the exception of DZ Holding GmbH & Co. KG, which has a reporting date of August 31, all the other companies accounted for using the equity method have a reporting date of December 31. No interim financial statements for the period to December 31 were required for DZ Holding GmbH & Co. KG because there were no material transactions in the last four months of 2014.

There are no relevant restrictions (stipulated by the Articles of Association, contracts, or regulatory requirements) that prevent cash and other assets from being transferred or prevent guarantees from being utilized. The companies only have continuing operations. The other associates are reported at amortized cost because together they are not material.

DZ Holding GmbH & Co. KG holds shares in DZ BANK AG, while the other two material long-term equity investments are also strategic investments within the cooperative financial network.

DZ PRIVATBANK S.A. particularly supports the primary banks with portfolio investments and investment advice in their retail business and fund business, whereas VR Equitypartner GmbH provides assistance in the form of equity and mezzanine capital in the corporate banking business.

The following tables show the equity-accounted companies in which WGZ BANK holds a stake. Financial data is shown separately for each material associate and in aggregate form for the other associates and joint ventures.

	DZ Holding GmbH & Co. KG, Neu-Isenburg	DZ PRIVAT-BANK S.A. subgroup, Strassen, Luxembourg[1]	VR Equity-partner GmbH, Frankfurt am Main	DZ Holding GmbH & Co. KG, Neu-Isenburg	DZ PRIVAT-BANK S.A. subgroup, Strassen, Luxembourg[1]	VR Equity-partner GmbH, Frankfurt am Main
			2014			2013
Shareholding (corresponding to share of voting rights)	36.4%	19.0%	22.0%	35.9%	19.0%	22.0%
			€ million			€ million
Dividends received	10.3	8.7	1.9	8.0	8.7	0.0
Current assets	0.5		24.4	0.4		41.1
of which: cash and cash equivalents	0.5		5.8	0.3		4.5
Non-current assets	1,553.2		325.0	1,307.4		326.6
Current liabilities	0.3		105.7	0.3		72.6
of which: current financial liabilities	0.1		104.9	0.1		71.7
Non-current liabilities	0.0		199.1	0.0		243.9
of which: non-current financial liabilities	0.0		199.1	0.0		243.5
Depreciation and amortization	0.0	-10.9	0.1	0.0	-9.1	0.1
Interest income	29.2	204.1	26.1	22.5	227.0	28.4
Interest expense	0.0	-51.4	8.2	0.0	-54.7	12.2
Income tax expense or income	-0.2	-9.3	0.0	-0.2	-12.9	0.3
Revenue	29.0	268.0	19.7	22.4	282.8	32.2
Profit/loss from continuing operations, net of tax	28.9	44.3	-2.5	22.2	75.5	-9.0
Other comprehensive income/loss	0.0	-0.8	17.8	0.0	4.3	0.0
Total comprehensive income/loss	28.9	43.6	15.3	22.2	79.7	-9.0
Proportion of equity	559.3	193.7	17.3	461.2	193.4	15.8
Goodwill	0.0	104.0	39.2	0.0	170.4	39.2
Carrying amount	559.3	297.7	56.5	461.2	363.7	55.0

[1] Assets of €15,317.6 million (Dec. 31, 2013: €14,785.1 million) and liabilities of €14,302.1 million (Dec. 31, 2013: €13,769.1 million).

As at the balance sheet date, the consolidated financial statements also included one (December 31, 2013: one) joint venture accounted for using the equity method, as had also been the case in 2013. The following aggregated amounts were attributable to the WGZ Group based on the shareholdings in these equity-accounted associates and the equity-accounted joint venture:

	Other associates	Other joint ventures **2014** **€ million**	Other associates	Other joint ventures 2013 € million
Carrying amount	59.7	6.8	62.2	6.7
Profit/loss from continuing operations, net of tax	-2.5	0.1	-2.6	-0.3
Other comprehensive income/loss	0.0	0.0	0.0	0.0
Total comprehensive income/loss	-2.5	0.1	-2.6	-0.3

Contingent liabilities to associates amounted to €45.4 million.

The changes in investments in companies accounted for using the equity method were as follows:

	Companies accounted for using the equity method € million
Cost	
Balance as at Jan. 1, 2013	1,009.6
Additions	7.1
Disposals	-4.8
Balance as at Dec. 31, 2013	1,011.9
Additions	103.4
Disposals	-5.9
Balance as at Dec. 31, 2014	**1,109.4**
Impairment losses	
Balance as at Jan. 1, 2013	0.0
Additions	63.0
Disposals	0.0
Balance as at Dec. 31, 2013	63.0
Additions	66.4
Disposals	0.0
Balance as at Dec. 31, 2014	**129.4**
Carrying amount as at Dec. 31, 2013	948.9
Carrying amount as at Dec. 31, 2014	980.0

There were no quoted market prices for any of the equity-accounted companies.

(40) Intangible assets, property, plant and equipment, and investment property

	Purchased intangible assets € million	Internally generated intangible assets € million	Land and buildings € million	Office furniture and equipment € million	Investment property € million
Cost					
Balance as at Jan. 1, 2013	51.5	9.2	122.1	50.8	0.0
Additions	5.9	0.0	0.0	2.0	0.0
Disposals	-1.3	0.0	0.0	-9.8	0.0
Balance as at Dec. 31, 2013	56.1	9.2	122.1	43.0	0.0
Additions	11.2	0.0	0.0	2.9	0.0
Disposals	-9.7	0.0	-0.3	-8.8	0.0
Balance as at Dec. 31, 2014	**57.6**	**9.2**	**121.8**	**37.1**	**0.0**
Amortization, depreciation, and impairment losses					
Balance as at Jan. 1, 2013	40.9	8.7	61.9	44.8	0.0
Additions	4.6	0.5	2.9	3.2	0.0
Disposals	-1.3	0.0	0.0	-9.5	0.0
Balance as at Dec. 31, 2013	44.2	9.2	64.8	38.5	0.0
Additions	4.4	0.0	2.8	3.1	0.0
Disposals	-9.6	0.0	-0.2	-8.8	0.0
Balance as at Dec. 31, 2014	**39.0**	**9.2**	**67.4**	**32.8**	**0.0**
Carrying amount as at Dec. 31, 2013	11.9	0.0	57.3	4.5	0.0
Carrying amount as at Dec. 31, 2014	**18.6**	**0.0**	**54.4**	**4.3**	**0.0**

The carrying amount of intangible assets with an indefinite useful life was unchanged year on year at €1.1 million.

(41) Income tax assets

	€ million	Dec. 31, 2013 € million
Current income tax assets	**39.7**	68.9
Deferred tax assets	**279.2**	289.7
of which relating to temporary differences	**279.2**	285.8
of which relating to tax loss carryforwards	**0.0**	3.9
Total	**318.9**	358.6

Following an impairment test conducted on deferred tax assets, the full amount of deferred tax assets that would otherwise be recognized in respect of temporary differences had been reduced by an amount of €42 million in 2013. In 2014, the full amount of deferred tax assets was recoverable. The impairment test conducted on deferred tax assets is based on the approved IFRS-based group budget for 2015-2017, extrapolated for an additional two years. The IFRS net operating profit in the budget is adjusted to reflect section 8b German Corporation Tax Act (KStG) and non-deductible operating expenses.

As at the balance sheet date, the carrying amount of deferred tax assets recognized in other comprehensive income was unchanged year on year at €49.6 million. Deferred tax assets were recognized in connection with temporary differences in the following balance sheet items and in respect of as yet unused tax loss carryforwards:

	€ million	Dec. 31, 2013 € million
Loans and advances to banks and customers	**0.0**	39.9
Derivatives used for hedging (fair values)	**287.6**	130.3
Financial assets and financial liabilities held for trading	**495.1**	465.1
Deposits from banks and amounts owed to other depositors	**341.8**	134.8
Debt certificates including bonds	**49.1**	38.9
Provisions	**34.8**	22.2
Other balance sheet items	**44.2**	64.4
	1,252.6	895.6
Tax loss carryforwards	**0.0**	3.9
Adjustment of deferred tax assets carrying amount	**0.0**	-42.0
Offsetting with deferred tax liabilities	**-973.4**	-567.8
Total	**279.2**	289.7

(42) Other assets

	€ million	Dec. 31, 2013 € million
Inventories	0.0	0.1
Entitlements to reinsurance cover for pension schemes	14.5	12.7
Checks, bonds due, coupons, dividend certificates, and other collection papers received	0.5	0.4
Other	42.5	36.8
Total	**57.5**	50.0

Other assets are largely of a short-term nature.

Balance sheet disclosures – EQUITY AND LIABILITIES –

(43) Deposits from banks, amounts owed to other depositors, debt instruments including bonds

	€ million	Dec. 31, 2013 € million
Deposits from banks		
Breakdown by residual maturity:		
Repayable on demand	**6,706.0**	5,916.7
Up to three months	**5,371.7**	5,581.3
Between three months and one year	**3,868.9**	4,310.0
Between one year and five years	**9,066.1**	8,937.3
More than five years	**12,058.2**	11,227.9
Total	**37,070.9**	35,973.2
of which attributable to:		
Affiliated banks	**10,342.1**	10,387.8
DZ BANK AG	**1,144.2**	975.6
Other long-term investees and investors	**1,521.7**	983.2
Associates	**50.8**	45.3
of which Pfandbriefe	**1,752.9**	1,754.1
of which money market deposits denominated in foreign currency	**37.7**	31.0
Amounts owed to other depositors		
Breakdown by residual maturity:		
Repayable on demand	**3,157.6**	2,861.5
Up to three months	**3,069.3**	3,334.4
Between three months and one year	**621.9**	468.3
Between one year and five years	**3,924.0**	3,184.8
More than five years	**11,781.7**	12,062.4
Total	**22,554.5**	21,911.4
of which attributable to:		
Other long-term investees and investors	**60.3**	135.0
Associates	**6.5**	6.5
Joint ventures	**1.0**	1.0
Subsidiaries	**0.1**	0.0
of which Pfandbriefe	**14,175.4**	13,875.8
of which money market deposits denominated in foreign currency	**10.1**	12.0
Debt certificates including bonds		
of which Pfandbriefe	**9,935.5**	10,867.9
a) Bonds issued	**21,238.7**	22,789.9
of which due after more than one year	**18,125.8**	17,252.0
b) Other debt certificates	**0.0**	0.0
of which due after more than one year	**0.0**	0.0
Total	**21,238.7**	22,789.9

(44) Fair value changes of the hedged items in portfolio hedges of interest-rate risk

Fair value changes of the (liability) hedged items in portfolio hedges of interest-rate risk amounted to €272 million (December 31, 2013: €215.6 million). These changes resulted from changes in interest rates.

(45) Derivatives used for hedging (negative fair values)

	€ million	Dec. 31, 2013 € million
Negative fair values from micro fair value hedges	**3.0**	10.4
Negative fair values from portfolio fair value hedges	**1,630.5**	899.6
Total	**1,633.5**	910.0

(46) Financial liabilities held for trading

	€ million	Dec. 31, 2013 € million
Derivatives (negative fair values)		
Currency-linked contracts	**947.7**	481.4
Interest-linked contracts	**4,970.3**	3,307.3
Share-/index-linked contracts	**49.2**	51.7
Other contracts	**19.9**	24.6
	5,987.1	3,865.0
Delivery commitments arising from short sales of securities	**6.0**	0.0
Money market deposits denominated in foreign currency	**1,010.9**	1,005.6
Total	**7,004.0**	4,870.6

Owing to the netting of the negative fair values of derivatives processed via a central clearing house with receivables arising on variation margins, the volume reported on the balance sheet as at December 31, 2014 was reduced by €472.9 million.

(47) Provisions

Dec. 31, 2013 € million	Opening balance	Utiliza-tions	Reversals	Deconsol-idation	Additions	Unwinding of discounts	Closing balance
Provisions for pensions and other post-employment benefits	**172.0**	**-9.4**	**0.0**	**-0.8**	**19.0**	**5.7**	**186.5**
Other provisions	**58.8**	**-33.9**	**-5.3**	**-16.2**	**53.4**	**1.6**	**58.4**
Other personnel provisions	21.0	-15.3	-2.2	-0.2	15.8	0.2	19.3
Provisions for real estate development	16.4	-15.8	-0.6	-15.8	15.8	0.0	-0.0
Provisions for losses on loans and advances	17.0	0.0	-1.9	0.0	4.9	1.4	21.4
Provisions for the costs of litigation and legal redress	0.9	0.0	-0.2	-0.1	4.8	0.0	5.4
Residual provisions	3.5	-2.8	-0.4	-0.1	12.1	0.0	12.3
Total	**230.8**	**-43.3**	**-5.3**	**-17.0**	**72.4**	**7.3**	**244.9**

Dec. 31, 2014 € million	Opening balance	Utiliza-tions	Reversals	Deconsol-idation	Additions	Unwinding of discounts	Closing balance
Provisions for pensions and other post-employment benefits[1)]	**186.5**	**-9.1**	**0.0**	**0.0**	**50.2**	**5.7**	**233.3**
Other provisions	**58.4**	**-25.2**	**-6.8**	**0.0**	**45.6**	**1.5**	**73.5**
Other personnel provisions	19.3	-14.4	-0.7	0.0	18.1	0.1	22.4
Provisions for losses on loans and advances	21.4	0.0	-1.8	0.0	24.4	1.4	45.4
Provisions for the costs of litigation and legal redress	5.4	-0.1	-4.1	0.0	1.0	0.0	2.2
Residual provisions	12.3	-10.7	-0.2	0.0	2.1	0.0	3.5
Total	**244.9**	**-34.3**	**-6.8**	**0.0**	**95.8**	**7.2**	**306.8**

[1)] Expenses of €42.5 million were recognized in other comprehensive income (2013: €11.6 million).

The provisions for pensions and other post-employment benefits primarily comprise provisions to cover the defined benefit obligation in connection with the payment of occupational retirement pensions based on direct pension commitments. The nature and amount of the retirement pension to be paid to the beneficiaries is determined by the relevant pension rules (derived from a number of sources, including company agreement, pension provision regulations). These rules largely depend on the start date of the employment contract. The amount of pension benefits paid to employees is based on remuneration over the entire period of service.

Collectivist schemes

Legal framework

The entitlements of WGZ BANK Group employees to an occupational pension have been granted on the basis of a collectivist scheme set forth in company agreements. Some of the entitlements are direct pension entitlements and some are relief fund entitlements. The obligation in respect of the direct pension entitlements amounted to €200 million (2013: €172.2 million) and the obligation in respect of the relief fund amounted to €74.6 million (2013: €58.6 million).

Schemes open to newcomers

Under the employer-funded scheme (BV2002), which is currently open to newcomers, WGZ BANK makes capital-formation payments to its employees. The entitlement is structured as a defined contribution entitlement with accessory reinsurance. The amount of the benefit is therefore defined on the basis of life insurance contracts. This type of scheme with defined contributions and accessory reinsurance also allows employees to fund their pension provision by way of deferral of compensation. The resulting obligation amounted to €14.6 million (2013: €12.8 million).

Closed schemes

There are various older pension schemes in existence that, as far as currently active employees are concerned, have been fully harmonized with a defined contribution scheme.

The entitlements of active employees consist of defined contribution entitlements (cash balance plan) with final-salary-linked capital components from the harmonization of earlier final-salary-dependent pension entitlements. The benefit is paid out in the form of a lump sum but can also be paid in installments or in the form of a lifelong pension.

Besides the cash balance plan, some of the people with vested pension entitlements who have left the bank still have vested entitlements to a lifelong pension.

Most of these beneficiaries draw a lifelong pension, which, according to section 16 (1) German Occupational Pensions Act (BetrAVG), must be checked to ascertain whether it requires adjustment. In the past, this effectively meant that pensions increased in line with consumer prices. Former employees who are entitled to capital-formation benefits draw these benefits, partly in the form of a lump sum or installments that rise by 6 percent per year, and partly in the form of a lifelong pension.

Funding

The obligations in respect of BV2002 are funded by means of reinsurance policies, into which WGZ BANK pays the contribution entitlements. The pension benefits in respect of legacy entitlements are funded partly internally and partly through WGZ BANK's relief fund. Whereas the relief fund has now taken over the bulk of beneficiaries' retirement pension entitlements, WGZ BANK funds the benefits paid in respect of death and invalidity directly.

Risk aspects

WGZ BANK believes it has largely eliminated funding risk, accounting risk, adjustment risk, and longevity risk in the BV2002 by paying the contribution entitlements into reinsurance policies.

As far as legacy entitlements are concerned, the bank bears the adjustment risk arising on the lifelong benefits and on the salary-linked components of the vested entitlements to capital-formation benefits. Moreover, there are longevity risks arising on lifelong benefits, although these only arise for the vested entitlements to capital-formation benefits which the bank pays in the form of lifelong pensions.

WGZ BANK has reduced the accounting risk and funding risk through its contributions to the relief fund and the resulting cover funds held in the relief fund. Where benefits are direct pension entitlements or the relief fund has a cover shortfall, the obligations are covered by provisions.

Individual entitlements

The members of the Board of Managing Directors have final-salary-related individual entitlements to lifelong benefits, which are funded through a pension fund and a reinsured support fund. The members of the Board of Managing Directors appointed most recently were granted defined contribution cash balance plan entitlements governed by individual agreements. The former members of the Board of Managing Directors either are already receiving lifelong benefits or have vested entitlements to such pensions.

The defined benefit obligation is determined annually by independent actuaries using the projected unit credit method.

The following actuarial assumptions were used in the calculation of the obligation:

	Dec. 31, 2014 (%)	Dec. 31, 2013 (%)
Discount rate (%)	**1.80**	3.14
Expected increase in pensionable remuneration (%)	**3.00**	3.00
Expected increase in pensions (%)	**2.00**	2.00

The imputed retirement age, which is 65 in most cases, is factored into the calculation individually for each obligation. The valuation of defined benefit obligations uses the 2005 G mortality tables published by Professor Klaus Heubeck.

The interest rate for discounting is determined in accordance with the RATE:Link methodology. The data basis for the approach is the AA-rated corporate bond universe for the eurozone from Bloomberg. After standardization by means of the 'par bond' approach, the individual yields to maturity are grouped together in nine clusters. A cubic spline is then given as the best smooth approximation based on these nine clusters. An interest-rate curve is then derived from the yield curve using the bootstrapping method, on the basis of which the discount rate can be determined for a sample cash flow. The sample cash flow corresponds to a typical volume of defined benefit obligations, the duration of which is the same as the duration of the measured volume.

Changes to actuarial assumptions affected the volume of defined benefit obligations in the WGZ BANK Group as follows:

DEFINED BENEFIT OBLIGATIONS	Dec. 31, 2014 (%)	Change (%)	Change (€ million)	Change (%)
Discount rate	**1.80**	+1.00	-31.0	-10.4
Discount rate	**1.80**	-1.00	37.2	12.4
Expected increase in pensionable remuneration	**3.00**	+0.50	1.1	0.4
Expected increase in pensionable remuneration	**3.00**	-0.50	-1.0	-0.3
Expected increase in pensions	**2.00**	+0.25	3.6	1.2
Expected increase in pensions	**2.00**	-0.25	-3.4	-1.1
Increase in life expectancy[1]			5.2	1.7
Reduction in life expectancy[1]			-5.1	-1.7
Increase in the age of retirement by 1 year			2.0	0.7
Decrease in the age of retirement by 1 year			-3.1	-1.0

[1] Simulation with a one-year change in the age of the beneficiary.

In terms of sensitivity, a change in the retirement age results in countervailing effects for individual plans that largely offset one another.

As at the balance sheet date, the present value of the defined benefit obligation, the fair value of the plan assets, and experience adjustments relating to the plan assets and liabilities were as follows:

	2014 € million	2013 € million	2012 € million	2011 € million	2010 € million
Present value of the funded defined benefit obligation	99.4	78.5	70.5	51.9	53.8
Fair value of plan assets	-66.0	-64.2	-62.4	-59.8	-60.7
Deficit (+)/surplus (-)	**33.4**	14.3	8.1	-7.9	-6.9
Present value of the unfunded defined benefit obligation	**199.9**	172.2	163.9	131.8	122.3
Experience adjustments relating to plan liabilities	2.1	3.6	-0.6	1.6	1.7

The following table shows the change in plan assets over the year under review and the breakdown of these assets as at the balance sheet date:

CHANGES IN PLAN ASSETS AT FAIR VALUE	**€ million**	Dec. 31, 2013 € million
Brought forward at January 1	64.2	62.4
Return on plan assets	2.0	2.1
Loss recognized in other comprehensive income	-0.1	-1.3
Employer contributions	1.3	2.1
Pensions paid	-1.4	-1.1
Total	**66.0**	64.2
Breakdown of plan assets[1]		
WGZ BANK Unterstützungskasse e.V.		
Public-sector bonds[2]	7.4	11.5
Bearer bonds issued by the WGZ BANK Group	21.3	25.3
Short-term loans and advances to WGZ BANK	17.9	9.5
R+V Pensionsfonds AG mathematical reserve	9.1	9.0
Versorgungskasse genossenschaftlich orientierter Unternehmen e.V. (VGU) mathematical reserve	10.3	8.9
Total	**66.0**	64.2

[1] Transactions with entities in the group are on an arm's-length basis. [2] Traded in an active market.

No employer contributions are budgeted for 2015.

CHANGE IN PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	€ million	Dec. 31, 2013 € million
Brought forward at January 1	250.6	234.4
Current service cost	7.7	7.2
Interest cost	7.7	7.8
Actuarial losses	42.5	10.4
of which resulting from experience adjustments	2.1	3.6
of which resulting from changes to financial assumptions	40.4	6.8
Pensions paid	-9.2	-8.4
Disposal due to deconsolidation	0.0	-0.8
Balance as at December 31	**299.3**	250.6

Given the level of plan assets, the pension provisions recognized on the balance sheet are lower than the present value of the defined benefit obligation:

FUNDING POSITION	€ million	Dec. 31, 2013 € million
Present value of the unfunded defined benefit obligation	199.9	172.2
Present value of the funded defined benefit obligation	99.4	78.5
External plan assets	-66.0	-64.2
Total	**233.3**	186.5

The expense reported in the income statement arising from the funding of the pension provision and the income and expenses recognized in other comprehensive income can be broken down as follows:

	€ million	Dec. 31, 2013 € million
Expenses recognized on the income statement	**13.4**	**12.9**
Current service cost	7.7	7.2
Interest cost	5.7	5.7
Income and expenses recognized in other comprehensive income	**42.5**	**11.6**
Return on plan assets (excluding interest income)	0.1	1.2
Actuarial losses	42.4	10.4
Total	**55.9**	24.5

The current service cost is recognized as pension and other post-employment benefit expenses within administrative expenses and the interest expense is recognized within net interest income. Actuarial gains and losses and the expense related to the limitation of the plan assets are reported within retained earnings, taking account of deferred taxes, as remeasurements of the net liability in connection with defined benefit plans.

The weighted average duration of pension obligations in the WGZ BANK Group is 11.3 years. The expected future pension payments amount to €9.1 million for both 2015 and 2016.

Of the other provisions, an amount of €68.9 million (December 31, 2013: €43.9 million) had a maturity of less than one year.

(48) Tax liabilities

	€ million	Dec. 31, 2013 € million
Current income tax liabilities	74.7	50.8
Deferred tax liabilities	0.0	0.0
Total	**74.7**	50.8

Deferred tax liabilities were recognized in connection with the following balance sheet items:

	€ million	Dec. 31, 2013 € million
Loans and advances to banks and customers	**443.5**	245.7
Financial assets and financial liabilities held for trading	**0.0**	139.5
Long-term equity investments and securities portfolio	**428.9**	78.8
Deposits from banks and amounts owed to other depositors	**0.0**	65.0
Other balance sheet items	**101.0**	38.8
	973.4	567.8
Offsetting with deferred tax assets	**-973.4**	-567.8
Total	**0.0**	0.0

(49) Other liabilities

The other liabilities of €81.1 million (December 31, 2013: €39.9 million) comprised interest liabilities in connection with subordinated capital, obligations related to invoices not yet received, deductions from salaries to be paid over to the relevant authorities, and accrued expenses. They also contained liabilities in connection with the planned disposal of Volksbank Romania S.A. Other liabilities are largely of a short-term nature.

(50) Subordinated capital

	€ million	Dec. 31, 2013 € million
Subordinated liabilities	**737.2**	644.1
of which due after more than one year	726.8	634.1
Profit-sharing rights	**2.1**	2.2
of which due after more than one year	0.0	0.0
Subordinated convertible bond	**30.4**	0.0
of which due after more than one year	24.1	0.0
Total	**769.7**	646.3

As at December 31, 2014, the subordinated liabilities comprised 72 registered promissory notes and four bearer bonds. No promissory notes were issued during the year under review; one bearer bond was issued. The total amount of subordinated liabilities includes one bond, the value of which exceeds 10 percent of the total amount. This bond is a subordinated bearer bond with a value of €95.2 million and a coupon of 2.3 percent, and will mature in 2021. Subordinated capital is only repaid after amounts due to all other creditors have first been settled. Lender rights to terminate the loans are excluded.

As at December 31, 2014, the profit-sharing rights comprised two registered profit-participation certificates. WGZ BANK did not issue any new profit-sharing rights in the year under review.

The leveraged portion (€30.4 million) of the convertible bond that was issued in 2014 is also recognized under subordinated capital.

(51) Equity

As permitted by the authorization from the Annual General Meeting granted on June 22, 2010 and in accordance with article 6 of the Articles of Association of WGZ BANK, the Board of Managing Directors of WGZ BANK decided in February 2014 to increase the share capital of €649,400,000 by up to €64,940,000 to up to €714,340,000 by issuing up to 649,400 new registered no-par-value shares subject to transfer restrictions, each with an imputed share of the capital of WGZ BANK amounting to a nominal €100.00 in return for cash contributions. The statutory subscription right was granted in the ratio 10:1. The Supervisory Board approved this increase in the share capital, which used part of the authorized capital of €200,000,000. Dividends are payable on the new shares from January 1, 2013.

As all of the new shares have been subscribed, WGZ BANK's subscribed capital at the balance sheet date comprised share capital of €714,340,000.00 (December 31, 2013: €649,400,000.00). The fully paid-up share capital is divided into 7,143,400 (December 31, 2013: 6,494,000) registered no-par-value shares (subject to transfer restrictions), each with an imputed share of the capital amounting to €100.00. The capital reserves grew by €227,290,000.00 as a result of the capital increase.

At the Annual General Meeting of WGZ BANK on June 24, 2014, the existing authorization to increase capital in return for capital contributions was cancelled and the Board of Managing Directors was authorized, subject to the approval of the Supervisory Board, to increase the share capital of WGZ BANK until June 24, 2019 on one or more occasions by a total of up to €200,000,000.00 by issuing new shares in return for capital contributions.

The Board of Managing Directors was also authorized until June 24, 2015 to issue a convertible bond with bearer bonds of up to €160,726,500 on one occasion. In order to fulfill the related conversion rights and/or conversion obligations, the Annual General Meeting decided, at the suggestion of the Board of Managing Directors and Supervisory Board, to increase the share capital by up to €35,717,000.00 on a conditional basis by issuing up to 357,170 new, registered no-par-value shares. Article 6 of the Articles of Association of WGZ BANK was amended to reflect the resolutions on authorized capital and conditional capital.

The authorization was exercised in December 2014. The subordinated convertible bond has a coupon of 5.0 percent and will mature on December 3, 2021. The issuer has a conversion right from the sixth year. The convertible bond is accounted for as a compound financial instrument and was therefore recognized separately under equity with a value of €97.6 million and under subordinated capital with a value of €30.4 million.

In the year under review, WGZ BANK paid from its reported distributable profit a standard dividend of €5.00 per share and a bonus dividend of €1.00 per share in respect of all 7,143,400 shares. This amounted to a total distribution of €42,860,400.00. The total stribution in 2013 was €32,470,000.00 (standard dividend of €5.00 in respect of 6,494,000 shares). For 2014, the Board of Managing Directors and the Supervisory Board propose to the Annual General Meeting that WGZ BANK's reported distributable profit be appropriated to pay a standard dividend of €5.00 per share and a bonus dividend of €2.00 per share. That amounts to a total of €50,003,800.00.

Income statement disclosures

(52) Net interest income

	€ million	2013 € million
Interest income from		
lending and money market business	**1,707.1**	1,834.4
fixed-income securities and bonds	**429.0**	484.2
unwinding of discount on provisions/allowances for losses on loans and advances	**2.8**	3.5
	2,138.9	2,322.1
Current income from		
shares and other variable-yield securities	**0.0**	0.0
long-term equity investments and paid-up shares in cooperatives	**81.0**	67.6
investments in subsidiaries	**1.1**	0.0
	82.1	67.6
Total interest income	**2,221.0**	2,389.7
Interest expense from		
lending and money market business	**639.6**	647.8
fixed-income securities and bonds	**551.5**	693.7
Pfandbriefe	**515.6**	579.9
Total interest expense	**1,706.7**	1,921.4
Total	**514.3**	468.3

(53) Allowances for losses on loans and advances

	€ million	2013 € million
Additions to specific loan loss allowances	**-23.6**	-35.7
Reversals of specific loan loss allowances	**21.4**	31.8
Additions to portfolio loan loss allowances	**-0.7**	-5.4
Reversals of portfolio loan loss allowances	**1.1**	5.8
Additions to provisions for losses on loans and advances	**-24.4**	-4.9
Reversals of provisions for losses on loans and advances	**1.8**	1.9
Direct impairment losses on loans and advances	**-0.2**	-3.7
Receipts from loans and advances previously impaired	**1.5**	2.1
Total	**-23.1**	-8.1

(54) Net fee and commission income

	€ million	2013 € million
Net fee and commission income from securities business	**19.7**	17.1
Net fee and commission income from payments processing	**46.1**	42.6
Net fee and commission income from loans and advances	**-13.3**	-10.5
Other net fee and commission income	**16.3**	18.2
Total	**68.8**	67.4

(55) Gains and losses arising on hedging transactions

	€ million	2013 € million
Change in the fair value of		
hedging instruments in micro hedges	**-8.7**	2.2
hedged items in micro hedges	**8.6**	-5.2
hedging instruments in portfolio hedges	**-424.6**	219.1
hedged items in portfolio hedges	**400.1**	-252.0
Total	**-24.6**	-35.9

(56) Gains and losses on trading activities

	€ million	2013 € million
Gains and losses on trading activities in derivatives	**-837.3**	364.5
Gains and losses on trading activities in bonds and other fixed-income securities	**113.4**	28.8
Gains and losses on trading activities in shares and other variable-yield securities	**1.1**	6.0
Gains and losses on trading activities in promissory notes	**3.7**	4.8
Gains and losses on exchange differences	**-116.6**	29.2
Money market business denominated in foreign currency	**3.4**	0.0
Fair value gains and losses on financial instruments voluntarily measured at fair value	**1,044.2**	-281.3
Total	**211.9**	152.0

As a result of the interest-rate situation, there was a sharp decline in gains and losses on trading activities in 2014 compared with 2013, whereas the gains and losses on financial instruments voluntarily measured at fair value improved significantly for the same reason. Of the fair value gains and losses on financial instruments voluntarily measured at fair value, gains of €32.3 million (2013: gains of €48.2 million) and cumulative losses of €20.7 million (2013: losses of €53.0 million) were attributable to the change in the credit risk associated with loans and receivables, and losses of €18.1 million (2013: losses of €284.5 million) and cumulative losses of €249.6 million (2013: losses of €231.5 million) were attributable to the change in credit risk in connection with financial liabilities. In the case of loans and receivables voluntarily measured at fair value, there was a total credit risk of €9,523.4 million (2013: €9,399.6 million) not mitigated by credit derivatives. The change in the credit risk for loans and receivables was derived from the amount allocated to each individual rating class as at the balance sheet date. The change in the credit risk for financial liabilities was calculated on the basis of the rating-related changes in spreads that occurred during the period under review. The change in respect of Pfandbrief issues was determined directly from the WGZ BANK Group's own funding curve.

(57) Gains and losses on investments

	€ million	2013 € million
Fair value gains and losses on long-term equity investments	**-19.5**	-21.5
Gains and losses on the disposal of long-term equity investments and investments in subsidiaries	**1.0**	0.2
Fair value gains and losses on associates	**-66.4**	-63.0
Gains and losses on the disposal of associates	**0.0**	0.0
Fair value gains and losses on investment property	**0.0**	0.0
Fair value gains and losses on non-current assets and disposal groups classified as held for sale	**0.0**	0.0
Gains and losses on the disposal of available-for-sale securities	**0.0**	7.4
Fair value gains and losses on available-for-sale securities	**-0.9**	0.5
Other gains and losses on investments	**-46.8**	-10.2
Total	**-132.6**	-86.6

Gains and losses on investments included impairment losses in respect of the long-term equity investment in VB Romania of €19.5 million and in respect of the associate DZ PRIVATBANK of €66.4 million. Other gains and losses on investments included expenses resulting from the repurchase of liabilities of €55.4 million (2013: €37.1 million). The sale of promissory notes and securities held as assets generated income of €8.6 million (2013: €31.8 million).

(58) Profit/loss from companies accounted for using the equity method

Profit/loss from companies accounted for using the equity method comprises the pro rata net profit/loss from such investments, which in 2014 amounted to €16.6 million (2013: €16.5 million).

(59) Administrative expenses

	€ million	2013 € million
Staff expenses	**151.3**	142.6
of which wages and salaries	**126.1**	119.5
of which social security, post-employment, and other employee benefit expenses	**25.2**	23.1
Other administrative expenses	**134.5**	130.5
Depreciation and amortization expense	**10.3**	11.2
of which depreciation expense on property, plant and equipment	**5.9**	6.1
of which amortization expense on intangible assets	**4.4**	5.1
Total	**296.1**	284.3

(60) Other net operating income

	€ million	2013 € million
Income		
Revenue from non-banking subsidiaries	**0.0**	23.2
Reversal of provisions	**5.0**	3.4
Other income	**10.2**	12.8
	15.2	39.4
Expenses		
Acquisition of land and development costs	**0.0**	18.7
Other expenses	**42.5**	3.9
	42.5	22.6
Total	**-27.3**	16.8

Of the other expenses, €36.2 million related to a subsidy for VBI Beteiligungs GmbH in connection with the planned disposal of Volksbank Romania S.A.

(61) Taxes

		2013
	€ million	€ million
Current income tax	**62.2**	63.0
of which relating to prior years	**-11.7**	-10.4
Deferred taxes	**10.5**	15.8
Income taxes	**72.7**	78.8

Current taxes for the year under review include corporation tax, the solidarity surcharge, trade tax, and income tax incurred outside Germany. The tax rate in Ireland was unchanged year on year at 12.5 percent.

Deferred taxes were recognized in 2014 in connection with a number of items, as follows: deferred tax asset of €48.5 million (2013: deferred tax asset of €19.2 million) for temporary differences or the reversal thereof in relation to the carrying amounts of assets and liabilities, deferred tax asset of €3.9 million (2013: deferred tax asset of €3.9 million) in relation to tax loss carryforwards, deferred tax asset of €0.1 million (2013: deferred tax asset of €0.0 million) as a result of changes in tax rates, and a deferred tax asset adjustment of minus €42 million (2013: minus €7.3 million). The tax rate of 31.35 percent (2013: 31.36 percent) applied in the calculation of deferred taxes in the year under review comprised a corporation tax rate of 15 percent (the rate that will apply when the temporary differences reverse), the solidarity surcharge of 5.5 percent of the corporation tax, and the average trade tax rate of 15.52 percent (2013: 15.53 percent). The current tax rate for the year was 31.35 percent (2013: 31.36 percent).

A net deferred tax asset of €0.3 million was recognized in other comprehensive income (2013: net deferred tax liability of €10.1 million). The tax effects relate to the following components:

		€ million			2013[1] € million	
	Amount before taxes	Tax expense/ income	Amount after taxes	Amount before taxes	Tax expense/ income	Amount after taxes
Remeasurement of the net liability in connection with defined benefit plans	-42.5	13.3	-29.2	-11.6	3.6	-8.0
Available-for-sale financial instruments	51.7	-13.3	38.4	46.1	-13.4	32.7
Proportion accounted for by income and expenses with associates recognized in other comprehensive income	3.4	0.3	3.7	1.6	-0.3	1.3
Other comprehensive income/loss for the year	**12.6**	**0.3**	**12.9**	36.1	-10.1	26.0

TAX RECONCILIATION	€ million	2013 € million	Change (%)
Profit/loss before taxes	**307.0**	306.0	0.3
Tax rate (%)	**31.35**	31.36	
Expected income taxes	**96.2**	96.0	0.2
Reasons for difference:			
Impact from tax-exempt income	**-26.6**	-3.5	> 100.0
Tax effects from prior years	**-12.3**	-10.4	18.3
Changes in tax rates	**0.1**	0.0	****
Distribution-related tax effects	**-0.8**	-0.6	33.3
Different tax rates outside Germany	**-3.8**	-4.4	-13.6
Non-deductible expenses	**2.8**	3.6	-22.2
Impact from permanent differences	**59.9**	2.5	> 100.0
Adjustment of deferred tax assets carrying amount	**-42.0**	-7.3	> 100.0
Other differences	**-0.8**	2.9	> 100.0
Income taxes	**72.7**	78.8	-7.7

Income tax payments of €8.8 million were made to German tax authorities and €0.3 million to Irish tax authorities.

The other taxes of €0.9 million (2013: €0.1 million) arose largely in connection with value added tax, payroll tax, and land tax.

Statement of cash flows disclosures

This statement of cash flows satisfies the requirements of IAS 7. It shows the breakdown and changes in cash and cash equivalents for the year under review, the items being classified into operating activities, investing activities, and financing activities.

Cash flows from operating activities comprise cash inflows and outflows in connection with loans and advances to banks and customers as well as those related to securities and other assets unless they form part of investing activities. In addition, inflows and outflows in connection with deposits from banks, amounts owed to other depositors, debt certificates including bonds, and other liabilities form part of cash flows from operating activities. Interest, dividends received, and income tax payments also fall within this category.

Cash flows from investing activities show the cash transactions in connection with property, plant and equipment and investments. Any changes in the scope of consolidation with an impact on cash are also reported in this category.

Cash flows from financing activities comprise the proceeds from capital increases and any receipts or payments arising from changes in subordinated capital. Cash outflows resulting from dividend payments are also shown in this category.

The reported balance of cash and cash equivalents reflects the cash and cash equivalents balance sheet item, comprising cash on hand and balances with central banks.

Segment information

(62) Segment disclosures

The segment information meets the requirements of IFRS 8. It is taken from the internal management information system, which forms the basis for strategic management of the bank and group.

The segments are based on the WGZ BANK Group's corporate strategy, which targets the following groups of customers: member banks, corporate customers, capital market partners, and real estate customers, the latter being a particular focus of WL BANK. The segment breakdown is also determined by the products and services offered to each of the customer groups.

The operating segments in the segment information are defined as follows:

- The member banks segment comprises the entire business with member banks, loans to customers of the member banks with guarantees from these banks, and business with high-net-worth private clients brokered by the member banks.
- The corporate customer segment comprises business with SME corporate customers acquired either directly or via the member banks and also includes the commercial real estate business.
- The capital market partners & trading segment includes the interbank business, business with institutional customers and corporate customers with access to the capital markets, and also includes the results of own-account trading.
- The real estate customer segment covers WL BANK's real estate loans business. In 2013, it had also included the real estate services provided by WGZ Immobilien + Treuhand GmbH and WGZ Immobilien + Management GmbH. Both of these companies were deconsolidated with effect from December 31, 2013.
- The treasury segment consists of the results of the treasury activities conducted by the individual group companies. They result from strategic transactions entered into by central planning, but not from customer business.

- The investment segment comprises the income from the investment of free capital not allocated to the other segments, together with the interest-free liabilities. Income and funding costs from long-term equity investments are also reported under this segment.

- The consolidation/reconciliation column contains items relating to the reconciliation from the internal reporting system to the annual financial statements required for external financial reporting purposes. These items result from differences between the valuation methods used in internal management reporting and those required by IFRS, especially with regard to portfolio loan loss allowances and pension provisions, as well as differences in the classification of income statement components. This column also includes all the effects from consolidation transactions in the group.

In the regional segment information, the components of profit or loss are broken down into Germany and other European countries. The allocation of items to these two segments is based on the location of the registered offices of the group companies.

There is no material cross-segment revenue in either of the two segment breakdowns.

Net interest income, which also includes current income, is allocated among the segments using the market interest method and forms the basis for decisions made by senior management. In order to ensure that the segments can be compared with economically independent units, the segments are also assigned the imputed interest income arising from the investment of the capital allocated to the segment concerned; a risk-free long-term capital market interest rate is used for this purpose. The gains and losses on trading activities reported for member banks and corporate customers are the components of securities and currency trading transactions related to trading on customer account. Allowances for losses on loans and advances include portfolio loan loss allowances in addition to net new specific loan loss allowances.

The administrative expenses allocated to the segments include both the direct costs of the segments and also a share of the overhead costs of the central services and operational divisions allocated on the basis of specific usage or an appropriate key.

The capital allocated to the individual segments is derived from the regulatory Tier 1 capital. Segment risk exposures are backed by capital at a rate of 5 percent in total. Similarly to internal capital management, this equates to the minimum Tier 1 capital requirement of 4 percent required by regulators plus an internal loading of 1 percentage point. System-related variances compared with the consolidated equity in accordance with HGB – average share capital for the year plus reserves at the beginning of the year – are allocated to the consolidation segment as reconciliation items.

The return on equity for each segment is the ratio of operating profit/loss to allocated capital. The nature of the system means that the return shown for the individual segments is heavily influenced by the calculation of the capital requirement, which in turn is closely linked to the regulatory requirements. In particular, the allocated capital in the case of the member banks segment is low compared with business volume. To a large degree this is caused by the fact that loans and advances to member banks only have to be backed by capital in the foreign subsidiaries. Furthermore, the activities in this segment are significantly focused on liabilities-side business and on services that do not tie up capital but are resource-intensive.

The high level of allocated capital in the investment segment reflects the investments in banks and financial institutions in the cooperative financial network held locally for the member banks. Regulatory requirements specify that these investments must be backed in full by liable capital.

The cost/income ratio is the ratio of administrative expenses to the sum of net interest income, net fee and commission income, gains and losses on trading activities (including gains and losses arising on hedging transactions), gains and losses on investments, and other net operating income.

(63) Segment information by business segment

€ million		Member banks	Corporate customers	Capital market partners/ trading	Real estate	Treasury	Investment	Consolidation/ reconciliation	Group
Net interest income	2014	29.2	123.6	29.3	119.0	148.2	66.5	-1.5	514.3
	2013	32.2	123.6	28.7	120.9	115.8	48.6	-1.5	468.3
Allowances for losses on loans and advances	2014	0.0	-24.0	-5.3	-3.4	0.0	0.0	9.6	-23.1
	2013	0.0	-10.2	0.0	4.5	0.0	0.0	-2.4	-8.1
Net fee and commission income	2014	64.2	29.4	13.9	-28.6	-1.9	0.0	-8.2	68.8
	2013	61.5	27.4	13.4	-27.0	-2.5	0.0	-5.4	67.4
Gains and losses on trading activities and gains and losses arising on hedging transactions	2014	2.4	5.1	110.2	-13.9	93.7	0.0	-10.2	187.3
	2013	2.5	10.0	85.6	-17.9	39.2	0.0	-3.3	116.1
Gains and losses on investments	2014	0.0	0.0	0.0	0.0	-47.7	-84.9	0.0	-132.6
	2013	0.0	0.0	0.0	0.0	-14.7	-77.0	5.1	-86.6
Profit/loss from companies accounted for using the equity method	2014	0.0	0.0	0.0	0.0	0.0	16.6	0.0	16.6
	2013	0.0	0.0	0.0	0.0	0.0	16.7	-0.2	16.5
Administrative expenses	2014	81.2	59.7	73.5	35.6	42.0	0.0	4.1	296.1
	2013	77.2	59.1	74.4	35.6	39.6	0.1	-1.7	284.3
Other net operating income/ expense	2014	0.0	0.0	0.0	2.0	0.7	-40.8	-10.8	-27.3
	2013	0.0	0.0	0.0	6.4	1.7	0.2	8.5	16.8
Operating profit/loss	2014	14.6	74.4	74.6	39.5	151.0	-42.5	-3.7	307.9
	2013	19.0	91.7	53.3	51.3	99.9	-11.6	2.5	306.1
Allocated capital	2014	0.0	432.9	272.9	173.2	372.5	1,264.1	772.2	3,287.8
	2013	0.0	347.0	165.2	130.0	250.2	1,295.4	902.4	3,090.2
Cost/income ratio (%)	2014	84.7	37.7	47.9	45.3	21.8	****		47.2
	2013	80.2	36.7	58.3	43.2	28.4	****		47.5
Return on equity (%)	2014	****	17.2	27.3	22.8	40.5	-3.4		9.4
	2013	****	26.4	32.2	39.5	39.9	-0.9		9.9

(64) Segment information by region

€ million		Germany	Other Europe	Consolidation / reconciliation	Group
Net interest income	2014	494.6	16.5	3.2	514.3
	2013	456.3	15.2	-3.2	468.3
Allowances for losses on loans and advances	2014	-23.1	0.0	0.0	-23.1
	2013	-8.1	0.0	0.0	-8.1
Net fee and commission income	2014	68.5	0.0	0.3	68.8
	2013	65.3	0.0	2.1	67.4
Gains and losses on trading activities and gains and losses arising on hedging transactions	2014	188.9	8.7	-10.3	187.3
	2013	108.9	10.4	-3.2	116.1
Gains and losses on investments	2014	-46.6	-85.9	-0.1	-132.6
	2013	-94.2	2.4	5.2	-86.6
Profit/loss from companies accounted for using the equity method	2014	7.4	9.2	0.0	16.6
	2013	2.9	13.8	-0.2	16.5
Administrative expenses	2014	291.1	5.0	0.0	296.1
	2013	281.1	4.6	-1.4	284.3
Other net operating income/expense	2014	-34.4	2.0	5.1	-27.3
	2013	18.2	0.0	-1.4	16.8
Operating profit/loss	2014	364.2	-54.5	-1.8	307.9
	2013	268.2	37.2	0.7	306.1
Allocated capital	2014	3,575.3	335.5	-623.0	3,287.8
	2013	3,311.7	345.0	-566.5	3,090.2
Cost/income ratio (%)	2014	43.4	****		47.2
	2013	50.4	11.0		47.5
Return on equity (%)	2014	10.2	-16.2		9.4
	2013	8.1	10.8		9.9

Other disclosures

(65) Sale and repurchase agreements (repos)

The WGZ BANK Group acts as both a protection buyer and a protection seller in sale and repurchase agreements (repos) and securities lending transactions. The relevant transactions were carried out on an arm's-length basis. The following tables show repos in which the WGZ BANK Group was the seller and buyer respectively, together with the related financial instruments for which derecognition/recognition was not permitted and the associated receivables and payables. In the case of financial instruments that are not derecognized, the market risk and rewards remain with the WGZ BANK Group in full.

SELLER	€ million		2013 € million	
	Carrying amount of the transferred financial assets	Carrying amount of the associated financial liabilities	Carrying amount of the transferred financial assets	Carrying amount of the associated financial liabilities
Type of transaction				
Sale and repurchase agreements (repos)	3,583.2	3,577.1	4,485.4	4,554.5
Securities lending	0.0	0.0	0.0	0.0
Total	**3,583.2**	**3,577.1**	4,485.4	4,554.5

BUYER	€ million		2013 € million	
	Transferred financial assets	Carrying amount of the associated receivables	Transferred financial assets	Carrying amount of the associated receivables
Type of transaction				
Sale and repurchase agreements (repos)	621.5	616.8	898.3	892.2
Securities lending	626.6	0.0	654.0	0.0
Total	**1,248.1**	**616.8**	1,552.3	892.2

(66) Offsetting and netting arrangements

Financial assets and financial liabilities must generally be presented on a gross basis, i.e. they should not be offset against each other. However, they must be netted if there is a legal right as at the reporting date to offset the amounts and there is the intention to settle on a net basis. As a rule, these requirements are not met if the financial assets and financial liabilities are only subject to the same legally enforceable global netting agreement. Nonetheless, this type of agreement reduces the risk arising from the aggregate exposure of financial instruments underlying any individual agreement. The same applies to agreements for the provision of collateral.

	Sale and repurchase agreements (repos) € million	Derivatives € million	Other financial instruments € million
ASSETS			
Gross amount of financial assets before offsetting	616.8	5,595.6	0.0
Gross amount of financial liabilities to be offset	0.0	-205.9	0.0
Financial instruments	0.0	0.0	0.0
Cash collateral	0.0	-205.9	0.0
Recognized net amount of financial assets	**616.8**	**5,389.7**	**0.0**
Gross amounts not offset against financial assets	**-616.8**	**-3,814.8**	**0.0**
Financial instruments	-616.8	-3,511.6	0.0
Cash collateral	0.0	-303.2	0.0
Remaining net assets	**0.0**	**1,574.9**	**0.0**
LIABILITIES			
Gross amount of financial liabilities before offsetting	**3,577.1**	**8,093.5**	**0.0**
Gross amount of financial assets to be offset	0.0	-472.9	0.0
Financial instruments	0.0	0.0	0.0
Cash collateral	0.0	-472.9	0.0
Recognized net amount of financial liabilities	**3,577.1**	**7,620.6**	**0.0**
Gross amounts not offset against financial liabilities	**-3,539.1**	**-7,121.2**	**0.0**
Financial instruments	-3,539.2	-3,511.6	0.0
Cash collateral	0.1	-3,609.6	0.0
Remaining net liabilities	**38.0**	**499.4**	**0.0**

The offsetting of cash collateral against derivatives (positive and negative fair values) reduced the loans and advances to banks by €267.0 million.

	Sale and repurchase agreements (repos) 2013 € million	Derivatives 2013 € million	Other financial instruments 2013 € million
ASSETS			
Gross amount of financial assets before offsetting	719.6	3,158.1	0.0
Gross amount of financial liabilities to be offset	0.0	0.0	0.0
Financial instruments	0.0	0.0	0.0
Cash collateral	0.0	0.0	0.0
Recognized net amount of financial assets	**719.6**	**3,158.1**	**0.0**
Gross amounts not offset against financial assets	**-703.8**	**-3,142.5**	**0.0**
Financial instruments	-699.1	-2,116.3	0.0
Cash collateral	-4.7	-1,026.2	0.0
Remaining net assets	**15.8**	**15.6**	**0.0**
LIABILITIES			
Gross amount of financial liabilities before offsetting	**3,573.6**	**4,628.9**	**0.0**
Gross amount of financial assets to be offset	0.0	0.0	0.0
Financial instruments	0.0	0.0	0.0
Cash collateral	0.0	0.0	0.0
Recognized net amount of financial liabilities	**3,573.6**	**4,628.9**	**0.0**
Gross amounts not offset against financial liabilities	**-3,534.9**	**-4,399.0**	**0.0**
Financial instruments	-3,505.4	-2,116.3	0.0
Cash collateral	-29.5	-2,282.7	0.0
Remaining net liabilities	**38.7**	**229.9**	**0.0**

(67) Collateral

The following overview shows a list of furnished collateral by balance sheet item and carrying amount. The items include collateral that may be sold or pledged by the recipient. The collateral has been furnished on an arm's-length basis in connection with securities lending. It also involves receivables assigned to cover liabilities related to funds designated for special purposes, mortgage Pfandbriefe passed to the lender to secure loans taken out in connection with the mortgage lending business, public-sector registered Pfandbriefe, and assigned loan receivables. Collateral has also been pledged for open-market operations, exchange-traded forward transactions, and in relation to collateral agreements as part of OTC trading business.

	€ million	Dec. 31, 2013 € million
Loans and advances to banks	**15,520.5**	14,559.0
Loans and advances to customers	**1,087.6**	1,144.9
Financial assets held for trading	**316.0**	484.4
Long-term equity investments and securities portfolio	**8,235.7**	5,954.6
Other	**10.0**	10.0
Total	**25,169.8**	22,152.9

(68) Contingent liabilities and other obligations

WGZ BANK is a member of the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks]. This scheme comprises a guarantee fund and a guarantee network. As a participant in the guarantee network, WGZ BANK has entered into a guarantee obligation, the value of which is ten times the basic contribution to the guarantee fund (€33.0 million). Other contingencies and commitments that do not appear on the balance sheet are not material to any assessment of the financial position of WGZ BANK. Such contingencies and commitments relate to balancing arrangements in collateral pooling agreements, liability obligations under Articles of Association, and liability up to a certain level in connection with shares in cooperatives. For reasons of practicability, it is not possible to include disclosures relating to estimated financial impact, the probability that such liabilities will crystallize, or the extent of possible reimbursement payments. The loan commitments are agreements forming part of standard banking business with customers.

	€ million	Dec. 31, 2013 € million
Contingent liabilities		
Arising from guarantees and indemnity agreements	**910.0**	889.1
Other contingent liabilities	**116.0**	12.9
Total	**1,026.0**	902.0
Other obligations		
Irrevocable loan commitments to banks	**1,368.5**	1,824.8
Irrevocable loan commitments to customers	**3,746.2**	3,745.6
Total	**5,114.7**	5,570.4

(69) Counterparty and product structure for derivatives

POSITIVE FAIR VALUES	€ million	Dec. 31, 2013 € million
OECD central government and derivatives exchanges	**220.3**	131.1
OECD banks	**4,957.5**	2,958.6
OECD financial services institutions	**61.2**	43.7
Other companies, private individuals	**355.4**	235.8
Non-OECD central governments	**0.0**	0.0
Non-OECD banks	**1.2**	0.2
Non-OECD financial services institutions	**0.0**	0.0
Total	**5,595.6**	3,369.4

The positive fair values reflect the maximum credit risk as at the balance sheet date. They are the total of all positive contract fair values and exclude any offsetting of negative contract fair values, deduction of collateral, or weighting based on credit rating. WGZ BANK has entered into the transactions listed in the following table for the most part in order to hedge fluctuations in interest rates, exchange rates or other types of changes in market prices as part of its trading activities. Some of the transactions also relate to hedging of interest-rate and exchange-rate fluctuations in connection with general banking business.

The product structure and nominal amounts (including brokerage business) as at December 31, 2014 were as follows:

	Nominal amount by time to maturity				Fair value	
	Up to 1 year	1-5 years	More than 5 years	**Total**	Negative	Positive
	€'000	€'000	€'000	**€'000**	€'000	€'000
Interest-linked contracts	**20,139,680**	**45,063,860**	**54,626,802**	**119,830,342**	**7,038,019**	**4,448,879**
of which attributable to:						
OTC products	11,687,266	42,412,644	54,626,802	**108,726,712**	7,037,488	4,448,448
Forward rate agreements	0	0	0	**0**	0	0
Interest-rate swaps (same currency)	11,107,922	40,670,037	52,764,176	**104,542,135**	6,842,824	4,381,094
Interest-rate options – call	165,267	368,500	790,000	**1,323,767**		35,079
Interest-rate options – put	407,077	1,238,379	921,043	**2,566,499**	168,255	
Other interest-rate contracts	7,000	135,728	151,583	**294,311**	26,409	32,275
Exchange-traded products	8,452,414	2,651,216	0	**11,103,630**	531	431
Interest-rate futures	3,265,414	2,478,248	0	**5,743,662**	0	0
Interest-rate options	5,187,000	172,968	0	**5,359,968**	531	431
Currency-linked contracts	**74,933,475**	**1,045,890**	**3,727**	**75,983,092**	**947,681**	**1,019,901**
of which attributable to:						
OTC products	74,828,003	1,045,890	3,727	**75,877,620**	947,681	1,019,901
Forward forex transactions	74,422,574	1,004,124	3,727	**75,430,425**	940,940	1,014,627
Forex options – call	177,203	20,755	0	**197,958**		5,274
Forex options – put	228,226	21,011	0	**249,237**	6,741	
Other forex contracts	0	0	0	**0**	0	0
Exchange-traded products	105,472	0	0	**105,472**	0	0
Forex futures	105,472	0	0	**105,472**	0	0
Forex options	0	0	0	**0**	0	0
Share-/index-linked contracts	**5,321,062**	**409,317**	**224,084**	**5,954,463**	**49,150**	**39,842**
of which attributable to:						
OTC products	223,422	327,493	224,084	**774,999**	24,065	16,851
Share/index swaps	0	270,900	215,250	**486,150**	15,062	2,734
Share/index options – call	76,116	8,568	4,417	**89,101**		14,117
Share/index options – put	147,306	48,025	4,417	**199,748**	9,003	
Other share/index contracts	0	0	0	**0**	0	0
Exchange-traded products	5,097,640	81,824	0	**5,179,464**	25,085	22,991
Share/index futures	3,488,378	110	0	**3,488,488**	0	0
Share/index options	1,609,262	81,714	0	**1,690,976**	25,085	22,991
Other contracts	**1,102,914**	**3,550,640**	**1,077,325**	**5,730,879**	**58,625**	**87,004**
of which attributable to:						
OTC products	1,085,938	3,550,640	1,077,325	**5,713,903**	58,625	87,004
Cross-currency swaps	116,479	345,403	907,325	**1,369,207**	38,743	27,640
Credit default swaps	969,459	3,205,237	170,000	**4,344,696**	19,882	59,364
Exchange-traded products	16,976	0	0	**16,976**	0	0
Precious metal futures	16,976	0	0	**16,976**	0	0
Total for all contracts	**101,497,131**	**50,069,707**	**55,931,938**	**207,498,776**	**8,093,475**	**5,595,626**
of which attributable to:						
OTC products	87,824,629	47,336,667	55,931,938	**191,093,234**	8,067,859	5,572,204
Exchange-traded products	13,672,502	2,733,040	0	**16,405,542**	25,616	23,422

(70) Equity management

The objective of equity management in the WGZ BANK Group is to ensure that adequate capital is in place to support the corporate strategy determined by the Board of Managing Directors, that regulatory capital adequacy requirements are satisfied, and that the group has sufficient risk-bearing capacity. Risk-bearing capacity is quantified in terms of the WGZ BANK Group's aggregate risk cover. For more detailed information on risk-bearing capacity, please also refer to the risk report within the management report.

The WGZ BANK Group's regulatory capital is determined in accordance with the provisions of the CRR, part 2. The following table shows the breakdown of the WGZ BANK Group's equity after appropriation of profits:

	Pursuant to CRR Dec. 31, 2014 € million	Pursuant to SolvV Dec. 31, 2013 € million
Share capital	714	657
Reserves	3,058	1,575
Fund for general banking risks pursuant to section 340g HGB		842
Tier 1 capital before deductions	**3,772**	**3,074**
Deductions from Tier 1 capital	-564	-818
Tier 1 capital after deductions	**3,208**	**2,256**
Subordinated liabilities	655	587
Profit-sharing rights	0	0
Other components	30	527
Tier 2 capital before deductions	**685**	**1,114**
Deductions from Tier 2 capital	**-427**	**-818**
Tier 2 capital after deductions	258	296
Capital pursuant to Solvency Regulation/CRR	**3,466**	**2,552**

Under article 92 CRR in conjunction with article 11 (1) CRR and section 10a KWG, banks and banking groups must ensure that they have adequate capital. Under CRR, capital adequacy requirements are satisfied if the capital requirements for counterparty-risk and market-risk exposures, operational risk, CVA risk, and settlement risk do not exceed the eligible capital on a day-to-day basis. Both the bank and the banking group complied with the CRR solvency requirements in the year under review. The capital adequacy requirements for the WGZ BANK Group financial conglomerate were also satisfied in 2014.

As at the balance sheet date, the relevant figures for the banking group (taking into account the appropriation of profits in equity) were as follows:

CAPITAL ADEQUACY REQUIREMENT FOR	€ million	Dec. 31, 2013 € million
Counterparty risk	1,572	1,175
Market risk	130	121
Operational risk	109	82
Credit valuation adjustment (CVA) risk	31	
Total capital adequacy requirement	1,842	1,378
Total capital ratio (%)	15.1	14.8

As at the balance sheet date, the key capital adequacy figures for WGZ BANK (including appropriation of profits) were Tier 1 capital of €2,743 million (December 31, 2013: €2,987 million), eligible capital of €3,438 million (December 31, 2013: €2,508 million), and a total capital ratio of 18.8 percent (December 31, 2013: 16.6 percent).

(71) Auditors of the consolidated financial statements

The auditors of the consolidated financial statements are PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft, Moskauer Strasse 19, Düsseldorf, Germany.

DISCLOSURES PURSUANT TO SECTION 314 (1) NO. 9 HGB	€'000
Expenses recognized in the year under review for the following services provided by the auditors:	
Financial statements auditing services	1,238
Other attestation services	465
Tax consultancy services	143
Other services	1,223
Total	3,069

(72) Members of the Supervisory Board and the Board of Managing Directors

Supervisory Board

Werner Böhnke, *Chairman* (from June 24, 2014)	Bank Director (ret.)
Dieter Philipp, *Chairman* (until June 24, 2014)	Honorary President of the German Association of Skilled Trades; President of the Aachen Chamber of Skilled Trades
Franz Lipsmeier, *Deputy Chairman*	Full-time member of the Board of Managing Directors of Volksbank Delbrück-Hövelhof eG
Johannes Berens (until June 24, 2014)	Bank Director (ret.)
Peter Bersch	Full-time member of the Board of Managing Directors of Volksbank Bitburg eG
Martin Eul	Full-time member of the Board of Managing Directors of Dortmunder Volksbank eG
Uwe Goldstein (from June 24, 2014)	Full-time member of the Board of Managing Directors of Raiffeisenbank Frechen-Hürth eG
Ludger Hünteler	Employee of WGZ BANK
Manfred Jorris	Employee of WGZ BANK
Ina Maßmann	Employee of WGZ BANK
Herbert Pfennig (from June 24, 2014)	Full-time member of the Board of Managing Directors of Deutsche Apotheker- und Ärztebank eG

Board of Managing Directors

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

(73) Total remuneration of the members of the parent company's decision-making bodies

Remuneration of €113 thousand (2013: €127 thousand) was paid to the members of the Supervisory Board, and €213 thousand (2013: €227 thousand) to the members of the Advisory Council, all such remuneration being due for payment in the short term. The employee representatives on the Supervisory Board also continued to receive remuneration for their primary activities in the company at standard industry rates. The short-term remuneration for the members of the Board of Managing Directors in the year under review in return for the fulfillment of their responsibilities in the parent company and the subsidiaries was €2.671 million (2013: €2.854 million), while the long-term remuneration amounted to €1.378 million (2013: €945 thousand). The additions to provisions for pensions and other post-employment benefits for active members of the Board of Managing Directors from the current service cost along with effects from salary adjustments amounted to €1.170 million (2013: €2.763 million). The total remuneration for the members of the Board of Managing Directors in the year under review was therefore €5.219 million (2013: €6.562 million). A sum of €2.652 million (2013: €2.283 million) was paid to former members of the Board of Managing Directors and their surviving dependants. The existing provision for pensions and post-employment benefits in respect of this group of persons amounts to €50.105 million (December 31, 2013: €43.711 million).

(74) Related party disclosures

Related party disclosures are required in accordance with IAS 24.

Given its close integration in the Volksbanken Raiffeisenbanken cooperative financial network, the WGZ BANK Group maintains a wide variety of business relationships with related entities. The related entities of the WGZ BANK Group as defined by IAS 24 include, in particular, joint ventures, direct and indirect associates, and entities controlled by related parties. Individuals among the related parties of the WGZ BANK Group include the members of the Board of Managing Directors and the Supervisory Board, divisional managers at WGZ BANK, the managing directors of WGZ Verwaltungs GmbH, and their family members.

Transactions with related parties were conducted as part of normal business activities and always on an arm's-length basis, including with regard to collateral. The following table shows the balances in relevant balance sheet items as at December 31, 2014 attributable to transactions with related parties. Loans and advances to banks related to the WGZ BANK Group in connection with development loan business are not included because these are offset by corresponding liabilities to non-related development banks and are thus deemed in substance to be transactions via a suspense account. Income and expenses arising on transactions with related parties were not significant.

	Loans and advances to banks € million	Loans and advances to customers € million	Allowances for losses on loans and advances € million	Financial assets held for trading € million	Deposits from banks € million	Amounts owed to other depositors € million	Financial liabilities held for trading € million
Parent company	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Subsidiaries	0.0	0.0	0.0	0.1	0.0	6.6	0.0
Joint ventures	0.0	4.5	0.0	0.0	0.0	1.0	0.0
Associates	1.2	78.7	0.0	26.0	37.1	9.1	19.7
Key management personnel	0.0	1.5	0.0	0.0	0.0	0.0	0.0
Other related parties	86.7	0.0	0.0	10.0	131.4	17.9	3.0
Total	**87.9**	**84.7**	**0.0**	**36.1**	**168.5**	**34.8**	**22.7**

(75) Loans and advances to members of decision-making bodies

	€'000	Dec. 31, 2013 €'000
Supervisory Board	344	334
Advisory Council	1,812	1,274
Board of Managing Directors	0	19

These are normal loans and advances with interest at market rates.

(76) Average number of employees

	Female	Male	**Total**
WGZ BANK	492	750	1,242
Subsidiaries	**173**	**178**	**351**
	665	928	1,593

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

Board of Managing Directors of WGZ BANK

Hans-Bernd Wolberg (Chief Executive Officer)	
Bausparkasse Schwäbisch Hall, Schwäbisch Hall	Member of the Supervisory Board
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main	Member of the Supervisory Board
Uwe Berghaus	
VR-LEASING AG, Eschborn	Deputy Chairman of the Supervisory Board
Karl-Heinz Moll	
DZ PRIVATBANK (Schweiz) AG, Zurich, Switzerland	Deputy Chairman of the Board of Directors
DZ PRIVATBANK S.A., Strassen, Luxembourg	Deputy Chairman of the Supervisory Board
Union Asset Management Holding AG, Frankfurt am Main	Deputy Chairman of the Supervisory Board
R+V Versicherung AG, Wiesbaden	Member of the Supervisory Board
Michael Speth	
BAG Bankaktiengesellschaft, Hamm	Member of the Supervisory Board

(78) List of shareholdings

NAME AND REGISTERED OFFICE		Shareholding (%)	Equity in the most recent year for which figures are available € million	Net profit/loss € million
Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	*5)	15.00	1,812.3	*1)
DZ Holding GmbH & Co. KG, Neu-Isenburg	*2), *3)	36.44	1,307.5	22.2
DZ PRIVATBANK S.A., Strassen/Luxembourg	*3), *5)	19.04	673.7	45.0
GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*3)	32.10	58.1	-10.9
GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*3)	31.61	69.5	0.6
Heinsberger Volksbank AG, Heinsberg	*3)	25.00	12.3	0.4
R+V Versicherung AG, Wiesbaden	*5)	15.80	1,911.7	*1)
Union Asset Management Holding AG, Frankfurt am Main	*5)	17.72	569.3	252.7
Union Investment Real Estate AG, Hamburg	*5)	5.50	72.2	43.2
Volksbank Romania S.A., Bucharest	*5)	8.14	282.1	-102.2
VR-LEASING AG, Eschborn	*5)	16.54	211.1	*1)
VR Equitypartner GmbH, Frankfurt am Main	*3)	22.00	70.5	11.3
VR Corporate Finance GmbH, Düsseldorf	*4)	50.00	2.3	-0.7

*1) Profit-and-loss transfer agreement with DZ BANK AG.
*2) The company has a shareholding of 6.64 percent in DZ BANK AG held on behalf of WGZ BANK.
*3) Associate accounted for using the equity method.
*4) Joint venture accounted for using the equity method.
*5) Long-term equity investments in large corporations and publicly listed companies where the investment equates to more than 5 percent of voting rights.

Disclosures on further shareholdings have not been included because they are not material for the presentation of a true and fair view of the assets, liabilities, financial position, and profit or loss of the group.

(79) Events after the balance sheet date

On January 15, 2015, the Swiss National Bank announced that it was scrapping the minimum exchange rate of CHF 1.2 per euro. This minimum rate had been introduced by Switzerland's central bank in response to the financial crisis and the consequent appreciation of the Swiss franc. However, the Swiss National Bank decided that it would no longer maintain the minimum exchange rate for the Swiss franc against the euro because of differences between the monetary policies of the major currency areas. The announcement that the minimum rate was being dropped caused the Swiss franc to appreciate significantly on January 15, 2015, resulting in a small loss in respect of WGZ BANK's exposures denominated in Swiss francs.

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

Düsseldorf, March 27, 2015
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Additional disclosures pursuant to section 26a KWG as at December 31, 2014

The following disclosures have been prepared on a consolidated basis.

a) Company name, nature of activities, and geographical location of the branches

WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, has branches at its Düsseldorf headquarters and in Koblenz and Münster. The consolidated subsidiary WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, is headquartered in Münster and also has branches in Berlin, Düsseldorf, Hamburg, and Munich. WGZ BANK Ireland plc operates solely at its headquarters in Dublin, Ireland.

Details of the nature of activities can be found in the 2014 management report of WGZ BANK and the WGZ BANK Group, chapter II. Business activities.

b) Revenue

Revenue is defined as the sum of the following components of the income statement pursuant to IFRS: net interest income before allowances for losses on loans and advances, net fee and commission income, gains and losses arising on hedging transactions, gains and losses on trading activities, gains and losses on investments, profit/loss from companies accounted for using the equity method, and other net operating income.

Revenue came to €598.4 million in Germany and €27.6 million in Ireland in 2014.

c) Number of recipients of wages and salaries expressed in full-time equivalents

The number of recipients of wages and salaries expressed in full-time equivalents (FTEs) within the WGZ BANK Group's scope of consolidation was 1,496 in Germany and 24 in Ireland.

d) Profit

The pre-tax profit was €285.1 million for Germany and €22.9 million for Ireland. After deduction of taxes of €71.3 million in Germany and €2.3 million in Ireland, net profit amounted to €213.7 million and €20.6 million respectively. The taxes consisted of both current and deferred taxes.

e) Return on assets (ratio of net profit to total assets)

The WGZ BANK Group's net profit for 2014 of €234.3 million and net assets of €94.9 billion resulted in a return on assets of 0.2 percent.

Audit opinion (translation)

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows, and the notes to the financial statements, together with the group management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, for the financial year from January 1, to December 31, 2014 (the group management report having been combined with the management report of the parent company). The preparation of the consolidated financial statements and the combined management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (HGB), and the supplementary provisions of the Articles of Association is the responsibility of the Board of Managing Directors of the company. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB as well as the supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial position, and results of operations of the group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 30, 2015
PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mark Maternus	pp Marc Lilienthal
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility statement

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

Düsseldorf, March 27, 2015
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Allocation of responsibilities

Hans-Bernd Wolberg
Chief Executive Officer

- Central services
- Human resources
- Internal audit
- Member banks
- Compliance

Uwe Berghaus
Member of the Board of Managing Directors

- Corporate customers
- Investment subsidies
- Legal affairs

Dr. Christian Brauckmann
Member of the Board of Managing Directors

- Financial markets operations
- Organization and operations
- Payments processing

Karl-Heinz Moll
Member of the Board of
Managing Directors

Capital market
partners & trading

Treasury

Michael Speth
Member of the Board of
Managing Directors

Finance

Credit back office

Financial control and planning

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Editorial information

Layout: M.L.&S. Werbeagentur GmbH, Düsseldorf
Photography: Studio Schemmann / Frank Schemmann
(cover and p. 2/14/15/24/29/33/38/39/43/47/48/50/51/53)
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Getty Images / Pai-Shih Lee (p. 78/79)
Getty Images / Coco Gubbels / EyeEm (p. 262/263)
Lithography: Publication Partners Medienkompetenz GmbH, Willich
Production: Das Druckhaus Beineke Dickmanns GmbH, Korschenbroich

FSC www.fsc.org MIX Papier aus verantwortungsvollen Quellen FSC® C006024

ClimatePartner klimaneutral gedruckt

WGZ BANK
Die Initiativbank

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken