

Investor Relations Release

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First half of 2022: DZ BANK Group reports a profit before taxes of €1.14 billion

DZ BANK AG
Deutsche Zentral-
Genossenschaftsbank

Investor Relations

- Very good operating performance in all business lines
- Risk situation remains unremarkable
- Large contribution to earnings by DZ BANK – central institution and corporate bank

In the first half of 2022, the DZ BANK Group generated a profit before taxes of €1.14 billion (first half of 2021: €1.83 billion). Key to these encouraging earnings were the good operating performance in all business lines and the still unremarkable risk situation. The banks in the DZ BANK Group made a particularly strong contribution to profit before taxes. DZ BANK – central institution and corporate bank saw very high demand, especially in the Corporate Banking business line. DZ HYP likewise posted a very good profit before taxes, with an encouraging level of customer business and a sound risk situation. As expected, UMH's profit before taxes declined due to lower performance-related income. However, inflows remained at a high level in UMH's customer business. R+V Versicherung saw brisk customer business with healthy premium growth. Nonetheless, the trend seen in the financial markets led to a significant decline in gains and losses on investments held by insurance companies for R+V Versicherung.

"We achieved this profit before taxes in an extremely challenging environment. The continuing adverse impact of the coronavirus pandemic was compounded at the start of the year by Russia's war of aggression against Ukraine, which has dominated political, social, and economic life ever since," says Dr. Cornelius Riese, Co-Chief Executive Officer of DZ BANK. As a consequence of the war, the economic outlook has turned significantly bleaker in recent months. The jump in inflation, lingering supply chain disruptions, and fears of recession have caused the German economy to slide into stagflation. Even the positive trend in the capital markets came to an abrupt end at the start of the year. With a rapid increase in bond yields, the rise in interest rates that would have otherwise been welcome initially put the stock markets under pressure. "Against this backdrop, we can be extremely satisfied with our results for the first half of the year. These were underpinned by our broadly diversified business model and the close collaboration within the cooperative financial network," says Cornelius Riese.

"This is now the second crisis within a very short period of time in which the financial services sector has a key contribution to make in helping to weather the storm. The central institution and corporate bank was particularly in demand, as we are playing an important part in introducing and enforcing sanctions against Russia while also providing crucial support for our customers in this economic environment. We are providing additional liquidity to help them deal with rising energy

and commodity prices, shore up supply chains, and make the necessary investment in the future viability of their business models," says Uwe Fröhlich, Co-Chief Executive Officer of DZ BANK. "The Capital Markets business line and payments processing also made a large contribution and generated growth. This indicates the strength of our business model and the commitment of our staff."

The capital adequacy of the DZ BANK Group remains good. The common equity Tier 1 capital ratio decreased to 13.3 percent as at June 30, 2022 (December 31, 2021: 15.3 percent). This decrease was predominantly attributable to temporary accounting effects at R+V Versicherung. Belonging to the DZ BANK Group, R+V Versicherung already had to measure its assets at fair value in accordance with IFRS 9. Equity and liabilities, and therefore liabilities to policyholders, will only be treated in the same way after the transition to IFRS 17 next year. This led to the recognition of a temporary technical interest-rate risk caused by the strong increase in interest rates during the reporting period. The result was a negative contribution to earnings and a significantly lower contribution to the capital ratio in the first half of the year. We anticipate a corresponding countervailing effect for equity and liabilities at R+V Versicherung in the 2023 financial year following the introduction of IFRS 17.

Total assets rose from €627 billion at the end of 2021 to €659 billion.

Income statement line items in detail

At €1.48 billion, the **net interest income** of the DZ BANK Group was slightly higher than the figure for the prior-year period (first half of 2021: €1.38 billion). This was primarily due to the increase at Bausparkasse Schwäbisch Hall, at DZ HYP, and in the Corporate Banking business line at the central institution and corporate bank.

By contrast, **net fee and commission income** declined to €1.36 billion (first half of 2021: €1.60 billion). This was primarily attributable to Union Investment, which saw an anticipated year-on-year decline in performance-related income components, and to falls in the equity markets.

Gains and losses on trading activities improved significantly to a net gain of €359 million (first half of 2021: €6 million), partly thanks to a good operating performance but also to IFRS-related valuation effects at the central institution and corporate bank.

Gains and losses on investments deteriorated to a net loss of €53 million (first half of 2021: net gain of €37 million). The reason for this was a decline in gains and losses on the disposal of bonds at Bausparkasse Schwäbisch Hall and on own-account investing activities at Union Investment.

Other gains and losses on valuation of financial instruments amounted to a net gain of €105 million (first half of 2021: net gain of €234 million). The decline was mainly due to negative changes in the valuation of guarantee commitments and own-account investing activities at Union Investment.

Loss allowances were at a low level, with net additions of €60 million (first half of 2021: net reversal of €114 million).

Administrative expenses increased to €2.24 billion, partly due to higher contributions to the bank levy and to the BVR protection scheme (first half of 2021: €2.14 billion).

Profit before taxes amounted to €1.14 billion.

Net profit stood at €781 million.

The **cost/income ratio** reached 65.1 percent.

Results of the DZ BANK Group in detail

In the first half of 2022, **DZ BANK – central institution and corporate bank (CICB)** posted a significant increase in profit before taxes to €369 million (first half of 2021: €215 million). In addition to high demand in the customer business, IFRS-related valuation effects on gains and losses on trading activities and the still unremarkable risk situation contributed to this profit before taxes. The volume of lending in the CICB's corporate customer lending business rose to €72.9 billion (December 31, 2021: €67.3 billion). The volume of loan commitments in the joint credit business with the cooperative banks, which is included in this figure, amounted to €15.1 billion (December 31, 2021: €14.5 billion). Cross-selling was also up by 20 percent. The Capital Markets business line likewise proved to be strong. Business with institutional customers was brisk in the first half of 2022, so income was higher than in the prior-year period. In the Retail Banking business line, sales of structured products remained at the high level of the prior-year period at €4.5 billion (June 30, 2021: €4.5 billion). The Transaction Banking business line recorded growth in payments processing, reflecting the increasing use of electronic payment methods. The number of transactions rose to 4.5 billion (June 30, 2021: 4.1 billion). In the depositary business, the volume of assets under depositary decreased to €293.5 billion due to the situation in the capital markets (December 31, 2021: €319.6 billion).

Bausparkasse Schwäbisch Hall (BSH) increased its profit before taxes significantly to €168 million (first half of 2021: €54 million). The key to the increase in profit before taxes was a good operating performance and the reversal of provisions relating to building society operations. There was again a noticeable increase in new home savings business, with a home savings volume of €16.1 billion (first half of 2021: €14.7 billion). The volume of new home finance business remained steady at €10.3 billion despite rising interest rates (first half of 2021: €10.3 billion).

R+V Versicherung posted a loss before taxes of €30 million, compared with a profit before taxes of €482 million in the first half of 2021. This negative contribution to earnings was primarily driven by the gains and losses on investments held by insurance companies, which were affected by the situation in the capital markets and IFRS-related valuation effects. By contrast, the customer business performed well in all divisions. Gross premiums written rose to a total of €10.9 billion (first half of 2021: €10.6 billion).

TeamBank registered a profit before taxes of €68 million (first half of 2021: €84 million). This decline in profit before taxes resulted from an increase in loss allowances compared with the unusually low level of the prior-year period. From an operational perspective, TeamBank posted significant growth in new business, which amounted to €1.8 billion (first half of 2021: €1.5 billion). Loans and advances to customers rose to €9.5 billion as at June 30, 2022 (December 31, 2021: €9.2 billion). The number of customers increased by 19,000 and therefore exceeded one million for the first time (December 31, 2021: 984,000).

At **Union Investment**, profit before taxes decreased to €371 million (first half of 2021: €825 million). This was primarily due to the anticipated year-on-year decline in performance-related income components. Despite the market conditions, net inflows in the retail business achieved a good level at €8.1 billion (first half of 2021: €9.7 billion). Net inflows from institutional customers declined to €1.5 billion (first half of 2021: €14.7 billion). Assets under management remained broadly steady at €415.6 billion (December 31, 2021: €454.1 billion). The volume of sustainably managed funds amounted to €125 billion (December 31, 2021: €125.6 billion).

DZ HYP reported an increased profit before taxes of €335 million in the first half of 2022 (first half of 2021: €287 million). The customer business performed well. The volume of new business with corporate customers increased to €4.0 billion (first half of 2021: €3.7 billion). Despite rising interest rates, new business with retail customers of €1.0 billion almost reached the figure for the prior-year period (first half of 2021: €1.4 billion). The risk situation remained unremarkable.

DZ PRIVATBANK'S profit before taxes remained steady at €19 million (first half of 2021: €19 million). The positive operating performance continued in private banking, in the depositary business, and in foreign-currency lending. Net inflows rose to €812 million (first half of 2021: €650 million). Assets under management declined to €21.7 billion (December 31, 2021: €23.2 billion) due to prices. The volume of assets under custody amounted to €168.9 billion (December 31, 2021: €182.1 billion).

VR Smart Finanz improved its profit before taxes to €3 million (first half of 2021: €0 million). The volume of new business improved to €464 million (first half of 2021: €432 million), primarily driven by object finance. The volume of new business for the 'VR Smart flexibel' business loan doubled to €135 million (first half of 2021: €70 million). Following the strategic realignment, the focus continues to be on growth in the core business of being a digital provider of finance for the self-employed and small businesses.

DVB Bank increased its profit before taxes to €131 million (first half of 2021: €70 million). The main factors driving this improvement were reversals of loss allowances and positive IFRS-related valuation effects. The lending volume fell to €0.9 billion as at June 30, 2022 (December 31, 2021: €1.6 billion), which was attributable to the continuing reduction of the portfolio. As planned, the merger into the central institution and corporate bank was completed from a legal perspective in the middle of August.

Outlook

Russia's war of aggression against Ukraine has resulted in significant changes to the economic conditions in which banks and their customers from the real economy are operating. The sheer number of complex factors, and the interplay between them, create huge potential risks to economic growth, both in Europe and beyond. Our economists are now predicting that Germany's economy will expand by only 1.3 percent in 2022 as a whole; their expectations at the start of the year had been significantly more optimistic with a forecast of 3.2 percent. "In view of the uncertainties, especially in relation to energy supply in Germany and Europe and the increasing burden on companies, we are currently assuming that the DZ BANK Group's profit before taxes for 2022 will be at the lower end of our long-term target range of €1.5 billion to €2.0 billion," says Cornelius Riese.

"Our stable foundation enables us to continue playing an active part in addressing the big issues facing society in this decade. Top of the list is decarbonizing the economy. Supporting our customers with their transformation is our chief task as a financial institution," says Uwe Fröhlich. "Digitalizing the customer interface and expanding the platform business are other core areas in which we will be continually investing over the next few years."

The DZ BANK Group's half-year financial results under IFRS as of June 30, 2022

€ million	Jan. 1–Jun. 30, 2022	Jan. 1–Jun. 30, 2021	Change (%)
Net interest income	1,475	1,384	+6.6%
Net fee and commission income	1,364	1,596	-14.5%
Gains and losses on trading activities	359	6	>100%
Gains and losses on investments	-53	37	>100%
Other gains and losses on valuation of financial instruments	105	234	-55.1%
Gains and losses from the derecognition of financial assets measured at amortized cost	11	6	+83.3%
Net income from insurance business	25	522	-95.2%
Loss allowances	-60	114	>100%
Administrative expenses	-2,242	-2,142	+4.7%
Other net operating income	156	73	>100%
Profit before taxes	1,141	1,829	-37.6%
Income taxes	-360	-522	-31.0%
Net profit	781	1,307	-40.2%
Cost/income ratio (%)	65.1	55.5	+9.6pp

The complete interim report will be available on the DZ BANK website at www.halfyearreport.dzbank.com as of **September 22, 2022**.

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