II Business report

1 Economic conditions

The crisis resulting from the COVID-19 pandemic and its after-effects continued to dominate the environment in the first half of 2021. In the first quarter of the year, the restrictions on economic activity imposed because of the third wave of the pandemic caused economic output in Germany to fall by 2.1 percent compared with the previous quarter. The restrictions were gradually lifted in the second quarter, which enabled GDP to recover by 1.5 percent quarter on quarter. Adjusted for inflation, average overall economic output in the first half of this year therefore decreased by 1.0 percent compared with the second half of 2020. In the first half of 2020, it had slumped by 6.7 percent compared with the second half of 2019.

German economic output in the first quarter of 2021 was down by 1.5 percent compared with the preceding quarter.

The closure of shops and hospitality venues because of the COVID-19 pandemic restricted economic activity in the first quarter of 2021 and to an extent also in the second quarter. This put a dampener on consumer spending. The market in the industrial sector, however, had already begun to recover during the course of 2020, with international demand in manufacturing exceeding even pre-crisis levels in the first half of 2021.

The economy of the eurozone was also still weak overall in the first six months of 2021. Following a 5.3 percent year-on-year rise in gross domestic product (GDP) in the second half of 2020, the eurozone's economic output shrank by 0.4 percent in the period under review. GDP decreased by 0.3 percent in the first quarter of 2021. In the second quarter, it rose by 2.0 percent compared with the previous quarter.

In the reporting period, the economy in the United States recovered much more quickly from the effects of the pandemic than its European counterpart. Highly expansionary fiscal policy in the form of several very extensive expenditure programs boosted consumer spending in particular. As a result, US economic output was already back to its pre-crisis level by the middle of 2021.

China was affected by the pandemic earlier than Europe and the United States. But its economy began to recover much earlier too and in the first half of 2021 was characterized by strong growth. In many other emerging markets, however, the economic problems caused by the pandemic and efforts to contain it dominated conditions during the reporting period. Brazil and India, for example, were particularly hard hit by the emergence of new variants of coronavirus.

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

The capital markets continued to stage a recovery in the first half of 2021. Conversely, the main focus in the first half of 2020 had been on dealing with the economic impact of the action taken to contain the spread of the COVID-19 pandemic and with the recession that resulted from this action. The pandemic emergency purchase program (PEPP) – the biggest bond-buying program undertaken by the European Central Bank (ECB) since the creation of the euro area – helped to avert a collapse in the market for periphery government bonds like the one that had occurred after the financial crisis of 2008.
The STOXX Europe 600, a share index comprising 600 large, listed European companies, stood at 452.84 points as at June 30, 2021, which was 53.81 points higher than its level at the end of the prior year (December 31, 2020: 399.03 points). In the equivalent period of 2020, the index had declined by 55.50 points.

Some EU countries still exceeded the ratios for new and overall indebtedness required for compliance with the stability criteria specified in the Fiscal Compact agreed by the EU member states at the beginning of 2012. In the Fiscal Compact, the signatory countries committed to reducing their debt (as a proportion of GDP) each year by one twentieth of the difference between the debt level and the Maastricht limit of 60 percent of GDP.

At the end of the first quarter of 2021, the total borrowing of the 19 eurozone countries equated to 100.5 percent of their GDP, an increase of 14.4 percentage points compared with the figure of 86.1 percent as at March 31, 2020.

Greece's public debt as a percentage of GDP was 209.3 percent in the first quarter of 2021 (first quarter of 2020: 180.7 percent). In April 2021, the rating agency S&P upgraded Greece's rating by one notch to BB and change its outlook to positive. The rating agency's decision was tied to the expectation that both the Greek economy and its public finances will recover quickly from the COVID-19 pandemic. The structural reforms of the government in Athens were one reason given for this expectation, and S&P also highlighted how Greece is benefiting from the money that it receives from the EU recovery fund. In addition, the ECB's PEPP is ensuring favorable financing conditions.

Italy's public debt as a percentage of GDP stood at 160.0 percent in the first quarter of 2021 (first quarter of 2020: 137.8 percent), which is the highest in the eurozone after that of Greece. Italy too has benefited from the favorable financing conditions maintained by the ECB's PEPP bond-buying program.

Portugal's public debt as a percentage of GDP was 137.2 percent in the first quarter of 2021, compared with 119.2 percent in the first quarter of 2020.

In Spain, public debt as a percentage of GDP stood at 125.2 percent in the first quarter of 2021 (first quarter of 2020: 99.1 percent).

Based on a policy of quantitative easing, the ECB has continued to support the markets for government bonds, thereby creating the necessary time over the last few years for the European Monetary Union (EMU) countries burdened with excessive debt to reduce their budget deficits. In the reporting period, the ECB's monetary policy was still predominantly focused on mitigating the negative impact of the protective measures introduced to contain the spread of the COVID-19 pandemic on EU member state public finances and on financial markets. Nonetheless, even in the years prior to the COVID-19 pandemic, the countries specified above had not made sufficient efforts to reduce their high levels of indebtedness, which are above the Maastricht limit of 60 percent. The ECB made additional liquidity available under the TLTRO III program in order to support lending to households and companies during the COVID-19 pandemic.

The ECB's policy of zero and negative interest rates prevailing in the first half of 2020 was maintained in the reporting period. At its meeting on June 10, 2021, the ECB decided to leave the rate for the deposit facility at minus 0.50 percent. The main refinancing rate remained the same at 0.00 percent, while the rate for the marginal lending facility was also unchanged at 0.25 percent. The ECB Governing Council again let it be known that the ECB's key interest rates would remain at their current or a lower level until the inflation outlook is clearly approaching a level sufficiently close to, but still below, 2.00 percent. The Council also decided that it would continue to conduct net asset purchases under the PEPP with a total envelope of €1,850.0 billion until at least the end of March 2022 and, in any case, until it judges that the COVID-19 crisis phase is over. The net purchases under the asset purchase program (APP) were sustained in the reporting period with a monthly volume of €20.0 billion. The ECB Governing Council still expects monthly net asset purchases under the APP to be made for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

On June 16, 2021, the US Federal Reserve (Fed) announced that the federal funds rate would remain unchanged in the range of 0.00 to 0.25 percent. It also let it be known that it would be maintaining its bond-buying program with a monthly volume of US$ 120.0 billion. However, the Fed did make the continuation of these purchases contingent on the economic data.

3 Financial performance

3.1 Financial performance at a glance

Despite the persistently challenging market conditions resulting from the effects of the COVID-19 pandemic and the extremely low level of interest rates, the DZ BANK Group was able to report a profit before taxes of €1,832 million in the first half of 2021 that was significantly higher than in the prior-year period (first half of 2020: €557 million).

The year-on-year changes in the key figures that made up the net profit generated by the DZ BANK Group in the reporting period were as described below.

FIG. 1 – INCOME STATEMENT

€ million	Jan. 1– Jun. 30, 2021	Jan. 1– Jun. 30, 2020
Net interest income	1,423	1,505
of which net income from long-term equity investments[1]	30	62
Net fee and commission income	1,596	1,052
Gains and losses on trading activities	-	539
Gains and losses on investments	37	-15
Other gains and losses on valuation of financial instruments	203	-247
Gains and losses from the derecognition of financial assets measured at amortized cost	6	7
Net income from insurance business	522	124
Loss allowances	114	-522
Administrative expenses	-2,142	-2,016
Staff expenses	-966	-924
Other administrative expenses[2]	-1,177	-1,092
Other net operating income	73	130
Profit before taxes	1,832	557
Income taxes	-524	-185
Net profit	**1,308**	**372**

1 Total of current income and expense from income from other shareholdings, current income and expense from investments in subsidiaries, current income and expense from investments in associates, income/loss from using the equity method, and income from profit-pooling, profit-transfer, and partial profit-transfer agreements (see note 5 in the notes to the interim consolidated financial statements).
2 General and administrative expenses plus depreciation/amortization expense.

Operating income in the DZ BANK Group amounted to €3,860 million (first half of 2020: €3,095 million). This figure comprises net interest income, net fee and commission income, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, gains and losses from the derecognition of financial assets measured at amortized cost, net income from insurance business, and other net operating income.

Net interest income (including net income from long-term equity investments) in the DZ BANK Group fell by €82 million year on year to €1,423 million (first half of 2020: €1,505 million).

Net interest income at DZ BANK – CICB went up by €87 million in the reporting period. Conversely, net interest income went down by €16 million at DZ PRIVATBANK, by €32 million at DVB, and by €39 million at BSH. The specific reasons for the year-on-year change in net interest income were the factors described in the details for these operating segments.

Net income from long-term equity investments in the DZ BANK Group amounted to €30 million (first half of 2020: €62 million). The change compared with the prior-year period was mainly due to the increase in the level of profit reported by Deutsche WertpapierService Bank AG, Frankfurt am Main, for the first half of 2020. In accordance with the equity method, this profit is recognized under net income from long-term equity investments in an amount proportional to the investment.

Net fee and commission income in the DZ BANK Group increased by €544 million to €1,596 million (first half of 2020: €1,052 million).

Net fee and commission income advanced by €496 million at UMH, by €28 million at DZ BANK – CICB, by €14 million at TeamBank, and by €10 million at DZ PRIVATBANK. The specific reasons for the year-on-year change in net fee and commission income were the factors described in the details for these operating segments.

The DZ BANK Group's **gains and losses on trading activities** in the first half of 2021 came to €0 million compared with a net gain of €539 million for the prior-year period. This was largely attributable to the gains and losses on trading activities at DZ BANK – CICB, amounting to a net loss of €8 million (first half of 2020: net gain of €521 million).

Gains and losses on investments improved by €52 million to a net gain of €37 million (first half of 2020: net loss of €15 million). BSH and DZ BANK – CICB contributed to this result with net gains of €33 million and €22 million respectively. The specific reasons for the year-on-year change in gains and losses on investments were the factors described in the details for these operating segments.

Other gains and losses on valuation of financial instruments in the DZ BANK Group amounted to a net gain of €203 million in the reporting period (first half of 2020: net loss of €247 million).

Other gains and losses on valuation of financial instruments rose by €196 million at DZ HYP, primarily due to a narrowing of credit spreads on bonds from eurozone periphery countries, by €155 million at UMH, mainly because of a positive change in the valuation of guarantee commitments, by €92 million at DVB, and by €24 million in the DZ BANK – CICB operating segment. The specific reasons for the year-on-year change in other gains and losses on valuation of financial instruments were the factors described in the details for these operating segments.

Gains and losses from the derecognition of financial assets measured at amortized cost amounted to a net gain of €6 million in the reporting period (first half of 2020: net gain of €7 million).

The DZ BANK Group's **net income from insurance business** comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, insurance business operating expenses, and gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business. In the first half of 2021, this figure improved by €398 million to €522 million (first half of 2020: €124 million).

This year-on-year increase was primarily attributable to the changes, described in the details for the R+V operating segment, in premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, and insurance benefit payments.

Loss allowances amounted to a net reversal of €114 million (first half of 2020: net addition of €522 million). Compared with the prior-year period, loss allowances were lower by €334 million at DZ BANK – CICB, by €228 million at DVB, by €49 million at TeamBank, and by €21 million at VR Smart Finanz. The specific reasons for the year-on-year change in loss allowances were the factors described in the details for the individual operating segments.

Disclosures on the nature and extent of risks arising from financial instruments and insurance contracts can be found in note 46 in the notes to the interim consolidated financial statements.

Administrative expenses in the DZ BANK Group increased by €126 million to €2,142 million (first half of 2020: €2,016 million). The rise in administrative expenses, excluding the total of €111 million attributable to the higher bank levy, to the contributions to the BVR protection scheme, and to the first-time consolidation of ZBI Partnerschafts-Holding GmbH within UMH, amounted to €15 million or 0.7 percent. Staff expenses rose to €966 million compared with €924 million reported for the first half of 2020. Other administrative expenses increased to €1,177 million (first half of 2020: €1,092 million). The year-on-year change in administrative expenses can be explained by the factors described in the details for the individual operating segments.

The DZ BANK Group's **other net operating income** came to €73 million (first half of 2020: €130 million).

Other net operating income improved by €11 million at DVB. However, it declined by €12 million at DZ BANK – CICB, by €15 million at R+V, and by €32 million at UMH. The year-on-year change in other net operating income can be explained by the factors described in the details for the individual operating segments.

Profit before taxes for the first half of 2021 amounted to €1,832 million, compared with €557 million in the prior-year period.

The DZ BANK Group's **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for the reporting period came to 55.5 percent (first half of 2020: 65.1 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 18.4 percent (first half of 2020: 5.3 percent).

The DZ BANK Group's **income taxes** amounted to €524 million in the first half of 2021 (first half of 2020: €185 million).

Net profit for the first half of 2021 was €1,308 million compared with €372 million for the first half of 2020.

3.2 Financial performance in detail

Figure 2 below shows the details of the financial performance of the DZ BANK Group's operating segments in the first half of 2021 compared with the corresponding period of 2020.

FIG. 2 – SEGMENT INFORMATION

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2021

€ million	BSH	R+V	TeamBank	UMH
Net interest income	293	-	241	4
Net fee and commission income	1	-	-1	1,264
Gains and losses on trading activities	-	-	-	-
Gains and losses on investments	13	-	-	-1
Other gains and losses on valuation of financial instruments	-	-	1	74
Gains and losses from the derecognition of financial assets measured at amortized cost	4	-	-	-
Premiums earned	-	9,497	-	-
Gains and losses on investments held by insurance companies and other insurance company gains and losses	-	2,759	-	-
Insurance benefit payments	-	-10,126	-	-
Insurance business operating expenses	-	-1,645	-	-
Gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business	-	-	-	-
Loss allowances	-19	-	-22	-
Administrative expenses	-257	-	-138	-503
Other net operating income	18	-2	4	-14
Profit/loss before taxes	**54**	**482**	**84**	**825**
Cost/income ratio (%)	78.1	-	56.3	37.9
Regulatory RORAC (%)	8.3	9.5	29.9	>100.0
Average own funds/solvency requirement	1,295	10,194	565	516
Total assets/total equity and liabilities as at Jun. 30, 2021	82,286	134,924	9,566	3,744

	DZ BANK – CICB	DZ HYP	DZ PRIVAT-BANK	VR Smart Finanz	DVB	DZ BANK – holding function	Other/ Consolidation	**Total**
	501	364	28	64	-12	-20	-40	1,423
	258	4	103	-15	8	-	-26	1,596
	-8	-4	11	-	-1	-	2	-
	24	-	-	-	-	-	1	37
	31	70	1	-	24	-	2	203
	3	-	-	-	-	-	-1	6
	-	-	-	-	-	-	-	9,497
	-	-	-	-	-	-	-26	2,733
	-	-	-	-	-	-	-	-10,126
	-	-	-	-	-	-	63	-1,582
	-	-	-	-	-	-	-	-
	78	1	-	-5	80	-	1	114
	-664	-157	-125	-41	-68	-119	-70	-2,142
	-5	8	1	-3	39	-	27	73
	218	**287**	**19**	**-**	**70**	**-139**	**-68**	**1,832**
	82.6	35.5	86.8	89.1	>100.0	-	-	55.5
	8.2	39.9	11.4	0.3	>100.0	-	-	18.4
	5,299	1,441	331	185	103	-	-	19,929
	348,170	91,758	22,679	3,479	8,570	20,446	-87,752	637,870

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2020

€ million	BSH	R+V	TeamBank	UMH
Net interest income	332	-	248	7
Net fee and commission income	-5	-	-15	768
Gains and losses on trading activities	-	-	-	-
Gains and losses on investments	-20	-	-	-6
Other gains and losses on valuation of financial instruments	6	-	-1	-81
Gains and losses from the derecognition of financial assets measured at amortized cost	11	-	-	-
Premiums earned	-	9,221	-	-
Gains and losses on investments held by insurance companies and other insurance company gains and losses	-	-622	-	-
Insurance benefit payments	-	-6,883	-	-
Insurance business operating expenses	-	-1,617	-	-
Gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business	-	-10	-	-
Loss allowances	-13	-	-71	-
Administrative expenses	-253	-	-119	-442
Other net operating income	17	13	7	18
Profit/loss before taxes	**75**	**102**	**49**	**264**
Cost/income ratio (%)	74.2	-	49.8	62.6
Regulatory RORAC (%)	12.7	1.9	17.2	>100.0
Average own funds/solvency requirement	1,184	10,877	571	420
Total assets/total equity and liabilities as at Dec. 31, 2020	81,673	130,027	9,285	3,561

	DZ BANK – CICB	DZ HYP	DZ PRIVAT-BANK	VR Smart Finanz	DVB	DZ BANK – holding function	Other/ Consolidation	**Total**
	414	358	44	72	20	-23	33	1,505
	230	1	93	-11	16	-	-25	1,052
	521	5	9	-	2	-	2	539
	2	1	-	-	-	-	8	-15
	7	-126	-1	-	-68	-	17	-247
	3	-	-	-	-	-	-7	7
	-	-	-	-	-	-	-	9,221
	-	-	-	-	-	-	-29	-651
	-	-	-	-	-	-	-	-6,883
	-	-	-	-	-	-	64	-1,553
	-	-	-	-	-	-	-	-10
	-256	-6	-1	-26	-148	-	-1	-522
	-643	-135	-121	-52	-78	-101	-72	-2,016
	7	8	4	-7	28	-	35	130
	285	**106**	**27**	**-24**	**-228**	**-124**	**25**	**557**
	54.3	54.7	81.2	96.3	>100.0	-	-	65.1
	10.5	13.3	13.7	-17.1	>-100.0	-	-	5.3
	5,438	1,597	400	276	166	-	-	20,929
	314,612	94,486	17,691	3,684	10,247	21,297	-91,990	594,573

3.2.1 BSH

Net interest income in the BSH subgroup fell by €39 million to €293 million (first half of 2020: €332 million).

The main reason for the decrease in net interest income was the persistently low level of interest rates. At the end of the reporting period, the ten-year swap rate was 0.10 percent (June 30, 2020: minus 0.17 percent).

Interest income arising on investments declined by €55 million to €173 million (first half of 2020: €228 million) because capital market rates for investments remained low.

In the case of loans issued under advance or interim financing arrangements and other building loans, income amounted to €501 million (first half of 2020: €500 million) on the back of the expansion in business over the last few years and despite a fall in average returns. Income from home savings loans amounted to €34 million (first half of 2020: €34 million). Net interest income was also adversely impacted by a year-on-year increase of €17 million to €98 million (first half of 2020: €81 million) in BSH's fees, commissions, and transaction costs directly assignable to the acquisition of home savings contracts and loan agreements and incorporated into the effective interest method applied to home savings deposits and building loans.

The volume of home savings deposits from retail customers in the BSH subgroup grew by €1.7 billion to €65.7 billion as at June 30, 2021 (June 30, 2020: €64.0 billion). Despite this growth, the interest expense went down by €17 million because of the lower interest rates of the current tariffs and because of portfolio measures.

Net fee and commission income amounted to €1 million in the period under review (first half of 2020: net expense of €5 million).

In the home savings business in the first half of 2021, BSH entered into approximately 291 thousand (first half of 2020: 222 thousand) new home savings contracts with a volume of €14.7 billion (first half of 2020: €11.9 billion) in Germany.

In the home finance business, the realized volume of new business advanced to €9.3 billion in Germany in the reporting period (first half of 2020: €8.4 billion). This figure includes finance of €4.4 billion referred to institutions in the cooperative financial network (first half of 2020: €3.7 billion). It does not include home savings loans and bridging loans from BSH and other referrals, which totaled €0.9 billion (first half of 2020: €1.0 billion). Further financing of €4.0 billion (first half of 2020: €2.1 billion) was referred to cooperative banks via the BAUFINEX brokering platform.

Gains and losses on investments stood at a net gain of €13 million (first half of 2020: net loss of €20 million). This was attributable to the disposal of securities in an amount of €13 million (first half of 2020: €12 million). In the prior-year period, gains and losses on investments had been particularly affected by the write-down of more than €30 million on the carrying amount, calculated using the equity method, of Slovakian building society PSS.

Loss allowances amounted to a total net addition of €19 million (first half of 2020: net addition of €13 million). The main factor that adversely affected loss allowances in the period under review was the update to the scoring systems used for the building society's business, whereas an addition of €7 million had been required in the prior-year period owing to the COVID-19 pandemic.

Administrative expenses increased by €4 million to €257 million (first half of 2020: €253 million). At €117 million, staff expenses were €1 million higher than the level in the prior-year period of €116 million. Other administrative expenses grew by €3 million to €140 million (first half of 2020: €137 million), primarily because of greater depreciation and amortization expenses and IT investment.

Other net operating income amounted to €18 million (first half of 2020: €17 million).

Profit before taxes declined by €21 million to €54 million (first half of 2020: €75 million) as a consequence of the changes described above.

The **cost/income ratio** in the period under review came to 78.1 percent (first half of 2020: 74.2 percent).

Regulatory RORAC was 8.3 percent (first half of 2020: 12.7 percent).

3.2.2 R+V

Premiums earned went up by €276 million to €9,497 million (first half of 2020: €9,221 million), thanks to the tight integration of the R+V subgroup into the cooperative financial network.

Premium income earned in the life insurance and health insurance business grew by a total of €233 million to €4,724 million.

Premiums earned from the life insurance business rose by €206 million to €4,367 million. Occupational pensions, unit-linked life insurance, and new guarantees were the main areas of business contributing to this increase. On the other hand, credit insurance and traditional product business have recently seen a decline. In the health insurance business, net premiums earned rose by €27 million to €357 million, with notably strong growth in private supplementary health insurance and full health insurance.

In the non-life insurance business, premium income earned grew by €62 million to €3,294 million, with most of this growth being generated from motor vehicle insurance and corporate customer business.

Premiums earned from the inward reinsurance business fell by €19 million to €1,479 million. Europe remained the largest market for inward reinsurance. Growth was generated from fire and property insurance and from loan/deposit business, whereas motor vehicle insurance and other products declined.

Gains and losses on investments held by insurance companies and other insurance company gains and losses improved by €3,381 million to a net gain of €2,759 million (first half of 2020: net loss of €622 million). This figure includes the fair value-based gains and losses on investments held by insurance companies in respect of insurance products constituting unit-linked life insurance for the account and at the risk of employees, employers, and holders of life insurance policies (unit-linked contracts). The gains and losses on investments held by insurance companies attributable to unit-linked contract products generally have no impact on profit/loss before taxes, because this line item is matched by an insurance liability addition or reversal of the same amount. The net gain on investments held by insurance companies, excluding unit-linked contracts, amounted to €1,401 million in the reporting period (first half of 2020: €458 million).

The level of long-term interest rates was higher than in the first half of 2020. The movement of spreads on interest-bearing securities had a positive impact on this item. Spreads had widened in the first six months of 2020 but held steady in the period under review. A weighted spread calculated in accordance with R+V's portfolio structure stood at 54.0 points as at June 30, 2021 (December 31, 2020: 50.3 points). In the comparative period, this spread had risen from 53.5 points as at December 31, 2019 to 70.3 points as at June 30, 2020.

During the reporting period, equity markets relevant to R+V performed better than in the comparative period. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, saw a rise of 511 points from the start of 2021, closing the reporting period on 4,064 points. This index had fallen by 511 points in the first half of 2020. In the reporting period, movements in exchange rates between the euro and various currencies were generally more favorable than in the comparative period. For example, the US dollar/euro exchange rate on June 30, 2021 was 0.843 compared with 0.817 as at December 31, 2020. In the first half of 2020, the US dollar/euro exchange rate had changed from 0.891 as at December 31, 2019 to 0.890 on June 30, 2020.

Overall, these trends in the first half of 2021 essentially resulted in a €2,952 million positive change in unrealized gains and losses to a net gain of €1,486 million (first half of 2020: net loss of €1,466 million), a €274 million increase in the contribution to earnings from the derecognition of investments to a gain of €3 million (first half of 2020: loss of €271 million), an improvement of €503 million in the foreign exchange gains and losses to a net gain of €335 million (first half of 2020: net loss of €168 million), and a €35 improvement in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €45 million (first half of 2020: net expense of €80 million). In addition, net income under current income and expense fell by €22 million to €1,044 million (first half of 2020: €1,066 million). Other insurance gains and losses and non-insurance gains and losses deteriorated by €362 million to a net loss of €65 million (first half of 2020: net gain of €297 million).

Owing to the inclusion of provisions for premium refunds (particularly in the life insurance and health insurance business) and claims by policyholders in the fund-linked life insurance business, the change in the level of gains and losses on investments held by insurance companies also affected the 'insurance benefit payments' line item presented below.

Insurance benefit payments amounted to €10,126 million, which equated to a rise of €3,243 million compared with the corresponding figure of €6,883 million in the prior-year period.

The increase in insurance benefit payments reflected both the trend in net premiums earned and the policyholder participation in gains and losses on investments held by insurance companies.

At the companies offering personal insurance, the changes in insurance benefit payments were in line with the change in premium income and in gains and losses on investments held by insurance companies and other insurance company gains and losses. For example, a large part of the net gain of €2,810 million under gains and losses on investments held by insurance companies from unit-linked life insurance was also reflected in insurance benefit payments. There was a reversal of €103 million from the supplementary change-in-discount-rate reserve (first half of 2020: reversal of €89 million).

In the non-life insurance business, the claims rate trend was in line with expectations. The overall claims rate was below the level of the prior-year period. Claims expenses for major claims and basic claims have recently fallen. June saw an accumulation of natural disaster claims owing to storms, resulting in claims incurred of approximately €190 million as at the reporting date. There was again a mitigating impact from motor vehicle insurance as a result of the COVID-19 pandemic.

In the inward reinsurance business, the net claims ratio was down by 6.8 percentage points compared with the prior-year period (first half of 2020: 78.1 percent). The ratios for major and basic claims were below those in the first six months of 2020, but the ratio for medium claims went up. As a result, the overall claims rate was below the level of the prior-year period. Notably, the COVID-19 pandemic had given rise to an insurance expense of around €140 million in the first half of 2020, with a corresponding impact on earnings. As at the reporting date, claims of €121 million had been received from ceding insurers, an increase of €25 million compared with the figure of €96 million at the end of 2020. By the end of the first half of 2021, major claims of €77 million had arisen in connection with the Texas Freeze winter storm in the United States.

Insurance business operating expenses incurred in the course of ordinary business activities went up by just €28 million to €1,645 million (first half of 2020: €1,617 million). This change was primarily attributable to the life/health division, which saw an increase of €22 million or 5.7 percent. Expenses also rose in the inward reinsurance business, by €8 million or 2.1 percent. In the non-life insurance division, however, expenses were down by €2 million or 0.3 percent.

As a result of the factors described above, **profit before taxes** improved by €380 million to €482 million (first half of 2020: €102 million).

Regulatory RORAC was 9.5 percent (first half of 2020: 1.9 percent).

3.2.3 TeamBank

At €241 million, **net interest income** was down by €7 million year on year (first half of 2020: €248 million).

As at June 30, 2021, the volume of consumer finance stood at €8,826 million (December 31, 2020: €8,818 million). As at June 30, 2020, it had amounted to €8,909 million (December 31, 2019: €8,873 million). The change in the volume of consumer finance should be viewed in the context of the consequences of the ongoing COVID-19 pandemic.

As at June 30, 2021, TeamBank was working with 735 (December 31, 2020: 734) of Germany's 809 (December 31, 2020: 814) cooperative banks and with 150 (December 31, 2020: 145) partner banks in Austria. In addition, more than 32 thousand (first half of 2020: 34 thousand) members of cooperative banks benefited from favorable terms and conditions in the first six months of 2020.

The business model of a consumer finance provider constructed on the basis of the easyCredit-Liquiditätsberater advisory concept, which includes a financial compass created individually for each customer and provides both the customer and the advisor with transparency about the credit decision reached, enabled TeamBank to hold loans and advances to customers at €9,043 million against the backdrop of the fallout from the pandemic (December 31, 2020: €9,031 million). The number of customers rose to 972 thousand (December 31, 2020: 962 thousand). TeamBank had made credit facilities from easyCredit-Finanzreserve totaling €2,204 million available to its customers as at June 30, 2021 (December 31, 2020: €1,912 million). In the first half of 2021, 16.9 percent of new business was generated through easyCredit-Finanzreserve.

Net fee and commission income improved by €14 million to a net loss of €1 million (first half of 2020: net loss of €15 million). This line item included income from the ECB's TLTRO III tender of €7 million (first half of 2020: €0 million).

The addition to **loss allowances** amounted to €22 million, which was down by €49 million compared with the figure of €71 million in the prior-year period. This change was due to a reversal of €16 million in connection with credit rating improvements during the reporting period as a result of customers' positive payment history and, in particular, the large addition of €33 million that had been required in the first half of 2020 due to the pandemic.

Administrative expenses increased by €19 million to €138 million (first half of 2020: €119 million). Staff expenses rose by €3 million to €52 million (first half of 2020: €49 million), mainly due to the growth of headcount. Other administrative expenses went up by €16 million to €86 million (first half of 2020: €70 million), notably because of year-on-year increases in IT costs as a result of capital investment as well as consultancy costs and the bank levy.

Profit before taxes for the period under review amounted to €84 million. The increase of €35 million compared with the figure of €49 million reported for the first half of 2020 was a consequence of the factors described above.

TeamBank's **cost/income ratio** came to 56.3 percent (first half of 2020: 49.8 percent).

Regulatory RORAC was 29.9 percent (first half of 2020: 17.2 percent).

3.2.4 UMH

Net fee and commission income at UMH rose by €496 million to €1,264 million (first half of 2020: €768 million). The change in net fee and commission income was predominantly due to the factors described below.

Because of the rise in the average assets under management of the Union Investment Group, which climbed by €44.4 billion to €403.3 billion (first half of 2020: €358.9 billion), the volume-related contribution to net fee and commission income rose to €827 million (first half of 2020: €675 million).

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

Income from performance-related management fees amounted to €372 million (first half of 2020: €21 million). The increase was largely the result of a higher number of high-volume funds more comfortably fulfilling the conditions for the transfer of a performance-related management fee in the first half of 2021. Income from real estate fund transaction fees came to €22 million in the period under review (first half of 2020: €22 million).

Union Investment managed to generate net inflows from its retail business of €9.7 billion in the first six months of 2021 (first half of 2020: €3.7 billion) in collaboration with the local cooperative banks.

The number of traditional fund-linked savings plans, which are used by retail customers as investments aimed at long-term capital accumulation, had risen to 3.5 million contracts as at June 30, 2021, with an increase in the 12-month savings volume to €6.9 billion (December 31, 2020: €5.8 billion).

The total assets in the portfolio of Riester pension products swelled to €24.8 billion (December 31, 2020: €22.0 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at June 30, 2021 totaled 6.0 million (December 31, 2020: 5.7 million). These plans included contracts under employer-funded capital formation schemes as well as the traditional savings plans and Riester pension contracts referred to above.

The open-ended real estate funds offered by the Union Investment Group, which are an intrinsic-value-based component of the investment mix, generated net new business totaling €1.4 billion in the first half of 2021 (first half of 2020: €1.3 billion).

Assets under management in the PrivatFonds family amounted to €25.9 billion as at June 30, 2021 (December 31, 2020: €25.0 billion).

In its institutional business, the Union Investment Group generated net inflows amounting to €14.7 billion (first half of 2020: €0.6 billion).

The portfolio of sustainably managed funds expanded to €74.0 billion (December 31, 2020: €61.0 billion). This growth demonstrates that institutional clients are increasingly focusing on socially responsible investing.

Other gains and losses on valuation of financial instruments improved by €155 million to a net gain of €74 million (first half of 2020: net loss of €81 million), which was largely attributable to income of €63 million from the valuation of guarantee commitments (first half of 2020: expense of €78 million) and the net gain of

€11 million arising on the valuation of Union Investment's own-account investments (first half of 2020: net loss of €2 million).

Administrative expenses increased by €61 million to €503 million (first half of 2020: €442 million). Staff expenses climbed by €41 million to €259 million (first half of 2020: €218 million), primarily owing to the pro rata effects in connection with the acquisition of a majority stake in ZBI Partnerschafts-Holding GmbH of €19 million and also to average salary increases and appointments to new and vacant posts. Salary components also took into account the performance of the business reflected in UMH's KPIs. Other administrative expenses rose by €20 million to €244 million (first half of 2020: €224 million), largely because of higher expenses for consultancy.

Other net operating income went down by €32 million to a net expense of €14 million (first half of 2020: net income of €18 million).

Based on the changes described above, **profit before taxes** amounted to €825 million (first half of 2020: €264 million).

The **cost/income ratio** came to 37.9 percent in the first half of this year (first half of 2020: 62.6 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2020: greater than 100.0 percent).

3.2.5 DZ BANK – CICB

Net interest income is primarily attributable to the lending business portfolios (Corporate Banking business line and a separately managed real estate lending portfolio), the portfolios from the capital markets business, and the long-term equity investments allocated to the central institution and corporate bank. Net interest income increased by €87 million to €501 million (first half of 2020: €414 million).

In the Corporate Banking business line, net interest income went up by €41 million to €274 million (first half of 2020: €233 million). The net interest income in the four regional corporate customer divisions plus Central Corporate Banking rose by €26 million to €155 million (first half of 2020: €129 million). This was due to the increased volume of lending and receipt of the bonus interest of €16 million as a result of participating in the TLTRO III program.

Net interest income in the Structured Finance division amounted to €87 million, an increase of €9 million compared with the figure for the first half of 2020 of €78 million. This increase was driven by international trade finance, especially export finance. Income of €2 million from the TLTRO III program was also included.

In the Investment Promotion division, net interest income advanced by €6 million to €32 million (first half of 2020: €26 million). This year-on-year increase was mainly due to substantial growth in volume driven by the strong demand for business support programs in connection with the COVID-19 pandemic.

At €9 million, net interest income from the separately managed real estate lending portfolio was down compared with the figure of €16 million for the first half of 2020 due to the reduction in the size of portfolio caused by the transfer of some of its components to DZ HYP.

In the Capital Markets business line, net interest income fell by €57 million to €87 million (first half of 2020: €144 million). This was primarily attributable to business with institutional customers and the treasury portfolios. The figure for the reporting period included positive effects of €22 million from TLTRO III. The year-on-year reduction resulted largely from the positive impact of the specific funding structure in the first half of 2020.

Other net interest income swelled by €51 million to €60 million (first half of 2020: €9 million). For the first time, the figure for the reporting period included income of €49 million from TLTRO III that was not allocated to the operating business lines. Moreover, income from loan administration fees rose by €2 million to €11 million (first half of 2020: €9 million).

Current income and expense from long-term equity investments amounted to net income of €71 million (first half of 2020: net income of €13 million).

Net fee and commission income rose by €28 million to €258 million (first half of 2020: €230 million).

The principal sources of income were service fees in the Corporate Banking business line (in particular, from lending business including guarantees and international business), in the Capital Markets business line (mainly from securities issuance and brokerage business, agents' fees, transactions on futures and options exchanges, financial services, and the provision of information), and in the Transaction Banking business line (primarily from payments processing including credit card processing, safe custody, and gains/losses from the currency service business).

In the Corporate Banking business line, net fee and commission income was €9 million higher than in the prior-year period at €72 million (first half of 2020: €63 million). Of this increase, €4 million was attributable to the corporate finance business and €2 million to restructuring fees. In addition, fee and commission income from financial guarantee contracts and loan commitments went up by €2 million.

In the Capital Markets business line, the contribution to net fee and commission income rose by €19 million to €136 million (first half of 2020: €117 million). Of particular note were the €14 million increase in income from syndicated business and issuance business and the €6 million increase in income from fund sales commissions.

Net fee and commission income in the Transaction Banking business line was also up year on year at €74 million, a rise of €9 million (first half of 2020: €65 million). Of this increase, €4 million was attributable to safe custody and management of securities, which was primarily driven by volume growth, €3 million to lower costs for securities processing as a result of newly awarded volume rebates, and €2 million to deferred instant payment fees.

As part of service procurement arrangements, DZ BANK has transferred processing services in the lending business to Schwäbisch Hall Kreditservice, in the payments processing business to equensWorldline SE and Cash Logistik Security AG, and in capital markets business/transaction banking to Deutsche WertpapierService Bank AG. The expenses arising in connection with obtaining services from the above external processing companies amounted to a total of €93 million (first half of 2020: €93 million) and were broken down and reported under the net fee and commission income for the business lines as follows: Corporate Banking €4 million (first half of 2020: €4 million) and Capital Markets/Transaction Banking €89 million (first half of 2020: €89 million).

Aside from the aforementioned business lines, net fee and commission income from other financial services amounted to a greater net expense of €24 million in the reporting period (first half of 2020: net expense of €15 million). This figure included the reclassification of loan administration fees of €11 million (first half of 2020: €12 million) and the expense of €15 million as a result of passing on the bonus interest from the TLTRO III program to the participating group subsidiaries.

Gains and losses on trading activities deteriorated to a net loss of €8 million (first half of 2020: net gain of €521 million).

Gains and losses on trading activities reflect the business activity of the Capital Markets business line and gains and losses on money market business entered into for trading purposes (mainly repurchase agreements) and on derivatives of the Group Treasury division ('financial assets and liabilities measured at fair value through profit or loss' (fair value PL)). The fair value gains and losses on financial assets and liabilities designated as at fair value through profit or loss (fair value option) are also included in gains and losses on trading activities. During the reporting period, there was an improvement in gains and losses on operating trading activities on the one hand and a sharp fall as a result of IFRS-related valuation effects on the other.

Gains and losses on operating trading activities in the Capital Markets business line amounted to a net gain of €363 million, a year-on-year rise of €104 million (first half of 2020: net gain of €259 million). In the customer business, demand from institutional clients for interest-rate derivatives and credit linked notes and demand from retail customers for equity derivatives and share certificates contributed to the higher net gain. Apart from the customer business, the increase in the net gain on operating trading activities was driven by the current situation in the capital markets (further narrowing of credit spreads, movements in the equity market) and by risk management for trade.

There were also negative IFRS-related effects of €372 million in the first half of 2021. Both in the prior-year period and in the reporting period, such effects were primarily driven by changes in fair value gains and losses on own issues in the subcategories 'financial assets and liabilities measured at fair value through profit or loss' (fair value PL) and 'financial assets and liabilities designated as at fair value through profit or loss' (fair value option). In the prior-year period, a net gain had been achieved for these issues under fair value gains and losses, primarily due to the widening of mark-ups in the bond market in the context of the COVID-19 crisis. However, this item had the opposite effect on the income statement in the first six months of 2021 due to the calmer conditions in the bond markets.

In the first half of 2021, the fair value gains and losses on issues in the aforementioned categories amounted to a net loss of €163 million. Reserves increased in the category of financial instruments measured at amortized cost.

There was also an adverse impact from derivative hedging transactions that are related to group finance and are therefore not permitted to be included in hedge accounting. In subsequent years, this adverse impact on earnings will be eliminated due to the pull-to-par effect. To a lesser extent, ineffectiveness in hedge accounting also took its toll on earnings. This expense was matched by income in the same amount recognized under other gains and losses on valuation of financial instruments.

Gains and losses on investments improved by €22 million to a net gain of €24 million (first half of 2020: net gain of €2 million). The net gain in the reporting period resulted from the combination of income of €41 million from the sale of securities in the category 'fair value through other comprehensive income' and expenses of €22 million arising from the termination of hedges accounted for in the category 'fair value through other comprehensive income' and held in the fair value hedge accounting portfolio. There was also a contribution of €5 million resulting from the repayment of outstanding Tier I issues.

Other gains and losses on valuation of financial instruments increased to a net gain of €31 million (first half of 2020: net gain of €7 million). Within this figure, the net gain on valuation of financial instruments measured at fair value through profit or loss improved by €9 million to €5 million (first half of 2020: net loss of €4 million) and the net gain from ineffectiveness in hedge accounting rose by €15 million to €26 million (first half of 2020: net gain of €11 million).

The net gain under **gains and losses from the derecognition of financial assets measured at amortized cost** was unchanged year on year at €3 million. Within this figure, the gains on the derecognition of financial assets measured at amortized cost rose by €5 million to €8 million. Conversely, the reversal of adjustments to carrying amounts (hedge adjustments) in the context of hedge accounting gave rise to a negative effect of €5 million (first half of 2020: negative effect of €1 million).

Loss allowances amounted to a net reversal of €78 million (first half of 2020: net addition of €256 million). Within this figure, the net reversals in the lending business and in respect of investments amounted to €41 million. Of this total, net reversals of €26 million related to loss allowances in stage 1, net additions of €50 million related to loss allowances in stage 2, and net reversals of €65 million related to loss allowances in stage 3. The net reversal in respect of recoveries on loans and advances previously impaired, directly recognized impairment losses, and additions to other provisions for loans and advances was €37 million (first half of 2020: net addition of €1 million).

The net reversals of loss allowances in stage 1 were influenced by the transfer of a counterparty between stages, resulting in a reversal of €16 million under investments. The additions in stage 2 were primarily due to the worsening of major counterparties' credit ratings. The reversals in stage 3 were largely the result of the scaling back of an individual exposure of €51 million. There were also recoveries on loans and advances previously impaired of €20 million due to the recovery of collateral from a counterparty.

In the first half of 2020, the requirement for the addition of €98 million in stages 1 and 2 (first half of 2021: addition of €10 million) had arisen because the anticipated macroeconomic conditions were included in the calculation in connection with the COVID-19 pandemic, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses. Loss allowances in stage 3 had also gone up due to significant individual additions.

Administrative expenses increased by €21 million to €664 million (first half of 2020: €643 million).

The €5 million rise in staff expenses to €298 million (first half of 2020: €293 million) was largely due to salary increases.

Other administrative expenses went up by €16 million to €366 million (first half of 2020: €350 million). The expenses included in this total relating to the restructuring fund for banks (bank levy) and contributions to the BVR protection scheme rose by €27 million to €82 million (first half of 2020: €55 million taking into account the reversal of provisions).

Conversely, consultancy expenses fell by €17 million to €81 million (first half of 2020: €98 million). The depreciation and amortization charges included in other administrative expenses went down by €1 million to €40 million (first half of 2020: €41 million). The breakdown of these charges was as follows: depreciation of right-of-use assets €17 million (first half of 2020: €18 million), depreciation of property, plant and equipment, and investment property €13 million (first half of 2020: €14 million), and amortization of other intangible assets €10 million (first half of 2020: €9 million).

Other net operating income, which amounted to a net expense of €5 million (first half of 2020: net income of €7 million) included reversals of provisions and accruals amounting to income of €15 million (first half of 2020: income of €20 million), expenses for the transfer of losses amounting to €4 million (first half of 2020: expenses of €13 million), and expenses for paydirekt of €8 million (first half of 2020: expenses of €8 million).

Profit before taxes amounted to €218 million in the reporting period, which was €67 million lower than the figure of €285 million reported for the comparative period.

The **cost/income ratio** came to 82.6 percent in the first half of this year (first half of 2020: 54.3 percent).

Regulatory RORAC was 8.2 percent (first half of 2020: 10.5 percent).

3.2.6 DZ HYP

At €364 million, the **net interest income** of DZ HYP was €6 million above the level of the prior-year period (first half of 2020: €358 million). DZ HYP's participation in the ECB's TLTRO III program gave rise to bonus interest of €7 million during the reporting period (first half of 2020: €0 million).

The rise in net interest income was mainly the result of portfolio growth generated from new business. The volume of real estate loans swelled by €2,835 million to €54,140 million (June 30, 2020: €51,305 million). The volume of new business (including public-sector finance) increased by €1,478 million to €5,374 million (first half of 2020: €3,896 million).

In the corporate customer business, the volume of new business came to €3,705 million (first half of 2020: €2,978 million). The volume of new lending jointly generated with the local cooperative banks in this area of business amounted to €2,245 million (first half of 2020: €2,191 million). In the retail customer business, the volume of new commitments reached €1,408 million (first half of 2020: €750 million). Of this amount, the new commitment volume referred by local cooperative banks came to €1,337 million (first half of 2020: €699 million). In the public-sector business, DZ HYP generated a new business volume of €261 million (first half of 2020: €168 million). Of this amount, €215 million (first half of 2020: €127 million) was attributable to business brokered through the cooperative banks and €46 million to direct business (first half of 2020: €42 million).

Other gains and losses on valuation of financial instruments improved by €196 million to a net gain of €70 million (first half of 2020: net loss of €126 million). Spreads narrowed during the reporting period, whereas they had widened in the first half of 2020 owing to the COVID-19 pandemic. For example, the gains and losses on valuation of bonds from the peripheral countries of the eurozone amounted to a net gain of €57 million in the six months under review (first half of 2020: net loss of €114 million). Of this amount, a net gain of €30 million (first half of 2020: net loss of €45 million) was attributable to Italian government bonds, a net gain of €21 million (first half of 2020: net loss of €43 million) to Spanish government bonds, and a net gain of €6 million (first half of 2020: net loss of €26 million) to Portuguese government bonds.

Loss allowances amounted to a net reversal of €1 million (first half of 2020: net addition of €6 million). The loss allowance requirement in the prior-year period had largely been attributable to additions in connection with the COVID-19 pandemic.

Administrative expenses increased by €22 million to €157 million (first half of 2020: €135 million). Staff expenses went up by €1 million to €48 million (first half of 2020: €47 million). Other administrative expenses rose by €21 million to €109 million (first half of 2020: €88 million) owing to the higher contribution to the deposit guarantee fund and higher bank levy.

Profit before taxes amounted to €287 million, which was up by €181 million compared with the equivalent figure for the first half of 2020 of €106 million, predominantly as a consequence of the factors described above.

The **cost/income ratio** came to 35.5 percent (first half of 2020: 54.7 percent).

Regulatory RORAC was 39.9 percent (first half of 2020: 13.3 percent).

3.2.7 DZ PRIVATBANK

Net interest income at DZ PRIVATBANK fell by €16 million to €28 million (first half of 2020: €44 million) as a result of the persistently low interest rates.

In the prior-year period, net interest income had particularly benefited from lower US dollar money market rates.

The average volume of guaranteed LuxCredit loans issued by DZ PRIVATBANK, which acts as the competence center for foreign-currency lending and investing in the interest-earning business, amounted to €4.9 billion (first half of 2020: €4.9 billion).

Net fee and commission income rose by €10 million to €103 million (first half of 2020: €93 million). The increase in net fee and commission income was mainly attributable to the larger contributions to income from private banking and the fund services business.

As at June 30, 2021, the volume of assets under management relating to high-net-worth clients amounted to €21.8 billion (June 30, 2020: €18.6 billion). The assets under management comprise the volume of securities, derivatives, and deposits of customers in the private banking business.

The value of funds under management amounted to €169.5 billion (June 30, 2020: €122.2 billion). The number of fund-related mandates was 540 (June 30, 2020: 534).

Administrative expenses increased by €4 million to €125 million (first half of 2020: €121 million). Staff expenses amounted to €69 million (first half of 2020: €68 million). Other administrative expenses are subject to stringent process and cost management but increased year on year to €56 million (first half of 2020: €53 million) due, in particular, to the higher bank levy.

Profit before taxes declined by a total of €8 million to €19 million (first half of 2020: €27 million) as a consequence of the changes described above.

The **cost/income ratio** came to 86.8 percent (first half of 2020: 81.2 percent).

Regulatory RORAC was 11.4 percent (first half of 2020: 13.7 percent).

3.2.8 VR Smart Finanz

Following the sale of VR Factorem to DZ BANK on September 29, 2020, the composition of the operating segment has changed compared with the prior-year period.

Net interest income at VR Smart Finanz declined by €8 million to €64 million in the reporting period (first half of 2020: €72 million).

New lending and object finance business remained modest during the reporting period as a result of the COVID-19 pandemic and was 41.4 percent below the level of the prior-year period (first half of 2020: up by 13.9 percent). However, the first half of 2020 had been dominated by significant demand for liquidity from self-employed and small-business customers and a 37.0 percent increase in disbursements of the ‘VR Smart flexibel’ business loan in the first quarter of 2020. From spring 2020 onward, the COVID-19 pandemic meant that the ‘VR Smart flexibel’ business loan was temporarily replaced with the ‘VR Smart flexibel’ support loan, which is aligned with the 2020 special program of Germany’s KfW development bank aimed at established and start-up companies.

As at June 30, 2021, more than 50,000 inquiries had been received and loans of approximately €1,009 million had been approved in respect of the ‘VR Smart flexibel’ support loan, which will be offered until the end of 2021 following the extension of the KfW support program. Since the reintroduction of the ‘VR Smart flexibel’ business loan on November 30, 2020, VR Smart Finanz has approved loans with a total volume of around €230 million.

Expenses for **loss allowances** amounted to €5 million (first half of 2020: €26 million). In the prior-year period, loss allowances had been influenced by the adjustment of the scorecards, the adjustment of risk parameters used to calculate expected credit risk, and the addition in connection with the COVID-19 pandemic.

Administrative expenses decreased by €11 million to €41 million (first half of 2020: €52 million). Staff expenses declined by €5 million to €24 million (first half of 2020: €29 million), mainly due to the lower headcount. Other administrative expenses decreased by €6 million to €17 million (first half of 2020: €23 million), largely as a result of outsourcing IT operations and payments processing.

VR Smart Finanz's **profit before taxes** amounted to €0 million (first half of 2020: loss before taxes of €24 million), largely as a consequence of the factors described above.

The **cost/income ratio** came to 89.1 percent (first half of 2020: 96.3 percent).

Regulatory RORAC was 0.3 percent (first half of 2020: minus 17.1 percent).

3.2.9 DVB

The DVB subgroup's **net interest income** decreased by €32 million to a net expense of €12 million (first half of 2020: net income of €20 million). This decline was essentially due to the absence of interest income following the scaling back of the portfolio over the course of the first six months of 2020 and in the first half of 2021.

The nominal volume of customer loans in the DVB subgroup stood at €2.5 billion as at June 30, 2021 (December 31, 2020: €3.9 billion).

Net fee and commission income amounted to €8 million (first half of 2020: €16 million). This decrease predominantly arose because of the absence of income following the reduction of the portfolio.

Other gains and losses on valuation of financial instruments amounted to a net gain of €24 million (first half of 2020: net loss of €68 million). In the prior-year period, there had notably been a negative valuation impact in respect of derivatives that were not included in hedge accounting and negative valuation effects from use of the fair value option. The net gain in the reporting period was attributable to positive effects.

Loss allowances amounted to a net reversal of €80 million in the period under review (first half of 2020: net addition of €148 million), predominantly because of the progress made with scaling back the portfolio. The higher expense for loss allowances in the first half of 2020 had been primarily attributable to the COVID-19 pandemic and the further adjustment of risk parameters used to calculate expected credit risk.

Administrative expenses amounted to €68 million (first half of 2020: €78 million), a year-on-year fall of €10 million. Staff expenses declined by €6 million to €28 million owing to the reduction in headcount (first half of 2020: €34 million). Other administrative expenses came to €40 million, which was down year on year owing, in particular, to the lower level of legal and consultancy expenses (first half of 2020: €44 million).

Profit before taxes amounted to €70 million (first half of 2020: loss before taxes of €228 million), largely as a consequence of the factors described above.

The **cost/income ratio** in the period under review was greater than 100.0 percent (first half of 2020: greater than 100.0 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2020: greater than minus 100.0 percent).

3.2.10 DZ BANK – holding function

Net interest income includes the interest expense on subordinated capital, together with the net interest income from the funding of the main long-term equity investment carrying amounts and the investment of capital.

Net interest income amounted to a net expense of €20 million in the period under review (first half of 2020: net expense of €23 million).

The average level of subordinated capital for the twelve month period to the end of the first half of 2021 was lower than in the prior-year period and the interest expense on this capital went down by €2 million to €24 million (first half of 2020: €26 million).

Net interest income from the funding of long-term equity investment carrying amounts and the investment of capital amounted to €4 million in the reporting period (first half of 2020: €3 million).

Administrative expenses increased by €18 million year on year to €119 million (first half of 2020: €101 million).

The expenses for the bank levy and contributions (notably to the BVR protection scheme) rose by €13 million to €47 million (first half of 2020: €34 million taking into account the reversal of provisions). Furthermore, IT and project expenses increased from €22 million in the first six months of 2020 to €28 million in the period under review. Other expenses for the benefit of the group and local cooperative banks decreased by €1 million to €14 million (first half of 2020: €15 million). Expenses from the group management function were on a par with the prior-year period at €29 million (first half of 2020: €30 million).

3.2.11 Other/Consolidation

The consolidation-related adjustments shown under Other/Consolidation to reconcile operating segment profit/loss before taxes to consolidated profit/loss before taxes are attributable to the elimination of intragroup transactions and to the fact that investments in joint ventures and associates were accounted for using the equity method.

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

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

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

4 Net assets

As at June 30, 2021, the DZ BANK Group's **total assets** had increased by €43.3 billion, or 7.3 percent, to €637.9 billion (December 31, 2020: €594.6 billion). This increase was largely attributable to a higher level of total assets at DZ BANK – CICB (up by €33.6 billion), DZ PRIVATBANK (up by €5.0 billion), and R+V (up by €4.9 billion), whereas DZ HYP (down by €2.7 billion) and DVB (down by €1.7 billion) recorded a decrease.

The **volume of business** amounted to €1,147,971 million (December 31, 2020: €1,059,874 million). This figure comprised the total assets, the assets under management at UMH as at June 30, 2021 amounting to €427,241 million (December 31, 2020: €385,935 million), the financial guarantee contracts and loan commitments amounting to €80,588 million (December 31, 2020: €77,272 million), and the volume of trust activities amounting to €2,272 million (December 31, 2020: €2,094 million).

The DZ BANK Group's **cash and cash equivalents** went up by €29.5 billion, or 43.1 percent, to €97.9 billion (December 31, 2020: €68.4 billion) as a result of the corresponding rise in balances with central banks. The increase was predominantly attributable to DZ BANK – CICB (liquidity management function).

The DZ BANK Group's **loans and advances to banks** declined to €102.4 billion, a reduction of €0.6 billion or 0.6 percent. Loans and advances to banks in Germany went up by €0.6 billion to €94.9 billion, whereas loans and advances to foreign banks fell by €1.2 billion to €7.5 billion.

The DZ BANK Group's **loans and advances to customers** amounted to €191.6 billion, which was €1.3 billion, or 0.7 percent, higher than at the end of 2020. Within this figure, loans and advances to customers in Germany rose by €1.7 billion to €165.8 billion, whereas loans and advances to customers outside Germany went down by €0.4 billion to €25.8 billion.

As at June 30, 2021, **financial assets held for trading** amounted to €52.8 billion, an increase of €10.0 billion, or 23.2 percent, on the figure as at December 31, 2020. This change was largely attributable to a rise in money market placements (up by €11.4 billion) and in bonds and other fixed-income securities (up by €2.5 billion) combined with a decline in derivatives (positive fair values) (down by €4.1 billion).

Investments were down by €2.3 billion, or 3.8 percent, to €57.9 billion. The main reason for this change was the €2.2 billion decrease in the portfolio of bonds and other fixed-income securities.

Investments held by insurance companies rose by €5.5 billion (4.6 percent) to €127.2 billion (December 31, 2020: €121.7 billion). This was due, above all, to a €2.0 billion increase in assets related to unit-linked contracts to €16.8 billion, a €1.9 billion increase in mortgage loans to €12.8 billion, and a €1.6 billion increase in variable-yield securities to €13.2 billion.

The DZ BANK Group's **deposits from banks** as at June 30, 2021 amounted to €197.6 billion, which was €19.8 billion, or 11.1 percent, higher than the figure reported as at December 31, 2020. Deposits from domestic banks were up by €16.1 billion to €185.6 billion, while deposits from foreign banks increased by €3.7 billion to €12.0 billion. The growth reflects the expansion of development lending business since the outbreak of the coronavirus crisis. As at June 30, 2021, the DZ BANK Group had also participated in the ECB's TLTRO III program with a total drawdown amount of approximately €33 billion, leading to a further increase in deposits from banks.

Deposits from customers grew by €9.2 billion, or 6.8 percent, to €143.1 billion (December 31, 2020: €133.9 billion). Deposits from domestic customers decreased by €2.1 billion to €114.1 billion (December 31, 2020: €116.2 billion). Deposits from foreign customers rose by €11.3 billion to €29.0 billion (December 31, 2020: €17.7 billion).

At the end of the reporting half-year, the carrying amount of **debt certificates issued including bonds** in the DZ BANK Group was €76.1 billion (December 31, 2020: €70.5 billion). The rise of €5.6 billion was largely due to growth of €2.7 billion in the portfolio of other debt certificates issued to €10.4 billion while, at the same time, the portfolio of bonds issued expanded by €2.9 billion to €65.7 billion.

Financial liabilities held for trading went up by €5.4 billion, or 10.6 percent, to €55.8 billion (December 31, 2020: €50.4 billion). This change was largely due to a rise in money market deposits (up by €5.5 billion), short positions (up by €2.1 billion), and bonds issued (up by €1.1 billion). The figure under derivatives (negative fair values) decreased by €3.3 billion.

Insurance liabilities went up by €5.5 billion, or 4.9 percent, to €116.7 billion (December 31, 2020: €111.2 billion). This was largely attributable to rises of €1.9 billion in the benefit reserve, €1.0 billion in the provision for claims outstanding, €1.0 billion in the provision for unearned premiums, and €1.8 billion in the reserve for unit-linked insurance contracts.

As at June 30, 2021, the **equity** reported by the DZ BANK Group was €28.5 billion (December 31, 2020: €29.2 billion). The decrease of €0.7 billion compared with the end of 2020 was due to the reduced reserve from other comprehensive income (down by €0.4 billion) and the decrease in non-controlling interests (down by €1.3 billion), which was essentially attributable to the repayment in full of the issued bonds of DZ BANK Perpetual Funding Issuer (Jersey) Limited, St. Helier, Jersey, and of the non-cumulative trust preferred securities of DZ BANK Capital Funding Trust I, DZ BANK Capital Funding Trust II, and DZ BANK Capital Funding Trust III, all Wilmington, Delaware, USA. These factors were offset by a rise in retained earnings (up by €0.4 billion) and unappropriated earnings (June 30, 2021: €1.2 billion, December 31, 2020: €0.6 billion).

The **capital and solvency situation** of the DZ BANK financial conglomerate, the DZ BANK Group, and the R+V Versicherung AG insurance group is described in the risk report within this interim group management report (chapter VI.7.2).

5 Financial position

Liquidity management for the entities in the DZ BANK Group is carried out by the Group Treasury division at DZ BANK and on a decentralized basis by the individual subsidiaries. The individual entities are provided with funding by DZ BANK (group funding) or the entities exchange cash among themselves via DZ BANK (group clearing). Liquidity is managed within DZ BANK centrally by the Group Treasury division in Frankfurt and by the associated treasury units in its international branches, although Frankfurt has primary responsibility.

In the context of liquidity management, the DZ BANK Group distinguishes between operational liquidity (liquidity in the maturity band of up to one year) and structural liquidity (liquidity in the maturity band of more than one year).

The DZ BANK Group has a diversified funding base for **operational liquidity**. A considerable portion is accounted for by money market activities resulting from the cash-pooling function with the local cooperative banks. This enables cooperative banks to invest available liquidity with DZ BANK or obtain liquidity from DZ BANK if they need it. This regularly results in a liquidity surplus, which provides one of the main bases for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for covering operational liquidity requirements.

For funding purposes, the DZ BANK Group also issues money market products based on debt certificates under a standardized groupwide multi-issuer euro commercial paper program through its offices and branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. In addition, a US CP head office program is used centrally by DZ BANK Frankfurt.

Key repo and securities lending activities, together with the collateral management process, are managed centrally in DZ BANK's Group Treasury division as a basis for secured money market financing activities. Funding on the interbank market is not strategically important to the DZ BANK Group.

The DZ BANK Group also has at its disposal liquid securities that form part of its counterbalancing capacity. These securities can be used as collateral in monetary policy funding transactions with central banks, or in connection with secured funding in private markets.

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

As at June 30, 2021, the DZ BANK Group had participated in the ECB's TLTRO III program with a total drawdown amount of approximately €33 billion.

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

Monthly **structural analyses** of the various resources available on the liabilities side of DZ BANK's balance sheet are also conducted. The purpose of these analyses is to provide senior management with information that can then be used as the basis for actively managing the liability profile. In addition to this description of the funding structure, the risk report within this interim group management report includes disclosures on **liquidity risk** (chapter VI.6.1). The year-on-year changes in cash flows from operating activities, investing activities, and financing activities are shown in the **statement of cash flows** in the interim consolidated financial statements.