II Business report

1 Economic conditions

Conditions in the German economy proved highly challenging in the first half of 2022. The Omicron variant of coronavirus presented difficulties right from the start of the year, a situation that was then compounded by high inflation, supply chain problems and, ultimately, the war in Ukraine. This unsettled companies and consumers alike, and there is as yet no end in sight. One of the main concerns is the security of the energy supply for German industry, especially natural gas. The economy was therefore buffeted by strong headwinds. However, virtually all statutory infection control measures were eased despite a fresh wave of COVID-19 cases.

Despite the difficult conditions, the German economy expanded by 0.8 percent in the first quarter of 2022 compared with the previous quarter. Capital expenditure was the main source of growth impetus, whereas net exports held back growth. The aforementioned problems took a heavier toll on growth in the second quarter of 2022. Industrial output slowed over the course of the quarter, foreign trade declined, and retail sales fell compared with the first three months of the year. As a result, gross domestic product (GDP) was stagnant in the second quarter of 2022 compared with the previous quarter.

Adjusted for inflation, the average increase in economic output for the first half of 2022 compared with the second half of 2021 was therefore 0.7 percent. Compared with the first half of 2021, the increase was 2.5 percent.

The aforementioned negative factors also affected the economy of the eurozone in the first six months of 2022, albeit to a lesser extent overall. This was partly because many eurozone countries are less dependent on foreign trade with Russia. Following a 3.6 percent rise in GDP in the second half of 2021 compared with the first half of 2021, the eurozone's economic output grew by just 1.0 percent in the period under review. The increase in GDP in the first quarter of 2022 was 0.5 percent. In the second quarter of 2022, GDP continued to grow robustly, rising by 0.7 percent compared with the previous quarter.

The economy in the United States slipped into a technical recession in the first half of 2022. In both the first quarter and the second quarter, economic output declined slightly compared with the respective previous quarter. The primary reason for this was the exceptionally strong negative effects relating to foreign trade in the first quarter of 2022 and relating to inventory components in the second quarter of 2022. This is likely to have been an indirect consequence of the global supply chain disruptions. However, consumer spending and capital expenditure also lost a lot of momentum in the reporting period. Very high inflation and the US Federal Reserve's significant interest-rate hikes also created difficulties for the US economy.

The Chinese economy was primarily influenced by the country's efforts to tackle the wave of Omicron cases in the first half of 2022. Shanghai and other major economic regions went into lockdown in March 2022, in some cases for several weeks. The economy slumped in April 2022, and there were no visible signs of recovery until June when most restrictions were lifted again. Economic output contracted by 2.6 percent in the second quarter of 2022.

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

The war in Ukraine rattled the capital markets in the first half of 2022, whereas the capital markets had staged a recovery in the first half of 2021.

The STOXX Europe 600, a share index comprising 600 large listed European companies, stood at 407.20 points as at June 30, 2022, which was 80.60 points lower than its level at the end of the previous year (December 31, 2021: 487.80 points). In the prior-year period, the index had risen by 53.81 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. However, the rules have been suspended until the end of 2022 because of the COVID-19 pandemic.

At the end of the first quarter of 2022, the total borrowing of the 19 eurozone countries equated to 95.6 percent of their GDP, a decrease of 4.4 percentage points compared with the figure of 100.0 percent as at March 31, 2021.

Greece's public debt as a percentage of GDP was 189.3 percent in the first quarter of 2022 (first quarter of 2021: 209.3 percent). In April 2022, the rating agency S&P upgraded Greece's rating by one notch to BB+, following an upgrade to BB in April 2021. Greece paid off its debts to the International Monetary Fund (IMF) at the end of March 2022.

Italy's public debt as a percentage of GDP stood at 152.6 percent in the first quarter of 2022 (first quarter of 2021: 159.3 percent), which is the highest in the eurozone after that of Greece.

Portugal's public debt as a percentage of GDP was 127.0 percent in the first quarter of 2022, compared with 138.9 percent in the first quarter of 2021.

In Spain, public debt as a percentage of GDP stood at 117.7 percent in the first quarter of 2022 (first quarter of 2021: 125.2 percent).

Based on a policy of quantitative easing, the European Central Bank (ECB) has supported the markets for government bonds in recent years, 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. 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. Since September 2019, the ECB has been making additional liquidity available under the targeted longer-term refinancing operations (TLTRO III) program in order to support lending to households and companies during the COVID-19 pandemic.

At its meetings on June 10, 2021 (in the prior-year period) and December 16, 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. This ECB policy of zero and negative interest rates that had prevailed in the comparative period was maintained during the reporting period. At its meeting on June 9, 2022, the ECB signaled its intention to raise the key interest rates by 25 basis points in July 2022. On December 16, 2021, the ECB Governing Council decided that net asset purchases under the pandemic emergency purchase program (PEPP), in a total amount of €1,850.0 billion, would be discontinued at the end of March 2022. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2024. On March 10, 2022, the ECB Governing Council decided to gradually reduce the monthly volume of assets bought under the asset purchase program (APP). As a result, monthly net purchases amounted to €40.0 billion in April 2022, €30.0 billion in May 2022, and €20.0 billion in June 2022. Net new purchases under the APP were discontinued in July 2022. Reinvestments are due to continue beyond the date of the first interest-rate rise.

On June 15, 2022, the US Federal Reserve (Fed) announced that the federal funds rate would be raised to a range of 1.50 percent to 1.75 percent. In accordance with the Fed's decision of June 16, 2021, the federal funds rate had remained unchanged in the range of 0.00 percent to 0.25 percent in the prior-year period.

On December 15, 2021, the Fed announced that it would be progressively scaling back its bond purchases by US$ 30.0 billion a month. It then ended its asset purchases in March 2022. Since June 2022, the central bank has been slimming down its balance sheet by no longer fully reinvesting securities when they mature. The aim is to progressively trim down the balance sheet until the monthly reductions reach a volume of US$ 95.0 billion.

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, the sharp rise in interest rates, and the war in Ukraine, the DZ BANK Group was able to report a healthy profit before taxes of €1,141 million in the reporting period (first half of 2021: €1,829 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, 2022	Jan. 1– Jun. 30, 2021
Net interest income	1,475	1,384
Net fee and commission income	1,364	1,596
Gains and losses on trading activities	359	6
Gains and losses on investments	-53	37
Other gains and losses on valuation of financial instruments	105	234
Gains and losses from the derecognition of financial assets measured at amortized cost	11	6
Net income from insurance business	25	522
Loss allowances	-60	114
Administrative expenses	-2,242	-2,142
Staff expenses	-1,001	-966
Other administrative expenses[1]	-1,240	-1,177
Other net operating income	156	73
Profit before taxes	1,141	1,829
Income taxes	-360	-522
Net profit	**781**	**1,307**

1 General and administrative expenses plus depreciation/amortization expense.

Operating income in the DZ BANK Group amounted to €3,442 million (first half of 2021: €3,858 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 rose by €91 million year on year to €1,475 million (first half of 2021: €1,384 million). Within this figure, interest income from lending and money market business went up by €132 million to €2,362 million (first half of 2021: €2,230 million) and interest income from bonds and other fixed-income securities by €16 million to €210 million (first half of 2021: €194 million). Current income and expense from using the equity method increased by €8 million to income of €23 million (first half of 2021: income of €15 million), largely because of the higher equity-accounted measurement of Deutsche WertpapierService Bank AG, Frankfurt am Main, compared with the prior-year period. Interest expense on deposits from banks and customers fell by €64 million to €907 million (first half of 2021: €971 million), which included a decrease of €140 million in interest expense on home savings deposits as a result of the reversal of provisions relating to building society operations. There was a positive change in interest income from portfolio hedges of interest-rate risk, which improved by €18 million to €44 million (first half of 2021: €26 million). By contrast, interest expense on debt certificates issued including bonds went up by €146 million to €243 million (first half of 2021: €97 million). This was mainly due to expansion of the portfolio of issued commercial paper and the early redemption of issued bonds and commercial paper that had been acquired by entities in the DZ BANK Group other than the issuer.

Net fee and commission income fell by €232 million to €1,364 million (first half of 2021: €1,596 million).

Net fee and commission income from securities business decreased by €271 million to €1,176 million (first half of 2021: €1,447 million). This was primarily due to the €354 million reduction in performance-related management fees to €18 million (first half of 2021: €372 million) in the Union Investment Group. However, the Union Investment Group’s volume-related net income contribution advanced by €90 million to €917 million (first half of 2021: €827 million) on the back of an increase in the average level of assets under management. In addition, net fee and commission income from asset management improved by €12 million to €65 million (first half of 2021: €53 million), lending and trust activities by €21 million to €40 million (first half of 2021: €19 million), and building society operations by €9 million to an expense of €6 million (first half of 2021: expense of €15 million).

Gains and losses on trading activities in the first six months of 2022 came to a net gain of €359 million compared with a net gain of €6 million for the prior-year period. This change was due to the significant volatility of market prices, which – as a result of risk management – had opposing effects on gains and losses on non-derivative financial instruments and embedded derivatives on the one hand and on gains and losses on derivatives on the other. Gains and losses on non-derivative financial instruments and embedded derivatives improved by €3,984 million to a net gain of €3,628 million (first half of 2021: net loss of €356 million). By contrast, gains and losses on derivatives deteriorated by €3,687 million to a net loss of €3,387 million (first half of 2021: net gain of €300 million). The net gain under gains and losses on exchange differences grew by €56 million to €118 million (first half of 2021: net gain of €62 million).

Gains and losses on investments declined by €90 million to a net loss of €53 million (first half of 2021: net gain of €37 million). Within this figure, gains and losses on the disposal of bonds and other fixed-income securities deteriorated by €46 million to a net loss of €14 million (first half of 2021: net gain of €32 million) – predominantly as a result of sales of securities in the BSH subgroup – and gains and losses on the disposal of shares and other variable-yield securities deteriorated by €48 million to a net loss of €49 million (first half of 2021: net loss of €1 million), primarily due to the disposal of investment fund units from the Union Investment Group’s own-account investments.

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). This year-on-year change was attributable to the deterioration in gains and losses on financial assets mandatorily measured at fair value through profit or loss of €76 million to a net loss of €50 million (first half of 2021: net gain of €26 million), in gains and losses on financial instruments designated as at fair value through profit or loss of €34 million to a net gain of €82 million (first half of 2021: net gain of €116 million), in gains and losses on derivatives used for purposes other than trading of €10 million to a net gain of €66 million (first half of 2021: net gain of €76 million), and in gains and losses from fair value hedge accounting of €9 million to a net gain of €6 million (first half of 2021: net gain of €15 million).

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 2022, this figure went down by €497 million to €25 million (first half of 2021: €522 million). The reduction was primarily due to the deterioration – driven by the situation in the capital markets – in gains and losses on investments held by insurance companies and other insurance company gains and losses of €6,097 million to a net loss of €3,364 million (first half of 2021: net gain of €2,733 million). This deterioration was partly offset by a €5,391 million fall in insurance benefit payments to €4,735 million (first half of 2021: €10,126 million). Premiums earned rose by €249 million to €9,746 million (first half of 2021: €9,497 million). In the non-life insurance business, the overall claims rate was above the level of the prior-year period, as were the rates for major claims, basic claims, and natural disaster claims. Expenses totaled €120 million from storms Nadia, Ylenia, Zeynep, and Antonia and €32 million from storms Emmelinde and Finja, with a corresponding impact on natural disaster claims during the reporting period. In the inward reinsurance business, the series of winter storms in Europe resulted in claims incurred of €40 million. The claims in connection with flooding in the South African province of KwaZulu-Natal came to €65 million.

Loss allowances amounted to a net addition of €60 million (first half of 2021: net reversal of €114 million). Loss allowances for loans and advances to customers amounted to a net addition of €42 million (first half of 2021: net reversal of €69 million). The net addition to loss allowances for loans and advances to banks came to €13 million (first half of 2021: net reversal of €20 million). The net addition to other loss allowances for loans and advances was €7 million (first half of 2021: net reversal of €9 million). The net reversal of loss allowances for investments amounted to €3 million (first half of 2021: net reversal of €15 million).

Further 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 increased by €100 million to €2,242 million (first half of 2021: €2,142 million). Within this figure, staff expenses advanced to €1,001 million, compared with €966 million in the first half of 2021. This increase was predominantly due to pay rises and appointments. Other administrative expenses climbed to €1,240 million (first half of 2021: €1,177 million), mainly because of increased contributions to the bank levy and higher expenses incurred in connection with consultancy, IT, public relations, and marketing.

Other net operating income amounted to €156 million (first half of 2021: €73 million). Income from the reversal of provisions and accruals rose by €35 million to €72 million (first half of 2021: €37 million), whereas expenses for restructuring fell by €21 million to €2 million (first half of 2021: €23 million). Residual other net operating income went up by €45 million to €46 million (first half of 2021: €1 million). This was partly due to the recognition of cancelled, non-interest-bearing home savings deposits, which amounted to €28 million (first half of 2021: €0 million). There was a countervailing decline in gains and losses on non-current assets and disposal groups classified as held for sale, with the net gain falling by €25 million to €27 million (first half of 2021: net gain of €52 million).

Profit before taxes for the first half of 2022 stood at €1,141 million, compared with €1,829 million in the first half of 2021.

The **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for the reporting period came to 65.1 percent (first half of 2021: 55.5 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 11.7 percent (first half of 2021: 18.4 percent).

Income taxes amounted to €360 million in the period under review (first half of 2021: €522 million).

Net profit for the first half of 2022 was €781 million, compared with €1,307 million for the first half of 2021.

3.2 Financial performance in detail

The following sections describe the details of the financial performance of the DZ BANK Group's operating segments in the first half of 2022 compared with the corresponding period of 2021.

3.2.1 BSH

Net interest income in the BSH subgroup advanced by €126 million to €419 million (first half of 2021: €293 million).

Net interest income arising on investments declined by €42 million to €138 million (first half of 2021: €180 million) because past investments had been carried out at low capital market rates and because the volume of securities decreased in the first half of 2022.

There was a countervailing impact from interest expense on home savings deposits, which fell by €189 million to €182 million (first half of 2021: €371 million). Of this fall, €140 million was attributable to the reversal of provisions relating to building society operations and €49 million to the lower interest rates applicable to current tariffs.

In the case of loans issued under advance or interim financing arrangements and other building loans, income amounted to €528 million (first half of 2021: €542 million). Income from home savings loans amounted to €34 million (first half of 2021: €35 million).

BSH incorporates the fees, commissions, and transaction costs directly assignable to the acquisition of home savings contracts and loan agreements into the effective interest method applied to home savings deposits and building loans. The deferred charges arising each year from fees, commissions, and transaction costs are amortized to profit or loss under interest cost over the maturity of the home savings deposits and building loans. In the first half of 2022, the amortization amount included in interest cost was €104 million (first half of 2021: €98 million).

Net fee and commission income amounted to €13 million (first half of 2021: €1 million).

In the home savings business, BSH entered into new business with a volume of €16.1 billion (first half of 2021: €14.7 billion) as a result of signing approximately 219 thousand new home savings contracts (first half of 2021: 291 thousand).

In the home finance business, the realized volume of new business in Germany amounted to €9.3 billion (first half of 2021: €9.3 billion). This figure includes finance of €4.8 billion referred to institutions in the cooperative financial network (first half of 2021: €4.4 billion). In addition, home savings loans and bridging loans from BSH and other referrals amounted to €1.1 billion (first half of 2021: €0.9 billion).

Gains and losses on investments amounted to a net loss of €46 million (first half of 2021: net gain of €13 million). The main influence on this figure was the disposal of securities.

Loss allowances amounted to a total net addition of €6 million (first half of 2021: net addition of €19 million). The elevated figure for loss allowances in the prior-year period had been primarily due to the update to the scoring systems used for the building society's business.

Administrative expenses increased by €1 million to €258 million (first half of 2021: €257 million). Within this figure, staff expenses came to €129 million (first half of 2021: €117 million) and other administrative expenses (including depreciation and amortization) to €129 million (first half of 2021: €140 million).

Other net operating income went up by €24 million to €42 million (first half of 2021: €18 million). This year-on-year improvement was primarily due to the recognition of cancelled, non-interest-bearing home savings deposits, which amounted to €28 million (first half of 2021: €0 million).

Profit before taxes rose by €114 million to €168 million (first half of 2021: €54 million) as a consequence of the changes described above.

The **cost/income ratio** in the period under review came to 59.6 percent (first half of 2021: 78.1 percent).

Regulatory RORAC was 25.9 percent (first half of 2021: 8.3 percent).

3.2.2 R+V

Premiums earned went up by €249 million to €9,746 million (first half of 2021: €9,497 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 €76 million to €4,800 million (first half of 2021: €4,724 million).

Premiums earned from the life insurance business rose by €4 million to €4,371 million.

Business involving unit-linked products and credit insurance policies expanded, whereas the new guarantees, occupational pension, and traditional product businesses contracted.

In the health insurance business, net premiums earned rose by €72 million to €429 million, with notably strong growth in the private supplementary health insurance and full health insurance product groups, but a fall in premiums for international health insurance.

In the non-life insurance business, premium income earned grew by €161 million to €3,456 million, with most of this growth being generated from corporate customer business, motor vehicle insurance, and banks/deposit business.

Premiums earned from the inward reinsurance business rose by €12 million to €1,491 million. Europe remained the largest market for inward reinsurance. Growth was generated from the fire and property classes of insurance, from loan/deposit business, and from other products. By contrast, premiums earned in the motor vehicle insurance product group went down.

Gains and losses on investments held by insurance companies and other insurance company gains and losses deteriorated markedly by €6,092 million to a net loss of €3,333 million (first half of 2021: net gain of €2,759 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 loss on investments held by insurance companies, excluding unit-linked contracts, amounted to €1,209 million in the reporting period (first half of 2021: net gain of €1,401 million).

The level of long-term interest rates was far higher than in the first half of 2021. The ten-year swap rate was 2.16 percent as at June 30, 2022 (June 30, 2021: 0.10 percent). The movement of spreads on interest-bearing securities had a negative impact on gains and losses on investments held by insurance companies and other insurance company gains and losses. Spreads widened during the reporting period. A weighted spread calculated in accordance with R+V's portfolio structure stood at 100.2 points as at June 30, 2022 (December 31, 2021: 66.7 points). In the comparative period, this spread had risen from 50.3 points as at December 31, 2020 to 54.0 points as at June 30, 2021.

During the reporting period, equity markets relevant to R+V performed worse than in the first half of 2021. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, saw a fall of 843 points from the start of 2022, closing the reporting period on 3,455 points. In the first half of 2021, this index had risen by 511 points. Movements in exchange rates between the euro and various currencies were generally more favorable in the first half of 2022 than in the prior-year period. For example, the US dollar/euro exchange rate on June 30, 2022 was 0.957, compared with 0.879 as at December 31, 2021. In the first half of 2021, the US dollar/euro exchange rate had changed from 0.817 as at December 31, 2020 to 0.843 on June 30, 2021.

Overall, these trends in the reporting period essentially resulted in a €6,218 million negative change – resulting from the effects of changes in negative fair values – in unrealized gains and losses to a net loss of €4,732 million (first half of 2021: net gain of €1,486 million), a €613 decrease in the contribution to earnings from the derecognition of investments to a loss of €610 million (first half of 2021: gain of €3 million), and a €14 million decline in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €59 million (first half of 2021: net expense of €45 million). In addition, foreign-exchange gains and losses improved by €346 million to a net gain of €681 million (first half of 2021: net gain of €335 million) and net income under current income and expense rose by €92 million to €1,136 million (first half of 2021: €1,044 million). Other insurance gains and losses and non-insurance gains and losses improved by €317 million to a net gain of €252 million (first half of 2021: net loss of €65 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 €4,735 million, which equated to a fall of €5,391 million compared with the corresponding figure of €10,126 million in the prior-year period.

The change 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 loss of €3,800 million under gains and losses on investments held by insurance companies from unit-linked life insurance was also reflected in insurance benefit payments. The decrease in insurance benefit payments was also attributable to the change in premium refunds. This was due to the change, recognized in profit or loss, in the provision for premium refunds and led to net income of €1,410 million in the reporting period. There was a reversal of €109 million from the supplementary change-in-discount-rate reserve (first half of 2021: reversal of €103 million).

In the non-life insurance business, the overall claims rate was above the level of the prior-year period, as were the rates for major claims, basic claims, and natural disaster claims. Expenses totaled €120 million from storms

Nadia, Ylenia, Zeynep, and Antonia and €32 million from storms Emmelinde and Finja, with a corresponding impact on natural disaster claims during the reporting period.

In the inward reinsurance business, the net claims ratio was 71.9 percent (first half of 2021: 71.3 percent). The ratios for basic and medium claims were below those of the prior-year period. By contrast, the ratio for major claims went up. The series of winter storms in Europe resulted in claims incurred of €40 million. The claims in connection with flooding in the South African province of KwaZulu-Natal came to €65 million. As at the reporting date, two derecho storms in the United States were reflected in the ratio, each in an amount of €30 million (a derecho is a widespread and long-lived straight-line wind storm).

Insurance business operating expenses incurred in the course of ordinary business activities went up by €65 million to €1,710 million (first half of 2021: €1,645 million). The largest portion of the change was attributable to the non-life division, which saw an increase of €50 million. Expenses also rose in the inward reinsurance business, by €10 million. The life/health division accounted for an increase of €5 million.

As a result of the factors described above, there was a **loss before taxes** of €30 million, which represented a deterioration of €512 million compared with the profit before taxes of €482 million for the first half of 2021.

Regulatory RORAC was minus 0.6 percent (first half of 2021: 9.5 percent).

3.2.3 TeamBank

Net interest income amounted to €247 million, which was up year on year (first half of 2021: €241 million). The average volume of consumer finance in the reporting period came to €9,110 million (first half of 2021: €8,822 million). The volume of consumer finance stood at €9,252 million as at June 30, 2022 (December 31, 2021: €8,967 million; June 30, 2021: €8,826 million).

As at June 30, 2022, TeamBank was working with 698 (December 31, 2021: 701) of Germany's 767 (December 31, 2021: 772) cooperative banks and with 154 (December 31, 2021: 148) partner banks in Austria. In addition, more than 34 thousand (first half of 2021: 32 thousand) members of cooperative banks benefited from favorable terms and conditions in the first six months of 2022.

Despite a deterioration in consumer sentiment, 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 maintain the level of loans and advances to customers, which amounted to €9,501 million as at June 30, 2022 (December 31, 2021: €9,208 million). The number of customers rose to 1,003 thousand as at June 30, 2022 (December 31, 2021: 984 thousand). TeamBank had made credit facilities from easyCredit-Finanzreserve totaling €2,870 million available to its customers as at June 30, 2022 (December 31, 2021: €2,555 million). In the period under review, 20.8 percent (first half of 2021: 16.9 percent) of new business was generated through easyCredit-Finanzreserve.

Net fee and commission income amounted to €8 million and was therefore €9 million better than the corresponding net expense of €1 million in the prior-year period. This increase was due, in particular, to a rise in fee and commission income from credit insurance policies as a result of the growth of new business.

The net addition to **loss allowances** amounted to €53 million, which was up by €31 million compared with the prior-year figure of €22 million. The rise in loss allowances was primarily due to customers' poorer payment history (higher proportion of receivables overdue or in default, higher termination and write-off rates, and increase in installment plan changes) compared with the first half of 2021. Another factor was the proportion of receivables overdue in the prior-year period, which had been unusually low for the time of year, and the exceptionally low expense for loss allowances, especially during and after the lockdown at the start of 2021. There was a countervailing effect from adjustments to the model-driven calculation methods, which had a positive impact of around €5 million, and from the reversal of post-model adjustments in an amount of €15 million.

Administrative expenses increased by €3 million to €141 million (first half of 2021: €138 million). Staff expenses rose by €1 million to €53 million (first half of 2021: €52 million). Other administrative expenses went up by €2 million to €88 million (first half of 2021: €86 million).

Profit before taxes amounted to €68 million. The decrease of €16 million compared with the figure of €84 million reported for the first half of 2021 was a consequence of the factors described above.

TeamBank's **cost/income ratio** came to 53.8 percent (first half of 2021: 56.3 percent).

Regulatory RORAC was 22.9 percent (first half of 2021: 29.9 percent).

3.2.4 UMH

Net fee and commission income fell by €264 million to €1,000 million (first half of 2021: €1,264 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 €34.2 billion to €437.5 billion (first half of 2021: €403.3 billion), the volume-related contribution to net fee and commission income rose to €917 million (first half of 2021: €827 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.

Net income from performance-related management fees amounted to €18 million (first half of 2021: €372 million). The decrease was largely the result of high-volume funds not fulfilling the conditions for the transfer of a performance-related management fee in the first half of 2022. Income from real estate fund transaction fees came to €20 million in the period under review (first half of 2021: €22 million).

Union Investment generated net inflows from its retail business of €8.1 billion (first half of 2021: €9.7 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, stood at 3.8 million contracts as at June 30, 2022, with an increase in the 12-month savings volume to €7.6 billion (December 31, 2021: €7.4 billion).

The total assets in the portfolio of Riester pension products amounted to €24.0 billion (December 31, 2021: €27.5 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at June 30, 2022 totaled 6.5 million (December 31, 2021: 6.4 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 €1.8 billion in the first half of 2022 (first half of 2021: €1.4 billion).

Assets under management in the PrivatFonds family amounted to €24.0 billion as at June 30, 2022 (December 31, 2021: €27.2 billion).

In its institutional business, the Union Investment Group generated net inflows amounting to €1.5 billion (first half of 2021: €14.7 billion).

The portfolio of sustainably managed funds stood at €125.0 billion (December 31, 2021: €125.6 billion). This portfolio includes open-ended real estate funds with a value of €40.4 billion (December 31, 2021: €37.5 billion) that have been managed since November 1, 2021 as products that comply with article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

Gains and losses on investments amounted to a net loss of €49 million (first half of 2021: net loss of €1 million), largely due to the net loss realized on the disposal of investment fund units from Union Investment's own-account investments.

Other gains and losses on valuation of financial instruments deteriorated by €130 million to a net loss of €56 million (first half of 2021: net gain of €74 million), which was largely attributable to the net loss of €20 million from the valuation of guarantee commitments (first half of 2021: net income of €63 million) and the net loss of €36 million arising on the valuation of Union Investment's own-account investments (first half of 2021: net gain of €11 million).

Administrative expenses increased by €61 million to €564 million (first half of 2021: €503 million). Staff expenses went up by €17 million to €276 million (first half of 2021: €259 million) owing to higher average pay and appointments to new and vacant posts. Other administrative expenses climbed by €43 million to €287 million (first half of 2021: €244 million), mainly because of higher expenses incurred in connection with consultancy, IT, public relations, and marketing.

Other net operating income amounted to €39 million (first half of 2021: net expense of €14 million). This change was mainly attributable to income resulting from the remeasurement of provisions. In the prior-year period, there had been expenses resulting from the recognition of provisions that were reversed in the reporting period following the remeasurement.

Based on the changes described above, **profit before taxes** amounted to €371 million (first half of 2021: €825 million).

The **cost/income ratio** came to 60.4 percent in the first half of this year (first half of 2021: 37.9 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2021: greater than 100.0 percent).

3.2.5 DZ BANK – CICB

In the DZ BANK – CICB operating segment, internal management reporting is used as the basis for presentation of the income statement, which means that the figures include internal transactions. These internal transactions are eliminated in the Other/Consolidation segment so that the net profit for the group is reported correctly.

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 decreased by €27 million to €474 million (first half of 2021: €501 million).

In the first half of 2022, the allocation of bonus interest resulting from participation in the TLTRO III program was changed from decentralized distribution among the business lines to centralized disclosure. Consequently, the following information on the business lines does not include earnings from TLTRO III and the figures for the prior-year period have been restated accordingly. The TLTRO III program's impact on earnings is disclosed separately below.

In the Corporate Banking business line, net interest income went up by €22 million to €278 million (first half of 2021: €256 million).

The net interest income in the four regional corporate customer divisions plus Central Corporate Banking increased to €154 million (first half of 2021: €139 million). The €15 million rise in the operating lending business was due to the growth of the lending volume.

Net interest income in the Structured Finance division amounted to €89 million, an increase of €4 million compared with the figure for the first half of 2021 of €85 million. The figure for the first six months of this year was boosted by business activities that resulted in a greater lending volume in all product units and by the significant appreciation of the US dollar.

In the Investment Promotion division, net interest income advanced by €3 million to €35 million (first half of 2021: €32 million). This year-on-year increase primarily resulted from substantial portfolio growth in the previous year in response to high demand for residential development loans.

At €1 million, net interest income from the separately managed real estate lending portfolio was down compared with the figure of €9 million for the first half of 2021 due to the reduction in the size of portfolio caused by the transfer of some of its components to DZ HYP.

Net interest income from the Capital Markets business line swelled by €3 million to €68 million (first half of 2021: €65 million). This increase was thanks to the growth of business with institutional customers and the treasury portfolios.

Net interest income attributable to bonus interest resulting from participation in the TLTRO III program decreased by €18 million to €71 million (first half of 2021: €89 million). The figure for the prior-year period included the share of interest generated in the second half of 2020.

Other net interest income from loan administration fees advanced by €3 million to €14 million (first half of 2021: €11 million).

Income from profit-pooling, profit-transfer, and partial profit-transfer agreements, together with income from other shareholdings and current income from investments in subsidiaries, amounted to €41 million (first half of 2021: €71 million). The reduction compared with the first half of 2021 can be explained by lower income from long-term equity investments at VR Equitypartner GmbH, which fell by €42 million to €11 million. By contrast, income from long-term equity investments went up by €6 million to €6 million at Deutsche WertpapierService Bank AG, by €4 million to €4 million at KBIH Beteiligungsgesellschaft für Industrie und Handel mbH, and by €2 million to €4 million at Banco Cooperativo Español S.A.

Net fee and commission income rose by €4 million to €262 million (first half of 2021: €258 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 €17 million higher than in the prior-year period at €89 million (first half of 2021: €72 million). Of this increase, €8 million was attributable to fees and commissions in connection with loan processing, €6 million to fees and commission on loans of the New York branch, and €3 million to the syndicated loan business.

In the Capital Markets business line, the contribution to net fee and commission income declined by €8 million to €128 million (first half of 2021: €136 million). Of particular note was the reduction in income from syndicated business and issuance business.

Net fee and commission income in the Transaction Banking business line was on a par with the prior-year period at €75 million (first half of 2021: €74 million).

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 €101 million (first half of 2021: €93 million) and were broken down and reported under the net fee and commission income for the business lines as follows: Corporate Banking €5 million (first half of 2021: €4 million) and Capital Markets/Transaction Banking €96 million (first half of 2021: €89 million).

Aside from the aforementioned business lines, net fee and commission income from other financial services amounted to a greater net expense of €30 million in the reporting period (first half of 2021: net expense of €24 million). This figure included the reclassification of loan administration fees of €15 million (first half of 2021: €11 million) and the expense of €17 million as a result of passing on the bonus interest from the TLTRO III program to the participating group subsidiaries (first half of 2021: €15 million).

Gains and losses on trading activities amounted to a net gain of €347 million (first half of 2021: net loss of €41 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 – apart from credit rating effects – also included in gains and losses on trading activities. The credit-rating-related effects are included in other gains and losses on valuation of financial instruments.

Whereas there had been a significant negative impact from IFRS-related effects in the prior-year period, IFRS-related effects made a positive contribution to gains and losses on trading activities in the reporting period. In the first half of 2022, the key factors behind this figure included the fair value gains and losses relating to own issues in the fair value PL and fair value option subcategories. Whereas mark-ups had narrowed in the prior-year period, mainly due to calmer conditions in the bond markets following the COVID-19 crisis (first half of 2021: loss of €159 million), these mark-ups widened again in the first half of 2022 due to the geopolitical crisis, which gave rise to a net gain of €42 million for these issues under fair value gains and losses.

In the prior-year period, there had also been an adverse impact from derivative hedging transactions that were related to group finance and were therefore not permitted to be included in hedge accounting. Optimization of the effectiveness of hedge accounting enabled these effects to be reduced in the first half of 2022, despite the volatile interest-rate environment. As a result, the adverse impact seen in the first half of 2021 gave way to positive effects in the first half of 2022.

To a lesser extent, ineffectiveness in hedge accounting also boosted earnings. This income was matched by an expense in the same amount recognized under other gains and losses on valuation of financial instruments.

Gains and losses on operating trading activities in the Capital Markets business line amounted to a net gain of €207 million, compared with €363 million in the prior-year period.

The uncertainties stemming from the war in Ukraine, combined with existing and impending supply bottlenecks as well as high inflation, resulted in a downturn in the capital markets and thus to write-downs. The assessment of risk changed considerably once again in May and June. This led to a widening of credit spreads, especially on bonds from corporates and banks. Overall, there was significant price volatility in the markets during the first six months of 2022. This affected all asset classes (interest rates, credit, equities, foreign exchange, and commodities) and had an impact on gains and losses on trading activities.

Business with institutional customers was brisk in the first half of 2022, so income was higher than in the prior-year period. The increase was driven by product demand from cooperative banks and an uptick in cross-selling to corporate customers. By contrast, product sales to institutional investors were down compared with the prior-year period.

Trading with structured interest-rate products had a stabilizing effect. Sales of interest-rate structures increased – with a corresponding rise in income in this product segment – thanks to the elevated market volatility. Business in interest-rate derivatives and foreign-exchange trading more than made up for the decline in bond trading. Customers protected themselves against rising interest rates and against significant fluctuations in exchange rates. In the case of interest-rate derivatives, this resulted in an increase in income across all customer groups. In foreign-exchange trading, the rise in income was predominantly driven by cross-selling to corporate customers.

Gains and losses on investments deteriorated by €25 million to a net loss of €1 million (first half of 2021: net gain of €24 million). The net loss in the reporting period resulted from losses of €76 million from the sale of securities in the category 'fair value through other comprehensive income' combined with gains of €75 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.

Other gains and losses on valuation of financial instruments declined to a net loss of €6 million (first half of 2021: net gain of €61 million). Within this figure, the valuation of financial instruments measured at fair value through profit or loss declined by €15 million to a net loss of €10 million (first half of 2021: net gain of €5 million), credit-risk-related measurement effects relating to financial assets measured using the fair value option declined by €9 million to a net gain of €21 million (first half of 2021: net gain of €30 million), and the effects of ineffectiveness in hedge accounting declined by €43 million to a net loss of €17 million (first half of 2021: net gain of €26 million).

Gains and losses from the derecognition of financial assets measured at amortized cost improved by €2 million to a net gain of €5 million (first half of 2021: net gain of €3 million).

Loss allowances amounted to a net addition of €44 million (first half of 2021: net reversal of €78 million). Within this figure, the net additions in the lending business and in respect of investments amounted to €61 million. Of this total, net reversals of €3 million related to loss allowances in stage 1, net additions of €60 million related to loss allowances in stage 2, and net additions of €4 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, other gains and losses on POCI assets, and additions to other provisions for loans and advances was €17 million (first half of 2021: net reversal of €37 million).

Of the net additions in stage 2, €18 million was required because the anticipated macroeconomic conditions were included in the calculation, 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.

Furthermore, loss allowances were increased in stages 2 and 3 owing to geopolitical risks and changes in the credit ratings of individual counterparties. In stage 3, reversals in respect of various counterparties had a beneficial impact.

In the first half of 2021, loss allowances had been influenced by reversals in stage 3 that were largely the result of the scaling back of an individual exposure of €51 million.

Administrative expenses increased by €15 million to €679 million (first half of 2021: €664 million).

Staff expenses fell by €2 million to €296 million (first half of 2021: €298 million) due to a decrease in the number of employees.

Other administrative expenses went up by €17 million to €383 million (first half of 2021: €366 million). Within this figure, the expenses for the restructuring fund for banks (bank levy) and contributions to the BVR protection scheme rose by €5 million to €87 million (first half of 2021: €82 million).

Furthermore, IT costs increased by €6 million to €91 million (first half of 2021: €85 million), office expenses by €3 million to €14 million (first half of 2021: €11 million), and consultancy expenses by €2 million to €83 million (first half of 2021: €81 million). The depreciation and amortization charges included in other administrative expenses went down by €2 million to €38 million (first half of 2021: €40 million). The breakdown of these charges was as follows: depreciation of right-of-use assets €15 million (first half of 2021: €17 million), depreciation of property, plant and equipment, and investment property €15 million (first half of 2021: €13 million), and amortization of other intangible assets €8 million (first half of 2021: €10 million).

Other net operating income amounting to €12 million (first half of 2021: net expense of €5 million) included income from the reversals of provisions and accruals of €20 million (first half of 2021: €15 million) and countervailing expenses for paydirekt of €6 million (first half of 2021: €8 million).

Profit before taxes amounted to €369 million in the reporting period, which was €154 million higher than the figure of €215 million reported for the comparative period.

The **cost/income ratio** came to 62.1 percent in the first half of 2022 (first half of 2021: 82.9 percent).

Regulatory RORAC was 12.8 percent (first half of 2021: 8.1 percent).

3.2.6 DZ HYP

At €387 million, the **net interest income** of DZ HYP was €23 million higher than in the prior-year period (first half of 2021: €364 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 2021: €7 million).

The rise in net interest income was mainly the result of portfolio growth. The volume of real estate loans swelled by €1,976 million to €56,116 million (June 30, 2021: €54,140 million). The volume of new business (including public-sector finance) stood at €5,174 million (first half of 2021: €5,374 million).

In the corporate customer business, the volume of new business came to €3,964 million (first half of 2021: €3,705 million). The volume of new lending jointly generated with the local cooperative banks in this area of business amounted to €1,531 million (first half of 2021: €2,245 million). In the retail customer business, the volume of new commitments stood at €1,050 million (first half of 2021: €1,408 million). In the public-sector business, DZ HYP generated a new business volume of €160 million (first half of 2021: €261 million). Of this amount, €115 million (first half of 2021: €215 million) was attributable to business brokered through the cooperative banks and €45 million to direct business (first half of 2021: €46 million).

Net fee and commission income rose by €8 million to €12 million (first half of 2021: €4 million). Within this figure, income from participation in the DZ BANK Group's bidder group in the ECB's TLTRO III tender procedures amounted to €11 million (first half of 2021: €5 million).

Gains and losses on investments amounted to a net gain of €33 million (first half of 2021: net gain of €0 million). The net gain was predominantly influenced by the sale of Portuguese government bonds.

Other gains and losses on valuation of financial instruments improved by €3 million to a net gain of €73 million (first half of 2021: net gain of €70 million).

Loss allowances amounted to a net addition of €14 million (first half of 2021: net reversal of €1 million). This change was mainly due to adjustments to the model-driven calculation.

Administrative expenses increased by €5 million to €162 million (first half of 2021: €157 million). Staff expenses rose by €5 million to €53 million (first half of 2021: €48 million). Other administrative expenses held steady at €109 million (first half of 2021: €109 million).

Profit before taxes amounted to €335 million, which was up by €48 million compared with the figure for the prior-year period of €287 million as a consequence of the factors described above.

The **cost/income ratio** came to 31.7 percent (first half of 2021: 35.5 percent).

Regulatory RORAC was 48.8 percent (first half of 2021: 39.9 percent).

3.2.7 DZ PRIVATBANK

Net interest income at DZ PRIVATBANK rose by €6 million to €34 million (first half of 2021: €28 million), primarily thanks to higher income in the lending and money market businesses.

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 €5.1 billion (first half of 2021: €4.9 billion).

Net fee and commission income rose by €9 million to €112 million (first half of 2021: €103 million). The increase in net fee and commission income was mainly attributable to the larger contributions to income from the fund services business and private banking.

As at June 30, 2022, high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, amounted to €21.7 billion (June 30, 2021: €21.8 billion).

The value of funds under management amounted to €168.9 billion (June 30, 2021: €169.5 billion). The number of fund-related mandates was 571 (June 30, 2021: 540).

Administrative expenses increased by €12 million to €137 million (first half of 2021: €125 million). Staff expenses rose by €7 million to €76 million (first half of 2021: €69 million), predominantly due to the recognition of provisions for annual leave, the higher number of employees, the statutory index-linking of salaries, and pay rises. Other administrative expenses went up year on year to €62 million (first half of 2021: €56 million) due, in particular, to higher regulatory contributions, capital expenditure aiming at boosting the growth of the front-office divisions, and increased costs for IT, advertising, and consultancy.

Profit before taxes totaled €19 million (first half of 2021: €19 million).

The **cost/income ratio** came to 88.4 percent (first half of 2021: 86.8 percent).

Regulatory RORAC was 11.1 percent (first half of 2021: 11.4 percent).

3.2.8 VR Smart Finanz

Net interest income at VR Smart Finanz amounted to €58 million in the period under review (first half of 2021: €64 million).

In the first six months of 2022, new lending and object finance business did well as small and medium-sized enterprises (SMEs) once again showed a greater willingness to invest and stronger demand for loans. As a result, the volume of this business increased by approximately 7.4 percent year on year to €464 million (first half of 2021: €432 million). The first half of 2022 saw growing demand for object finance, especially the hire purchase solution 'VR Smart express', which registered year-on-year growth of 22.4 percent. There was also a sharp rise in new business involving the 'VR Smart flexibel' business loan to €135 million (first half of 2021: €70 million), although this was still below the pre-pandemic level.

The 'VR Smart flexibel' support loan, which was based on the 2020 special program of Germany's KfW development bank aimed at established and start-up companies, was discontinued on April 30, 2022 when the COVID-19 support program ended. In the period January 1 to April 30, 2022, new business involving the 'VR Smart flexibel' support loan totaled €25 million (first half of 2021: €122 million). Since the introduction of the 'VR Smart flexibel' support loan in March 2020, more than 19 thousand loans with a volume of around €700 million have been disbursed.

Net fee and commission income, which amounted to a net expense of €15 million (first half of 2021: net expense of €15 million), was predominantly influenced by the fees and commissions paid to the cooperative banks.

Despite the energy crisis, supply chain problems, and the ending of COVID-19 support, the risk situation remained unremarkable, with a healthy insolvency rate and low levels of loan defaults. Consequently, the expenses for **loss allowances** fell by €2 million to €3 million in the reporting period (first half of 2021: €5 million).

Administrative expenses continued to go down, falling by €3 million to €38 million (first half of 2021: €41 million). The reduction in headcount meant that staff expenses declined by €2 million to €22 million (first half of 2021: €24 million). Other administrative expenses decreased by €1 million to €16 million (first half of 2021: €17 million).

VR Smart Finanz's **profit before taxes** amounted to €3 million (first half of 2021: €0 million), largely as a consequence of the factors described above.

The **cost/income ratio** came to 88.4 percent (first half of 2021: 89.1 percent).

Regulatory RORAC was 3.5 percent (first half of 2021: 0.3 percent).

3.2.9 DVB

Net interest income in the DVB subgroup advanced by €16 million to €4 million (first half of 2021: net expense of €12 million).

The nominal volume of customer loans in the DVB subgroup stood at €0.9 billion as at June 30, 2022 (December 31, 2021: €1.6 billion).

Net fee and commission income amounted to €0 million (first half of 2021: €8 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 €101 million (first half of 2021: net gain of €24 million). The net gain for the reporting period mainly reflected the positive impact of net gains on valuation of derivatives used for purposes other than trading in an amount of €96 million (first half of 2021: €9 million).

Loss allowances amounted to a net reversal of €61 million in the period under review (first half of 2021: net reversal of €80 million), predominantly because of the progress made with scaling back the portfolio and the reversals in respect of individual exposures.

Administrative expenses amounted to €46 million (first half of 2021: €68 million), a year-on-year fall of €22 million. Staff expenses declined by €7 million to €21 million owing to the reduction in headcount (first half of 2021: €28 million). Other administrative expenses came to €25 million (first half of 2021: €40 million). The year-on-year reduction was primarily due to the decrease in consultancy costs and the lower bank levy.

Other net operating income amounted to €11 million (first half of 2021: €39 million). The figure for the prior-year figure had been heavily influenced by sale proceeds of €47 million in investment management.

Profit before taxes amounted to €131 million in the period under review (first half of 2021: €70 million), largely as a consequence of the factors described above.

The **cost/income ratio** in the first half of 2022 came to 40.4 percent (first half of 2021: greater than 100.0 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2021: greater than 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 €9 million in the period under review (first half of 2021: net expense of €20 million).

The average level of subordinated capital for the twelve-month period to the end of the first half of 2022 was lower than in the prior-year period and the interest expense on this capital went down by €7 million to €17 million (first half of 2021: €24 million).

Net interest income from the funding of long-term equity investment carrying amounts and the investment of capital amounted to €8 million in the reporting period (first half of 2021: €4 million).

Administrative expenses increased by €14 million year on year to €133 million (first half of 2021: €119 million).

The expenses relating to the bank levy and contributions (in particular to the BVR protection scheme) rose by €11 million to €58 million (first half of 2021: €47 million). Furthermore, IT and project expenses increased from €28 million in the first six months of 2021 to €32 million in the period under review. Other expenses for the benefit of the group and local cooperative banks decreased by €1 million to €13 million (first half of 2021: €14 million). Expenses from the group management function were on a par with the prior-year period at €30 million (first half of 2021: €29 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. Differences between the figures in internal management reporting and those reported in the consolidated financial statements that arise from the recognition of internal transactions in the DZ BANK – CICB operating segment are also eliminated.

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. Internal transactions in the DZ BANK – CICB operating segment were also eliminated in net interest income and with offsetting entries under gains and losses on trading activities.

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, 2022, the DZ BANK Group's **total assets** had increased by €31.4 billion, or 5.0 percent, to €658.7 billion (December 31, 2021: €627.3 billion). This increase was largely attributable to higher levels of total assets at DZ BANK – CICB (up by €54.5 billion), DZ PRIVATBANK (up by €2.9 billion), and BSH (up by €1.3 billion), whereas R+V (down by €15.5 billion), DZ HYP (down by €1.7 billion), and DVB (down by €1.6 billion) recorded a decrease.

The **volume of business** amounted to €1,163.3 billion (December 31, 2021: €1,166.3 billion). This figure comprised the total assets, the assets under management at UMH as at June 30, 2022 amounting to €415.6 billion (December 31, 2021: €454.1 billion), the financial guarantee contracts and loan commitments amounting to €86.7 billion (December 31, 2021: €82.6 billion), and the volume of trust activities amounting to €2.3 billion (December 31, 2021: €2.3 billion).

Cash and cash equivalents went up by €26.9 billion, or 31.3 percent, to €112.9 billion (December 31, 2021: €86.0 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).

Loans and advances to banks rose to €115.9 billion, an increase of €8.2 billion or 7.6 percent. Loans and advances to banks in Germany went up by €8.1 billion to €108.0 billion and loans and advances to foreign banks by €0.3 billion to €8.0 billion.

Loans and advances to customers amounted to €203.0 billion, which was €7.3 billion, or 3.7 percent, higher than the figure reported as at December 31, 2021. Within this figure, loans and advances to customers in Germany rose by €5.6 billion to €175.3 billion and loans and advances to customers outside Germany by €1.8 billion to €27.7 billion.

Financial assets held for trading amounted to €60.6 billion, an increase of €13.3 billion, or 28.1 percent, on the figure as at December 31, 2021. This change was largely attributable to a rise in money market placements (up by €10.1 billion), in derivatives (positive fair values) (up by €2.5 billion), and in bonds and other fixed-income securities (up by €1.0 billion).

Investments declined by €7.0 billion, or 13.4 percent, to €45.4 billion. The main reason for this change was the €6.1 billion decrease in the portfolio of bonds and other fixed-income securities.

Investments held by insurance companies fell by €17.2 billion (13.3 percent) to €111.9 billion (December 31, 2021: €129.1 billion). This was due to a €10.1 billion decrease in fixed-income securities to €51.3 billion, a €2.3 billion decrease in assets related to unit-linked contracts to €16.4 billion, a €1.8 billion decrease in registered bonds to €6.7 billion, and a €1.4 billion decrease in mortgage loans to €11.6 billion.

Deposits from banks as at June 30, 2022 amounted to €202.7 billion, which was €6.1 billion, or 3.1 percent, higher than the figure reported as at December 31, 2021. Deposits from foreign banks were up by €14.0 billion to €22.8 billion, whereas deposits from domestic banks fell by €8.0 billion to €179.8 billion. As at June 30, 2022, the DZ BANK Group had participated in the ECB's TLTRO III program with a total drawdown amount of €32.4 billion (December 31, 2021: €32.4 billion).

Deposits from customers grew by €24.7 billion, or 17.8 percent, to €163.7 billion (December 31, 2021: €139.0 billion). Deposits from foreign customers rose by €13.6 billion to €36.9 billion (December 31, 2021: €23.3 billion) and deposits from domestic customers by €11.1 billion to €126.8 billion (December 31, 2021: €115.7 billion).

At the end of the reporting half-year, the carrying amount of **debt certificates issued including bonds** was €90.7 billion (December 31, 2021: €79.7 billion). The rise of €11.0 billion was largely due to growth of €9.9 billion in the portfolio of other debt certificates issued to €22.5 billion while, at the same time, the portfolio of bonds issued expanded by €1.0 billion to €68.1 billion.

Financial liabilities held for trading went up by €8.3 billion, or 19.1 percent, to €51.7 billion (December 31, 2021: €43.4 billion). This change was largely attributable to a rise in derivatives (negative fair values) (up by €7.4 billion), in money market deposits (up by €1.8 billion), and in short positions (up by €1.0 billion). On the other hand, bonds issued declined by €1.7 billion to €20.5 billion.

Insurance liabilities went down by €11.6 billion, or 9.8 percent, to €107.3 billion (December 31, 2021: €118.9 billion). This was largely attributable to the decrease of €12.9 billion in the provision for premium refunds to €1.7 billion and the decrease of €1.2 billion in the reserve for unit-linked insurance contracts to €14.6 billion. However, the provision for unearned premiums grew by €1.0 billion to €2.2 billion, the benefit reserve by €1.0 billion to €75.2 billion, and the provision for claims outstanding by €0.5 billion to €16.9 billion.

As at June 30, 2022, **equity** stood at €24.3 billion (December 31, 2021: €28.7 billion). The decrease of €4.4 billion compared with the end of 2021 was largely due to the reduction in the reserve from other comprehensive income (down by €4.6 billion) due to the adverse impact of the change in interest rates in the first six months of 2022. This was partly offset by an increase of €0.3 billion in retained earnings, whereas non-controlling interests fell by €0.5 billion.

The **capital adequacy** of the DZ BANK financial conglomerate, the DZ BANK banking group, and the R+V Versicherung AG insurance group from a normative internal perspective is described in the risk report within this interim group management report (chapter VI.6.2).

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, 2022, the DZ BANK Group had participated in the ECB's TLTRO III program with a total nominal drawdown amount of €32.4 billion (December 31, 2021: €32.4 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 adequacy from an economic perspective** (chapter VI.5.1). 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.