# II Business report

## 1 Economic conditions

The first half of 2020 was dominated by the crisis resulting from the COVID-19 pandemic and the related restrictions on economic activity. Adjusted for inflation, average overall economic output in the first half of this year slumped by 7.0 percent compared with the second half of 2019. By contrast, it had been 0.5 percent higher in the first half of 2019 than in the second half of 2018.

German economic output in the first quarter of 2020 was down by 2.0 percent compared with the preceding quarter. In the second quarter of this year, it contracted by 10.1 percent.

From mid-March 2020, many shops and factories had to shut down because of the COVID-19 pandemic, thereby restricting economic activity. This led to a reduction in consumer spending, and companies scaled back their capital expenditure. The pandemic also resulted in a fall in demand from other countries. The aforementioned restrictions began to be eased in May 2020, paving the way for a piecemeal economic recovery.

The economy of the eurozone also slumped in the first six months of 2020. Following a 0.4 percent rise in gross domestic product (GDP) in the second half of 2019 compared with the first half of 2019, the eurozone's economic output shrank by 9.4 percent in the period under review. GDP decreased by 3.6 percent in the first quarter of 2020. In the second quarter, GDP fell by 12.1 percent compared with the previous quarter.

The adverse impact of the pandemic on the US economy was similar to that on its European counterpart. During the months of spring, employment declined at an even faster rate than in the eurozone but also rose again more quickly when the lockdown was eased. The restrictions imposed to contain the COVID-19 pandemic in the United States also resulted in lower levels of consumer spending, capital spending on plant and equipment, and foreign trade.

China was affected by the pandemic earlier than Europe and the United States. The adverse impact on the Chinese economy was primarily felt in the first quarter of 2020 and it began to recover in the second quarter. The economic problems caused by the pandemic and efforts to contain it also dominated conditions in other emerging markets during the reporting period. Brazil and Russia were particularly hard hit, as was India.

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

The main focus in the first half of 2020 was on dealing with the economic impact – and the resulting recession – of the action taken to contain the spread of the COVID-19 pandemic. In Europe, EU member states responded to the economic crash with fiscal packages at national level and negotiated a European recovery fund as a way of providing economic support. The European Central Bank (ECB) stepped up its already expansionary monetary policy by launching the pandemic emergency purchase program (PEPP).

The COVID-19 virus, which first emerged in China at the end of 2019 and developed into a worldwide pandemic from January 2020 onward, necessitated international efforts to contain the outbreak. Although these slowed the spread of the disease, they also had a significant negative impact on the global economy. Prices fell in the international equity markets and spreads widened in the bond markets. Following a decrease in the number of new cases and in conjunction with steps taken to prevent the spread of infection, individual countries began to ease some of their lockdown measures from the middle of the second quarter of 2020 in order to mitigate the economic fallout.

The policy of 'America first', which has been pursued by the US government for some years, was continued in the reporting period. This was particularly evident from relations between the United States and China. The trade dispute between the two countries faded into the background for a while, after US President Donald Trump and Chinese Vice Premier Liu He signed a trade agreement on January 15, 2020 and also due to the subsequent distraction of the challenges created by the coronavirus crisis. Since May 2020, however, the United States has introduced new measures that not only affect its trade relations with China but also are designed to make it more difficult for China to access the US capital markets. In addition, the United States has imposed further restrictions on China's access to key technologies. The reporting period saw a continuation of the trade dispute between the United States and EU concerning the potential introduction of further US tariffs on selected goods from the EU with the aim of reducing the US trade deficit.

Some EU countries still did not meet the target for reducing new and overall indebtedness in 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 2020, the total borrowing of the 19 eurozone countries equated to 86.3 percent of their GDP, a year-on-year decrease of 0.1 percentage points compared with the figure of 86.4 percent as at March 31, 2019.

Greece's public debt as a percentage of GDP was 176.7 percent in the first quarter of 2020 (first quarter of 2019: 182.0 percent). Since mid-2019, Greece has had a conservative government headed by Prime Minister Kyriakos Mitsotakis of the Nea Dimokratia (ND) party. The policies of the ND encompass reforms to stimulate growth, such as cuts in both direct and indirect taxes as well as in social security contributions. The coronavirus crisis particularly impacted on Greece's tourism industry due to the international travel restrictions. Other sectors of the economy were less affected because of the lower number of coronavirus cases in the country than in other EU member states.

Since September 2019, Italy's government has consisted of the populist Five Star Movement, the social democratic Partito Democratico, and the Movimento Associativo Italiani all'Estero under the leadership of Giuseppe Conte. The coronavirus crisis threw the spotlight on Italy's calls for greater financial solidarity in the eurozone. Italy's public debt as a percentage of GDP stood at 137.6 percent in the first quarter of 2020 (first quarter of 2019: 136.4 percent), which is the highest in the eurozone after that of Greece. In the eurozone, Italy and Spain were the worst affected by the coronavirus crisis because the lockdowns and related shutdowns of business lasted longer than in other eurozone countries.

Portugal's economy, which relies on the tourism industry, was affected by the measures taken to contain COVID-19 because of the absence of tourists at the start of the summer season. The country's consumer spending also slumped as the Portuguese government introduced restrictions on public life at a relatively early stage. Portugal's public debt as a percentage of GDP was 120.0 percent in the first quarter of 2020, compared with 123.4 percent in the first quarter of 2019.

Spain is ruled by a minority government led by Prime Minister Pedro Sánchez from the socialist workers' party. In the reporting period, Spain and Italy were the eurozone countries that were the worst affected by the coronavirus crisis. To soften the economic impact, the government signed off an economic stimulus package that equates to around 20 percent of annual economic output in total. In Spain, public debt as a percentage of GDP stood at 98.8 percent in the first quarter of 2020 (first quarter of 2019: 98.6 percent).

France's President Macron is in the third year of his five-year term. When he took office, he announced a raft of pro-business reforms, including an overhaul of pensions. Public resistance to the government's policies, however, caused the reform process to stall. France's public debt as a percentage of GDP was 101.2 percent in the first quarter of 2020 (first quarter of 2019: 99.3 percent). The French economy was also adversely affected by the measures taken to limit the spread of COVID-19 in the reporting period.

The trends in the eurozone described above show that the ECB with its policy of quantitative easing is continuing to support the markets for government bonds and creating the necessary time for the European Monetary Union (EMU) countries burdened with significant debt to reduce their budget deficits.

Nonetheless, the countries specified above have not made sufficient efforts to reduce their high levels of indebtedness, which are above the Maastricht limit of 60 percent, or to bring in the necessary structural reforms. The benefit from the current low level of interest rates is reducing the impact from the debt burden and having the effect of decreasing various EMU countries' efforts to implement austerity measures.

The ECB's present policy of zero and negative interest rates is making it harder for savers to build up capital and, therefore, to ensure they have adequate provision for old age. At its meeting on June 4, 2020, 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 deposit facility rate, which has applied since September 12, 2019, meant that banks had to pay a higher negative interest rate on their deposits with the ECB. To mitigate the adverse impact on banks, the ECB introduced a two-tier system for remunerating excess reserve holdings, under which some of banks' excess liquidity is exempted from the negative deposit rate. The ECB Governing Council 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 the target level of inflation, i.e. close to, but below, 2 percent. The Council also decided that net purchases under PEPP would be increased by €600.0 billion to a total of €1,350.0 billion until at least the end of June 2021. Net purchases under the asset purchase program (APP), which have a monthly volume of €20.0 billion, and the temporary envelope of additional net asset purchases of €120.0 billion will continue until the end of 2020.

The ECB's asset purchase program has attracted controversy. At the start of May 2020, the German Federal Constitutional Court ruled that the ECB's public sector purchase program (PSPP) for buying government bonds partly violated the German Basic Law. The court said that the ECB had not sufficiently checked and demonstrated that the program was proportionate. The ECB was given a three-month deadline to prove that it was. Otherwise, Deutsche Bundesbank would no longer be allowed to participate in the program. The required evidence was then compiled and approved for submission to the German government during the non-monetary policy meeting of the ECB Governing Council on June 24, 2020.

On March 16, 2020, the US Federal Reserve (Fed) announced a rate cut of 100 basis points. At a meeting on June 10, 2020, the majority of the members of the Federal Open Market Committee (FOMC) expressed their expectation that key interest rates could remain unchanged until the end of 2022. The federal funds rate is currently in the range of 0 to 0.25 percent. In response to COVID-19, the Fed also decided to increase its bond purchases. On top of the volume of existing purchases of more than US$ 2,300.0 billion, the US central bank can buy an unlimited volume of government bonds and mortgage-backed securities every month (March 2020: US$ 517.0 billion; April 2020: US$ 1,213.0 billion; May 2020: US$ 368.0 billion, and June 2020: US$ 196.0 billion). The Fed also launched various emergency programs, known as facilities, in order to maintain the flow of credit to companies, consumers, and federal states.

## 3 Financial performance

### 3.1 Financial performance at a glance

Despite the challenging market conditions resulting from the effects of the COVID-19 pandemic and the continuation of extremely low interest rates, the DZ BANK Group was able to report a profit before taxes of €557 million in the first half of 2020.

The year-on-year changes in the key figures that make up the net profit generated by the DZ BANK Group compared with the first half of 2019 were as described below.

FIG. 1 – INCOME STATEMENT

| € million | Jan. 1– Jun. 30, 2020 | Jan. 1– Jun. 30, 2019 | Change (%) |
|---|---|---|---|
| **Net interest income** | **1,505** | 1,332 [1] | +13.0 |
| of which: net income from long-term equity investments [2] | 62 | 28 | > 100.0 |
| **Net fee and commission income** | **1,052** | 958 | +9.8 |
| **Gains and losses on trading activities** | **539** | 141 | >100.0 |
| **Gains and losses on investments** | **-15** | 130 | >100.0 |
| **Other gains and losses on valuation of financial instruments** | **-247** | 126 [1] | >100.0 |
| **Gains and losses from the derecognition of financial assets measured at amortized cost** | **7** | 15 | -53.3 |
| **Net income from insurance business** | **124** | 761 | -83.7 |
| **Loss allowances** | **-522** | -105 | >100.0 |
| **Administrative expenses** | **-2,016** | -2,046 | -1.5 |
| Staff expenses | -924 | -923 | +0.1 |
| Other administrative expenses [3] | -1,092 | -1,123 | -2.8 |
| **Other net operating income** | **130** | 152 | -14.5 |
| **Profit before taxes** | **557** | 1,464 | -62.0 |
| **Income taxes** | **-185** | -430 | -57.0 |
| **Net profit** | **372** | 1,034 | -64.0 |

1 Amount restated (see note 2 in the notes to the interim consolidated financial statements).
2 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.
3 General and administrative expenses plus depreciation/amortization expense.

**Operating income** in the DZ BANK Group amounted to €3,095 million (first half of 2019: €3,615 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 rose by 13.0 percent year on year to €1,505 million (first half of 2019: €1,332 million).

In the first half of 2019, net interest income at BSH had fallen as a consequence of the increase in the provisions relating to building society operations as described in the details for the BSH operating segment. In the reporting period, however, BSH's net interest income went up by €115 million. Net interest income rose by €9 million at TeamBank, by €53 million at DZ BANK – CICB, by €49 million at DZ HYP, and by €14 million at DZ PRIVATBANK. However, net interest income fell by €82 million at DVB.

Net income from long-term equity investments in the DZ BANK Group climbed by €34 million to €62 million (first half of 2019: €28 million). This was due to the higher valuation, using the equity method, of Deutsche WertpapierService Bank AG, Frankfurt am Main, compared with the first half of 2019.

**Net fee and commission income** in the DZ BANK Group increased by 9.8 percent to €1,052 million (first half of 2019: €958 million).

Net fee and commission income advanced by €10 million at BSH, by €62 million at UMH, by €32 million at DZ BANK – CICB, and by €8 million at DZ PRIVATBANK. Conversely, net fee and commission income declined by €10 million at VR Smart Finanz and by €11 million at DVB.

The DZ BANK Group's **gains and losses on trading activities** came to a net gain of €539 million, compared with a net gain of €141 million in the first half of 2019. This was largely attributable to the gains and losses on trading activities at DZ BANK – CICB, amounting to a net gain of €521 million (first half of 2019: net gain of €130 million).

**Gains and losses on investments** deteriorated by €145 million to a net loss of €15 million (first half of 2019: net gain of €130 million). This change was primarily attributable to the BSH operating segment, following the write-down on the carrying amount of the long-term equity investment in Slovakian building society PSS in the reporting period and the positive effect of the disposal of the shares in Czech building society ČMSS in the prior-year period.

**Other gains and losses on valuation of financial instruments** in the DZ BANK Group amounted to a net loss of €247 million in the first half of 2020 (first half of 2019: net gain of €126 million).

At BSH, other gains and losses on valuation of financial instruments went down by €11 million. The decrease at UMH was €101 million and resulted from higher losses related to the valuation of guarantee commitments and a negative contribution from the valuation of own-account investments at fair value. DZ BANK – CICB reported a decline of €17 million. Other gains and losses on valuation of financial instruments decreased by €196 million at DZ HYP, largely as a result of the widening of spreads on bonds issued by eurozone periphery countries. At DVB, they fell by €52 million. The specific reasons for the change in other gains and losses on valuation of financial instruments compared with the prior-year period were the factors described in the details for these operating segments.

**Gains and losses from the derecognition of financial assets measured at amortized cost** declined by €8 million to a net gain of €7 million (first half of 2019: net gain of €15 million). This was primarily attributable to the decrease of €12 million in the DZ BANK – CICB operating segment.

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 2020, this figure went down by €637 million to €124 million (first half of 2019: €761 million).

This year-on-year fall 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 addition of €522 million (first half of 2019: net addition of €105 million). Updates to macroeconomic forecasts as a result of the COVID-19 pandemic gave rise to additions of €165 million.

Further disclosures on the nature and extent of risks arising from financial instruments and insurance contracts can be found in note 44 in the notes to the interim consolidated financial statements.

**Administrative expenses** in the DZ BANK Group decreased by €30 million to €2,016 million (first half of 2019: €2,046 million). Staff expenses amounted to €924 million (first half of 2019: €923 million). Other administrative expenses went down by €31 million to €1,092 million (first half of 2019: €1,123 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 €130 million (first half of 2019: €152 million).

Other net operating income improved by €17 million at R+V, by €47 million at DVB, and by €21 million in the Other/Consolidation segment. By contrast, it fell by €21 million at BSH, by €67 million at UMH, by €4 million at DZ BANK – CICB, and by €16 million at VR Smart Finanz.

**Profit before taxes** for the first half of 2020 stood at €557 million, compared with €1,464 million in the first half of 2019.

The DZ BANK Group's **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 2019: 56.6 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 5.3 percent (first half of 2019: 17.0 percent).

The DZ BANK Group's **income taxes** amounted to €185 million in the period under review (first half of 2019: €430 million).

**Net profit** for the first half of 2020 was €372 million, compared with €1,034 million in the first half of 2019.

### 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 2020 compared with the corresponding period of 2019.

Segmentation is fundamentally based on the integrated risk and capital management system in the DZ BANK Group, the function of which is to create transparency, notably in respect of the risk structure and risk-bearing capacity of the individual management units in the group. The segment information presents separate disclosures for the management units DZ HYP AG, Hamburg/Münster, (DZ HYP), TeamBank AG Nürnberg, Nuremberg, (TeamBank), DZ PRIVATBANK, and the BSH, DVB, R+V, UMH, and VR Smart Finanz subgroups together with comparative figures for the prior-year period.

Since 2019, the previous DZ BANK management unit has been broken down into central institution and corporate bank (DZ BANK – CICB) and the group management function (DZ BANK – holding function) because of changes to the internal management structure and the associated modification of the internal reporting system. The related reorganization of the management units in the internal reporting system has been adopted for the presentation of the operating segments. The DZ BANK – CICB operating segment comprises the cooperative central institution function, which supports the operating activities of the local cooperative banks, and the corporate bank function. DZ BANK – holding function is mainly used to pool tasks carried out on behalf of the DZ BANK Group in relation to commercial law, tax, and prudential supervision. The total assets of DZ BANK – holding function include the equity, plus a number of other items such as a notional carrying amount for the long-term equity investment in DZ BANK – CICB, together with the carrying amounts of the long-term equity investments in the other management units. The notional long-term equity investment in DZ BANK – CICB is measured in an amount equating to 11 percent of the risk-weighted assets of DZ BANK – CICB. The dividend payments of the management units and the intragroup income relating to the liabilities to dormant partners, which were previously included in the DZ BANK operating segment, have been reported under Other/Consolidation since 2019. The relevant consolidation activities are still included under Other/Consolidation. DZ BANK – holding function does not constitute an operating segment within the meaning of IFRS 8.5 but is presented separately in line with the internal reporting structure. The figures for the prior-year period have been restated accordingly. All other companies in the DZ BANK Group, which are not required to provide regular quantitative reports to the chief operating decision-makers, and the consolidations are reported on an aggregated basis under Other/Consolidation.

## FIG. 2 – SEGMENT INFORMATION

### 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 co st | 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 Jun. 30, 2020 | 79,001 | 123,547 | 9,383 | 2,720 |

### INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2019

| € million | BSH | R+V | TeamBank | UMH |
|---|---|---|---|---|
| Net interest income [1] | 217 | - | 239 | 9 |
| Net fee and commission income | -15 | - | -11 | 706 |
| Gains and losses on trading activities | - | - | - | - |
| Gains and losses on investments | 120 | - | - | - |
| Other gains and losses on valuation of financial instruments [1] | 17 | - | - | 20 |
| Gains and losses from the derecognition of financial assets measured at amortized cost | 15 | - | - | - |
| Premiums earned | - | 8,328 | - | - |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | - | 3,551 | - | - |
| Insurance benefit payments | - | -9,634 | - | - |
| Insurance business operating expenses | - | -1,524 | - | - |
| Gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business | - | -6 | - | - |
| Loss allowances | 6 | - | -54 | - |
| Administrative expenses | -249 | - | -114 | -436 |
| Other net operating income | 38 | -4 | 3 | 85 |
| **Profit/loss before taxes** | **149** | **711** | **63** | **384** |
| Cost/income ratio (%) | 63.5 | - | 49.4 | 53.2 |
| Regulatory RORAC (%) | 26.2 | 18.0 | 26.3 | >100.0 |
| Average own funds/solvency requirement | 1,139 | 7,923 | 482 | 339 |
| Total assets/total equity and liabilities as at Dec. 31, 2019 [1] | 77,469 | 121,973 | 9,455 | 3,012 |

[1] Amount restated (see note 2 in the notes to the interim consolidated financial statements).

| | 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 |
| | 331,923 | 94,997 | 19,003 | 4,186 | 11,852 | 20,383 | -92,799 | 604,196 |

| | DZ BANK – CICB | DZ HYP | DZ PRIVAT-BANK | VR Smart Finanz | DVB | DZ BANK – holding function | Other/ Consolidation | **Total** |
|---|---|---|---|---|---|---|---|---|
| | 361 | 309 | 30 | 75 | 102 | -31 | 21 | 1,332 |
| | 198 | 1 | 85 | -1 | 27 | - | -32 | 958 |
| | 130 | 1 | 4 | - | -4 | - | 10 | 141 |
| | -2 | 10 | - | - | 2 | - | - | 130 |
| | 24 | 70 | 5 | - | -16 | - | 6 | 126 |
| | 15 | - | - | - | - | - | -15 | 15 |
| | - | - | - | - | - | - | - | 8,328 |
| | - | - | - | - | - | - | -35 | 3,516 |
| | - | - | - | - | - | - | - | -9,634 |
| | - | - | - | - | - | - | 81 | -1,443 |
| | - | - | - | - | - | - | - | -6 |
| | 1 | 4 | - | -12 | -50 | - | - | -105 |
| | -641 | -139 | -114 | -70 | -109 | -107 | -67 | -2,046 |
| | 11 | 12 | 3 | 9 | -19 | - | 14 | 152 |
| | **97** | **268** | **13** | **1** | **-67** | **-138** | **-17** | **1,464** |
| | 87.0 | 34.5 | 89.8 | 84.3 | >100.0 | - | - | 56.6 |
| | 3.9 | 35.8 | 8.4 | 0.7 | -42.7 | - | - | 17.0 |
| | 4,928 | 1,505 | 308 | 305 | 289 | - | - | 17,218 |
| | 288,841 | 92,377 | 19,464 | 4,283 | 14,239 | 20,191 | -91,832 | 559,472 |

### 3.2.1 BSH

**Net interest income** in the BSH subgroup improved by €115 million to €332 million (first half of 2019: €217 million).

In the first half of 2019, net interest income had been influenced by an additional expense of €153 million resulting from the increase in provisions relating to building society operations and thus by a rise in interest expense. This largely reflected discounted future obligations of BSH to make payments in the form of loyalty bonuses or premiums to those home savings customers who decline to take up the contractually agreed loans. In the period under review, however, there was no additional expense resulting from additions to provisions relating to building society operations.

The reason for the overall decrease in net interest income was the persistently low level of interest rates. At the end of the reporting period, the 10-year swap rate was minus 0.17 percent (June 30, 2019: 0.18 percent).

Interest income arising on investments declined by €32 million to €228 million (first half of 2019: €260 million) because capital market rates for investments remained low. Net interest income was also adversely impacted by an increase of €18 million in fees and commissions directly assignable to the acquisition of home savings contracts and loan agreements and incorporated into the effective interest method applied to home savings deposits.

In the case of loans issued under advance or interim financing arrangements and other building loans, the BSH subgroup managed to increase its income from non-collective business in the first half of the year by €2 million to €500 million (first half of 2019: €498 million) on the back of the expansion in business and despite a fall in average returns. Income from home savings loans amounted to €34 million (first half of 2019: €35 million).

The volume of home savings deposits from retail customers in the BSH subgroup grew by €0.5 billion to €64.0 billion as at June 30, 2020 (June 30, 2019: €63.5 billion). Despite this growth, the interest expense went down because the current tariffs have lower interest rates.

**Net fee and commission income** amounted to a net expense of €5 million in the reporting period (first half of 2019: net expense of €15 million).

This improvement was attributable to the fall in fees and commissions not directly attributable to the conclusion of a home savings contract, which were down because of the lower volume of new business.

In the home savings business, BSH entered into approximately 222 thousand (first half of 2019: 289 thousand) new home savings contracts with a volume of €11.9 billion (first half of 2019: €15.6 billion) in Germany.

In the home finance business, the realized volume of new business advanced by €1.5 billion to €9.4 billion (first half of 2019: €7.9 billion) in Germany. This figure includes home savings loan contracts and bridging loans from BSH and other referrals totaling €1.0 billion (first half of 2019: €1.0 billion).

**Gains and losses on investments** amounted to a net loss of €20 million (first half of 2019: net gain of €120 million). This was mainly due to the lower carrying amount of Slovakian building society PSS caused by the €30 million write-down on its carrying amount calculated using the equity method. In the prior-year period, however, this figure had been boosted, in particular, by a gain of €99 million resulting from the disposal of the shares in Czech building society ČMSS.

**Other gains and losses on valuation of financial instruments** declined by €11 million to a net gain of €6 million (first half of 2019: net gain of €17 million) in connection with fair value changes in derivatives used for hedging.

**Loss allowances** amounted to a net addition totaling €13 million (first half of 2019: net reversal of €6 million). As well as ongoing additions due to increased volumes in the lending business, this included additions of €7 million in stages 1 and 2 in connection with updates to macroeconomic forecasts as a result of the COVID-19 pandemic. The level of loss allowances in the prior-year period had been influenced by the regular validation of credit risk parameters and an adjustment of the loss allowances to reflect loan commitments.

**Administrative expenses** increased by €4 million to €253 million (first half of 2019: €249 million). At €116 million, staff expenses were €3 million higher than the level in the prior-year period of €113 million. Other administrative expenses went up by €1 million to €137 million (first half of 2019: €136 million).

**Other net operating income** reduced by €21 million to €17 million (first half of 2019: €38 million). The main influence on the figure for the prior-year period had been the reversal of provisions.

**Profit before taxes** decreased by €74 million to €75 million in the reporting period (first half of 2019: €149 million) as a consequence of the changes described above.

The **cost/income ratio** in the period under review came to 74.2 percent (first half of 2019: 63.5 percent).

**Regulatory RORAC** was 12.7 percent (first half of 2019: 26.2 percent).

### 3.2.2 R+V

**Premiums earned** went up by €893 million to €9,221 million (first half of 2019: €8,328 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 €601 million to €4,491 million.

Premiums earned from the life insurance business rose by €580 million to €4,161 million. Occupational pensions and new guarantees were the main areas of business contributing to this increase. Credit insurance, unit-linked life insurance, and traditional product business have recently seen a decline. In the health insurance business, net premiums earned rose by €21 million to €330 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 €126 million to €3,232 million, with most of this growth being generated from motor vehicle insurance and corporate customer business.

Premium income earned from the inward reinsurance business rose by €166 million to €1,498 million. Business performed particularly well in the Americas, Europe, and Asia, with Europe remaining the largest market. Growth was generated in all divisions.

**Gains and losses on investments held by insurance companies and other insurance company gains and losses** deteriorated by €4,173 million to a net loss of €622 million (first half of 2019: net gain of €3,551 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 of the same amount. The net gain on investments held by insurance companies, excluding unit-linked contracts, amounted to €458 million in the first half of 2020.

The level of long-term interest rates was lower than in the first half of 2019. However, the widening of spreads on interest-bearing securities had a negative impact on this item. Over the course of the reporting period, equity markets relevant to R+V performed worse than in the first six months of 2019.

For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the single currency area, saw a fall of 511 points from the start of 2020, closing the reporting period on 3,234 points. In the first half of 2019, this index had risen by 473 points. Movements in exchange rates between the euro and various currencies were generally less favorable in the reporting period than in the first six months of 2019.

Overall, these trends in the first half of 2020 essentially resulted in a €3,774 million deterioration in unrealized gains and losses to a net loss of €1,466 million (first half of 2019: net gain of €2,308 million), a €376 million decrease in the contribution to earnings from the derecognition of investments to a loss of €271 million, and a deterioration of €207 million under foreign exchange gains and losses to a net loss of €168 million (first half of 2019: net gain of €39 million). In addition, net income under current income and expense fell by €138 million to €1,066 million (first half of 2019: €1,204 million) and the balance of depreciation, amortization, impairment losses, and reversals of impairment losses deteriorated by €42 million to a net expense of €80 million (first half of 2019: net expense of €38 million). Other insurance gains and losses and non-insurance gains and losses improved by €364 million to a net gain of €297 million (first half of 2019: net loss of €67 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** decreased by €2,751 million from €9,634 million in the first half of 2019 to €6,883 million in the reporting period.

The decrease 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. There was a reversal of €89 million from the supplementary change-in-discount-rate reserve (first half of 2019: reversal of €76 million).

In the non-life insurance business, a decline in the claims rate trend was evident compared with the prior-year period. For example, the overall claims rate remained below the level in the first half of 2019. Claims expenses for natural disasters and basic claim costs both went down. However, major claim costs increased. In the context of the COVID-19 pandemic, additions were made to provisions for claims on the basis of received and expected claims. After taking into account the countervailing effects in motor vehicle insurance, the expense in connection with the COVID-19 pandemic amounted to €92 million. The losses in connection with Storm Sabine amounted to around €62 million.

In the inward reinsurance business, the net claims ratio was down by 0.3 percentage points compared with the prior-year period. The ratios for major and medium claims were above those in the first half of 2019. Notably, the COVID-19 pandemic gave rise to claims of around €140 million, with a corresponding impact on earnings.

**Insurance business operating expenses** went up by €93 million to €1,617 million (first half of 2019: €1,524 million) in the course of ordinary business activities in all divisions, with a particularly sharp rise in the non-life insurance and inward reinsurance segments.

Because of the factors described above, **profit before taxes** for the reporting period declined by €609 million to €102 million (first half of 2019: €711 million).

**Regulatory RORAC** was 1.9 percent (first half of 2019: 18.0 percent).

### 3.2.3 TeamBank

**Net interest income** at TeamBank amounted to €248 million, which was €9 million higher than the equivalent figure in the first six months of 2019 of €239 million. The main source of this increase was expansion of the volume of consumer finance. The consumer finance volume swelled by €36 million to €8,909 million (December 31, 2019: €8,873 million). The volume growth was thus below that of the first half of 2019 at €446 million. This change should be viewed in the context of the consequences of the COVID-19 pandemic and the related restrictions on public life, which curtailed consumer spending.

The increase in the consumer finance volume was attributable in large part to the collaboration with the cooperative banks. As at June 30, 2020, TeamBank was working with 753 of Germany's 842 cooperative banks and with 144 partner banks in Austria. In addition, more than 34 thousand members of cooperative banks benefited from favorable terms and conditions in the first half of 2020, of whom around 5 thousand were new to the cooperative financial network. As at June 30, 2020, around 258 thousand customers had either signed up for easyCredit-Finanzreserve or were already using this flexible means of borrowing. As a result, some 18.6 percent of new business in the reporting period was generated through easyCredit-Finanzreserve.

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 increase loans and advances to customers to €9,113 million as at June 30, 2020 (December 31, 2019: €9,063 million). The number of customers also rose to reach 963 thousand (December 31, 2019: 944 thousand).

**Net fee and commission income** declined by €4 million to a net expense of €15 million (first half of 2019: net expense of €11 million). This change was largely due to lower fee and commission income from credit insurance policies as a result of the reduction in new business caused by the COVID-19 pandemic.

**Loss allowances** were higher than in the prior-year period at €71 million, a year-on-year increase of €17 million (first half of 2019: €54 million). The larger addition to loss allowances was required because of changing patterns of customer behavior on the back of payment relief and updates to macroeconomic forecasts (in connection with the COVID-19 pandemic). Conversely, the lower level of new business compared with the prior-year period resulted in lower additions to loss allowances.

**Administrative expenses** increased by €5 million to €119 million (first half of 2019: €114 million). Staff expenses rose by €4 million to €49 million (first half of 2019: €45 million), mainly due to the growth of headcount. Other administrative expenses went up by €1 million to €70 million (first half of 2019: €69 million), primarily because of higher IT costs.

**Other net operating income** went up by €4 million to €7 million (first half of 2019: €3 million).

**Profit before taxes** for the period under review amounted to €49 million. The decrease of €14 million compared with the figure of €63 million reported for the first half of 2019 was a consequence of the factors described above.

TeamBank's **cost/income ratio** in the period under review was 49.8 percent (first half of 2019: 49.4 percent).

**Regulatory RORAC** was 17.2 percent (first half of 2019: 26.3 percent).

### 3.2.4 UMH

**Net fee and commission income** at UMH rose by €62 million to €768 million (first half of 2019: €706 million).

The change in net fee and commission income was predominantly due to the following factors: Because of the rise in the average assets under management of the Union Investment Group, which climbed by €19.2 billion to €358.9 billion (first half of 2019: €339.7 billion), the volume-related contribution to net fee and commission income rose by €38 million to €675 million (first half of 2019: €637 million).

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

Income from performance-related management fees amounted to €21 million (first half of 2019: €2 million). Income from real estate fund transaction fees increased by €11 million to €22 million during the reporting period (first half of 2019: €11 million).

The markets for risk assets were still hitting record highs at the start of 2020, but the worldwide spread of COVID-19 and the emergency measures adopted internationally to contain the virus caused share prices to slump from mid-February onward. From mid-March, capital markets were able to recover somewhat thanks to the programs launched by many governments and central banks to soften the economic impact of the COVID-19 pandemic and the gradual easing of lockdown measures.

Against this backdrop, Union Investment managed to generate net inflows from its retail business of €3.7 billion in the first six months of 2020 (first half of 2019: €4.1 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 2.9 million contracts as at June 30, 2020, with an increase in the 12-month savings volume to €5.4 billion (December 31, 2019: €4.9 billion).

The total assets in the portfolio of Riester pension products had decreased to €20.2 billion as at June 30, 2020 (December 31, 2019: €20.9 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at June 30, 2020 totaled 5.5 million (December 31, 2019: 5.3 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 €1.3 billion in the first half of 2020 (first half of 2019: €2.1 billion).

Assets under management in the PrivatFonds family amounted to €24.4 billion as at June 30, 2020 (December 31, 2019: €25.3 billion).

The institutional business also continues to face significant challenges. Persistently low interest rates, the emergence of the COVID-19 pandemic in the reporting period, and the ensuing market turmoil necessitated effective risk management. This is reflected in the portfolios' broad diversification across asset classes and countries. In the reporting period, demand was focused primarily on low-risk asset classes, capital preservation investment strategies, and sustainable investment. The market turmoil naturally meant that institutional clients required more liquidity in the reporting period, and this could be seen from the movements in short-dated bonds (short-term liquidity investments). In its institutional business, the Union Investment Group generated net inflows amounting to €0.6 billion (first half of 2019: €4.9 billion). A total of 17 new institutional clients were gained in the reporting period (first half of 2019: 49 institutional clients).

The portfolio of sustainably managed funds had expanded to €54.8 billion at the end of the reporting period (December 31, 2019: €53.1 billion). This growth demonstrates that institutional clients are increasingly focusing on socially responsible investing.

**Other gains and losses on valuation of financial instruments** deteriorated by €101 million to a net loss of €81 million (first half of 2019: net gain of €20 million). The decline can be explained by higher losses related to the valuation of guarantee commitments compared to the prior-year period (€83 million) and a negative contribution from the valuation of own-account investments at fair value (€18 million).

The €6 million rise in **administrative expenses** to €442 million (first half of 2019: €436 million) was predominantly caused by staff expenses advancing by €10 million to €218 million (first half of 2019: €208 million), which in turn was due to average pay rises and appointments to new and vacant positions. Other administrative expenses contracted by €4 million to €224 million (first half of 2019: €228 million), mainly because of lower expenses incurred in connection with public relations and marketing.

**Other net operating income** went down by €67 million to €18 million (first half of 2019: €85 million). The main influence on the figure for the prior-year period had been the disposal of the fully consolidated subsidiary Union Investment Towarzystwo Funduszy Inwestycyjnych S.A. (TFI), Poland.

In the reporting period, **profit before taxes** was influenced by effects relating to the economic fallout from the COVID-19 pandemic. Profit before taxes fell by a total of €120 million to €264 million (first half of 2019: €384 million) due to the changes described above.

The **cost/income ratio** came to 62.6 percent in the first half of 2020 (first half of 2019: 53.2 percent).

**Regulatory RORAC** was greater than 100.0 percent (first half of 2019: 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 rose by 14.7 percent to €414 million (first half of 2019: €361 million).

In the Corporate Banking business line, net interest income went up by 3.6 percent to €233 million (first half of 2019: €225 million). The net interest income in the four regional corporate customer divisions plus Central Corporate Banking rose by 1.6 percent to €129 million as a result of an increase in lending volume (first half of 2019: €127 million).

Net interest income in the Structured Finance and Investment Promotion divisions amounted to €104 million, which was up by 6.1 percent compared with the figure for the prior-year period of €98 million. The rise in the Structured Finance division was due in large part to the increase in project finance activities.

Net interest income from the separately managed real estate lending portfolio was down by 20.0 percent year on year at €16 million (first half of 2019: €20 million) due to a contraction in the portfolio.

In the Capital Markets business line, net interest income advanced by 75.9 percent to €153 million (first half of 2019: €87 million). This was primarily attributable to business with institutional customers and the treasury portfolios. The main reasons for the increase were the beneficial effect of the tiered interest rates introduced by the ECB (threshold raised by six times the minimum reserve requirement), lower interest expense on the specific funding structure, and the larger volume of money market business.

Current income and expense from long-term equity investments declined to €13 million (first half of 2019: €28 million). This decrease was essentially explained by a year-on-year fall of €11 million in income from long-term equity investments to €0 million at VR Equitypartner GmbH and a fall of €4 million in income from long-term equity investments to €0 million at KBIH (Reisebank) owing to the COVID-19 pandemic.

**Net fee and commission income** rose by 16.2 percent to €230 million (first half of 2019: €198 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 €5 million higher than in the prior-year period at €63 million (first half of 2019: €58 million). This increase was due, in particular, to a rise in processing fees and commissions.

In the Capital Markets business line, the contribution to net fee and commission income rose by 30.0 percent to €117 million (first half of 2019: €90 million). Of particular note was the growth of income from securities brokerage business on the back of an increase in transactions.

Net fee and commission income in the Transaction Banking business line was also up on the prior-year period at €65 million, an increase of €4 million or 6.6 percent (first half of 2019: €61 million). This growth was primarily accounted for by payments processing, in particular due to the growth of the contactless payments market.

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 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 2019: €84 million) and are reported under net fee and commission income for the individual Corporate Banking (€4 million) and Capital Markets/Transaction Banking (€89 million) business lines.

Aside from the aforementioned business lines, net fee and commission income from other financial services amounted to a greater net expense of €15 million in the reporting period (first half of 2019: net expense of €11 million). This change was largely caused by higher commission on loans.

**Gains and losses on trading activities** rose by €391 million to a net gain of €521 million (first half of 2019: net gain of €130 million).

Gains and losses on trading activities related to the business activities of the Capital Markets business line. Gains and losses on money market business entered into for trading purposes (mainly repurchase agreements) by the Group Treasury division and all derivatives are also included in gains and losses on trading activities because they are categorized as 'financial assets and liabilities measured at fair value through profit or loss' (fair value PL).

Gains and losses on operating trading activities in the Capital Markets business line amounted to a net gain of €259 million, a year-on-year rise of 32.1 percent (first half of 2019: net gain of €196 million). One of the reasons for this was a higher level of sales with institutional and corporate customers across all asset classes and the associated boost to income. There were increases in revenue not only from the sale of agency bonds and bank bonds but also from the sale of interest-rate structures and interest-rate derivatives and from spot exchange business. The volume of bonds issued in primary market business also went up. DZ BANK won client accounts in the following customer groups: public-sector and supranational institutions, financial institutions, and corporates. Although the market turmoil created by COVID-19 in the first quarter of 2020 resulted in negative valuation effects on trading assets, these were offset in the second quarter and were more than made up for by the customer business.

Other gains and losses on trading activities resulting from non-operating, IFRS-related effects amounted to a net gain of €262 million. For the assets and liabilities recognized at fair value in the fair value PL category and in the 'financial assets and liabilities designated as at fair value through profit or loss' category, the adjustment of the valuation curves gave rise to a significant net gain in the reporting period. There had been almost no impact on profit or loss from this effect in the prior-year period.

**Gains and losses on investments** improved by €4 million to a net gain of €2 million (first half of 2019: net loss of €2 million). The net gain resulted from the combination of gains of €26 million from the disposal of securities with a nominal amount of €1,003 million and losses of €24 million arising from the termination of hedges measured at fair value through OCI as part of portfolio fair value hedge accounting. In the first half of 2019, the disposal of securities with a nominal amount of €703 million had given rise to losses of €2 million.

**Other gains and losses on valuation of financial instruments** fell by 70.8 percent to a net gain of €7 million (first half of 2019: net gain of €24 million). The decrease was attributable to the €22 million decline in financial instruments measured at fair value through profit or loss to a net loss of €4 million (first half of 2019: net gain of €18 million). The net gain from ineffectiveness in hedge accounting stood at €11 million (first half of 2019: €6 million).

**Gains and losses from the derecognition of financial assets measured at amortized cost** declined by 80.0 percent to a net gain of €3 million (first half of 2019: net gain of €15 million). Most of the net gain was attributable to repayments of capital of €2 million.

**Loss allowances** amounted to an addition of €256 million (first half of 2019: reversal of €1 million). The net additions in respect of the lending business and investments totaled €255 million (first half of 2019: net additions of €7 million). This can be broken down into additions of €114 million in stage 1 and stage 2 and of €141 million in stage 3. The net addition in respect of recoveries on loans and advances previously impaired, directly recognized impairment losses, and additions to loan provisions was €1 million (first half of 2019: net reversal of €8 million). The additions included expenses of €98 million in stages 1 and 2 in connection with updates to macroeconomic forecasts as a result of the COVID-19 pandemic. In addition to the COVID-19-related effects, loss allowances also increased because of significant impairment losses recognized on a specific exposure.

In the first half of 2019, the net additions in the lending business (€8 million) had been more than offset by recoveries on loans and advances previously impaired of €9 million.

**Administrative expenses** went up by 0.3 percent to €643 million (first half of 2019: €641 million).

The €6 million rise in staff expenses to €293 million (first half of 2019: €287 million) was largely due to higher remuneration expenses in the reporting period.

Other administrative expenses decreased by 1.1 percent to €350 million (first half of 2019: €354 million). The consultancy expenses within this figure were €98 million, which was €3 million lower than in the first six months of 2019. Taking account of income from the reversal of provisions, expenses for the bank levy decreased by €2 million to €21 million (first half of 2019: €23 million). Office expenses fell by €3 million to €12 million. By contrast, expenses for the BVR deposit guarantee fund grew by €3 million to €34 million (first half of 2019: €31 million). There was also a €3 million rise in IT expenses to €84 million.

**Other net operating income** amounted to €7 million (first half of 2019: €11 million) and, in the period under review, consisted of other operating income of €57 million (first half of 2019: €45 million) and other operating expenses of €50 million (first half of 2019: €34 million).

The income was mainly derived from the reversal of provisions and accruals in an amount of €20 million (first half of 2019: €18 million) and refunds of other taxes in an amount of €7 million (first half of 2019: €0 million). The figure reported for the first half of 2019 had included income of €8 million from the sale of GENO-Haus in Stuttgart.

The expenses predominantly consisted of transfers of losses of €13 million (first half of 2019: €4 million) and expenses of €8 million in connection with paydirekt (first half of 2019: €10 million).

Other net operating income also included interest income and interest expense relating to tax refunds and retrospective tax liabilities amounting to net income of €4 million (first half of 2019: net expense of €1 million).

**Profit before taxes** rose to €285 million in the period under review, which was €188 million higher than the figure of €97 million reported for the first half of 2019.

The **cost/income ratio** came to 54.3 percent in the first half of this year (first half of 2019: 87.0 percent).

**Regulatory RORAC** was 10.5 percent (first half of 2019: 3.9 percent).

### 3.2.6 DZ HYP

At €358 million, the **net interest income** of DZ HYP was €49 million above the level of the prior-year period (first half of 2019: €309 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 €3,978 million to €51,305 million (June 30, 2019: €47,327 million).

The volume of new business was below the level of the prior-year period at €3,896 million (first half of €2019: €5,070 million) owing to the challenging conditions created by the COVID-19 pandemic.

In the Commercial Real Estate Investors division, the volume of new business amounted to €2,714 million (first half of 2019: €3,514 million). The volume of new lending jointly generated with the local cooperative banks in the commercial real estate finance business amounted to €2,158 million (first half of 2019: €2,277 million).

In the Housing Sector division, the volume of new commitments in the reporting period came to €208 million (first half of 2019: €340 million). A significant area of focus in this business was the provision of long-term finance for new construction and renovation investment projects.

In the Retail Customers/Private Investors division, the new commitment volume stood at €806 million (first half of 2019: €924 million). Demand for long-term fixed interest rates continued to be supported by the sustained low level of interest rates. The total amount included the new commitment volume of €750 million in the retail banking business generated through the core banking systems of the cooperative financial network and through the Genopace and Baufinex portals for the cooperative banks in the reporting period (first half of 2019: €708 million).

In the business with private investors, new business of €56 million was generated (first half of 2019: €216 million).

In the Public Sector division, the volume of new business came to €168 million (first half of 2019: €292 million). Of this amount, €127 million (first half of 2019: €231 million) was attributable to business brokered through the cooperative banks and €41 million to direct business (first half of 2019: €61 million). Some 81 percent of all deals were generated through the brokering activities of the cooperative banks.

The net gain of €1 million under **gains and losses on investments** was lower than in the prior-year period (first half of 2019: net gain of €10 million) because there were no relevant sales during the reporting period. The net gain in the first half of 2019 had been significantly influenced by the sale of Spanish government bonds.

**Other gains and losses on valuation of financial instruments** declined by €196 million to a net loss of €126 million (first half of 2019: net gain of €70 million). This was predominantly because of a widening of spreads on bonds from eurozone periphery countries (loss of €114 million; first half of 2019: gain of €67 million), particularly on Italian government bonds (loss of €45 million; first half of 2019: loss of €12 million), Spanish government bonds (loss of €43 million; first half of 2019: gain of €38 million), and Portuguese government bonds (loss of €26 million; first half of 2019: gain of €41 million). The main influence on this line item in the prior-year period had been the narrowing of credit spreads for bonds from the peripheral countries of the eurozone.

**Loss allowances** saw an addition of €6 million (first half of 2019: net reversal of €4 million). The increased loss allowance requirement was attributable, in particular, to updates to macroeconomic forecasts in connection with the COVID-19 pandemic.

**Administrative expenses** decreased by €4 million to €135 million (first half of 2019: €139 million).

**Other net operating income** went down by €4 million to €8 million (first half of 2019: €12 million). This fall was predominantly due to the reversal of provisions for administration fees and early redemption payments.

**Profit before taxes** for the period under review amounted to €106 million. The reduction of €162 million compared with the profit before taxes of €268 million reported for the first six months of 2019 was mainly a consequence of the factors described above.

The **cost/income ratio** came to 54.7 percent in the first half of this year (first half of 2019: 34.5 percent).

**Regulatory RORAC** was 13.3 percent (first half of 2019: 35.8 percent).

### 3.2.7 DZ PRIVATBANK

**Net interest income** at DZ PRIVATBANK rose by €14 million to €44 million (first half of 2019: €30 million) despite the persistently low interest rates.

While the risk-conscious investment strategy was continued, the net interest income for the reporting period was boosted by the higher thresholds for deposits at central banks (ECB and the Swiss National Bank (SNB)) and by the lower euro and 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 2019: €4.6 billion).

**Net fee and commission income** improved by €8 million to €93 million (first half of 2019: €85 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 the end of the period under review, the volume of assets under management relating to high-net-worth clients amounted to €18.6 billion (June 30, 2019: €18.3 billion). The assets under management comprise the volume of securities, derivatives, and deposits of customers in the private banking business.

As at June 30, 2020, the value of funds under management amounted to €122.2 billion (June 30, 2019: €111.0 billion). The number of fund-related mandates as at June 30, 2020 was 534 (June 30, 2019: 561).

**Gains and losses on trading activities** rose by €5 million to a net gain of €9 million (first half of 2019: net gain of €4 million) owing to the larger volume of customer-initiated transactions.

**Other gains and losses on valuation of financial instruments** were essentially influenced by the widening of spreads and deteriorated by €6 million to a net loss of €1 million (first half of 2019: net gain of €5 million).

**Administrative expenses** went up by €7 million to €121 million (first half of 2019: €114 million). Staff expenses rose by €4 million to €68 million (first half of 2019: €64 million), predominantly due to the statutory index-linking of salaries. Other administrative expenses are subject to stringent process and cost management but increased by €3 million to €53 million (first half of 2019: €50 million) due, in particular, to the higher bank levy.

**Other net operating income** amounted to €4 million (first half of 2019: €3 million).

**Profit before taxes** climbed by a total of €14 million to €27 million in the reporting period (first half of 2019: €13 million) as a consequence of the changes explained above.

The **cost/income ratio** for DZ PRIVATBANK in the first half of 2020 came to 81.2 percent (first half of 2019: 89.8 percent).

**Regulatory RORAC** was 13.7 percent (first half of 2019: 8.4 percent).

### 3.2.8 VR Smart Finanz

**Net interest income** at VR Smart Finanz declined by €3 million to €72 million in the reporting period (first half of 2019: €75 million).

The expansion of the core business, which involved a further rise in the volumes of the digital solutions, had a positive impact on net interest income. However, it was unable to compensate for the absence of the income from the non-core areas of business that have been scaled back or sold in line with the strategy. In 2019, the strategy had resulted in the sale of the following areas of the business: real estate leasing (VR-IMMOBILIEN-LEASING GmbH), centralized settlement, IT leasing (BFL Leasing GmbH), and the unconsolidated property companies.

The year-on-year rise of 43.9 percent (first half of 2019: 32.4 percent) in the volume of online business (leasing, hire purchase, and lending) transacted with the cooperative banks in the period under review underlined the growing importance of digitally supported financing solutions. The proportion of total new business (leasing and lending) accounted for by contracts entered into online reached 97.9 percent (first half of 2019: 89.9 percent). In light of the COVID-19 pandemic, a decision was made to quickly launch a solution eligible for support from KfW along with further support measures for small-business and self-employed customers. The strong demand for the development loan offset the effect of the temporary withdrawal of the 'VR Smart flexibel' solution and the decrease in demand for asset finance in the first half of 2020.

**Net fee and commission income** declined by €10 million to a net expense of €11 million (first half of 2019: net expense of €1 million). The main reasons for this change were the level of trailer fees to be paid to the cooperative banks, which climbed in line with the volume of business, and the absence of income resulting from the disposal of the centralized settlement business.

**Loss allowances** went up by €14 million to €26 million (first half of 2019: €12 million). This change was primarily attributable to the adjustment of the scorecards, the adjustment of risk parameters used to calculate expected credit risk, and updates to macroeconomic forecasts in connection with the COVID-19 pandemic.

**Administrative expenses** went down by €18 million to €52 million (first half of 2019: €70 million) because of the disposal of the aforementioned areas of business. The lower headcount meant that staff expenses declined by €8 million to €29 million (first half of 2019: €37 million). Other administrative expenses decreased by €10 million to €23 million (first half of 2019: €33 million) as a result of the scaling back and disposal of non-core areas of business.

**Other net operating income** amounted to a net expense of €7 million (first half of 2019: net income of €9 million). In the prior-year period, other net operating income had included the gain of €11 million on the sale of the centralized settlement business. The net expense for the reporting period was primarily attributable to further transformation costs (including for the restructuring of IT and transaction costs).

VR Smart Finanz generated a **loss before taxes** of €24 million (first half of 2019: profit before taxes of €1 million), largely as a consequence of the factors described above.

The **cost/income ratio** in the first half of 2020 came to 96.3 percent (first half of 2019: 84.3 percent).

**Regulatory RORAC** was minus 17.1 percent (first half of 2019: 0.7 percent).

### 3.2.9 DVB

The DVB subgroup's **net interest income** declined by €82 million to €20 million (first half of 2019: €102 million). The decrease was essentially due to the absence of interest income compared with the first six months of 2019 following the sale of the aviation finance and land transport finance core businesses.

The volume of customer loans in the DVB subgroup stood at €5.7 billion as at June 30, 2020 (June 30, 2019: €13.2 billion).

At €16 million, **net fee and commission income** was down by €11 million year on year (first half of 2019: €27 million).

This decrease was largely due to the absence of income following the sale of shares in LogPay Financial Services GmbH and the disposal of the land transport finance and aviation finance businesses. Moreover, activity in the shipping finance and offshore finance businesses is now limited to the extension of existing transactions.

**Gains and losses on trading activities** amounted to a net gain of €2 million (first half of 2019: net loss of €4 million) that was primarily achieved thanks to the movement of the euro/US dollar exchange rate.

**Other gains and losses on valuation of financial instruments** amounted to a net expense of €68 million (first half of 2019: net expense of €16 million). This decline is attributable to IFRS-related measurement effects, particularly from the measurement of derivatives not used as hedges and from use of the fair value option.

The addition to **loss allowances** rose by €98 million to €148 million (first half of 2019: €50 million). This year-on-year change was mainly due to the increased loss allowances required in connection with updates to macroeconomic forecasts as a result of the COVID-19 pandemic (€41 million) and in connection with the further adjustment of risk parameters used to calculate expected credit risk in stage 1 and stage 2 (€27 million). It was also due to an impairment loss of €30 million in stage 3 that was required in the shipping and offshore businesses.

**Administrative expenses** amounted to €78 million (first half of 2019: €109 million), a year-on-year fall of €31 million. Staff expenses decreased by €16 million to €34 million owing to the reduction in headcount (first half of 2019: €50 million). Other administrative expenses decreased to €44 million (first half of 2019: €59 million), primarily because of the fall in legal and consultancy costs and a €15 million lower bank levy.

**Other net operating income** amounted to €28 million (first half of 2019: net expense of €19 million). Significant factors affecting this item in the reporting period were the gains of €60 million on the disposal of a further part of the aviation finance business, which had previously constituted a disposal group not qualifying as a discontinued operation, and other effects amounting to an expense of €21 million resulting from the recognition of impairment losses on assets held for sale. The net expense in the prior-year period had been attributable to effects relating to the sale of the land transport finance core business (gain of €9 million) and LogPay Financial Services GmbH (gain of €29 million) and to the loss allowances for the aviation finance business (expense of €9 million), which had been classified as a disposal group not qualifying as a discontinued operation. In the first half of 2019, other net operating income had also included expenses of €50 million for restructuring.

In the reporting period, DVB incurred a **loss before taxes** of €228 million (first half of 2019: loss before taxes of €67 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 2019: greater than 100.0 percent).

**Regulatory RORAC** was greater than 100 percent (first half of 2019: minus 42.7 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 improved by 25.8 percent to a net expense of €23 million (first half of 2019: net expense of €31 million).

The interest expense on subordinated capital decreased by 21.2 percent to €26 million (first half of 2019: €33 million) as a result of volume reductions.

Net interest income from the funding of long-term equity investment carrying amounts and the investment of capital amounted to €3 million in the reporting period (first half of 2019: €2 million).

**Administrative expenses** decreased by 5.6 percent year on year to €101 million (first half of 2019: €107 million). Within this figure, expenses from the group management function went up by €2 million to €30 million (first half of 2019: €28 million). At €34 million, expenses for the bank levy and contributions (particularly to the BVR protection scheme) were at the same level as in the prior-year period (first half of 2019: €34 million). Furthermore, IT and project expenses fell from €28 million in the first six months of 2019 to €22 million in the period under review.

### 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 a nd 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, 2020, the DZ BANK Group's **total assets** had increased by €44.7 billion, or 8.0 percent, to €604.2 billion (December 31, 2019: €559.5 billion). This increase was largely attributable to a higher level of total assets at DZ BANK – CICB (up by €43.1 billion), BSH (up by €1.5 billion), R+V (up by €1.6 billion), and DZ HYP (up by €2.6 billion), whereas DVB recorded a decrease of €2.4 billion.

The **volume of business** amounted to €1,037,702 million (December 31, 2019: €994,235 million). This figure comprised the total assets, the assets under management at UMH as at June 30, 2020 amounting to €359,843 million (December 31, 2019: €368,208 million), the financial guarantee contracts and loan commitments amounting to €72,074 million (December 31, 2019: €65,794 million), and the volume of trust activities amounting to €1,589 million (December 31, 2019: €761 million). The growth of trust activities was attributable to KfW development loans that DZ BANK – CICB made available on behalf of the German government to support companies affected by the COVID-19 pandemic.

The DZ BANK Group's **cash and cash equivalents** went up by €23.3 billion, or 44.2 percent, to €75.8 billion (December 31, 2019: €52.5 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** rose to €106.0 billion, an increase of €8.5 billion or 8.6 percent. Loans and advances to banks in Germany went up by €6.0 billion to €95.1 billion and loans and advances to foreign banks by €2.5 billion to €10.9 billion.

The DZ BANK Group's **loans and advances to customers** amounted to €190.1 billion, which was €3.9 billion, or 2.1 percent, higher than at the end of 2019. Within this figure, loans and advances to customers in Germany rose by €4.6 billion to €162.2 billion, whereas loans and advances to customers outside Germany went down by €0.7 billion to €27.9 billion.

As at June 30, 2020, **financial assets held for trading** amounted to €50.1 billion, an increase of €5.3 billion, or 11.8 percent, on the figure as at December 31, 2019. This change was largely attributable to a rise in derivatives (positive fair values) (up by €3.6 billion) and receivables (up by €2.1 billion).

FIG. 3 – TOTAL ASSETS


1 Amount restated (see note 2 in the notes to the interim consolidated financial statements).

**Investments** were up by €2.2 billion, or 3.8 percent, to €59.1 billion. The main reason for this change was the €2.3 billion increase in the portfolio of bonds and other fixed-income securities.

**Investments held by insurance companies** rose by €1.9 billion (1.7 percent) to €115.4 billion (December 31, 2019: €113.5 billion), although the volume-related increase in investments was partly offset by changes in value. This was due, above all, to a €3.0 billion increase in fixed-income securities to €58.8 billion and a €0.5 billion increase in mortgage loans to €10.2 billion, whereas variable-yield securities decreased by €0.9 billion to €10.4 billion and assets related to unit-linked contracts decreased by €1.1 billion to €13.3 billion.

The DZ BANK Group's **deposits from banks** as at June 30, 2020 amounted to €168.1 billion, which was €27.0 billion, or 19.1 percent, higher than the figure reported as at December 31, 2019. Deposits from domestic banks were up by €20.7 billion to €148.6 billion, while deposits from foreign banks increased by €6.3 billion to €19.5 billion. The growth reflects the expansion of development lending business since the outbreak of the coronavirus crisis. In June 2020, the DZ BANK Group also participated in the ECB's TLTRO III program with a total amount of €15.0 billion, leading to a corresponding increase in deposits from banks.

**Deposits from customers** grew by €11.9 billion, or 9.0 percent, to €143.4 billion (December 31, 2019: €131.5 billion). Deposits from domestic customers increased by €6.0 billion to €119.0 billion (December 31, 2019: €113.0 billion). Deposits from foreign customers rose by €5.9 billion to €24.4 billion (December 31, 2019: €18.5 billion). The rise in deposits from customers was predominantly attributable to DZ BANK – CICB, which reported a higher level of overnight money and fixed-term deposits owing to the increased volume of deposits from institutional investors.

At the end of the reporting half-year, the carrying amount of **debt certificates issued including bonds** in the DZ BANK Group was €78.8 billion (December 31, 2019: €85.1 billion). The fall of €6.3 billion was largely due to a decrease of €13.4 billion in the portfolio of other debt certificates issued to €20.2 billion although, at the same time, the portfolio of bonds issued expanded by €7.1 billion to €58.6 billion. The bulk of the decrease in debt certificates issued including bonds was at DZ BANK – CICB and can be explained by the contraction of commercial paper in connection with the reduction of short-term liquidity.

**Financial liabilities held for trading** went up by €9.8 billion, or 19.0 percent, to €61.6 billion (December 31, 2019: €51.8 billion). This change was due to a rise in derivatives (negative fair values) (up by €5.2 billion), short positions (up by €1.7 billion), and money market deposits (up by €3.6 billion). Bonds issued fell by €0.6 billion.

**Insurance liabilities** increased by €2.0 billion, or 1.9 percent, to €106.3 billion (December 31, 2019: €104.3 billion). This was largely attributable to rises of €0.9 billion in the provision for unearned premiums and €2.2 billion in the benefit reserve, although there was a decrease of €1.0 billion in the reserve for unit-linked insurance contracts.

As at June 30, 2020, the **equity** reported by the DZ BANK Group was €28.2 billion (December 31, 2019: €27.8 billion). The increase of €0.4 billion compared with the end of 2019 was largely due to rises of €0.3 billion in retained earnings and €0.1 billion in the reserve from other comprehensive income.

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 this group management report in chapter V (Opportunity and risk report), section 6.2 (Normative internal perspective).

## 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 head office treasury 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). Dedicated steering committees have been established for both types of liquidity.

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 cooperative banks. This enables cooperative banks with available liquidity to invest it with DZ BANK, while cooperative banks requiring liquidity can obtain it from DZ BANK. Traditionally, this results in a liquidity surplus, which provides the main basis for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for operational liquidity requirements.

Funding on the interbank market is not strategically important to the DZ BANK Group.

The DZ BANK Group issues money market products based on debt certificates through its main branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. DZ BANK has had a standardized groupwide multi-issuer euro commercial paper program since 2010, which DZ BANK and DZ PRIVATBANK S.A. can draw on.

Money market funding also includes collateralized money market activities, which form the basis for diversified funding on money markets. To this end, key repo and securities lending activities, together with the collateral management process, are managed centrally in DZ BANK's Group Treasury division. The Group Treasury division also has at its disposal a portfolio of investment-grade liquid securities. These securities can be used as collateral in monetary policy funding transactions with central banks, in bilateral repos, or in the tri-party repo market.

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

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

DZ BANK secures its long-term funding for structural liquidity by using structured and non-structured capital market products that are mainly utilized for the cooperative banks' own-account and customer-account securities business and marketed to institutional clients. Long-term funding that is not covered is secured through systematic integration between the entities in the DZ BANK Group. Options for obtaining covered liquidity through Pfandbriefe or DZ BANK BRIEFE are used on a decentralized basis, in other words based on the different cover assets at DZ BANK, DZ HYP, DVB, and BSH.

In June 2020, the DZ BANK Group participated in the ECB's TLTRO III program with a total amount of €15.0 billion. Of this sum, €12.0 billion was attributable to the joint bidder group of DZ BANK and TeamBank and €3.0 billion to DZ HYP.

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

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. To complement the description of the funding structure, further information on **liquidity risk** can be found in this interim group management report in chapter V (Opportunity and risk report), section 5.1 (Economic perspective). 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.