II Business report

1 Economic conditions

Economic growth in 2019 was weaker than in the previous year. Average inflation-adjusted gross domestic product (GDP) in Germany rose by 0.6 percent year on year. This contrasts with the growth rate of 1.5 percent in 2018.

Domestic economic output in the first quarter of 2019 was up by 0.5 percent compared with the preceding quarter. This was followed by a contraction in GDP of 0.2 percent in the second quarter, primarily because of an adverse impact from foreign trade. German economic output then went up by 0.2 percent in the third quarter before stagnating in the fourth quarter of the reporting year.

Once again, higher consumer and government spending compared with the previous year provided a boost to the German economy in the reporting year. Consumer demand rose by 1.6 percent year on year, aided by an unemployment rate of 5.0 percent and no improvement in the returns available on consumer investments, which remained extremely low compared with those over the previous 10 years. The expansion in construction investment continued to accelerate with growth of 3.8 percent in 2019 (2018: 2.5 percent). Trade disputes during the year led to a negative trade balance, resulting in an adverse impact on the economy as a whole. This gave rise to ongoing uncertainty, as a consequence of which spending on capital equipment by businesses only saw a marginal increase of 0.4 percent in the reporting year (2018: 4.4 percent).

Despite the weaker economic growth, the surplus in German public finances continued to increase, primarily because of the further rise in tax receipts. Germany thus benefited from a budget surplus of 1.5 percent of GDP for the reporting year.

In the year under review, economic output in the eurozone grew by 1.2 percent year on year, the economic recovery being sustained in the first quarter of 2019 with a growth rate of 0.4 percent (compared with the previous quarter). In the second and third quarters, the economy grew at a rate of 0.2 percent and 0.3 percent respectively, falling to a rate of 0.1 percent in the final quarter of 2019.

In the eurozone too, consumer spending again made a positive contribution to economic growth in the reporting year. Geopolitical crises, various conflicts, and above all the uncertainty arising from the Brexit negotiations and from current US trade policy did have some impact on the economic climate during the year. The growth in spending by businesses on capital equipment was correspondingly subdued. Foreign trade also acted as a drag on economic expansion because of declining export growth in the eurozone.

In the United States, economic output in the reporting year went up by 2.3 percent. The growth rate therefore fell back by 0.6 percentage points compared with the 2.9 percent rate of expansion achieved in 2018. Overall, the principal driver behind the growth in the US economy was consumer spending, which was bolstered by further improvements in the labor market, specifically a lower unemployment rate and a rise in recruitment. However, the rates of expansion for investment by businesses in plant and machinery, and also for residential construction, declined.

Economic growth slowed in the key emerging markets in 2019. In China, growth rates continued to fall as the nation’s economy was adversely impacted by the trade dispute with the US. India was also unable to sustain the growth rates achieved in previous years. In Latin America, countries such as Argentina and Venezuela are suffering prolonged and rampant economic crises. Low commodity prices are hitting the economies in these countries, and also the Russian economy, for example. Overall, growth in global economic output in 2019 fell to its lowest level since 2009, a year badly affected by the financial crisis.

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

Key trends in the year under review were the slowdown in the global economy, the maintenance of expansionary monetary policy at the ECB, uncertainty in connection with the Brexit negotiations, and growing political concerns around the globe. In Europe, the focus was on efforts to further stabilize economic conditions in the eurozone and to bring about a shift toward joint European economic policy following the recent return in some countries of a trend toward economic policy driven first and foremost by national interests.

The policy of 'America first' introduced by the US government with the imposition of customs duties on products from China, Canada, Mexico, and even the EU was maintained in the reporting year, with Chinese goods bearing the brunt of the punitive tariffs. The US government changed its stance toward Mexico and Canada in May 2019, when it abolished the special tariffs that it had introduced in 2018. After months of negotiations, US President Donald Trump and Chinese Vice Premier Liu He signed a trade agreement on January 15, 2020. Under this deal, there will be no further punitive tariffs for the time being. China has also given assurances that it will significantly increase its demand for US export goods, and also for services. In December 2019, the US president indicated that he was in favor of introducing special customs tariffs on French goods in response to the 'digital tax' introduced by France in the reporting year, which particularly affects US internet companies. A proposal for the imposition of tariffs of up to 25 percent on car imports from the EU, first mooted by the US government in April 2019, is still being floated. This demonstrates that the developments in the trade disputes described above are somewhat erratic overall, creating uncertainty for global trade. The Bundesverband der Industrie (BDI) [Federation of German Industries] is of the view that the international disputes are unsettling companies and are having an adverse impact on the German economy with its focus on foreign trade. These uncertainties are not only taking their toll on the real economy but also affecting the financial markets.

The United Kingdom's arrangements for leaving the EU are still unknown. Theresa May resigned as her party's leader in spring 2019, with Boris Johnson emerging as the winner in the subsequent ballot for a new leader. On July 24, 2019, May stepped down as prime minister of the UK and Johnson took over from her. From that point, Johnson worked toward a rapid withdrawal of the UK from the EU. As he did not enjoy a parliamentary majority, he called an early general election, which was held on December 12, 2019. The Conservative Party led by Johnson emerged victorious, with a majority of 80 seats. With the backing of this majority, Johnson pressed ahead with his efforts to bring about a swift UK exit from the EU and signed an agreement with the presidents of the European Commission and European Council on January 24, 2020 taking the UK out of the EU on January 31, 2020.

In view of past crises in the eurozone, the countries of the EU continued to work on overhauling and strengthening the European Monetary Union (EMU) in the reporting year. For example, a fundamental agreement on strengthening the European Stability Mechanism (ESM) has been reached, in particular with regard to the backstop for the European Single Resolution Fund (SRF). However, plans drawn up in the summer of 2019 for amendments to agreements were not approved when the Eurogroup met in December 2019.

This meeting of the Eurogroup also failed to reach agreement on the controversial European deposit insurance scheme (EDIS), which has been under discussion for a number of years. This was welcomed by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks].

In 2019, some EU countries came no closer to meeting 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. In November 2019, the European Commission declared that the draft budgets produced by Belgium, Spain, France, Italy, Finland, Portugal, Slovenia, and Slovakia for 2020 breached the rules of the Stability and Growth Pact. At the end of the third quarter of 2019, the total borrowing of the 19 eurozone countries equated to 86.1 percent of their GDP, a decrease of 1.0 percentage points compared with the figure of 87.1 percent as at September 30, 2018.

Greece's public debt as a percentage of GDP stood at 178.2 percent in the third quarter of 2019 (third quarter of 2018: 182.3 percent) and the country continued on its path of economic recovery in 2019 compared with the prior year. In the country's parliamentary elections in July 2019, the conservative Nea Dimokratia (ND) party secured an absolute majority. 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.

Italy remained beset with economic and fiscal challenges in 2019. Its public debt as a percentage of GDP stood at 137.3 percent in the third quarter of 2019 (third quarter of 2018: 136.1 percent), which is the highest in the eurozone after that of Greece. Italy's economy continues to underperform those of the other member states. The banking sector is also being weighed down by the proportion of non-performing loans on the balance sheets of Italy's banks, even though this proportion is falling.

Portugal's public debt as a percentage of GDP stood at 120.5 percent in the third quarter of 2019 (third quarter of 2018: 125.5 percent) and the country made further progress on stabilizing its economy during the reporting year. Its GDP grew by 2.0 percent year on year in 2019. The rate of expansion in economic output in the previous year was 2.4 percent. The Portuguese economy was boosted in particular by steady consumer demand and a fall in unemployment. Although the banking sector continues to have significant legacy issues in the form of non-performing loans, their volume has recently declined.

In Spain, public debt as a percentage of GDP was 97.9 percent in the third quarter of 2019 (third quarter of 2018: 98.9 percent). Spain was once again able to achieve growth in its economy in the reporting year, GDP rising by 2.0 percent year on year. The rate of expansion in economic output in the previous year was 2.4 percent. At the beginning of 2019, the minority government headed up by the socialist Prime Minister Pedro Sánchez collapsed after just eight months as a result of the budget dispute. In February 2019, a snap election was called for April 28, 2019, in which the PSOE, the socialist workers' party, won the most seats. However, the sitting Prime Minister, Pedro Sánchez, failed in his attempt to form a government and called yet another election, which was held on November 10, 2019. This time, the socialists suffered losses but nevertheless remained the strongest grouping, garnering 28 percent of votes. Sánchez was able to form a new minority government on January 7, 2020. The political instability continues to hamper the reforms needed by the country.

France's public debt as a percentage of GDP stood at 100.5 percent in the third quarter of 2019 (third quarter of 2018: 99.4 percent). The French President Emmanuel Macron has proposed a range of pro-business reforms and has already pushed through a law designed to make the labor market more flexible. The reforms proposed by the French government came up against public resistance in December 2019, when labor unions organized strikes in protest against the planned pensions overhaul. The government's policies continue to face public opposition. Despite these protests, consumer spending remains one of the main growth drivers. Nonetheless, the budget deficit, combined with a slowing economy, is hindering efforts to reduce government debt.

The trends in the eurozone described above show that the ECB with its policy of quantitative easing has created the necessary time for the EMU countries burdened with significant debt to reduce their fundamental budget deficits. Nonetheless, the countries specified above have for the most part made only limited efforts to reduce their high levels of indebtedness and 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. Although the weakness of the euro resulting from low interest rates is boosting companies' exports, it is also diminishing their efforts to lower costs and improve productivity. The ECB's policy of maintaining extremely low interest rates boosts the risk of misallocations and even the formation of bubbles in real estate and equities markets, which could jeopardize the stability of financial markets.

At the meeting of the ECB on September 12, 2019, it was decided to lower the rate for the deposit facility by 10 basis points to minus 0.50 percent. Banks are therefore paying 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 main refinancing rate remained the same at 0.00 percent, while the rate for the marginal lending facility was also unchanged at 0.25 percent. The ECB Governing Council let it be known that the ECB's key interest rates would remain at their current or a lower level until the inflation outlook clearly approaches a level that is sufficiently close to, but below, 2 percent. The Council also decided that net purchases under the asset purchase program would be restarted from November 1 with a monthly volume of €20.0 billion. On November 1, 2019, Christine Lagarde took over from Mario Draghi as president of the ECB. In a statement made on December 12, 2019, she announced that she would not be deviating from her predecessor's expansionary monetary policy for the time being.

Having already cut interest rates on July 31, 2019, the US Federal Reserve (Fed) announced a further cut of 25 basis points in its key interest rate on October 30, 2019, which means that the federal funds rate is in the range of 1.5 to 1.75 percent.

There was a significant difference in financial performance between Germany's two largest banks in 2019. Whereas one reported a net profit, albeit lower than before due to the challenging market conditions, the other recorded a loss in the billions of euros. The loss allowances for loans and advances recognized by the major banks were higher than in 2018. The major banks presented a mixed picture regarding administrative expenses, ranging from a 2 percent decrease to a 1 percent increase.

3 Financial performance

3.1 Financial performance at a glance

Despite the continuation of extremely low interest rates and thus challenging market conditions, and despite the one-off items described in this section, the DZ BANK Group was able to increase its profit before taxes by 98.0 percent year on year in 2019.

The year-on-year changes in the key figures that made up the net profit generated by the DZ BANK Group in 2019 were as described below.

FIG. 2 – INCOME STATEMENT

€ million	2019	2018	Change (%)
Net interest income	**2,738**	2,858 [1]	-4.2
of which: net income from long-term equity investments [2]	59	63	-6.3
Net fee and commission income	**1,975**	1,955	+1.0
Gains and losses on trading activities	**472**	285	+65.6
Gains and losses on investments	**182**	24 [1]	>100.0
Other gains and losses on valuation of financial instruments	**255**	-186 [1]	>100.0
Gains and losses from the derecognition of financial assets measured at amortized cost	**15**	133 [1]	-88.7
Net income from insurance business	**1,228**	490	>100.0
Loss allowances	**-329**	-21	>100.0
Administrative expenses	**-4,074**	-4,059	+0.4
Staff expenses	-1,878	-1,843	+1.9
Other administrative expenses [3]	-2,196	-2,216	-0.9
Other net operating income	**250**	-109	>100.0
Profit before taxes	**2,712**	1,370	+98.0
Income taxes	**-839**	-452	-85.6
Net profit	**1,873**	918	>100.0

1 Amount restated (see note 2 in the notes to the 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 34 in the notes to the consolidated financial statements).
3 General and administrative expenses plus depreciation/amortization expense.

Operating income in the DZ BANK Group amounted to €7,115 million (2018: €5,450 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 declined by 4.2 percent year on year to €2,738 million (2018: €2,858 million).

Net interest income rose by €68 million at DZ HYP, by €59 million at DZ BANK – central institution and corporate bank (DZ BANK – CICB), by €33 million at TeamBank, and by €15 million at UMH. In contrast, net interest income declined by €310 million at BSH, primarily as a consequence of the increase in the provisions relating to building society operations as described in the details for the BSH operating segment; it went down by €31 million at DVB.

Net income from long-term equity investments of the DZ BANK Group fell by €4 million to €59 million (2018: €63 million).

Net fee and commission income in the DZ BANK Group increased by 1.0 percent to €1,975 million (2018: €1,955 million).

Net fee and commission income advanced by €52 million at UMH, by €26 million at DZ BANK – CICB, and by €12 million at BSH. Conversely, net fee and commission income went down by €36 million at DVB, by €17 million at VR Smart Finanz, and by €15 million at TeamBank.

The DZ BANK Group's **gains and losses on trading activities** in 2019 came to a net gain of €472 million compared with a net gain of €285 million for 2018. This was largely attributable to the gains and losses on trading activities at DZ BANK – CICB, amounting to a net gain of €437 million (2018: net gain of €258 million).

The net gains under **gains and losses on investments** went up by €158 million to €182 million (2018: €24 million).

The change in the gains and losses on investments was primarily attributable to the BSH operating segment's disposal of its shares in Czech building society Českomoravská stavební spořitelna (ČMSS).

Other gains and losses on valuation of financial instruments in the DZ BANK Group amounted to a net gain of €255 million in 2019 (2018: net loss of €186 million).

Other gains and losses on valuation of financial instruments increased by €361 million at DZ HYP, largely as a result of the narrowing of spreads on bonds issued by eurozone periphery countries. At DVB, other gains and losses on valuation of financial instruments went up by €69 million, and at BSH by €10 million. The specific reasons for the year-on-year change in other gains and losses on valuation financial instruments were the factors described in the details for these operating segments.

Gains and losses from the derecognition of financial assets measured at amortized cost declined by €118 million to a net gain of €15 million (2018: net gain of €133 million). At DZ BANK – CICB and in the Other/Consolidation segment, there were declines of €69 million and €53 million respectively.

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 2019, this figure increased by €738 million to €1,228 million (2018: €490 million).

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

Loss allowances amounted to a net addition of €329 million (2018: net addition of €21 million).

Further disclosures on the nature and extent of risks arising from financial instruments and insurance contracts can be found in note 85 of the notes to the consolidated financial statements.

Administrative expenses in the DZ BANK Group amounted to €4,074 million (2018: €4,059 million). Staff expenses rose by €35 million to €1,878 million (2018: €1,843 million). Other administrative expenses declined by €20 million to €2,196 million (2018: €2,216 million).

The DZ BANK Group's **other net operating income** amounted to €250 million (2018: net expense of €109 million).

Other net operating income went up by €192 million at DZ PRIVATBANK, by €61 million at UMH, by €57 million at DVB, by €35 million at VR Smart Finanz, by €19 million at BSH, and by €17 million at DZ BANK – CICB. However, it declined by €20 million at DZ HYP and by €14 million at R+V. The main reasons for the year-on-year change in other net operating income were the factors described in the details for these operating segments.

Profit before taxes for 2019 amounted to €2,712 million, compared with €1,370 million in 2018.

The DZ BANK Group's **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for 2019 was 57.3 percent (2018: 74.5 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 15.2 percent (2018: 8.2 percent).

The DZ BANK Group's **income taxes** amounted to €839 million in the reporting year (2018: €452 million).

The DZ BANK Group generated a **net profit** of €1,873 million in 2019 compared with a net profit of €918 million in 2018.

The following provides an explanation of the above information and the details below (section 3.2) concerning the financial performance of the DZ BANK Group with reference to the corresponding presentation in the outlook for 2019 (chapter V of the 2018 group management report).

In 2019, the DZ BANK Group generated profit before taxes that was higher than the budgeted figure. Nevertheless, net interest income and gains and losses on trading activities fell short of the budget in the reporting year. On the other hand, net fee and commission income, gains and losses on investments, other gains and losses on valuation of financial instruments, and other net operating income exceeded the corresponding budget figures. The requirement for loss allowances was lower than expected and was thus also one of the contributing factors in the improved earnings performance. In addition, the budgeted figure for net income from insurance business was exceeded. The main reason was a higher net gain under gains and losses on investments held by insurance companies and other insurance company gains and losses compared with budget as a consequence of the EURO STOXX 50's rise combined with falling interest rates and the narrowing of spreads in the interest-bearing securities portfolios.

The level of profit before taxes for the reporting year was also influenced by a series of one-off items. Trends in the capital market affected profit before taxes at R+V in 2019. Notably, the net gains under gains and losses on investments held by insurance companies went up by €520 million as a result of the EURO STOXX 50's rise of 744 points to 3,745 points, although interest rates declined at the same time.

At BSH, the disposal of the shares in Czech building society ČMSS contributed a gain of €99 million to the gains and losses on investments. However, net interest income at BSH was adversely impacted by an increase in interest bonus provisions related to building society operations, which resulted in an additional charge of €280 million. The DZ BANK Group's other net operating income included positive effects from UMH's sale of the fully consolidated subsidiary Union Investment Towarzystwo Funduszy Inwestycyjnych S.A. (TFI), Poland, generating a gain of €72 million, and from DVB's sale of its aviation finance and land transport finance core businesses (giving rise to gains of €206 million and €12 million respectively) as well as its fully consolidated subsidiary LogPay Financial Services GmbH, Eschborn (gain of €28 million). Other net operating income in the DZ BANK Group also included negative effects from the recognition of restructuring provisions in the operating segments DZ BANK – CICB (€21 million), DZ HYP (€17 million), and DVB (€46 million). Other gains and losses on valuation of financial instruments at DZ HYP included a positive effect of €246 million as a result of the narrowing of spreads on bonds issued by eurozone periphery countries. Disregarding the effects described above, the DZ BANK Group's profit before taxes for 2019 would have amounted to €1,893 million.

3.2 Financial performance in detail

Figure 3 shows the details of the financial performance of the DZ BANK Group's operating segments in 2019 compared with 2018.

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.

From 2019, the previous DZ BANK management unit is 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, are reported under Other/Consolidation from 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 prior-year figures 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. 3 – SEGMENT INFORMATION

2019

€ million	BSH	R+V	TeamBank	UMH
Net interest income	450	-	482	40
Net fee and commission income	-28	-	-28	1,468
Gains and losses on trading activities	-	-	-	-
Gains and losses on investments	163	-	-	2
Other gains and losses on valuation of financial instruments	18	-	-	-43
Gains and losses from the derecognition of financial assets measured at amortized cost	18	-	-	-
Premiums earned	-	17,249	-	-
Gains and losses on investments held by insurance companies and other insurance company gains and losses	-	6,204	-	-
Insurance benefit payments	-	-19,340	-	-
Insurance business operating expenses	-	-2,973	-	-
Gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business	-	-12	-	-
Loss allowances	-4	-	-77	-
Administrative expenses	-486	-	-230	-910
Other net operating income	58	-11	5	91
Profit/loss before taxes	**189**	**1,117**	**152**	**648**
Cost/income ratio (%)	71.6	-	50.1	58.4
Regulatory RORAC (%)	16.5	13.3	30.0	>100.0
Average own funds/solvency requirement	1,147	8,415	506	357
Total assets/total equity and liabilities as at Dec. 31, 2019	77,469	121,973	9,455	3,012

2018

€ million	BSH	R+V	TeamBank	UMH
Net interest income [1]	760	-	449	25
Net fee and commission income	-40	-	-13	1,416
Gains and losses on trading activities	-	-	-	-
Gains and losses on investments [1]	5	-	-	-23
Other gains and losses on valuation of financial instruments [1]	8	-	-	-51
Gains and losses from the derecognition of financial assets measured at amortized cost [1]	14	-	-	-
Premiums earned	-	15,997	-	-
Gains and losses on investments held by insurance companies and other insurance company gains and losses [1]	-	1,343	-	-
Insurance benefit payments	-	-14,208	-	-
Insurance business operating expenses	-	-2,721	-	-
Gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business [1]	-	-1	-	-
Loss allowances	-11	-	-70	-
Administrative expenses	-480	-	-222	-895
Other net operating income	39	3	1	30
Profit/loss before taxes	**295**	**413**	**145**	**502**
Cost/income ratio (%)	61.1	-	50.8	64.1
Regulatory RORAC (%)	26.8	5.5	31.8	>100.0
Average own funds/solvency requirement	1,098	7,564	458	346
Total assets/total equity and liabilities as at Dec. 31, 2018 [1]	71,667	107,351	8,536	2,559

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

	DZ BANK – CICB	DZ HYP	DZ PRIVAT-BANK	VR Smart Finanz	DVB	DZ BANK – holding function	Other/ Consolidation	**Total**
	772	656	65	147	146	-55	35	2,738
	388	2	176	-10	48	-	-41	1,975
	437	-2	9	-	6	-	22	472
	-3	10	-	-	-1	-	11	182
	39	275	2	1	-36	-	-1	255
	50	-	-	-	-	-	-53	15
	-	-	-	-	-	-	-	17,249
	-	-	-	-	-	-	-47	6,157
	-	-	-	-	-	-	-	-19,340
	-	-	-	-	-	-	150	-2,823
	-	-	-	-	-	-	-3	-15
	-77	1	-	-30	-141	-	-1	-329
	-1,296	-259	-220	-127	-202	-203	-141	-4,074
	-17	4	4	9	72	-	35	250
	293	**687**	**36**	**-10**	**-108**	**-258**	**-34**	**2,712**
	77.8	27.4	85.9	86.4	86.0	-	-	57.3
	5.8	44.5	11.2	-3.4	-42.1	-	-	15.2
	5,056	1,543	319	291	256	-	-	17,890
	288,841	92,284	19,464	4,283	14,239	20,191	-91,832	559,379

	DZ BANK – CICB	DZ HYP	DZ PRIVAT-BANK	VR Smart Finanz	DVB	DZ BANK – holding function	Other/ Consolidation	**Total**
	713	588	64	153	177	-71	-	2,858
	362	2	182	7	84	-	-45	1,955
	258	1	10	-	-3	-	19	285
	24	-10	-	22	-18	-	24	24
	36	-86	-	-	-105	-	12	-186
	119	-	-	-	-	-	-	133
	-	-	-	-	-	-	-	15,997
	-	-	-	-	-	-	-69	1,274
	-	-	-	-	-	-	-	-14,208
	-	-	-	-	-	-	149	-2,572
	-	-	-	-	-	-	-	-1
	140	12	-	-13	-80	-	1	-21
	-1,256	-299	-219	-142	-200	-210	-136	-4,059
	-34	24	-188	-26	15	-	27	-109
	362	**232**	**-151**	**1**	**-130**	**-281**	**-18**	**1,370**
	85.0	57.6	>100.0	91.0	>100.0	-	-	74.5
	7.6	16.0	-44.8	0.2	-33.8	-	-	8.2
	4,772	1,460	336	325	352	-	-	16,711
	259,904	85,882	18,322	4,768	20,566	19,484	-80,306	518,733

3.2.1 BSH

Net interest income in the BSH subgroup contracted by €310 million to €450 million (2018: €760 million).

This change was mainly attributable to the persistently low level of interest rates, which led to an additional charge of €280 million from the increase in interest bonus provisions for older rate scales in building society operations. These provisions largely reflected discounted future obligations of Bausparkasse Schwäbisch Hall to make interest bonus payments to those home savings customers who decline to take up the contractually agreed loans. At the end of the reporting year, the 10-year swap rate was 0.21 percent (December 31, 2018: 0.82 percent). Interest income arising on investments declined by €40 million to €513 million (2018: €553 million) because capital market rates for investments remained low. Net interest income was also adversely impacted by an increase of €21 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, the BSH subgroup managed to increase its income from non-collective business in 2019 by €29 million to €940 million (2018: €911 million) on the back of the expansion in business over the last few years and despite a fall in average returns. Income from home savings loans and other building loans amounted to €133 million, which was roughly at the level of the previous year.

The volume of home savings deposits in the BSH subgroup grew by €3.3 billion to €64.9 billion as at December 31, 2019 (December 31, 2018: €61.6 billion). Despite this growth, the interest cost went down because the current tariffs have lower interest rates.

Net fee and commission income amounted to a net expense of €28 million in 2019 (2018: net expense of €40 million).

This improvement was due to the fall in fees and commissions not directly attributable to the conclusion of a home savings contract.

In the home savings business, BSH entered into approximately 524 thousand (2018: 554 thousand) new home savings contracts with a volume of €28.5 billion (2018: €29.7 billion) in Germany.

In the home finance business, the realized volume of new business advanced by €1.5 billion year on year to €16.7 billion (2018: €15.2 billion) in Germany. This figure includes home savings loan contracts and bridging loans from BSH and other referrals totaling €2.0 billion (2018: €1.9 billion).

The net gain under **gains and losses on investments** of €163 million (2018: €5 million) was attributable to the disposal of the shares in Czech building society ČMSS (€99 million) and to the sale of securities (€64 million) during the reporting year.

Other gains and losses on valuation of financial instruments climbed by €10 million to a net gain of €18 million in the reporting year (2018: net gain of €8 million) and was primarily due to the early termination of interest-rate swaps.

Gains and losses from the derecognition of financial assets measured at amortized cost amounted to a net gain of €18 million (2018: net gain of €14 million) and largely resulted from the sale of registered securities.

Loss allowances amounted to a net addition of €4 million in total (2018: net addition of €11 million). The level of loss allowances is influenced by the regular validation of credit risk parameters and an adjustment of the loss allowances to reflect loan commitments.

Administrative expenses went up by €6 million to €486 million (2018: €480 million). Staff expenses amounted to €225 million, which equated to an increase of €4 million compared with the prior-year figure of €221 million. This increase arose because of a rise in the number of employees in connection with the expansion of the home finance business. Other administrative expenses grew by €2 million to €261 million (2018: €259 million).

Other net operating income rose by €19 million to €58 million (2018: €39 million), largely as a result of the reversal of provisions.

Profit before taxes declined by €106 million in the reporting year to €189 million (2018: €295 million) as a consequence of the changes described above.

The **cost/income ratio** in 2019 was 71.6 percent (2018: 61.1 percent).

Regulatory RORAC was 16.5 percent (2018: 26.8 percent).

3.2.2 R+V

Premiums earned went up by €1,252 million to €17,249 million (2018: €15,997 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 year on year by a total of €431 million to €8,299 million.

Premiums earned from the life insurance business rose by €400 million to €7,673 million. Occupational pensions, traditional products, and new guarantees were the main areas of business contributing to these gains. The credit insurance business also saw rising premiums compared with the previous year. In the health insurance business, net premiums earned rose by €31 million to €626 million. All business segments generated year-on-year increases, with notably strong growth in private supplementary health insurance.

In the non-life insurance business, premium income earned grew by €342 million to €6,130 million, with most of this growth being generated from vehicle insurance and corporate customer business.

Premium income earned from the inward reinsurance business rose by €479 million to €2,820 million. Business performed well in all regions, 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 advanced by €4,861 million to a net gain of €6,204 million (2018: net gain of €1,343 million).

At the end of the year under review, the level of long-term interest rates was below the corresponding level at the end of 2018. At the same time, the narrowing of spreads on interest-bearing securities had a positive impact on this item. Over the course of 2019, equity markets relevant to R+V performed better than in 2018. For example, the EURO STOXX 50, a share index comprising 50 large, listed companies in the EMU, saw a rise of 744 points from the start of 2019, closing the year on 3,745 points. In 2018, this index had fallen by 503 points. In the reporting year, movements in exchange rates between the euro and various currencies were generally more favorable than in the previous year.

Overall, these trends in the reporting year essentially resulted in a €4,882 million improvement in unrealized gains and losses to a net gain of €3,585 million (2018: net loss of €1,297 million), a €256 million improvement in the contribution to earnings from the derecognition of investments to a gain of €237 million (2018: loss of €19 million), and an increase of €63 million in the net gains under foreign exchange gains and losses to €244 million (2018: net gain of €181 million). In addition, net income under current income and expense rose by €1 million to €2,347 million (2018: €2,346 million) and the balance of depreciation, amortization, impairment losses, and reversals of impairment losses deteriorated by €24 million to a net expense of €74 million (2018: net expense of €50 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 increased by €5,132 million from €14,208 million in 2018 to €19,340 million in the reporting year.

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

At the companies offering personal insurance, the changes in insurance benefit payments were in line with the change in premium income and in gains and losses on investments held by insurance companies and other insurance company gains and losses. An amount of €647 million (2018: €305 million) was added to the supplementary change-in-discount-rate reserve. In the non-life insurance business, a decline in the claims rate trend was evident compared with the prior period. For example, the overall claims rate remained below the prior-year level. Claims expenses for natural disasters and major claim costs both declined year on year. However, the underlying cost of claims increased.

In the inward reinsurance business, the net claims ratio was up by 2.3 percentage points compared with the prior year. The ratios for major and medium claims were above those in 2018. Notably, typhoons Hagibis and Faxai, together with Hurricane Dorian, gave rise to claims of around €169 million, with a corresponding impact on earnings.

Insurance business operating expenses went up by €252 million to €2,973 million (2018: €2,721 million) in the course of ordinary business activities in all divisions, with a particularly sharp rise in the inward reinsurance and non-life insurance businesses.

Because of the factors described above, **profit before taxes** for 2019 rose by €704 million to €1,117 million (2018: €413 million).

Regulatory RORAC was 13.3 percent (2018: 5.5 percent).

3.2.3 TeamBank

Net interest income at TeamBank amounted to €482 million, which was €33 million higher than the equivalent figure in 2018 of €449 million. The main source of this increase was expansion of the volume of consumer finance. The volume of the loan portfolio rose by €655 million to €8,873 million (2018: €8,218 million).

The increase in the consumer finance volume was particularly attributable to the trends described below. As at December 31, 2019, TeamBank was working in collaboration with 745 of Germany's 842 cooperative banks and with 138 partner banks in Austria. In addition, more than 110 thousand members of cooperative banks benefited from advice in 2019, of whom around 16 thousand were new to the cooperative financial network. As at December 31, 2019, around 231 thousand customers had either signed up for easyCredit-Finanzreserve or were already using this flexible means of borrowing. As a result, some 18.0 percent of new business in 2019 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 by 8.0 percent to €9,063 million as at December 31, 2019 (December 31, 2018: €8,390 million). The number of customers rose again, by 67 thousand, to reach 944 thousand.

Net fee and commission income declined by €15 million to a net expense of €28 million (2018: net expense of €13 million). This change was primarily due to higher commission payments to partner banks, in turn caused by the growth in new business.

Loss allowances were higher than in the prior year at €77 million, a year-on-year increase of €7 million (2018: €70 million). This was mainly due to the higher year-on-year growth of the lending portfolio and credit risk premiums for recently opened accounts affected by changes in the sales process.

Administrative expenses went up by €8 million to €230 million (2018: €222 million). Staff expenses rose by €3 million to €92 million (2018: €89 million) because of the increase in headcount. Other administrative expenses went up by €5 million to €138 million (2018: €133 million), primarily because of higher IT costs.

Other net operating income increased by €4 million to €5 million (2018: €1 million).

Profit before taxes for the year under review amounted to €152 million. The increase of €7 million compared with the figure of €145 million reported for 2018 was a consequence of the factors described above.

TeamBank's **cost/income ratio** in 2019 was 50.1 percent (2018: 50.8 percent).

Regulatory RORAC was 30.0 percent (2018: 31.8 percent).

3.2.4 UMH

Net interest income rose by €15 million to €40 million (2018: €25 million), largely due to a greater contribution from ZBI Partnerschafts-Holding GmbH.

Net fee and commission income at UMH went up by €52 million to €1,468 million (2018: €1,416 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 €18.7 billion to €349.4 billion (2018: €330.7 billion), the volume-related contribution to net fee and commission income rose compared with the prior year.

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 €9 million (2018: €16 million). Income from real estate fund transaction fees increased by €3 million to €36 million during the reporting year (2018: €33 million).

Against this backdrop, Union Investment managed to generate net inflows from its retail business of €8.1 billion in 2019 (2018: €7.5 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 2.7 million contracts by the end of 2019, with an increase in the 12-month savings volume to €4.9 billion (December 31, 2018: €4.3 billion).

The total assets in the portfolio of Riester pension products swelled to €20.9 billion as at December 31, 2019 (December 31, 2018: €16.7 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business at the end of 2019 totaled 5.3 million (December 31, 2018: 4.9 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 €3.8 billion in 2019 (2018: €1.9 billion).

Assets under management in the funds of the PrivatFonds family reached a record high in the reporting year. The portfolio volume for retail clients stood at €25.3 billion at the end of 2019 (December 31, 2018: €23.1 billion).

The persistently low level of interest rates also presented a challenge for the management of risk and returns in the institutional business. This is reflected in the structure of the investment accounts, which feature a greater number of asset classes and a broad allocation by country. In 2019, demand was focused primarily on concentrated equity strategies and sustainable investment. In its institutional business, the Union Investment Group generated net inflows amounting to €11.3 billion (2018: €7.8 billion). A total of 70 new institutional clients were gained in the reporting year.

The portfolio of sustainably managed funds had expanded to €53.1 billion at the end of 2019 (December 31, 2018: €41.4 billion). This growth demonstrates that institutional clients are increasingly focusing on socially responsible investing.

The €25 million improvement in **gains and losses on investments** to a net gain of €2 million (2018: net loss of €23 million) was largely attributable to the net losses incurred in 2018 on the sale of funds in Union Investment's own-account investing activities.

Other gains and losses on valuation of financial instruments improved by €8 million to a net loss of €43 million (2018: net loss of €51 million).

The €15 million rise in **administrative expenses** to €910 million (2018: €895 million) was predominantly caused by staff expenses advancing by €22 million to €428 million (2018: €406 million), which in turn was due to average pay rises and appointments to new and vacant positions. Salary components also took into account the performance of the business reflected in UMH's KPIs. Other administrative expenses contracted by €7 million to €482 million (2018: €489 million), mainly because of lower expenses incurred in connection with consultancy and external research.

Other net operating income improved by €61 million to €91 million (2018: €30 million). This increase was primarily the result of the disposal of the fully consolidated subsidiary Union Investment Towarzystwo Funduszy Inwestycyjnych S.A. (TFI), Poland.

Profit before taxes went up by €146 million to €648 million (2018: €502 million), above all due to the changes described above.

The **cost/income ratio** in 2019 was 58.4 percent (2018: 64.1 percent).

Regulatory RORAC was greater than 100.0 percent (2018: 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 portfolios of long-term equity investments allocated to the central institution and corporate bank. Net interest income rose by 8.3 percent to €772 million (2018: €713 million).

In the Corporate Banking business line, net interest income rose by 3.7 percent to €446 million (2018: €430 million).

The net interest income in the four regional corporate customer divisions plus Central Corporate Banking rose by 6.1 percent to €245 million (2018: €231 million). This was attributable to the growth in the lending volume and, in particular, loan drawdowns in the domestic corporate customer segment.

Net interest income in the Structured Finance and Investment Promotion divisions amounted to €201 million, an increase of 1.0 percent compared with the prior-year figure of €199 million. The main drivers behind this growth in the Structured Finance division were project finance and foreign trade business. The acquisition of further new business more than consolidated the expansion of international trade and export finance business over the last few years. One of the notable developments in project finance was growth in international renewable energies finance business.

Net interest income from the separately managed real estate lending portfolio was up year on year at €46 million (2018: €36 million). This was attributable to higher early-redemption fees.

Net interest income from capital markets business went up by 22.3 percent to €230 million (2018: €188 million), primarily as a consequence of higher income from money market business and a greater level of early-redemption fees.

Current income and expense from long-term equity investments declined by 15.3 percent to €50 million (2018: €59 million). This decrease was primarily explained by a year-on-year fall of €15 million in income from long-term equity investments at VR Equitypartner GmbH to €11 million, and a corresponding fall of €8 million at Deutsche WertpapierService Bank AG to €0 million. Some of this decline was offset by an increase in income from long-term equity investments of €3 million at AGIMA AG to €3 million, and a corresponding increase of €3 million at Phoenix Beteiligungsgesellschaft to €3 million.

Net fee and commission income rose by 7.2 percent to €388 million (2018: €362 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 up by €18 million year on year at €123 million (2018: €105 million). The main sources of this increase were the lending business, together with financial guarantee contracts and loan commitments.

In the Capital Markets business line, the contribution to net fee and commission income rose by 5.8 percent to €163 million (2018: €154 million). Of particular note was the income from fund sales commissions, which went up by 20.6 percent to €41 million (2018: €34 million) on the back of higher volumes.

In addition, net fee and commission income in the Transaction Banking business line was also up on the previous year at €127 million, an increase of €7 million or 5.8 percent (2018: €120 million). This growth was accounted for by the securities safe custody business, payments processing, and higher gains from the currency service business.

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 €169 million (2018: €167 million) and are reported under net fee and commission income for the individual Corporate Banking (€9 million) and Capital Markets/Transaction Banking (€160 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 €25 million in 2019 (2018: net expense of €17 million). This change was largely caused by higher commission on loans.

Gains and losses on trading activities rose by 69.4 percent to a net gain of €437 million (2018: net gain of €258 million).

Gains and losses on trading activities relate 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 trading activities in the Capital Markets business line amounted to a net gain of €430 million, a year-on-year rise of 36.5 percent (2018: net gain of €315 million). One of the reasons for this was a higher level of sales with institutional and corporate customers and the associated boost to income. The rise in sales was evident in all asset classes, but the increase in derivatives business, the expansion of the structured products business, and the foreign-exchange business all made a particular contribution to the improvement in the net gains. On the other hand, the margins in fixed-income business declined because more deals were being entered into via electronic trading platforms. However, it was possible to offset the fall in margins with an increase in sales volume and sales in other asset classes.

Adjustment of the valuation curves to market conditions results in unrealized gains and losses. For the assets and liabilities recognized at fair value in the fair value PL category and for the ‘financial assets and liabilities designated as at fair value through profit or loss’ (fair value option) category, the adjustment of the valuation curves gave rise to a net gain of €60 million in 2019 (2018: net gain of €28 million).

The contribution to gains or losses on trading activities from money market business entered into for trading purposes (mainly repurchase agreements) came to €10 million in the reporting year (2018: €15 million).

Further factors influencing the gains and losses on trading activities in the reporting year included interest-rate-related changes in the fair value of cross-currency basis swaps used for the hedging of financial instruments in the banking book denominated in foreign currency amounting to a loss of €13 million (2018: loss of €23 million).

Gains and losses on investments declined by €27 million to a net loss of €3 million (2018: net gain of €24 million). The net loss in the reporting year resulted from the combination of gains from the disposal of securities in an amount of €16 million and losses of €18 million arising from the termination of hedges measured at fair value through OCI as part of portfolio fair value hedge accounting. In 2018, the early disposal of high-quality liquid assets had generated net gains of €16 million.

Other gains and losses on valuation of financial instruments rose by 8.3 percent to a net gain of €39 million (2018: net gain of €36 million). This was due to the positive change of €24 million in the fair value measurement of Visa Inc. (December 31, 2018: positive change of €15 million).

Gains and losses from the derecognition of financial assets measured at amortized cost declined by 58.0 percent to a net gain of €50 million (2018: net gain of €119 million). Within this figure, the gains on the derecognition of financial assets measured at amortized cost fell by €51 million to €68 million. The reversal of adjustments to carrying amounts (hedge adjustments) in the context of hedge accounting gave rise to a negative effect of €31 million.

Loss allowances amounted to an expense of €77 million (2018: income of €140 million). Some of the net additions in respect of the lending business and investments (€123 million) were offset by other income of €46 million (including recoveries on loans and advances previously impaired).

The net reversal in the prior year was mainly due to improvements in borrowers' credit ratings and the successful restructuring of loans. There had also been positive effects of recoveries on loans and advances previously impaired (€51 million) and of reversals of other provisions for loans and advances (€50 million).

Administrative expenses went up by 3.2 percent to €1,296 million (2018: €1,256 million).

The €19 million rise in staff expenses to €595 million (2018: €576 million) was due, among other things, to higher remuneration expenses in the reporting year.

Other administrative expenses increased by 3.1 percent to €701 million (2018: €680 million). The consultancy expenses within this figure were €236 million, €26 million lower than in 2018. However, expenses for the BVR deposit guarantee fund were up by €12 million to €24 million in 2019 (2018: €12 million) and expenses for the bank levy were €2 million higher at €23 million (2018: €21 million). IT expenses also rose year on year, by €15 million, to €165 million.

Other net operating income amounted to a net expense of €17 million (2018: net expense of €34 million) and in the reporting year mainly consisted of income from the reversal of provisions and accruals of €33 million (2018: €57 million).

Other net operating income also included gains of €8 million on the disposal of DZ BANK's long-term equity investment in WÜRTT. GENO-HAUS GmbH & Co. KG, Stuttgart.

However, some of these income and gains were outweighed by an expense of €20 million from the addition to the provisions for restructuring as part of the 'Verbund First 4.0' strategic program (2018: expense of €80 million). The item also included start-up costs of €12 million for the cross-bank payment system paydirekt (2018: €10 million).

Profit before taxes amounted to €293 million in the reporting year, which was €69 million lower than the figure of €362 million reported for 2018.

The **cost/income ratio** in 2019 was 77.8 percent (2018: 85.0 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 5.8 percent (2018: 7.6 percent).

3.2.6 DZ HYP

At €656 million, the **net interest income** of DZ HYP was €68 million higher than in the previous year (2018: €588 million).

The rise in net interest income in the reporting year was mainly the result of portfolio growth generated from new business and effects from the early redemption of loans.

The volume of new business at DZ HYP in the reporting year exceeded the level of the previous year. DZ HYP generated a new business volume of €12,885 million (2018: €11,864 million) across its Commercial Real Estate Investors, Housing Sector, Retail Customers/Private Investors, and Public Sector divisions.

In the Commercial Real Estate Investors division, DZ HYP lifted the volume of new business in 2019 to €8,976 million (2018: €7,725 million). The volume of new lending jointly generated with the local cooperative banks in the commercial real estate finance business amounted to €4,068 million in 2019 (2018: €3,451 million).

In the Housing Sector division, the volume of new commitments in the reporting year came to €898 million (2018: €1,013 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, DZ HYP generated a volume of new commitments of €2,294 million in 2019 (2018: €2,232 million). Demand for long-term fixed interest rates continued to be supported by the sustained low level of interest rates. The volume of new commitments brokered by cooperative banks with retail customers came to €1,841 million in 2019 (2018: €1,468 million). In the business with private investors, DZ HYP's new commitment volume amounted to €453 million in 2019 (2018: €764 million).

In the year under review, DZ HYP generated new public-sector customer business of €717 million (2018: €894 million). Of this amount, €582 million (2018: €639 million) was attributable to business brokered through the cooperative banks and €135 million to direct business (2018: €255 million). Some 83 percent of all deals were generated through the brokering activities of the cooperative banks.

The **gains and losses on investments** amounting to a net gain of €10 million (2018: net loss of €10 million) arose primarily from the sale of Spanish government bonds.

Other gains and losses on valuation of financial instruments improved by €361 million to a net gain of €275 million in 2019 (2018: net loss of €86 million). This was predominantly because of a narrowing of spreads on bonds from eurozone periphery countries (gain of €246 million; 2018: loss of €61 million), particularly on Italian government bonds (gain of €126 million; 2018: loss of €98 million), and Spanish government bonds (gain of €79 million; 2018: gain of €31 million).

Loss allowances amounted to a net reversal of €1 million (2018: net reversal of €12 million). The change was mostly attributable to the addition for investments of €2 million (2018: reversal of €8 million).

Administrative expenses fell by €40 million to €259 million (2018: €299 million), primarily because of a one-time €15 million reduction in the bank levy to €10 million (2018: €25 million) and a drop of €20 million in consultancy expenses to €40 million (2018: €60 million) in connection with the merger. The expenses for regulatory projects also went down.

Other net operating income declined by €20 million to €4 million (2018: €24 million). This was mainly due to changes in the reversal of provisions for administration fees and early-redemption payments and to the recognition of a restructuring provision of €17 million in connection with streamlining the organizational structure.

Profit before taxes for the year under review amounted to €687 million. The rise of €455 million compared with the profit before taxes of €232 million reported for 2018 was mainly a consequence of the factors described above.

The **cost/income ratio** in 2019 was 27.4 percent (2018: 57.6 percent).

Regulatory RORAC was 44.5 percent (2018: 16.0 percent).

3.2.7 DZ PRIVATBANK

Net interest income at DZ PRIVATBANK increased by €1 million to €65 million (2018: €64 million) despite the persistently low interest rates.

Net interest income in the reporting year was also influenced by the continuation of a risk-conscious investment strategy and the expiration of securities exposures bearing higher rates of return.

In 2019, 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 €4.6 billion (2018: €4.4 billion).

Net fee and commission income declined by €6 million to €176 million (2018: €182 million). The decrease in net fee and commission income was primarily due to a margin-related fall in the contribution to earnings from the fund services business.

As at the end of the reporting year, the value of funds under management amounted to €120.1 billion (December 31, 2018: €101.6 billion). The number of fund-related mandates as at December 31, 2019 was 540 (December 31, 2018: 565).

As at December 31, 2019, the volume of assets under management relating to high-net-worth clients amounted to €18.8 billion (December 31, 2018: €16.7 billion). The assets under management comprise the volume of securities, derivatives, and deposits of customers in the private banking business.

Other gains and losses on valuation of financial instruments rose by €2 million to a net gain of €2 million (2018: net gain of €0 million) as a result of market conditions.

Administrative expenses went up by €1 million to €220 million (2018: €219 million). The rise in staff expenses of €4 million to €132 million (2018: €128 million) was partially offset by a decrease in other administrative expenses, which are subject to stringent process and cost management, of €3 million to €88 million (2018: €91 million).

Other net operating income amounted to net income of €4 million (2018: net expense of €188 million). The net expense in 2018 was mainly the result of an adverse impact from impairment losses on goodwill and customer relationships in the amount of €128 million and €41 million respectively. These assets had been recognized in connection with the merger of DZ PRIVATBANK S.A. with WGZ BANK Luxembourg S.A. in 2011.

Profit before taxes amounted to €36 million, an improvement of €187 million on the loss before taxes of €151 million in 2018, which had been impacted by one-off items.

The **cost/income ratio** for DZ PRIVATBANK in 2019 was 85.9 percent (2018: greater than 100.0 percent).

Regulatory RORAC was 11.2 percent (2018: minus 44.8 percent).

3.2.8 VR Smart Finanz

Net interest income at VR Smart Finanz declined by €6 million to €147 million in 2019 (2018: €153 million).

The expansion of the core business, which involved a further rise in the volumes of the digital solutions 'VR Smart flexibel' and 'VR Smart express', had a positive impact on net interest income. Some of this impact was offset by a contraction in net interest income caused by the implementation of the strategy to scale back or dispose of non-core activities. In 2019, the strategy 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 33.0 percent (2018: 17.6 percent) in the volume of online business (leasing, hire purchase, and lending) transacted with the cooperative banks in the year 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 increased from 81.8 percent in 2018 to 90.0 percent in the reporting year.

Net fee and commission income declined by €17 million to a net expense of €10 million (2018: net income of €7 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.

Gains and losses on investments amounted to a net gain of €0 million (2018: net gain of €22 million). In 2018, gains and losses on investments had included the impact of the derecognition of the equity-accounted 50 percent long-term equity investment in VBLI.

Loss allowances went up by €17 million to €30 million in the reporting year (2018: €13 million). This change was predominantly due to the rise in the volume of the 'VR Smart flexibel' product.

Administrative expenses went down by €15 million to €127 million in 2019 (2018: €142 million) because of the disposal of the non-core activities referred to above. The lower headcount meant that staff expenses declined by €9 million to €68 million (2018: €77 million). Other administrative expenses fell by €6 million to €59 million (2018: €65 million).

Other net operating income amounted to €9 million (2018: net expense of €26 million). This change in other net operating income can be largely explained by the €11 million gain on the sale of the centralized settlement business and by the lower adverse impact compared with 2018 of the restructuring expenses in connection with the transformation into a digital provider of finance for the self-employed and small businesses, which amounted to €10 million (2018: €17 million).

VR Smart Finanz generated a **loss before taxes** of €10 million in the year under review (2018: profit before taxes of €1 million), largely as a consequence of the factors described above.

The **cost/income ratio** in 2019 was 86.4 percent (2018: 91.0 percent).

Regulatory RORAC was minus 3.4 percent (2018: 0.2 percent).

3.2.9 DVB

The DVB subgroup's **net interest income** declined by €31 million in 2019 to €146 million (2018: €177 million). The contraction in the portfolio of debt certificates issued including bonds gave rise to an adverse impact from early-redemption fees.

The volume of customer loans in the DVB subgroup stood at €7.4 billion as at the end of the reporting year (December 31, 2018: €16.6 billion).

At €48 million, **net fee and commission income** was down by €36 million year on year (2018: €84 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, and to lower income caused by the fall in new lending business.

Gains and losses on investments amounted to a net loss of €1 million (2018: net loss of €18 million). The figure for the prior year notably included impairment losses recognized in respect of the carrying amounts of equity-accounted entities.

Other gains and losses on valuation of financial instruments improved by €69 million to a net loss of €36 million (2018: net loss of €105 million). In this regard, IFRS-related measurement effects, particularly from hedge accounting, and interest-rate-related measurements of cross-currency swaps led to a smaller loss.

The addition to **loss allowances** rose by €61 million to €141 million (2018: €80 million). The change compared with 2018 was due, in particular, to the increased need for loss allowances in the shipping and offshore businesses.

Administrative expenses amounted to €202 million (2018: €200 million), a year-on-year increase of €2 million.

Other net operating income amounted to €72 million (2018: €15 million). Significant factors affecting this item in the reporting year were the disposal of the aviation finance and land transport finance core businesses, which generated gains of €206 million and €12 million respectively, and the sale of the long-term equity investment in LogPay Financial Services GmbH, which resulted in a gain of €28 million. This item also included investment management impairment losses of €100 million and restructuring expenses of €46 million.

In 2019, DVB incurred a **loss before taxes** of €108 million (2018: loss before taxes of €130 million), largely as a consequence of the factors described above.

The **cost/income ratio** in 2019 was 86.0 percent (2018: greater than 100.0 percent).

Regulatory RORAC was minus 42.1 percent (2018: minus 33.8 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 €55 million (2018: net expense of €71 million), a change of 22.5 percent.

The interest expense on subordinated capital declined by 19.7 percent to €61 million (2018: €76 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 €6 million in 2019 (2018: €5 million).

Administrative expenses went down by 3.3 percent year on year to €203 million (2018: €210 million).

Expenses from the group function went down by €17 million to €70 million (2018: €87 million) as a result of lower project expenses.

However, expenses for the bank levy and contributions (particularly to the BVR protection scheme) were up by €6 million to €39 million owing to adjustments to the basis of assessment in 2019. In addition, IT and project expenses rose from €55 million in 2018 to €58 million in the reporting year, while other expenses for the benefit of the group and local cooperative banks increased by €1 million to €35 million.

3.2.11 Other/Consolidation

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

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

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

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

4 Net assets

As at December 31, 2019, the DZ BANK Group's **total assets** had increased by €40.7 billion, or 7.8 percent, to €559.4 billion (December 31, 2018: €518.7 billion). This increase was largely attributable to a higher level of total assets at DZ BANK – CICB (up by €28.9 billion), R+V (up by €14.6 billion), and DZ HYP (up by €6.4 billion), whereas DVB recorded a decrease of €6.3 billion.

The **volume of business** amounted to €994,142 million (December 31, 2018: €904,918 million). This figure comprised the total assets, the assets under management at UMH as at December 31, 2019 amounting to €368,208 million (December 31, 2018: €323,370 million), the financial guarantee contracts and loan commitments amounting to €65,794 million (December 31, 2018: €61,871 million), and the volume of trust activities amounting to €761 million (December 31, 2018: €944 million).

The DZ BANK Group's **loans and advances to banks** rose to €97.5 billion, an increase of €5.9 billion or 6.5 percent. Loans and advances to banks in Germany went up by €4.1 billion to €89.1 billion and loans and advances to foreign banks by €1.8 billion to €8.4 billion.

The DZ BANK Group's **loans and advances to customers** amounted to €186.2 billion, which was €11.7 billion, or 6.7 percent, higher than at the end of 2018. The corresponding prior-year figure has been restated (see note 2 in the notes to the consolidated financial statements). Within this figure, loans and advances to customers in Germany rose by €11.7 billion to €157.6 billion, whereas loans and advances to customers outside Germany were unchanged at €28.6 billion.

As at December 31, 2019, **financial assets held for trading** amounted to €44.8 billion, an increase of €6.9 billion, or 18.0 percent, on the figure as at December 31, 2018. This change was mainly due to a rise in derivatives (positive fair values) (up by €3.7 billion), bonds and other fixed-income securities (up by €1.7 billion), receivables (up by €1.3 billion), and shares and other variable-yield securities (up by €0.2 billion).

FIG. 4 – TOTAL ASSETS

Investments were up by €8.6 billion, or 18.0 percent, to €56.9 billion. The principal reasons were growth of €8.6 billion in the portfolio of bonds and other fixed-income securities and a rise of €0.3 billion in the portfolio of shares and other variable-yield securities, although some of these increases were offset by a decrease in investments in joint ventures (down by €0.2 billion).

Investments held by insurance companies rose by €12.7 billion (12.6 percent) to €113.5 billion (December 31, 2018: €100.8 billion). This was due, above all, to a €2.1 billion increase in variable-yield securities to €11.3 billion, a €6.9 billion increase in fixed-income securities to €55.8 billion, and a €2.7 billion increase in assets related to unit-linked contracts to €14.4 billion.

In the DZ BANK Group, **non-current assets and disposal groups classified as held for sale** amounted to €0.5 billion as at December 31, 2019, a fall of €6.6 billion compared with the figure as at December 31, 2018. This change compared with the end of 2018 was largely attributable to two items. Firstly, it related to DVB's aviation finance and land transport finance core businesses and the fully consolidated subsidiary LogPay Financial Services GmbH, which were sold in 2019. Secondly, it related to BFL Leasing GmbH, which no longer formed part of the core business of VR Smart Finanz, and 94.0 percent of VR-IMMOBILIEN-LEASING GmbH, which were also sold in 2019.

The DZ BANK Group's **deposits from banks** as at December 31, 2019 amounted to €141.1 billion, which was €1.4 billion, or 1.0 percent, lower than the figure reported as at December 31, 2018. Deposits from domestic banks were down by €0.9 billion to €127.9 billion, while deposits from foreign banks decreased by €0.5 billion to €13.2 billion.

Deposits from customers contracted by €1.0 billion, or 0.8 percent, to €131.5 billion (December 31, 2018: €132.5 billion). Deposits from domestic customers fell by €4.0 billion to €113.0 billion (December 31, 2018: €117.0 billion). Deposits from foreign customers rose by €3.0 billion to €18.5 billion (December 31, 2018: €15.5 billion).

At the end of the year, the carrying amount of **debt certificates issued including bonds** in the DZ BANK Group was €85.1 billion (December 31, 2018: €63.9 billion). The rise of €21.2 billion was largely due to growth of €20.7 billion in the portfolio of other debt certificates issued to €33.6 billion while, at the same time, the portfolio of bonds issued expanded by €0.5 billion to €51.5 billion.

Financial liabilities held for trading went up by €6.8 billion, or 15.1 percent, to €51.8 billion (December 31, 2018: €45.0 billion). This change was due to a rise in derivatives (negative fair values) (up by €2.8 billion), bonds issued (up by €2.0 billion), and money market deposits (up by €2.0 billion).

Insurance liabilities increased by €11.1 billion, or 11.9 percent, to €104.3 billion (December 31, 2018: €93.2 billion). This was largely attributable to rises of €3.8 billion in the benefit reserve, €3.9 billion in the provision for premium refunds, and €2.1 billion in the reserve for unit-linked insurance contracts.

As at December 31, 2019, the **equity** reported by the DZ BANK Group was €27.8 billion (December 31, 2018: €23.5 billion). The increase of €4.3 billion compared with the end of 2018 was largely due to rises of €1.5 billion in retained earnings, €1.1 billion in the reserve from other comprehensive income, and €1.4 billion in additional equity components in view of the issuance of a tranche of additional Tier 1 notes (AT1 bonds) by DZ BANK.

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 VI (Opportunity and risk report), section 7.3 (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 initiated a standardized groupwide multi-issuer euro commercial paper program, 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, since 2019, also at BSH.

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

The Group Treasury division at DZ BANK carries out groupwide **liquidity planning** 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. Liquidity planning 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 group management report in chapter VI (Opportunity and risk report), section 6.2 (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 consolidated financial statements. Contractual cash inflows and cash outflows are set out in the **maturity analysis** in note 86 of the notes to the consolidated financial statements.