II Business report

1 Economic conditions

The COVID-19 pandemic and the associated restrictions on economic activity dominated the entire year in 2020. Adjusted for inflation, average overall economic output in Germany for the year slumped by 5.0 percent compared with 2019. This contrasted with corresponding year-on-year growth of 0.6 percent in 2019.

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 the year, it contracted by 9.7 percent before a recovery in the third quarter brought a gain in gross domestic product (GDP) of 8.5 percent. The final quarter saw a further small increase of 0.1 percent.

Both in the spring and toward the end of 2020, many shops and factories had to shut 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, ushering in a temporary economic rebound over the summer months.

The pandemic also caused an economic slump in the eurozone in 2020. Following a 1.3 percent year-on-year rise in GDP in 2019, the eurozone's economic output shrank by 6.8 percent in the reporting period. GDP decreased by 3.7 percent in the first quarter of 2020. In the second quarter, it fell by 11.7 percent compared with the previous quarter. This gave way to growth of 12.4 percent in the third quarter, before economic output contracted again in the final quarter of 2020, by 0.7 percent.

In the US presidential elections on November 3, 2020, the challenger Joe Biden emerged victorious in the race against the incumbent US President Donald Trump. The policy of 'America first', which had been pursued by the US government for some years, remained unchanged in 2020 and was reflected particularly in the trade negotiations between the United States and China. The reporting year 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.

The US economy was not hit quite as badly as its European counterpart by the pandemic in 2020. 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 but the economy quickly began to recover again in the second quarter. The rebound was sustained in the second half of the year as China escaped a second wave of infection. 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 2020 was on dealing with the economic impact – and the resulting recession – arising from 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 (Next Generation EU, NGEU) 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 efforts did counter the uncontrolled spread of the disease, they also had a significant negative impact on the global economy. In the first half of 2020, 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, some of the safeguards were eased in the summer of 2020 in order to mitigate the economic fallout. Financial markets rallied in response. The safeguards were progressively tightened again in the autumn of 2020 as the number of new cases rose. Some of the restrictions were even more severe than those imposed in the spring. A few countries managed to launch vaccination programs as early as December 2020. For the rest of the year, however, there was no negative impact of these containment measures on financial markets, such as falling share prices or widening of spreads.

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

At the end of the third quarter of 2020, the total borrowing of the 19 eurozone countries equated to 97.3 percent of their GDP, an increase of 11.5 percentage points compared with the figure of 85.8 percent as at September 30, 2019.

Greece's public debt as a percentage of GDP was 199.9 percent in the third quarter of 2020 (third quarter of 2019: 182.6 percent). In the last few years, Greece has been forced to pursue a restrictive fiscal policy under the conditions for receiving support loans and, since mid-2019, has had a conservative government headed by Prime Minister Kyriakos Mitsotakis of the Nea Dimokratia (ND) party. In the reporting year, the country was unable to maintain the improvement in its economic and fiscal position evident in the previous year. The Greek economy, which is heavily dependent on tourism, was especially badly affected by the international travel restrictions imposed as a consequence of the COVID-19 pandemic.

The pandemic had a notable adverse impact on Italy, which has the lowest growth in the EU. The coronavirus crisis threw the spotlight on Italy's calls for greater financial solidarity in the eurozone. In 2020, the sustainability of Italy's debt largely depended on funding costs influenced by the ECB's bond-buying program. Italy's public debt as a percentage of GDP stood at 154.2 percent in the third quarter of 2020 (third quarter of 2019: 136.8 percent), which is the highest in the eurozone after that of Greece.

Portugal's economy, which likewise relies on the tourism industry, was detrimentally affected by the measures taken to contain the spread of COVID-19. Portugal's public debt as a percentage of GDP was 130.8 percent in the third quarter of 2020, compared with 119.6 percent in the third quarter of 2019.

Spain is ruled by a minority government led by Prime Minister Pedro Sánchez from the socialist workers' party. Spain was hit particularly hard by the COVID-19 crisis in 2020, its GDP contracting by 11.0 percent compared with 2019. Public debt as a percentage of GDP was 114.1 percent in the third quarter of 2020 (third quarter of 2019: 97.5 percent).

Based on a policy of quantitative easing, the ECB has continued to support the markets for government bonds, thereby creating the necessary time over the last few years for the European Monetary Union (EMU) countries burdened with excessive debt to reduce their budget deficits. In the reporting year, the ECB's monetary policy was predominantly focused on mitigating the negative impact of the protective measures introduced to contain the spread of the COVID-19 pandemic on EU member state public finances and on financial markets. Nonetheless, even in previous years, the countries specified above had not made sufficient efforts to reduce their high levels of indebtedness, which are above the Maastricht limit of 60 percent, 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 policy of zero and negative interest rates prevailing in 2019 was maintained in the reporting year. At its meeting on December 10, 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 ECB Governing Council again let it be known that the ECB's key interest rates would remain at their current or a lower level until the inflation outlook is clearly approaching 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 a further €500.0 billion to a total of €1,850.0 billion until at least the end of March 2022. The net purchases under the asset purchase program (APP) were continued in 2020 with a monthly volume of €20.0 billion. 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. In October 2019, 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 would be exempted from the negative deposit rate. This system was retained in 2020.

On December 16, 2020, the US Federal Reserve (Fed) announced that the federal funds rate would remain unchanged in the range of 0 to 0.25 percent. The Fed also committed to maintaining its bond-buying program with a monthly volume of US$ 120 billion until substantial progress had been made toward achieving the inflation target and employment growth.

There was a significant difference in financial performance between Germany's two largest banks in 2020. Whereas one reported a sharp rise in net profit in 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 significantly higher than in 2019. The major banks presented a mixed picture regarding administrative expenses, ranging from a 2 percent decrease brought about by management of costs to an 11 percent decrease as a result of transformation.

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 maintain its position, reporting a profit before taxes of €1,455 million in 2020.

The year-on-year changes in the key figures that made up the net profit generated by the DZ BANK Group in 2020 were as described below.

FIG. 2 – INCOME STATEMENT

€ million	**2020**	2019
Net interest income	2,797	2,738
of which net income from long-term equity investments[2]	75	59
Net fee and commission income	2,121	1,975
Gains and losses on trading activities	552	472
Gains and losses on investments	166	182
Other gains and losses on valuation of financial instruments	-22	255
Gains and losses from the derecognition of financial assets measured at amortized cost	-2	15
Net income from insurance business	347	1,174 [1]
Loss allowances	-678	-329
Administrative expenses	-4,036	-4,074
Staff expenses	-1,910	-1,878
Other administrative expenses[3]	-2,126	-2,196
Other net operating income	210	250
Profit before taxes	1,455	2,658
Income taxes	-475	-778 [1]
Net profit	**980**	**1,880**

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 €6,169 million (2019: €7,061 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 €59 million year on year to €2,797 million (2019: €2,738 million).

In 2020, net interest income rose by €81 million at BSH, by €10 million at TeamBank, by €60 million at DZ BANK – CICB, and by €58 million at DZ HYP. Conversely, net interest income went down by €30 million at UMH, by €9 million at VR Smart Finanz, and by €116 million at DVB. The specific reasons for the year-on-year change in net interest income were the factors described in the details for these operating segments.

Net income from long-term equity investments of the DZ BANK Group increased by €16 million to €75 million (2019: €59 million).

Net fee and commission income in the DZ BANK Group grew by €146 million to €2,121 million (2019: €1,975 million).

Net fee and commission income advanced by €98 million at UMH, by €53 million at DZ BANK – CICB, and by €12 million at DZ PRIVATBANK. In 2020, net fee and commission income at BSH amounted to a net expense of €9 million (2019: net expense of €28 million), and at VR Smart Finanz to a net expense of €24 million (2019: net expense of €10 million). At DVB, net fee and commission income declined by €23 million. The specific reasons for the year-on-year change in net fee and commission income were the factors described in the details for these operating segments.

The DZ BANK Group's **gains and losses on trading activities** in 2020 came to a net gain of €552 million compared with a net gain of €472 million for 2019. This was largely attributable to the gains and losses on trading activities at DZ BANK – CICB, amounting to a net gain of €488 million (2019: net gain of €437 million).

The net gains under **gains and losses on investments** went down by €16 million to €166 million (2019: €182 million). This figure rose by €42 million at UMH, by €18 million at DZ BANK – CICB, and by €40 million in the Other/Consolidation segment. On the other hand, it deteriorated by €107 million at BSH and by €9 million at DZ HYP. The specific reasons for the year-on-year change in gains and losses on investments were the factors described in the details for these operating segments.

Other gains and losses on valuation of financial instruments in the DZ BANK Group amounted to a net loss of €22 million in 2020 (2019: net gain of €255 million).

At BSH, other gains and losses on valuation of financial instruments deteriorated by €13 million. At UMH, the figure deteriorated by €40 million, largely because of higher expenses resulting from the valuation of guarantee commitments. There was a negative change of €157 million in other gains and losses on valuation of financial instruments at DZ HYP, primarily reflecting the effect of credit spreads on bonds from peripheral countries of the eurozone. The figure was subject to an adverse change of €45 million at DVB. The specific reasons for the year-on-year change in other gains and losses on valuation of financial instruments were the factors described in the details for these operating segments.

Gains and losses from the derecognition of financial assets measured at amortized cost deteriorated by €17 million to a net loss of €2 million (2019: net gain of €15 million). The DZ BANK – CICB segment saw an adverse change of €53 million compared with 2019. The figure for the Other/Consolidation segment in 2020 amounted to a net loss of €14 million (2019: net loss of €53 million).

The DZ BANK Group's **net income from insurance business** comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, insurance business operating expenses, and gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business. In the reporting year, this net income declined by €827 million to €347 million (2019: €1,174 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 €678 million (2019: net addition of €329 million). The requirement for the addition of €220 million in connection with the COVID-19 pandemic arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses.

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

Administrative expenses in the DZ BANK Group decreased by €38 million to €4,036 million (2019: €4,074 million). Staff expenses amounted to €1,910 million (2019: €1,878 million). Other administrative expenses declined by €70 million to €2,126 million (2019: €2,196 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** amounted to €210 million (2019: €250 million).

Other net operating income improved by €20 million at R+V, by €56 million at DZ BANK – CICB, by €14 million at DZ HYP, and by €15 million in the Other/Consolidation segment. By contrast, it fell by €20 million at BSH, by €60 million at UMH, by €17 million at VR Smart Finanz, and by €49 million at DVB. The specific 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 2020 amounted to €1,455 million, compared with €2,658 million in 2019.

The DZ BANK Group's **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for 2020 was 65.4 percent (2019: 57.7 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 7.2 percent (2019: 15.2 percent).

The DZ BANK Group's **income taxes** amounted to €475 million in the reporting year (2019: €778 million).

The DZ BANK Group generated a **net profit** of €980 million in 2020 compared with a net profit of €1,880 million in 2019.

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 2020 (chapter V of the 2019 group management report).

In 2020, the DZ BANK Group generated profit before taxes that was slightly higher than the budgeted figure. Net interest income, net fee and commission income, and gains and losses on trading activities in 2020 marginally exceeded the forecast. Actual figures for gains and losses on investments and other net operating income were well above the respective budgeted levels. Gains and losses on investments were boosted in particular by non-recurring income in connection with the acquisition of a majority stake in ZBI Partnerschafts-Holding GmbH. By contrast, net income from insurance business was significantly below budget, the main reason being trends in capital markets as a consequence of the COVID-19 pandemic. The requirement for loss allowances was much greater than forecast because of the COVID-19 pandemic. Administrative expenses were cut to an amount below the budgeted figure.

3.2 Financial performance in detail

Figure 3 shows the details of the financial performance of the DZ BANK Group's operating segments in 2020 compared with 2019.

FIG. 3 – SEGMENT INFORMATION

2020

€ million	BSH	R+V	TeamBank	UMH
Net interest income	531	-	492	10
Net fee and commission income	-9	-	-30	1,566
Gains and losses on trading activities	-	-	-	-
Gains and losses on investments	56	-	-	44
Other gains and losses on valuation of financial instruments	5	-	-1	-83
Gains and losses from the derecognition of financial assets measured at amortized cost	15	-	-	-
Premiums earned	-	18,741	-	-
Gains and losses on investments held by insurance companies and other insurance company gains and losses	-	2,091	-	-
Insurance benefit payments	-	-17,499	-	-
Insurance business operating expenses	-	-3,046	-	-
Gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business	-	-19	-	-
Loss allowances	-29	-	-59	-
Administrative expenses	-526	-	-256	-919
Other net operating income	38	9	8	31
Profit/loss before taxes	**81**	**277**	**154**	**649**
Cost/income ratio (%)	82.7	-	54.6	58.6
Regulatory RORAC (%)	6.6	2.6	27.0	>100.0
Average own funds/solvency requirement	1,216	10,473	569	432
Total assets/total equity and liabilities as at Dec. 31, 2020	81,673	130,027	9,285	3,561

DZ BANK - CICB	DZ HYP	DZ PRIVAT-BANK	VR Smart Finanz	DVB	DZ BANK - holding function	Other/ Consolidation	**Total**
832	714	69	138	30	-50	31	2,797
441	6	188	-24	25	-	-42	2,121
488	9	17	-	26	-	12	552
15	1	-	-	-1	-	51	166
41	118	-2	-	-81	-	-19	-22
-3	-	-	-	-	-	-14	-2
-	-	-	-	-	-	-	18,741
-	-	-	-	-	-	-44	2,047
-	-	-	-	-	-	-	-17,499
-	-	-	-	-	-	124	-2,922
-	-	-	-	-	-	-1	-20
-337	-47	-1	-49	-153	-	-3	-678
-1,272	-237	-235	-102	-154	-188	-147	-4,036
39	18	2	-8	23	-	50	210
244	**582**	**38**	**-45**	**-285**	**-238**	**-2**	**1,455**
68.6	27.4	85.8	96.2	>100.0	-	-	65.4
4.6	36.7	10.8	-17.5	>100.0	-	-	7.2
5,298	1,586	352	255	154	-	-	20,336
314,612	94,486	17,691	3,684	10,247	21,297	-91,990	594,573

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[1]	-	-19,394	-	-
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**	**1.063**	**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 [1]	77,469	121,973	9,455	3,012

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
-	-	-	-	-	-	-	-19,394
-	-	-	-	-	-	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**	**2,658**
77.8	27.4	85.9	86.4	86.0	>100.0	-	57.7
5.8	44.5	11.2	-3.4	-42.1	-	-	15.2
5,056	1,543	319	291	256	-	-	17,890
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 €81 million to €531 million (2019: €450 million).

Net interest income was again impacted by an additional charge arising from the increase in provisions relating to building society operations. However, at €115 million, this charge was lower than the equivalent amount of €280 million in 2019. 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.

Otherwise, net interest income declined due to the persistently low level of interest rates. At the end of the reporting year, the 10-year swap rate was minus 0.27 percent (December 31, 2019: 0.21 percent).

Interest income arising on investments declined by €76 million to €437 million (2019: €513 million) because capital market rates for investments remained low. Net interest income was also adversely impacted by an increase of €38 million in fees, commissions, and transaction costs directly assignable to the acquisition of home savings contracts and loan agreements and incorporated into the effective interest method applied to home savings deposits and building loans.

In the case of loans issued under advance or interim financing arrangements and other building loans, income was held more or less stable at €999 million (2019: €1,002 million) on the back of the expansion in business over the last few years and despite a fall in average returns. Income from home savings loans amounted to €68 million (2019: €70 million).

The volume of home savings deposits from retail customers in the BSH subgroup grew in the reporting period by €1.5 billion to €64.7 billion (December 31, 2019: €63.2 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 €9 million in the reporting period (2019: net expense of €28 million).

This year-on-year change was largely 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 456 thousand (2019: 524 thousand) new home savings contracts with a volume of €24.2 billion (2019: €28.5 billion) in Germany.

In the home finance business, the realized volume of new business advanced by €2.4 billion to €19.1 billion (2019: €16.7 billion) in Germany. This figure includes home savings loan contracts and bridging loans from BSH and other referrals totaling €2.1 billion (2019: €2.0 billion). Further financing of €2.4 billion (2019: €0.9 billion) was referred to cooperative banks via the BAUFINEX brokering platform.

Gains and losses on investments amounted to a net gain of €56 million (2019: €163 million). Gains and losses on the disposal of securities came to a net gain of €56 million (2019: €64 million). In the prior year, 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 deteriorated by €13 million to a net gain of €5 million (2019: net gain of €18 million), which was attributable to changes in the fair value of hedging derivatives.

Loss allowances amounted to a net addition of €29 million in total (2019: net addition of €4 million). This figure included an ongoing addition resulting from the expansion of the lending portfolio and also additions to stages 1 and 2 in connection with the COVID-19 pandemic. The requirement for the addition of

€21 million in connection with the COVID-19 pandemic arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses.

Administrative expenses went up by €40 million to €526 million (2019: €486 million). At €256 million, staff expenses were €31 million higher than the prior-year level of €225 million. This increase was largely explained by the recognition of a provision for a program aimed at the structural optimization and management of costs, which was set up in 2020. Other administrative expenses grew by €9 million to €270 million (2019: €261 million) because of greater depreciation and amortization expenses and IT investment.

Other net operating income decreased by €20 million to €38 million (2019: €58 million). The main influence on the figure for the prior year had been the reversal of provisions.

Profit before taxes declined by €108 million in the reporting year to €81 million (2019: €189 million) as a consequence of the changes described above.

The **cost/income ratio** in 2020 was 82.7 percent (2019: 71.6 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 6.6 percent (2019: 16.5 percent).

3.2.2 R+V

Premiums earned went up by €1,492 million to €18,741 million (2019: €17,249 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 €1,012 million to €9,311 million.

Premiums earned from the life insurance business rose by €972 million to €8,645 million. Occupational pensions and new guarantees were the main areas of business contributing to this increase. On the other hand, 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 €40 million to €666 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 €217 million to €6,347 million, with most of this growth being generated from motor vehicle insurance and corporate customer business.

Premiums earned from the inward reinsurance business rose by €263 million to €3,083 million. Business performed particularly well in the Americas, Europe, and Asia, with Europe remaining the largest market. Growth was generated notably from the motor vehicle, fire, and property classes of insurance.

Gains and losses on investments held by insurance companies and other insurance company gains and losses declined by €4,113 million to a net gain of €2,091 million (2019: net gain of €6,204 million). This figure includes the fair value-based gains and losses on investments held by insurance companies in respect of insurance products constituting unit-linked life insurance for the account and at the risk of employees, employers, and holders of life insurance policies (unit-linked contracts). The gains and losses on investments held by insurance companies attributable to unit-linked contract products generally have no impact on profit/loss before taxes, because this line item is matched by an insurance liability addition or reversal of the same amount. The net gain on investments held by insurance companies, excluding unit-linked contracts, amounted to €2,137 million in 2020 (2019: €4,402 million).

The level of long-term interest rates was lower than in 2019. However, changes in spreads on interest-bearing securities had some negative impact on this item. In the first six months of the year, spreads widened significantly, but a narrowing was evident in the second half of the year. The IBOXX Euro Overall Spread A index, which is the main index relevant to the portfolio structure at R+V, climbed from 80.0 points at the beginning of 2020 to 187.0 points at the end of the first quarter of 2020 and then declined steadily to 71.9 points at the end of the year. By contrast, there had been a continual narrowing of spreads in 2019.

Over the course of 2020, equity markets relevant to R+V performed worse than in 2019. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, saw a fall of 192 points from the start of 2020, closing the reporting period on 3,553 points. In 2019, this index had risen by 744 points. In the reporting year, movements in exchange rates between the euro and various currencies were generally less favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2020 was 0.8173 compared with 0.8909 at the end of 2019, which equates to a fall of 8.3 percent in the value of the euro. By contrast, the euro had risen by 1.8 percent against the US dollar in the previous year.

Overall, these trends in the reporting year essentially resulted in a €3,078 million negative change in unrealized gains and losses to a net gain of €507 million (2019: net gain of €3,585 million), a €196 million decrease in the contribution to earnings from the derecognition of investments to a gain of €41 million (2019: gain of €237 million), and a deterioration of €986 million in the foreign exchange gains and losses to a net loss of €742 million (2019: net gain of €244 million). In addition, net income under current income and expense fell by €215 million to €2,132 million (2019: €2,347 million) and the balance of depreciation, amortization, impairment losses, and reversals of impairment losses deteriorated by €91 million to a net expense of €165 million (2019: net expense of €74 million). Other insurance gains and losses and non-insurance gains and losses improved by €434 million to a net gain of €318 million (2019: net loss of €116 million).

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

Insurance benefit payments amounted to €17,499 million, which equated to a decline of €1,895 million compared with the corresponding 2019 figure of €19,394 million.

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. An amount of €739 million (2019: €647 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 year. The overall claims rate was below the level of 2019. An increase in major claim costs was offset by reduction in claims expenses for natural disasters and basic claim costs. In the context of the COVID-19 pandemic, additions were made to provisions for claims on the basis of received and expected claims. The main areas of business affected were the corporate customer business (insurance covering event cancelations and business closures) and the banking/loan business (guarantee insurance, special indemnities). After taking into account the countervailing effects in motor vehicle insurance, the insurance expense in connection with the COVID-19 pandemic amounted to €58 million. The losses in connection with Storm Sabine amounted to around €62 million.

In the inward reinsurance business, the net claims ratio was up by 4.4 percentage points compared with the prior year. The ratio for large claims was higher than in 2019, but the ratio for moderate claims was down year on year. The basic claims ratio remained more or less steady in 2020. Notably, the COVID-19 pandemic gave rise to an insurance expense of around €263 million, with a corresponding impact on earnings. Up to the reporting date, claims of approximately €96 million had been received from ceding insurers, which included one major claim of €28 million. The claims in connection with the Beirut port explosion were quantified in the inward reinsurance division at €55 million, those arising from the Derecho storm in the US Midwest at €121 million, and those caused by Hurricane Laura at €31 million.

Insurance business operating expenses incurred in the course of ordinary business activities went up by €73 million to €3,046 million (2019: €2,973 million). This change resulted from business growth, with €66 million of the increase, or 9.5 percent, mainly accounted for by the inward reinsurance division. Expenses also rose in the life/health insurance business, by €13 million or 1.6 percent. In the non-life insurance division, expenses were down by €5 million or 0.3 percent, so were virtually unchanged.

As a result of the factors described above, **profit before taxes** for the reporting year fell by €786 million to €277 million (2019: €1,063 million).

The **regulatory return on risk-adjusted capital (RORAC)** was 2.6 percent (2019: 13.3 percent).

3.2.3 TeamBank

Net interest income at TeamBank amounted to €492 million, which was €10 million higher than the equivalent figure in 2019 of €482 million. The main source of this increase was expansion of the average volume of consumer finance. The volume of this portfolio at the end of 2020 stood at €8,818 million (December 31, 2019: €8,873 million). This change in the volume of consumer finance should be viewed in the context of the consequences of the COVID-19 pandemic and the related restrictions on public life, which curtailed the opportunities for consumer spending.

In response to the closure of branches as a result of the pandemic, TeamBank worked together with the cooperative banks to introduce measures such as comprehensive telephone consultations so that customers could continue to be advised and supported on a digital basis. As at December 31, 2020, TeamBank was working with 734 (December 31, 2019: 745) of Germany's 814 (December 31, 2019: 842) cooperative banks and with 145 (December 31, 2019: 138) partner banks in Austria. In addition, more than 65 thousand (2019: 110 thousand) members of cooperative banks benefited from favorable terms and conditions in 2020.

The business model of a consumer finance provider constructed on the basis of the easyCredit-Liquiditätsberater advisory concept, which includes a financial compass created individually for each customer and provides both the customer and the advisor with transparency about the credit decision reached, enabled TeamBank, despite the effects of the COVID-19 pandemic, to keep loans and advances to customers stable at €9,031 million (December 31, 2019: €9,063 million) and increase the number of customers to 962 thousand (December 31, 2019: 944 thousand). As at December 31, 2020, around 296 thousand customers had either signed up for easyCredit-Finanzreserve or were already using this flexible means of borrowing. As a result, some 19.0 percent of new business in 2020 was generated through easyCredit-Finanzreserve.

Net fee and commission income saw a negative change of €2 million to a net expense of €30 million (2019: net expense of €28 million). This change was largely due to the combined effect of lower fee and commission income from credit insurance policies and lower bonuses paid to partner banks as a result of the fall in new business caused by the COVID-19 pandemic.

The addition to **loss allowances** amounted to €59 million, which was down by €18 million compared with the prior-year figure of €77 million. The main reasons behind the smaller addition to loss allowances compared with the previous year were a lower level of new business and a reduction caused by non-recurring items resulting from adjustments during the year. The requirement for the addition of €18 million in connection with the COVID-19 pandemic arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses.

Administrative expenses went up by €26 million to €256 million (2019: €230 million). Staff expenses rose by €8 million to €100 million (2019: €92 million), primarily because of the increase in headcount. Other administrative expenses went up by €18 million to €156 million (2019: €138 million), predominantly because of higher IT costs related to TeamBank's investment in the future.

Profit before taxes for the year under review amounted to €154 million. The increase of €2 million compared with the figure of €152 million reported for 2019 was a consequence of the factors described above.

TeamBank's **cost/income ratio** in 2020 was 54.6 percent (2019: 50.1 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 27.0 percent (2019: 30.0 percent).

3.2.4 UMH

Net interest income decreased by €30 million to €10 million (2019: €40 million). In 2020, the contribution to net interest income made by ZBI Partnerschafts-Holding GmbH amounted to a net expense of €2 million, which was €29 million worse than in the previous year (2019: net income of €27 million).

Net fee and commission income at UMH went up by €98 million to €1,566 million (2019: €1,468 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 €15.7 billion to €365.1 billion (2019: €349.4 billion), the volume-related contribution to net fee and commission income rose to €1,401 million (2019: €1,326 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 €32 million (2019: €9 million). Income from real estate fund transaction fees increased by €19 million to €55 million during the reporting year (2019: €36 million).

Against this backdrop, Union Investment managed to generate net inflows from its retail business of €8.8 billion in 2020 (2019: €8.1 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 3.1 million contracts as at December 31, 2020, with an increase in the 12-month savings volume to €5.8 billion (December 31, 2019: €4.9 billion).

The total assets in the portfolio of Riester pension products swelled to €22.0 billion as at December 31, 2020 (December 31, 2019: €20.9 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at December 31, 2020 totaled 5.7 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 €2.3 billion in 2020 (2019: €3.8 billion).

Assets under management in the PrivatFonds family amounted to €25.0 billion as at December 31, 2020 (December 31, 2019: €25.3 billion).

The institutional business also continues to face significant challenges. Persistently low interest rates, the COVID-19 pandemic, and the ensuing market turmoil necessitated effective risk management from a number of perspectives, including broad portfolio diversification in terms of asset classes and country allocations. In the reporting year, demand was focused particularly on low-risk asset classes, capital preservation investment strategies, and sustainable investment. The market turmoil in the first half of 2020 naturally meant that many institutional clients required more liquidity, 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 €6.3 billion (2019: €11.3 billion).

The portfolio of sustainably managed funds had expanded to €61.0 billion at the end of the reporting year (December 31, 2019: €53.1 billion). This growth demonstrates that institutional clients are increasingly focusing on socially responsible investing.

Gains and losses on investments went up by €42 million to a net gain of €44 million (2019: net gain of €2 million). The change was mainly due to the combination of non-recurring income of €48 million in connection with the acquisition of a majority stake in ZBI Partnerschafts-Holding GmbH and the loss realized on the disposal of funds forming part of Union Investment's own account investing activities.

The deterioration in **other gains and losses on valuation of financial instruments** of €40 million to a net loss of €83 million (2019: net loss of €43 million) was mainly attributable to higher expenses arising from the valuation of guarantee commitments amounting to €94 million (2019: €31 million). Gains and losses on the valuation of Union Investment's own-account investments amounted to a net gain of €14 million (2019: net gain of €10 million); gains and losses on the valuation of options in connection with the acquisition of a majority stake in ZBI Partnerschafts-Holding GmbH came to a net loss of €3 million (2019: net loss of €22 million).

Administrative expenses went up by €9 million to €919 million (2019: €910 million). Staff expenses rose by €24 million to €452 million (2019: €428 million), largely due to average pay rises and appointments to new and vacant positions. The pro rata effects in connection with the acquisition of a majority stake in ZBI Partnerschafts-Holding GmbH amounted to €7 million. Other administrative expenses contracted by €15 million to €467 million (2019: €482 million), mainly because of lower expenses incurred in connection with public relations and marketing.
Other net operating income decreased by €60 million to €31 million (2019: €91 million). The main influence on the figure for the previous year had been the disposal of the fully consolidated subsidiary Union Investment Towarzystwo Funduszy Inwestycyjnych S.A. (TFI), Poland.

Based on the changes described above, **profit before taxes** amounted to €649 million (2019: €648 million).

The **cost/income ratio** in 2020 was 58.6 percent (2019: 58.4 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was greater than 100.0 percent (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 increased by 7.8 percent to €832 million (2019: €772 million).

In the Corporate Banking business line, net interest income rose by 7.8 percent to €481 million (2019: €446 million). The net interest income in the four regional corporate customer divisions plus Central Corporate Banking went up by 7.8 percent to €264 million (2019: €245 million). This change was attributable to the growth in the lending volume.

Net interest income in the Structured Finance division amounted to €162 million, an increase of 7.3 percent compared with the prior-year figure of €151 million. The drivers behind this increase were successful acquisitions at the beginning of 2020 and at the end of 2019, together with the conclusion of new income-generating deals in the reporting year in virtually all of the division's product groups, as a result of which there was a significant rise in net interest income particularly in the infrastructure, international trade finance, and project finance businesses.

Net interest income in the Investment Promotion division rose by 10.0 percent to €55 million (2019: €50 million). The year-on-year increase was mainly due to substantial growth in volume driven by the strong demand for business support programs in connection with the COVID-19 pandemic and for residential development loans.

At €23 million, net interest income from the separately managed real estate lending portfolio was down compared with the prior-year figure of €46 million due to the reduction in the size of portfolio caused by the transfer of some of its components to DZ HYP.

In the Capital Markets business line, net interest income advanced by 19.6 percent to €275 million (2019: €230 million). This was primarily attributable to business with institutional customers, the treasury portfolios, and other net interest income. The main reasons for the increase were the larger volume of money market business, lower interest expense on the specific funding structure, and the beneficial effect of the tiered interest rates introduced by the ECB.

Current income and expense from long-term equity investments amounted to net income of €53 million (2019: net income of €50 million). Income from long-term equity investments in respect of KBIH Beteiligungsgesellschaft für Industrie und Handel mbH shrank by €9 million to €0 million as a consequence of the COVID-19 pandemic, whereas equivalent income from VR Equitypartner GmbH went up by €10 million to €21 million.

Net fee and commission income rose by 13.7 percent to €441 million (2019: €388 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 €1 million lower than in 2019 at €122 million (2019: €123 million). This decrease was mainly attributable to lower income in the corporate finance business and was largely offset by other corporate banking business.

In the Capital Markets business line, the contribution to net fee and commission income rose by 31.3 percent to €214 million (2019: €163 million). Of particular note was the growth of income from the securities business, among other things on the back of an increase in securities brokerage transactions.

Net fee and commission income in the Transaction Banking business line was also up on the previous year at €132 million, an increase of €5 million or 3.9 percent (2019: €127 million). This increase was primarily accounted for by payments processing, in particular due to market growth caused by the greater use of contactless payments. Income from credit card processing amounted to €17 million, which was similar to the level in 2019.

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 €185 million (2019: €169 million) and were broken down and reported under the net fee and commission income for the business lines as follows: Corporate Banking €9 million (2019: €9 million) and Capital Markets/Transaction Banking €176 million (2019: €160 million).

Aside from the aforementioned business lines, net fee and commission income from other financial services amounted to a greater net expense of €27 million in 2020 (2019: net expense of €25 million). This figure included the derecognition of loan administration fees amounting to €22 million (2019: €23 million), which should have been allocated over the term of the loan and reported under net interest income in accordance with IFRS 9.

Gains and losses on trading activities rose by €51 million to a net gain of €488 million (2019: net gain of €437 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 €521 million, a year-on-year rise of 21.2 percent (2019: net gain of €430 million).

The business involving cooperative banks' own-account investing activities and institutional client business were expanded in 2020 compared with the previous year. In both cases, the level of income exceeded the corresponding prior-year figures. The volume of products sold rose across all customer groups. In terms of asset classes, the increase in product sales arose predominantly from trading in sovereign, supranational and agency (SSA) bonds, bank bonds, government bonds, and covered bonds, from business involving interest-rate structures and interest-rate derivatives, and from spot exchange business. In 2020, customer use of electronic trading platforms again exceeded the level of the previous year.

Other gains and losses on trading activities resulting from non-operating, IFRS-related effects amounted to a net loss of €33 million (2019: net gain of €7 million). For the assets and liabilities recognized at fair value in the 'fair value through profit or loss' 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 2020, as it had in the previous year. This gain was offset by a number of factors, notably negative valuation effects from interest-rate-sensitive derivatives in the banking book.

Gains and losses on investments improved by €18 million to a net gain of €15 million (2019: net loss of €3 million). The net gain in the reporting year resulted from the combination of income of €53 million from the sale of securities in the category ‘fair value through other comprehensive income’ and expenses of €40 million arising from the termination of hedges accounted for in the category ‘fair value through other comprehensive income’ and held in the fair value hedge accounting portfolio. In 2019, a net loss of €4 million had arisen from the sale of securities.

Other gains and losses on valuation of financial instruments rose by 5.1 percent to a net gain of €41 million (2019: net gain of €39 million). The fall of €20 million in the net gain on valuation of financial instruments measured at fair value through profit or loss to €4 million (2019: €24 million) was offset by a rise of €24 million in the net gain from ineffectiveness in hedge accounting to €37 million (2019: €13 million).

Gains and losses from the derecognition of financial assets measured at amortized cost deteriorated by €53 million to a net loss of €3 million (2019: net gain of €50 million). Within this figure, the gains on the derecognition of financial assets measured at amortized cost fell by €32 million to €4 million. The reversal of adjustments to carrying amounts (hedge adjustments) in the context of hedge accounting gave rise to a negative effect of €12 million.

Loss allowances amounted to a net addition of €337 million (2019: net addition of €77 million). Within this figure, the net additions in the lending business and in respect of investments amounted to €342 million. Of this total, net additions of €127 million related to the loss allowances in stages 1 and 2, and net additions of €215 million to those 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 €5 million. The requirement for the addition of €93 million in stages 1 and 2 in connection with the COVID-19 pandemic arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses. Loss allowances in stage 3 also went up due to significant individual additions that were not solely attributable to the pandemic.

In 2019, 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).

Administrative expenses went down by 1.9 percent to €1,272 million (2019: €1,296 million).

The €8 million rise in staff expenses to €603 million (2019: €595 million) was mainly due to higher remuneration expenses in the reporting year. Social security, pension and other post-employment benefit expenses, together with share-based payment transactions, remained at the prior-year level.

Other administrative expenses went down by 4.6 percent to €669 million (2019: €701 million). Most of this decrease (€31 million) resulted from lower management consultancy costs. Taking into account the reversal of provisions, the expenses relating to the restructuring fund for banks (bank levy) and contributions to the BVR protection scheme together came to €55 million and thus remained at the level of the previous year (2019: €56 million). The depreciation and amortization charges included in other administrative expenses rose by €1 million to €83 million. The breakdown of these charges was as follows: depreciation of right-of-use assets €36 million (2019: €36 million), depreciation of property, plant and equipment, and investment property €28 million (2019: €27 million), and amortization of other intangible assets €19 million (2019: €19 million).

In 2020, **other net operating income** amounting to €39 million (2019: net expense of €17 million) included reversals of provisions and accruals amounting to income of €67 million (2019: income of €33 million), transfers of losses amounting to an expense of €15 million (2019: expense of €10 million), and expenses for paydirekt of €11 million (2019: expenses of €12 million).

Profit before taxes amounted to €244 million in the reporting year, which was €49 million lower than the figure of €293 million reported for 2019.

The **cost/income ratio** in 2020 was 68.6 percent (2019: 77.8 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 4.6 percent (2019: 5.8 percent).

3.2.6 DZ HYP

At €714 million, the **net interest income** of DZ HYP was €58 million higher than in the previous year (2019: €656 million). DZ HYP's participation in the ECB's TLTRO III program gave rise to a contribution of €16 million in the reporting period (2019: €0 million), which included the government grant of €8 million. Further detailed disclosures regarding government grants are presented in note 94 of the notes to the consolidated financial statements.

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 €3,187 million to €53,338 million (December 31, 2019: €50,151 million). The volume of new business (including public-sector finance) in 2020 was below the prior-year level at €10,736 million (2019: €12,885 million) owing to the challenging conditions created by the COVID-19 pandemic.

In the corporate customer business, the volume of new business came to €8,039 million (2019: €10,327 million). The volume of new lending jointly generated with the local cooperative banks in this area of business amounted to €3,349 million in 2020 (2019: €4,420 million). In the retail customer business, the volume of new commitments reached €2,066 million (2019: €1,841 million). Of this amount, the new commitment volume referred by local cooperative banks came to €1,961 million (2019: €1,841 million). Demand for long-term fixed interest rates in the retail customer business continued to be supported by the sustained low level of interest rates. In the public-sector business, DZ HYP generated a new business volume of €631 million (2019: €717 million). Of this amount, €521 million (2019: €582 million) was attributable to business brokered through the cooperative banks and €110 million to direct business (2019: €135 million). Some 83 percent of all deals were therefore 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 (2019: net gain of €10 million) because there were no relevant sales during the reporting year. The net gain in 2019 had been significantly influenced by the sale of Spanish government bonds.

Other gains and losses on valuation of financial instruments declined by €157 million to a net gain of €118 million (2019: net gain of €275 million). A narrowing of credit spreads was evident in both 2020 and 2019, although this had resulted in a significantly more positive valuation effect in 2019. For example, the gains and losses on valuation of bonds from the peripheral countries of the eurozone amounted to a net gain of €105 million in 2020 (2019: €246 million). Of this amount, €89 million (2019: €126 million) was attributable to Italian government bonds, €14 million (2019: €79 million) to Spanish government bonds, and €2 million (2019: €42 million) to Portuguese government bonds.

Loss allowances amounted to a net addition of €47 million (2019: net reversal of €1 million). The greater loss allowance requirement was largely attributable to additions of €37 million in connection with the COVID-19 pandemic. This arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses. A further factor was the inclusion of another qualitative stage criterion for selected asset classes.

Administrative expenses went down by €22 million to €237 million (2019: €259 million). This was mainly attributable to the inclusion of merger-related strategic measures.

Other net operating income increased by €14 million to €18 million (2019: €4 million). The figure for the previous year had been adversely affected to a significant degree by the recognition of a restructuring provision of €17 million in connection with streamlining the organizational structure.

Profit before taxes in 2020 amounted to €582 million, which was down by €105 million compared with the equivalent prior-year figure of €687 million, predominantly as a consequence of the factors described above.

The **cost/income ratio** in 2020 was 27.4 percent (2019: 27.4 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 36.7 percent (2019: 44.5 percent).

3.2.7 DZ PRIVATBANK

Net interest income at DZ PRIVATBANK increased by €4 million to €69 million (2019: €65 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 US dollar money market rates.

In 2020, 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 (2019: €4.6 billion).

Net fee and commission income went up by €12 million to €188 million (2019: €176 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 December 31, 2020, the volume of assets under management relating to high-net-worth clients amounted to €20.0 billion (December 31, 2019: €18.8 billion). The assets under management comprise the volume of securities, derivatives, and deposits of customers in the private banking business.

As at December 31, 2020, the value of funds under management amounted to €139.5 billion (December 31, 2019: €120.1 billion). The number of fund-related mandates was 515 (December 31, 2019: 540).

Gains and losses on trading activities rose by €8 million to a net gain of €17 million (2019: net gain of €9 million) as a result of a higher volume of transactions instigated by customers.

Administrative expenses went up by €15 million to €235 million (2019: €220 million). Staff expenses rose by €12 million to €144 million (2019: €132 million), predominantly because of the recognition of severance provisions, the first-time recognition of acquired pension rights, a rise in the average number of employees, the statutory indexing of salaries, pay rises, and a higher addition to the provision for bonuses. Other administrative expenses are subject to stringent process and cost management but increased year on year to €91 million (2019: €88 million) due, in particular, to the higher bank levy.

Profit before taxes went up by €2 million to €38 million overall (2019: €36 million), because of the changes described above.

The **cost/income ratio** in 2020 was 85.8 percent (2019: 85.9 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 10.8 percent (2019: 11.2 percent).

3.2.8 VR Smart Finanz

Net interest income at VR Smart Finanz declined by €9 million to €138 million in 2020 (2019: €147 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 16.5 percent (2019: 33.0 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 reached 98.3 percent in the reporting period (2019: 90.0 percent). In response to the COVID-19 pandemic, a needs-based support package was introduced for small-business and self-employed customers across the entire range of solutions. In connection with these measures, the 'VR Smart flexibel' financing solution was temporarily withdrawn until the end of November and the 'VR Smart flexibel support loan' solution, which was eligible for support from the KfW development bank, was introduced at short notice.

Net fee and commission income saw a negative change of €14 million to a net expense of €24 million (2019: net expense of €10 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 €19 million to a net addition of €49 million in the reporting year (2019: €30 million). This change was primarily attributable to the adjustment of the scorecards, the adjustment of risk parameters used to calculate expected credit risk, and the addition in connection with the COVID-19 pandemic. The requirement for the addition of €27 million in connection with the COVID-19 pandemic arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses.

Administrative expenses went down by €25 million to €102 million (2019: €127 million), largely because of the absence of the non-core areas of business that had been scaled back or sold. Staff expenses declined by €13 million to €55 million (2019: €68 million), mainly due to the lower headcount. Other administrative expenses fell by €12 million to €47 million (2019: €59 million).

Other net operating income amounted to a net expense of €8 million (2019: net income of €9 million). In 2019, 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 incurred a **loss before taxes** of €45 million in the year under review (2019: loss before taxes of €10 million), largely as a consequence of the factors described above.

The **cost/income ratio** in 2020 was 96.2 percent (2019: 86.4 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was minus 17.5 percent (2019: minus 3.4 percent).

3.2.9 DVB

The DVB subgroup's **net interest income** declined by €116 million in 2020 to €30 million (2019: €146 million). The decrease was essentially due to the absence of interest income following the sale of the aviation finance and land transport finance core businesses in 2019.

The volume of customer loans in the DVB subgroup stood at €3.9 billion as at December 31, 2020 (December 31, 2019: €7.4 billion).

At €25 million, **net fee and commission income** was down by €23 million year on year (2019: €48 million).

The decline was essentially due to the absence of income following the sale of the aviation finance and land transport finance businesses. Moreover, activity in the shipping finance and offshore finance businesses was now limited to the occasional extension of existing transactions.

Gains and losses on trading activities amounted to a net gain of €26 million (2019: net gain of €6 million), which was primarily achieved thanks to the movement of the euro/US dollar exchange rate.

Other gains and losses on valuation of financial instruments came to a net loss of €81 million (2019: net loss of €36 million). The main reason for the difference compared with the previous year was a negative valuation impact in respect of derivatives that were not included in hedge accounting. Some of this impact was offset by positive valuation effects compared with the previous year from the application of the fair value option.

The addition to **loss allowances** rose by €12 million to €153 million (2019: €141 million). This year-on-year change was primarily attributable to higher loss allowances in connection with the COVID-19 pandemic and the further adjustment of risk parameters used to calculate expected credit risk. This adjustment arose from additional defaults and deterioration of collateral values in the shipping and offshore businesses (in the case of the latter caused by low oil prices). The requirement for the addition of €22 million in connection with the COVID-19 pandemic arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses. Overall, there was a greater net addition to loss allowances in stage 1 and stage 2 amounting to €50 million (2019: net reversal of €5 million) and a net addition in stage 3 in the shipping finance and offshore finance businesses in an amount of €103 million (2019: net addition of €146 million).

Administrative expenses amounted to €154 million (2019: €202 million), a year-on-year decrease of €48 million. Staff expenses declined by €28 million to €68 million owing to the reduction in headcount (2019: €96 million). Other administrative expenses went down to €86 million (2019: €106 million), primarily because of a fall in travel expenses, legal expenses, temporary staff costs, and a year-on-year decrease in the bank levy.

Other net operating income amounted to €23 million (2019: €72 million). Significant factors affecting this item in the reporting year were the gain of €71 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 €44 million resulting from the recognition of impairment losses on assets held for sale. The net income in 2019 had included the effects in connection with the disposal of the aviation finance and land transport finance core businesses, amounting to €206 million and €12 million respectively, and of the long-term equity investment in LogPay Financial Services GmbH amounting to €28 million. In 2019, this item had also included investment management impairment losses of €100 million and restructuring expenses of €46 million.

In 2020, DVB incurred a **loss before taxes** of €285 million (2019: loss before taxes of €108 million), largely as a consequence of the factors described above.

The **cost/income ratio** in 2020 was greater than 100.0 percent (2019: 86.0 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was greater than 100.0 percent (2019: minus 42.1 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 €50 million in the reporting year (2019: net expense of €55 million), which equated to a year-on-year improvement of 9.1 percent.

The average level of subordinated capital in 2020 was lower than in the previous year and the interest expense on this capital went down by 9.8 percent to €55 million (2019: €61 million).

Net interest income from the funding of long-term equity investment carrying amounts and the investment of capital amounted to €5 million in 2020 (2019: €6 million).

Administrative expenses declined by 7.4 percent year on year to €188 million (2019: €203 million).

Expenses from the group management function went down by €8 million to €62 million (2019: €70 million), which was predominantly attributable to lower management consultancy costs. Taking into account the reversal of provisions, the expenses relating to the bank levy and contributions (in particular to the BVR protection scheme) together came to €39 million and thus remained at the level of the previous year (2019: €39 million). In addition, IT and project expenses fell from €58 million in 2019 to €55 million in the reporting year, while other expenses for the benefit of the group and local cooperative banks decreased by €4 million to €31 million (2019: €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, 2020, the DZ BANK Group's **total assets** had increased by €35.1 billion, or 6.3 percent, to €594.6 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 €25.8 billion), BSH (up by €4.2 billion), R+V (up by €8.1 billion), and DZ HYP (up by €2.1 billion), whereas DVB recorded a decrease of €4.0 billion.

The **volume of business** amounted to €1,059,874 million (December 31, 2019: €994,235 million). This figure comprised the total assets, the assets under management at UMH as at December 31, 2020 amounting to €385,935 million (December 31, 2019: €368,208 million), the financial guarantee contracts and loan commitments amounting to €77,272 million (December 31, 2019: €65,794 million), and the volume of trust activities amounting to €2,094 million (December 31, 2019: €761 million). The growth of trust activities was attributable to KfW support 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 €15.9 billion, or 30.1 percent, to €68.4 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 €103.0 billion, an increase of €5.5 billion or 5.6 percent. Loans and advances to banks in Germany went up by €5.2 billion to €94.3 billion and loans and advances to foreign banks by €0.3 billion to €8.7 billion.

The DZ BANK Group's **loans and advances to customers** amounted to €190.3 billion, which was €4.1 billion, or 2.2 percent, higher than at the end of 2019. Within this figure, loans and advances to customers in Germany rose by €6.5 billion to €164.1 billion, whereas loans and advances to customers outside Germany went down by €2.4 billion to €26.2 billion.

As at December 31, 2020, **financial assets held for trading** amounted to €42.8 billion, a decrease of €2.0 billion, or 4.3 percent, on the figure as at December 31, 2019. This change was largely attributable to a decline in bonds and other fixed-income securities (down by €2.1 billion) and in receivables (down by €3.0 billion) combined with a rise in derivatives (positive fair values) (up by €3.0 billion).

Investments were up by €3.3 billion, or 5.8 percent, to €60.2 billion. The main reason for this change was the €3.2 billion increase in the portfolio of bonds and other fixed-income securities.

Investments held by insurance companies rose by €8.2 billion (7.1 percent) to €121.7 billion (December 31, 2019: €113.5 billion). This was due, above all, to a €5.7 billion increase in fixed-income securities to €61.5 billion, a €1.2 billion increase in mortgage loans to €10.9 billion, a €0.4 billion increase in unit-linked contracts to €14.8 billion, and a €0.3 billion increase in variable-yield securities to €11.6 billion.

The DZ BANK Group's **deposits from banks** as at December 31, 2020 amounted to €177.8 billion, which was €36.7 billion, or 26.0 percent, higher than the figure reported as at December 31, 2019. Deposits from domestic banks were up by €41.6 billion to €169.5 billion, while deposits from foreign banks decreased by €4.9 billion to €8.3 billion. The growth reflects the expansion of support loan business since the outbreak of the COVID-19 pandemic. In 2020, the DZ BANK Group also participated in the ECB's TLTRO III programs with a total drawdown amount of €17.8 billion, leading to a corresponding increase in deposits from banks.

Deposits from customers grew by €2.4 billion, or 1.8 percent, to €133.9 billion (December 31, 2019: €131.5 billion). Deposits from domestic customers increased by €3.2 billion to €116.2 billion (December 31, 2019: €113.0 billion). Deposits from foreign customers fell by €0.8 billion to €17.7 billion (December 31, 2019: €18.5 billion).

At the end of the reporting year, the carrying amount of **debt certificates issued including bonds** in the DZ BANK Group was €70.5 billion (December 31, 2019: €85.1 billion). The fall of €14.6 billion was largely due to a decrease of €25.9 billion in the portfolio of other debt certificates issued to €7.7 billion although, at the same time, the portfolio of bonds issued expanded by €11.3 billion to €62.8 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 down by €0.7 billion, or 1.3 percent, to €50.4 billion (December 31, 2019: €51.1 billion). This change was largely attributable to a decline in short positions (down by €0.5 billion) and in money market deposits (down by €2.0 billion). The figure under derivatives (negative fair values) increased by €1.9 billion.

Insurance liabilities went up by €6.9 billion, or 6.6 percent, to €111.2 billion (December 31, 2019: €104.3 billion). This was largely attributable to rises of €5.0 billion in the benefit reserve, €1.2 billion in the provision for claims outstanding, and €0.5 billion in the provision for premium refunds.

As at December 31, 2020, the **equity** reported by the DZ BANK Group was €29.2 billion (December 31, 2019: €27.8 billion). The increase of €1.4 billion compared with the end of 2019 was largely due to rises of €0.5 billion in retained earnings and €0.5 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 the risk report within this group management report (chapter VII.5.3).

5 Financial position

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

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

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

For funding purposes, the DZ BANK Group also issues money market products based on debt certificates under a standardized groupwide multi-issuer euro commercial paper program through its offices and branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. In addition, a new US CP head office program was set up centrally for Frankfurt in 2020.

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

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

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

In June and September 2020, the DZ BANK Group participated in the ECB's TLTRO III programs with a total drawdown amount of €17.8 billion. Of this sum, €14.8 billion was attributable to the joint bidder group of DZ BANK and TeamBank and €3.0 billion to DZ HYP.

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

Monthly **structural analyses** of the various resources available on the liabilities side of DZ BANK's balance sheet are also conducted. The purpose of these analyses is to provide senior management with information that can then be used as the basis for actively managing the liability profile. In addition to this description of the funding structure, the risk report within this group management report includes disclosures on **liquidity risk** (chapter VII.4.2). 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.