II Business report

1 Economic conditions

Like the previous year, 2021 was largely dominated by the COVID-19 pandemic. In the reporting year, however, the German economy was not brought to a virtual standstill by a prolonged hard lockdown, as it had been in 2020, but was nevertheless hit by repeated periods of economic slowdown caused by the various waves of infection. To add to the difficulties, industrial activity was also hampered by disruption to international supply chains. Germany's total economic output rose by 2.8 percent in 2021, following a contraction of 4.6 percent in 2020.

In the first quarter of 2021, the adverse effects from the ongoing restrictions were felt primarily by the retail sector. The measures introduced to combat the pandemic proved to be particularly painful for brick-and-mortar stores, whose revenues fell away, whereas online and mail-order businesses flourished. Overall, seasonally adjusted economic output contracted by 1.7 percent in the first quarter of 2021. In the spring, the improvement in the pandemic situation and the removal of many of the restrictions then led to a broadly based economic recovery, which was reflected in a 2.2 percent gain in gross domestic product (GDP) in the second quarter.

Economic activity in Germany continued to bounce back in the third quarter of 2021, with GDP up by 1.7 percent in real terms compared with the previous quarter. Most of the momentum in the rebound came from growth in the service sector. The easing of the COVID-19 safeguards released pent-up demand in some areas of activity, although this quickly subsided again in the summer months as a new wave of infection took hold. Industrial production continued to fall, critically because the middle of the year saw a further deterioration in the shortages of intermediate products and commodities. In the fourth quarter of 2021, economic output in Germany then went down by 0.7 percent. Restrictions on brick-and-mortar retailers and on other service activities remained at the end of the year, forcing down consumer demand.

The eurozone economy also picked up during 2021. Following a 6.4 percent year-on-year drop in GDP in 2020, the eurozone's economic output grew by 5.2 percent in 2021, although GDP decreased by 0.2 percent in the first quarter of the year. In the second quarter of 2021, it rose by 2.2 percent compared with the previous quarter. This gave way to growth of 2.3 percent in the third quarter, followed by further expansion of 0.3 percent in the final quarter of 2021.

The US benefited from an overall upward trend in economic growth during 2021, driven primarily by expansionary fiscal policy. GDP rose by 5.7 percent in 2021 compared with the previous year, following a contraction of 3.4 percent in 2020. Consumer spending was boosted particularly by extensive government support payments. The unemployment rate declined over the year, quickly returning close to its pre-pandemic level.

The rate of economic expansion in China slowed during 2021. Nevertheless, economic output still advanced by 8.1 percent, compared with a rise of 2.2 percent in 2020. In the reporting year, the Chinese economy continued to benefit from the sustained high level of international demand for its products but was also hit by temporary COVID-19-related restrictions and a weaker housing market.

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

The capital markets continued to stage a recovery in 2021. By contrast, the main focus in the previous year had been on dealing with the economic impact of the action taken to contain the spread of the COVID-19 pandemic and on addressing the resulting recession.

The STOXX Europe 600, a share index comprising 600 large listed European companies, stood at 487.80 points as at December 31, 2021, which was 88.77 points higher than its level at the end of the prior year (December 31, 2020: 399.03 points). In 2020, the index had declined by 16.81 points.

Some EU countries still exceeded the ratios for new and overall indebtedness required for compliance with the stability criteria specified in the Fiscal Compact agreed by the EU member states at the beginning of 2012. In the Fiscal Compact, the signatory countries committed to reducing their debt (as a proportion of GDP) each year by one twentieth of the difference between the debt level and the Maastricht limit of 60 percent of GDP. However, the rules have been suspended until the end of 2022 because of the COVID-19 pandemic.

At the end of the third quarter of 2021, the total borrowing of the 19 eurozone countries equated to 97.7 percent of their GDP, an increase of 1.1 percentage points compared with the figure of 96.6 percent as at September 30, 2020.

Greece's public debt as a percentage of GDP was 200.7 percent in the third quarter of 2021 (third quarter of 2020: 200.0 percent). In April 2021, the rating agency S&P upgraded Greece's rating by one notch to BB and changed its outlook to positive. This took into account the structural reforms implemented by the government in Athens and the benefit derived by Greece from money it is receiving from the EU recovery fund. In addition, the ECB's pandemic emergency purchase program (PEPP) is ensuring that favorable funding terms are available.

Italy's public debt as a percentage of GDP stood at 155.3 percent in the third quarter of 2021 (third quarter of 2020: 154.2 percent), which is the highest in the eurozone after that of Greece. Italy too has benefited from the favorable financing conditions maintained by the ECB's PEPP bond-buying program. In December 2021, the Fitch rating agency upgraded Italy's rating from the previous level of BBB- to BBB. Before the start of the COVID-19 pandemic, Fitch had downgraded Italy to BBB- from BBB.

Portugal's public debt as a percentage of GDP was 130.5 percent in the third quarter of 2021, compared with 131.6 percent in the third quarter of 2020.

In Spain, public debt as a percentage of GDP was 121.8 percent in the third quarter of 2021 (third quarter of 2020: 114.1 percent).

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

The ECB's policy of zero and negative interest rates prevailing in 2020 was maintained in the reporting year. At its meeting on December 16, 2021, the ECB decided to leave the rate for the deposit facility at minus 0.50 percent. The main refinancing rate remained the same at 0.00 percent, while the rate for the marginal lending facility was also unchanged at 0.25 percent. The ECB also decided that net asset purchases under the PEPP, in a total amount of €1,850.0 billion, would be discontinued in March 2022. The reinvestment period for the PEPP was extended. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2024. On the other hand, net purchases under the asset purchase program (APP) are being temporarily increased to a monthly volume of €40.0 billion. The ECB Governing Council still expects monthly net asset purchases under the APP to be made for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

On December 15, 2021, the US Federal Reserve (Fed) announced that the federal funds rate would remain unchanged in the range of 0.00 to 0.25 percent. It also let it be known that it would be trimming back its US$ 120.0 billion monthly bond-buying program by US$ 30 billion a month from January 2022. The Fed will therefore wind up its asset purchases in March 2022.

The financial performance of Germany's two largest banks was generally positive in 2021. One of them reported a fourfold upturn in net profit compared with the previous year, whereas the other turned a loss in the billions of euros in 2020 into a net profit for 2021. The loss allowances for loans and advances recognized by these major banks fell sharply compared with the previous year. In the case of both banks, there was a slight rise in administrative expenses in 2021.

3 Financial performance

3.1 Financial performance at a glance

Despite the persistently challenging market conditions resulting from the effects of the COVID-19 pandemic and the extremely low level of interest rates, the DZ BANK Group was able to report a sharp rise in profit before taxes in 2021 to €3,096 million (2020: €1,445 million).

The year-on-year changes in the key figures that made up the net profit generated by the DZ BANK Group in 2021 were as described below.

FIG. 2 – INCOME STATEMENT

€ million	**2021**	2020
Net interest income	**2,785**	2,686
Net fee and commission income	**2,935**	2,121
Gains and losses on trading activities	**152**	693
Gains and losses on investments	**245**	166
Other gains and losses on valuation of financial instruments	**242**	-62
Gains and losses from the derecognition of financial assets measured at amortized cost	**-**	-2
Net income from insurance business	**842**	347
Loss allowances	**120**	-678
Administrative expenses	**-4,265**	-4,036
Staff expenses	**-2,021**	-1,910
Other administrative expenses[1]	**-2,244**	-2,126
Other net operating income	**41**	210
Profit before taxes	**3,096**	1,445
Income taxes	**-920**	-472
Net profit	**2,176**	973

1 General and administrative expenses plus depreciation/amortization expense.

Operating income in the DZ BANK Group amounted to €7,242 million (2020: €6,159 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 in the DZ BANK Group rose by €99 million year on year to €2,785 million (2020: €2,686 million). Within this figure, interest income from lending and money market business declined by €544 million to €4,523 million (2020: €5,067 million) and interest income from bonds and other fixed-income securities went down by €178 million to €341 million (2020: €519 million). On the other hand, there was a positive change in interest income from portfolio hedges of interest-rate risk, which improved by €33 million to a net expense of €381 million (2020: net expense of €414 million). Current income and expense from using the equity method fell by €30 million to income of €19 million (2020: income of €49 million), largely because of the lower equity-accounted measurement of Deutsche Wertpapierservice Bank AG, Frankfurt am Main, compared with the previous year. Interest expense on deposits from banks and customers declined by €317 million to €1,934 million (2020: €2,251 million) and interest expense from debt certificates issued including bonds decreased by €244 million to €209 million (2020: €453 million).

Net fee and commission income in the DZ BANK Group grew by €814 million to €2,935 million (2020: €2,121 million). Net fee and commission income from securities business saw an uptick of €761 million to €2,612 million (2020: €1,851 million). This year-on-year change was mainly attributable to an increase of €350 million in the volume-related net income contribution to €1,751 million (2020: €1,401 million) because of the higher average level of assets under management and a rise in performance-related management fees of €349 million to €381 million (2020: €32 million) in the Union Investment Group. In addition, net fee and commission income from asset management improved by €21 million to €114 million (2020: €93 million), lending and trust activities by €14 million to €54 million (2020: €40 million), and building society operations by €10 million to an expense of €23 million (2020: expense of €33 million).

The DZ BANK Group's **gains and losses on trading activities** in 2021 came to a net gain of €152 million compared with a net gain of €693 million for 2020. This change in gains and losses on trading activities was attributable to various factors, notably the fair value gains and losses on own issues. Gains and losses on non-derivative financial instruments and embedded derivatives went down by €414 million to a net loss of €298 million (2020: net gain of €116 million) and gains and losses on derivatives fell by €282 million to a net gain of €310 million (2020: net gain of €592 million). Gains and losses on exchange differences improved by €156 million to a net gain of €141 million (2020: net loss of €15 million).

Gains and losses on investments rose by €79 million to a net gain of €245 million (2020: net gain of €166 million). The main components of the gains and losses on investments in associates were the gains of €128 million recognized from the disposal of direct equity investments held by VR Equitypartner and impairment losses of €20 million, likewise in connection with VR Equitypartner. In addition, gains and losses on the disposal of bonds and other fixed-income securities increased by €68 million to a net gain of €139 million (2020: net gain of €71 million) for a number of reasons, including the sale of Spanish government bonds.

Other gains and losses on valuation of financial instruments in the DZ BANK Group amounted to a net gain of €242 million in 2021 (2020: net loss of €62 million). This year-on-year change was predominantly attributable to improvements in gains and losses on derivatives used for purposes other than trading of €231 million to a net gain of €58 million (2020: net loss of €173 million), in gains and losses on financial instruments designated as at fair value through profit or loss of €41 million to a net gain of €111 million (2020: net gain of €70 million), and in gains and losses on financial assets mandatorily measured at fair value through profit or loss of €52 million to a net gain of €52 million (2020: net gain of €0 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 2021, this figure increased by €495 million to €842 million (2020: €347 million). The year-on-year rise in net income in this case was due to the increase in premiums earned of €253 million to €18,994 million (2020: €18,741 million) and the improvement of €3,204 million in gains and losses on investments held by insurance companies and other insurance company gains and losses to a net gain of €5,251 million (2020: net gain of €2,047 million). Some of these increases were offset by a rise in insurance benefit payments of €2,857 million to €20,356 million (2020: €17,499 million). The non-life insurance business saw an accumulation of natural disaster claims owing to storms (notably Storm Bernd), resulting in claims incurred of €418 million as at the reporting date. In the inward reinsurance business, major claims of €75 million arose in 2021 in connection with the Texas Freeze winter storm in the United States. An amount of €100 million (net, after claims covered by reinsurers) was recognized for Storm Bernd, and €63 million for the storms in June 2021. Hurricane Ida was the source of net claims amounting to €38 million and the tornado outbreak in December 2021 net claims of €30 million. In addition, insurance business operating expenses incurred in the course of ordinary business activities went up by €125 million to €3,047 million (2020: €2,922 million).

Loss allowances amounted to a net reversal of €120 million (2020: net addition of €678 million). Loss allowances for loans and advances to customers came to a net reversal of €71 million (2020: net addition of €610 million), which was mainly accounted for by income from the reversal of loss allowances for individual exposures in the reporting year. In 2020, a significant addition to loss allowances had been required because of the COVID-19 pandemic.

Further disclosures on the nature and extent of risks arising from financial instruments and insurance contracts can be found in note 88 in the notes to the consolidated financial statements.

Administrative expenses in the DZ BANK Group went up by €229 million to €4,265 million (2020: €4,036 million). Within this figure, staff expenses rose to €2,021 million compared with €1,910 million in 2020. Wages and salaries increased by €102 million to €1,692 million (2020: €1,590 million), with social security expenses rising by €16 million to €217 million (2020: €201 million). Other administrative expenses rose to €2,244 million (2020: €2,126 million), mainly because of a higher level of contributions and fees.

The DZ BANK Group's **other net operating income** amounted to €41 million (2020: €210 million). A number of factors contributed to this year-on-year decline, including lower income from the reversal of provisions and accruals, which fell by €30 million to €86 million (2020: €116 million), and higher restructuring expenses, which increased by €51 million to €78 million (2020: €27 million).

Profit before taxes for 2021 amounted to €3,096 million, compared with €1,445 million in 2020.

The DZ BANK Group's **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for 2021 was 58.9 percent (2020: 65.5 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 15.7 percent (2020: 7.1 percent).

The DZ BANK Group's **income taxes** amounted to €920 million in the reporting year (2020: €472 million).

The DZ BANK Group generated a **net profit** of €2,176 million in 2021 compared with a net profit of €973 million in 2020.

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 2021 (chapter V of the 2020 group management report).

In 2021, the DZ BANK Group generated profit before taxes that was significantly higher than the budgeted figure. However, net interest income was slightly lower than budgeted. By contrast, net fee and commission income rose substantially in the reporting year, mainly as a consequence of the growth in assets under management and the performance-related income components. As forecast, gains and losses on trading activities deteriorated sharply, predominantly reflecting IFRS-related valuation effects in connection with own issues. The outlook in 2020 predicted a deterioration in gains and losses on investments, but this figure improved significantly in 2021 because of gains recognized on the disposal of direct equity investments held by VR Equitypartner. Net income from insurance business rose substantially in the reporting year, exceeding the budgeted figure. In view of the potential negative fallout from the COVID-19 pandemic, the budget provided for a moderate increase in the loss allowance requirement, but developments in 2021 meant that there was an overall reversal of loss allowances previously recognized. Administrative expenses saw a marginal increase, which was in line with the previous year's forecast.

3.2 Financial performance in detail

The following sections describe the details of the financial performance of the DZ BANK Group's operating segments in 2021 compared with 2020.

3.2.1 BSH

Net interest income in the BSH subgroup advanced by €50 million to €581 million (2020: €531 million); however, adjusted for the special addition to provisions relating to building society operations in the previous year (described below) in an amount of €115 million, net interest income declined by €65 million.

The main reason for the decrease in adjusted net interest income was the persistently low level of interest rates. At the end of the reporting year, the ten-year swap rate was 0.30 percent (December 31, 2020: minus 0.27 percent).

Net interest income arising on investments declined by €97 million to €350 million (2020: €447 million) because capital market rates for investments remained low.

On the other hand, the interest expense on home savings deposits fell by €159 million to €731 million (2020: €890 million), largely because the current tariffs have lower interest rates and the prior-year figure included an extra charge of €115 million in connection with a special addition to the provisions relating to building society operations. The volume of home savings deposits from retail customers in the BSH subgroup grew by €1.5 billion to €66.2 billion as at December 31, 2021 (December 31, 2020: €64.7 billion).

In the case of loans issued under advance or interim financing arrangements and other building loans, income amounted to €1,083 million (2020: €1,062 million) on the back of the expansion in business over the last few years and despite a fall in average returns. In this context, the amount of €999 million disclosed in the prior-year group management report included the expense of €70 million from the amortization of transaction costs to profit or loss. Income from home savings loans amounted to €70 million (2020: €72 million).

BSH incorporates the fees, commissions, and transaction costs directly assignable to the acquisition of home savings contracts and loan agreements into the effective interest method applied to home savings deposits and building loans. The deferred charges arising each year from fees, commissions, and transaction costs are amortized to profit or loss under interest cost over the maturity of the home savings deposits and building loans. In 2021, the amortization amount included in interest cost was €200 million (2020: €165 million).

Net fee and commission income amounted to €12 million in the reporting period (2020: net expense of €9 million).

In the home savings business in 2021, BSH entered into approximately 441 thousand (2020: 456 thousand) new home savings contracts with a volume of €24.0 billion (2020: €24.2 billion) in Germany.

In the home finance business, the realized volume of new business advanced to €18.3 billion (2020: €17.0 billion) in Germany. This figure includes finance of €9.0 billion referred to institutions in the cooperative financial network (2020: €7.9 billion). In addition, home savings loans and bridging loans from BSH and other referrals amounted to €1.9 billion (2020: €2.1 billion).

Gains and losses on investments amounted to a net gain of €22 million (2020: €56 million). This figure stemmed mainly from the sale of securities in an amount of €27 million (2020: €56 million).

Gains and losses from the derecognition of financial assets measured at amortized cost amounted to a net gain of €2 million (2020: net gain of €15 million) and largely resulted from the sale of interest-bearing securities.

Loss allowances amounted to a net addition of €14 million in total (2020: net addition of €29 million). The main factor that affected loss allowances in 2021 was the recalibration of the rating systems, whereas the COVID-19 pandemic had dominated the previous year, requiring a net addition of €21 million.

Administrative expenses went down by €11 million to €515 million (2020: €526 million). At €232 million, staff expenses were €24 million lower than in the previous year (2020: €256 million), primarily because a provision of €29 million had been recognized in 2020 for a program aimed at the structural optimization and management of costs. Other administrative expenses including depreciation and amortization rose by €13 million to €283 million (2020: €270 million), mainly due to higher depreciation and amortization expenses in connection with strategic initiatives and investment in information technology and to increased contributions for the bank levy and deposit guarantee fund.

Other net operating income amounted to €42 million (2020: €38 million).

Profit before taxes went up by €49 million to €130 million (2020: €81 million), because of the changes described above.

The **cost/income ratio** in 2021 was 78.1 percent (2020: 82.7 percent).

Regulatory RORAC was 10.0 percent (2020: 6.6 percent).

3.2.2 R+V

Premiums earned went up by €253 million to €18,994 million (2020: €18,741 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 €89 million to €9,400 million (2020: €9,311 million).

Premiums earned from the life insurance business declined by €10 million to €8,635 million. The new guarantees and occupational pension businesses performed well, but activities contracted in traditional product business, unit-linked life insurance, and credit insurance. In the health insurance business, net premiums earned rose by €100 million to €766 million, with notably strong growth in private supplementary health insurance and full health insurance product groups, but a fall in premiums for international health insurance.

In the non-life insurance business, premium income earned grew by €217 million to €6,564 million, with most of this growth being generated from retail customer business, motor vehicle insurance, and corporate customer business.

Premiums earned from the inward reinsurance business fell by €54 million to €3,029 million. Europe remained the largest market for inward reinsurance. Growth was generated from the motor vehicle, fire, and property classes of insurance, and from other products. However, the positive effects were outweighed by a contraction in the loan/deposit product group.

Gains and losses on investments held by insurance companies and other insurance company gains and losses went up by €3,189 million to a net gain of €5,280 million (2020: net gain of €2,091 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 €2,985 million in 2021 (2020: €2,137 million).

The level of long-term interest rates was higher than in 2020. The movement of spreads on interest-bearing securities had a positive impact on this item. Spreads had widened in 2020 but held steady in the reporting year, although some widening was evident again at the end of 2021. A weighted spread calculated in accordance with R+V's portfolio structure stood at 66.7 points as at December 31, 2021 (December 31, 2020: 50.3 points; December 31, 2019: 53.5 points).

During 2021, equity markets relevant to R+V performed better than in 2020. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, saw a rise of 745 points from the start of 2021, closing the year on 4,298 points. This index had fallen by 192 points in 2020. In the reporting year, movements in exchange rates between the euro and various currencies were generally more favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2021 was 0.879 compared with 0.817 as at December 31, 2020. For comparison with the previous twelve months, the corresponding rate as at December 31, 2019 had been 0.891.

Overall, these trends in 2021 essentially resulted in a €2,109 million positive change in unrealized gains and losses to a net gain of €2,616 million (2020: net gain of €507 million), a €29 million increase in the contribution to earnings from the derecognition of investments to a gain of €70 million (2020: gain of €41 million), an improvement of €1,503 million in the foreign exchange gains and losses to a net gain of €761 million (2020: net loss of €742 million), and an €89 million improvement in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €76 million (2020: net expense of €165 million). In addition, net income under current income and expense fell by €36 million to €2,096 million (2020: €2,132 million). Other insurance gains and losses and non-insurance gains and losses deteriorated by €505 million to a net loss of €187 million (2020: net gain of €318 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 €20,356 million, which equated to a rise of €2,857 million compared with the corresponding figure of €17,499 million in the prior 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. For example, a large part of the net gain of €2,846 million under gains and losses on investments held by insurance companies from unit-linked life insurance was also reflected in insurance benefit payments. An amount of €730 million (2020: €739 million) was added to the supplementary change-in-discount-rate reserve.

In the non-life insurance business, the claims rate trend was lower than expected. The overall claims rate was above the level of the prior year; likewise the rates for major claims, basic claims, and natural disaster claims. An accumulation of natural disaster claims occurred in 2021 owing to storms in the early summer (notably Storm Bernd), resulting in claims incurred of €418 million as at the reporting date. There was again a mitigating impact from motor vehicle insurance as a result of the COVID-19 pandemic.

In the inward reinsurance business, the net claims ratio was down by 9.7 percentage points compared with the prior year at 73.5 percent (2020: 83.2 percent). The ratios for major and basic claims were below those in 2020, but the ratio for medium claims went up. As a result, the overall claims rate was below the level of the prior year. In 2020, the COVID-19 pandemic had given rise to a provision of €323 million, with a corresponding impact on earnings. As at the reporting date, claims of €138 million had been received from ceding insurers, an increase of €42 million compared with the figure of €96 million at the end of 2020. The Texas Freeze winter storm in the US gave rise to major claims of €75 million. An amount of €100 million (net, after claims covered by reinsurers) was recognized for Storm Bernd, and €63 million for the storms in June 2021. Hurricane Ida was the source of net claims amounting to €38 million and the tornado outbreak in December 2021 net claims of €30 million.

Insurance business operating expenses incurred in the course of ordinary business activities went up by €137 million to €3,183 million (2020: €3,046 million). The largest portion of the change was attributable to the non-life division, which saw an increase of €59 million or 4.0 percent. Expenses also rose in the inward reinsurance business, by €41 million or 5.4 percent. In addition, the life/health division accounted for an increase of €36 million, which equated to a 4.4 percent rise.

As a result of the factors described above, **profit before taxes** improved by €495 million to €772 million (2020: €277 million).

Regulatory RORAC was 7.7 percent (2020: 2.6 percent).

3.2.3 TeamBank

Net interest income amounted to €492 million, which was unchanged year on year (2020: €492 million). The average volume of consumer finance over the reporting year came to €8,892 million (2020: €8,845 million).

As at December 31, 2021, the volume of consumer finance stood at €8,967 million (December 31, 2020: €8,818 million, December 31, 2019: €8,873 million). The change in the volume of consumer finance should be viewed in the context of the consequences of the ongoing COVID-19 pandemic.

As at December 31, 2021, TeamBank was working with 701 (December 31, 2020: 734) of Germany's 772 (December 31, 2020: 814) cooperative banks and with 148 (December 31, 2020: 145) partner banks in Austria. In addition, more than 65 thousand (2020: 65 thousand) members of cooperative banks benefited from favorable terms and conditions in 2021.

Despite the ongoing fallout from the pandemic, the business model of a consumer finance provider constructed on the basis of the easyCredit-Liquiditätsberater advisory concept, which includes a financial compass created individually for each customer and provides both the customer and the advisor with transparency about the credit decision reached, enabled TeamBank to maintain the level of loans and advances to customers, which amounted to €9,208 million as at the end of 2021 (December 31, 2020: €9,031 million). The number of customers rose to 984 thousand (December 31, 2020: 962 thousand). TeamBank had made credit facilities from easyCredit-Finanzreserve totaling €2,555 million available to its customers as at December 31, 2021 (December 31, 2020: €1,912 million). In 2021, 18.6 percent (2020: 19.0 percent) of new business was generated through easyCredit-Finanzreserve.

Net fee and commission income amounted to a net expense of €1 million and was therefore €29 million better than the corresponding net expense of €30 million in 2020. Within this figure, income from participation in the DZ BANK Group's bidder group in the ECB's TLTRO III tender procedures amounted to €11 million (2020: €0 million). Income from credit insurance business was lifted by €2 million on the back of a higher level of new business compared with the previous year.

The net addition to **loss allowances** amounted to €57 million, which was down by €2 million compared with the prior-year figure of €59 million.

Administrative expenses went up by €33 million to €289 million (2020: €256 million). Staff expenses rose by €10 million to €110 million (2020: €100 million), primarily because of early retirement schemes and the increase in average headcount. Other administrative expenses went up by €23 million to €179 million

(2020: €156 million), notably because of year-on-year increases in IT costs as a result of capital investment as well as consultancy costs and the bank levy.

Profit before taxes for the year under review amounted to €151 million. The decrease of €3 million compared with the figure of €154 million reported for 2020 was a consequence of the factors described above.

TeamBank's **cost/income ratio** in 2021 was 58.1 percent (2020: 54.6 percent).

Regulatory RORAC was 26.1 percent (2020: 27.0 percent).

3.2.4 UMH

Net fee and commission income at UMH went up by €727 million to €2,293 million (2020: €1,566 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 €56.2 billion to €421.3 billion (2020: €365.1 billion), the volume-related contribution to net fee and commission income rose to €1,751 million (2020: €1,401 million).

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

Net income from performance-related management fees amounted to €381 million (2020: €32 million). The increase was largely the result of a higher number of high-volume funds more comfortably fulfilling the conditions for the transfer of a performance-related management fee in 2021. Income from real estate fund transaction fees came to €90 million in the reporting year (2020: €55 million).

In 2021, Union Investment managed to generate net inflows from its retail business of €19.7 billion (2020: €8.8 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 3.7 million contracts as at December 31, 2021, with an increase in the 12-month savings volume to €7.4 billion (December 31, 2020: €5.8 billion).

The total assets in the portfolio of Riester pension products swelled to €27.5 billion (December 31, 2020: €22.0 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at December 31, 2021 totaled 6.4 million (December 31, 2020: 5.7 million). These plans included contracts under employer-funded capital formation schemes as well as the traditional savings plans and Riester pension contracts referred to above.

The open-ended real estate funds offered by the Union Investment Group, which are an intrinsic-value-based component of the investment mix, generated net new business totaling €2.6 billion in 2021 (2020: €2.3 billion).

Assets under management in the PrivatFonds family amounted to €27.2 billion as at December 31, 2021 (December 31, 2020: €25.0 billion).

In its institutional business, the Union Investment Group generated net inflows amounting to €20.8 billion (2020: €6.3 billion).

The portfolio of sustainably managed funds grew to €125.6 billion (December 31, 2020: €61.0 billion). This portfolio includes open-ended real estate funds with a value of €37.5 billion that have been managed since November 1, 2021 as products that comply with article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

Gains and losses on investments amounted to a net gain of €2 million (2020: net gain of €44 million). The net gain generated in the prior year was derived mainly from a non-recurring gain in connection with the acquisition of a majority stake in ZBI GmbH (formerly ZBI Partnerschafts-Holding GmbH) in an amount of €48 million.

Other gains and losses on valuation of financial instruments improved by €123 million to a net gain of €40 million (2020: net loss of €83 million), which was largely attributable to gains of €37 million from the valuation of guarantee commitments (2020: loss of €94 million) and the net gain of €2 million arising on the valuation of Union Investment's own-account investments (2020: net gain of €14 million).

Administrative expenses went up by €199 million to €1,118 million (2020: €919 million). Staff expenses rose by €104 million to €556 million (2020: €452 million). Disregarding the effect in connection with the acquisition of a majority stake in ZBI GmbH, this increase was mainly attributable to the rise in salary components linked to the performance of the business reflected in UMH's KPIs, higher average pay, and appointments to new and vacant posts. Within staff expenses, the effect of the acquisition of a majority stake in ZBI GmbH was an additional expense of €42 million (2020: additional expense of €7 million). Other administrative expenses went up by €95 million to €562 million (2020: €467 million), mainly because of higher expenses incurred in connection with consultancy, information technology, public relations, marketing, and depreciation of right-of-use assets. The effect on the other administrative expenses of the acquisition of a majority stake in ZBI GmbH was an additional expense of €40 million (2020: additional expense of €5 million).

Other net operating income amounted to €0 million (2020: €31 million). This year-on-year change was attributable to various factors, including a provision in connection with taxation relating to corporate action.

Based on the changes described above, **profit before taxes** amounted to €1,233 million (2020: €649 million).

The **cost/income ratio** in 2021 was 47.5 percent (2020: 58.6 percent).

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

3.2.5 DZ BANK – CICB

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

Net interest income is primarily attributable to the lending business portfolios (Corporate Banking business line and a separately managed real estate lending portfolio), the portfolios from the capital markets business, and the long-term equity investments allocated to the central institution and corporate bank. Net interest income increased to €1,026 million (2020: €832 million).

In the Corporate Banking business line, net interest income rose by €79 million to €560 million (2020: €481 million). The net interest income in the four regional corporate customer divisions plus Central Corporate Banking increased to €318 million (2020: €264 million). This reflected the rise in the average lending volume, higher commitment fees for loans, and the recognition of bonus interest as a result of participating in the TLTRO III program.

Net interest income in the Structured Finance division amounted to €178 million, an increase of €16 million compared with the prior-year figure of €162 million. This increase was driven by international trade finance, especially export finance. Income from the TLTRO III program was also included.

In the Investment Promotion division, net interest income advanced by €9 million to €64 million (2020: €55 million). This year-on-year increase resulted from substantial portfolio growth in recent years in response to high demand for development and support loans in all development lending segments.

At €11 million, net interest income from the separately managed real estate lending portfolio was down compared with the prior-year figure of €23 million due to the reduction in the size of portfolio caused by the transfer of some of its components to DZ HYP.

Net interest income from the Capital Markets business line and the proportion of the TLTRO III bonus interest not allocated to operating business segments declined overall by €5 million. Net interest income attributable to business with institutional customers and the treasury portfolios fell by €111 million to €145 million (2020: €256 million). The year-on-year reduction resulted largely from the positive impact of the specific funding structure in 2020. Income from the TLTRO III program not allocated to other operating business segments was also included for the first time.

Other net interest income rose by €4 million to €23 million (2020: €19 million), mainly comprising loan administration fees.

Income from profit-pooling, profit-transfer, and partial profit-transfer agreements, together with income from other shareholdings and current income from investments in subsidiaries, amounted to €182 million (2020: €53 million). This increase was attributable to higher income from long-term equity investments at the following: VR Equitypartner GmbH, up by €80 million to €101 million; DZ Beteiligungsgesellschaft mbH Nr. 18, up by €29 million to €30 million; IMPETUS Bietergesellschaft mbH, up by €15 million to €15 million; and VR Factoring GmbH, up by €6 million to €6 million.

Net fee and commission income went up by €30 million to €471 million (2020: €441 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 €29 million higher than in 2020 at €151 million (2020: €122 million). This year-on-year gain was largely due to higher fees and commissions on lending and guarantees, and greater income from the corporate finance business.

In the Capital Markets business line, the contribution to net fee and commission income rose by €10 million to €224 million (2020: €214 million). Of particular note were the increases in issuance business income and sales commissions (primarily in connection with Union Investment funds).

Net fee and commission income in the Transaction Banking business line was also up year on year at €158 million, a rise of €26 million compared with the prior-year figure of €132 million. This increase was primarily attributable to higher volumes in the safe custody and payments processing businesses.

As part of service procurement arrangements, DZ BANK has transferred processing services in the lending business to Schwäbisch Hall Kreditservice, in the payments processing business to equensWorldline SE and Cash Logistic Security AG, and in capital markets business/transaction banking to Deutsche WertpapierService Bank AG. The expenses arising in connection with obtaining services from the above external processing companies amounted to a total of €190 million (2020: €188 million) and were broken down and reported under the net fee and commission income for the individual business lines as follows: Corporate Banking €9 million (2020: €9 million) and Capital Markets/Transaction Banking €181 million (2020: €179 million).

Aside from the aforementioned business lines, net fee and commission income from other financial services amounted to a greater net expense of €62 million in 2021 (2020: net expense of €27 million). This figure included the reclassification of loan administration fees of €28 million (2020: €22 million) and the expense as a result of passing on the bonus interest from the TLTRO III program to the participating group subsidiaries.

Gains and losses on trading activities declined by €451 million to a net gain of €67 million (2020: net gain of €518 million).

Gains and losses on trading activities reflect the business activity of the Capital Markets business line and gains and losses on money market business entered into for trading purposes (mainly repurchase agreements) and on derivatives of the Group Treasury division ('financial assets and liabilities measured at fair value through profit or loss' (fair value PL)). The fair value gains and losses on financial assets and liabilities designated as at fair value through profit or loss (fair value option) are also included in gains and losses on trading activities.

In 2021, there was an improvement in gains and losses on operating trading activities on the one hand and a sharp fall as a result of IFRS-related valuation effects on the other.

Gains and losses on operating trading activities in the Capital Markets business line amounted to a net gain of €616 million, a year-on-year rise of €95 million (2020: net gain of €521 million).

In the retail customer business, a year-on-year increase of 72 percent was achieved in own issues of structured products, with particularly strong growth for investment certificates. This was mainly attributable to the cooperative banks. Flow business (direct sales of structured products without a subscription period) was also up by 14 percent as a result of significant market movement in 2021.

As anticipated, the institutional customer business did not reach the previous year's record level, which had been caused by exceptional factors (outbreak of the COVID-19 pandemic). In 2021, income remained at a very high level across the various customer groups but was down compared with the previous year.

From an asset class perspective, a particularly significant proportion of the income was generated from the trading volume of bank bonds and interest-rate derivatives. The trading volume of interest-rate derivatives and in individual bond segments (government and supranational, subsovereign, and agency (SSA) bonds) went up year on year.

Interest-rate and currency management activities in corporate banking also saw higher trading volumes. Spot exchange trading was one of the main areas of volume growth, although income remained at the prior-year level.

Gains and losses on trading activities reflected the gains and losses from IFRS-related effects with an adverse change of €546 million. In both 2020 and 2021, the key factors behind this figure were the fair value gains and losses relating to own issues in the fair value PL and fair value option subcategories. In the prior year, a net gain had arisen for these issues under fair value gains and losses, primarily due to the widening of mark-ups in the bond market in the context of the COVID-19 pandemic. However, this item had the opposite effect on the income statement in 2021 due to the calmer conditions in the bond markets.

In 2021, the fair value gains and losses on issues in the aforementioned categories amounted to a net loss of €257 million (2020: net gain of €149 million). Within this amount, a net gain of €34 million arose from other gains and losses on valuation of financial instruments. Reserves increased in the category of financial instruments measured at amortized cost.

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

Gains and losses on investments improved by €60 million to a net gain of €75 million (2020: net gain of €15 million). The net gain in the reporting year resulted from the combination of gains of €72 million from the sale of securities in the category 'fair value through other comprehensive income' and losses of €4 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 the prior year, a net gain of €13 million arose from the sale of securities. There was also a contribution of €5 million resulting from the repayment of outstanding Tier I issues.

Other gains and losses on valuation of financial instruments improved to a net gain of €58 million (2020: net gain of €1 million). While the credit-risk-related measurement effects relating to financial assets designated as at fair value through profit or loss (fair value option) improved by €74 million to a net gain of €34 million, the net gain from ineffectiveness in hedge accounting declined by €16 million to €21 million.

Gains and losses from the derecognition of financial assets measured at amortized cost improved by €32 million to a net gain of €29 million (2020: net loss of €3 million). The improvement resulted from the derecognition of financial assets giving rise to a net gain of €29 million.

Loss allowances amounted to a net reversal of €89 million (2020: net addition of €337 million). Of this total, net reversals of €49 million related to loss allowances in stage 1, net additions of €68 million related to loss allowances in stage 2, and net reversals of €40 million related to loss allowances in stage 3. The net reversal in respect of recoveries on loans and advances previously impaired, directly recognized impairment losses, and additions to other provisions for loans and advances was €68 million (2020: net reversal of €5 million).

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

In the prior year, the requirement for the addition of €93 million (2021: addition of €3 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 had also gone up due to significant individual additions.

Administrative expenses went up by €20 million to €1,292 million (2020: €1,272 million).

The €27 million rise in staff expenses to €630 million (2020: €603 million) was mainly due to higher remuneration expenses and social security contributions in the reporting year.

Other administrative expenses declined to €663 million (2020: €669 million). Most of this decrease (€34 million) resulted from lower management consultancy costs. Taking into account the reversal of provisions in the prior year, the expenses relating to the restructuring fund for banks (bank levy) and contributions to the BVR protection scheme together rose to €78 million (2020: €55 million). The depreciation and amortization charges included in other administrative expenses went down by €4 million to €79 million. The breakdown of these charges was as follows: depreciation of right-of-use assets €32 million (2020: €36 million), depreciation of property, plant and equipment, and investment property €28 million (2020: €28 million), and amortization of other intangible assets €19 million (2020: €19 million).

In 2021, **other net operating income** amounting to a net expense of €58 million (2020: net income of €39 million) included reversals of provisions and accruals amounting to income of €38 million (2020: income of €67 million), an addition to provisions for onerous contracts relating to leased out buildings amounting to an expense of €18 million (2020: expense of €1 million), expenses for paydirekt of €11 million (2020: expenses of €11 million), and transfers of losses amounting to an expense of €4 million (2020: expense of €15 million).

Profit before taxes amounted to €465 million in the reporting year, which was €231 million higher than the figure of €234 million reported for 2020.

The **cost/income ratio** in 2021 was 77.5 percent (2020: 69.0 percent).

Regulatory RORAC was 8.8 percent (2020: 4.4 percent).

3.2.6 DZ HYP

At €721 million, the **net interest income** of DZ HYP was €7 million higher than in the previous year (2020: €714 million). DZ HYP's participation in the ECB's TLTRO III program gave rise to bonus interest of €15 million in the reporting year (2020: €8 million).

The rise in net interest income was mainly the result of portfolio growth generated from new business. The volume of real estate loans swelled by €2,156 million to €55,494 million (December 31, 2020: €53,338 million). The volume of new business (including public-sector finance) increased by €1,312 million to €12,048 million (2020: €10,736 million).

In the corporate customer business, the volume of new business came to €8,736 million (2020: €8,039 million). The volume of new lending jointly generated with the local cooperative banks in this area of business amounted to €3,859 million in 2021 (2020: €3,349 million). In the retail customer business, the volume of new commitments reached €2,730 million (2020: €2,066 million). In the public-sector business, DZ HYP generated a new business volume of €582 million (2020: €631 million). Of this amount, €497 million (2020: €521 million) was attributable to business brokered through the cooperative banks and €85 million to direct business (2020: €110 million).

Net interest income also included a negative effect of €38 million caused by an early redemption of DZ HYP's own liabilities.

Net fee and commission income went up by €12 million to €18 million (2020: €6 million). Within this figure, income from participation in the DZ BANK Group's bidder group in the ECB's TLTRO III tender procedures amounted to €18 million (2020: €0 million).

Gains and losses on trading activities deteriorated to a net loss of €6 million (2020: net gain of €9 million) due to currency translation effects.

Gains and losses on investments amounted to a net gain of €42 million (2020: net gain of €1 million). The net gain in 2021 was significantly influenced by the sale of Spanish government bonds, which accounted for a gain of €43 million.

Other gains and losses on valuation of financial instruments declined by €55 million to a net gain of €63 million (2020: net gain of €118 million). A narrowing of credit spreads was evident in both 2021 and 2020, although this had resulted in a significantly more positive valuation effect in 2020. For example, the gains and losses on valuation of bonds from the peripheral countries of the eurozone amounted to a net gain of €87 million in 2021 (2020: €105 million). Of this amount, €33 million (2020: €89 million) was attributable to Italian government bonds, €39 million (2020: €14 million) to Spanish government bonds, and €15 million (2020: €2 million) to Portuguese government bonds.

Loss allowances amounted to a net addition of €24 million (2020: net addition of €47 million). The prior-year loss allowance requirement was largely attributable to additions of €37 million in connection with the COVID-19 pandemic.

Administrative expenses went up by €10 million to €247 million (2020: €237 million). Staff expenses went up by €4 million to €96 million (2020: €92 million). Other administrative expenses rose by €7 million to €152 million (2020: €145 million), mainly owing to a higher bank levy and a higher contribution to the deposit guarantee fund, although some of the increases were offset by lower project and consultancy costs.

Profit before taxes in 2021 amounted to €588 million, which was up by €6 million compared with the equivalent prior-year figure of €582 million, predominantly as a consequence of the factors described above.

The **cost/income ratio** in 2021 was 28.8 percent (2020: 27.4 percent).

Regulatory RORAC was 41.6 percent (2020: 36.7 percent).

3.2.7 DZ PRIVATBANK

Net interest income at DZ PRIVATBANK decreased by €10 million to €59 million in 2021 (2020: €69 million) because of the persistently low interest rates. In the prior year, net interest income had particularly benefited from lower US dollar money market rates.

In 2021, 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 (2020: €4.9 billion).

Net fee and commission income went up by €24 million to €212 million (2020: €188 million). The increase in net fee and commission income was mainly attributable to the larger contributions to income from the fund services business and private banking.

As at December 31, 2021, high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, amounted to €23.2 billion (December 31, 2020: €20.0 billion).

The value of funds under management amounted to €182.1 billion as at December 31, 2021 (December 31, 2020: €139.5 billion). The number of fund-related mandates was 550 (December 31, 2020: 515).

Administrative expenses went up by €16 million to €251 million (2020: €235 million). Staff expenses rose by €10 million to €154 million (2020: €144 million), predominantly because of the recognition of severance provisions, 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 €97 million (2020: €91 million) due, in particular, to the higher bank levy and capital expenditure on income-generating projects in the market segments.

Profit before taxes went up by €3 million to €41 million overall (2020: €38 million), because of the changes described above.

The **cost/income ratio** in 2021 was 85.7 percent (2020: 85.8 percent).

Regulatory RORAC was 12.1 percent (2020: 10.8 percent).

3.2.8 VR Smart Finanz

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

Net interest income at VR Smart Finanz declined by €13 million to €125 million (2020: €138 million).

In 2021, new lending and object finance business continued to be impacted by the fallout from the COVID-19 pandemic. The stuttering economic recovery and self-employed and small-business customers' caution with regard to capital investment led to a decrease in new business of 31.0 percent year on year (2020: decrease of 7.0 percent). Demand for 'VR Smart flexibel' business loans, which had been temporarily withdrawn from the product range in 2020 because of the pandemic, picked up gradually during the reporting year and offset some of the fall in demand for 'VR Smart flexibel' support loans. As at December 31, 2021, the number of applications for 'VR Smart flexibel' support loans, which had been launched in the spring of 2020, stood at 12,012 (December 31, 2020: 41,780) and the volume of approved loans came to approximately €246.6 million (December 31, 2020: €832.2 million). These loans will be offered until the end of April 2022 in line with the extension of the special program of immediate assistance offered since 2020 by Germany's KfW development bank in response to the COVID-19 pandemic. Overall, demand for the VR Smart Finanz loan finance offering in 2021 came to €361.9 million, which was down by 48.5 percent compared with the 2020 figure of €702.1 million (although the prior-year figure had been boosted by the support loan business) and below the 2019 pre-pandemic level of €539.1 million. Demand for object finance went down by 3.4 percent year on year overall to €504.6 million (2020: €522.4 million). The 'VR Smart express' focus product saw new business grow to €381.4 million, which equated to an overall increase of 4.1 percent compared with the prior-year figure of €366.3 million.

Net fee and commission income declined by €6 million to a net expense of €30 million (2020: net expense of €24 million), largely as a function of fees and commissions paid to the cooperative banks.

The addition to **loss allowances** was cut by €35 million to €14 million (2020: €49 million). This reflected developments in the reporting year, notably a contraction in the lending volume, the continued provision of the 'VR Smart flexibel' support loan product, and a lower level of actual defaults. The higher loss allowances in the prior year had primarily been attributable to the adjustment of risk parameters used to calculate expected credit risk, and the addition in connection with the COVID-19 pandemic.

Administrative expenses went down by €22 million to €80 million (2020: €102 million). Staff expenses declined by €8 million to €47 million (2020: €55 million), mainly due to the lower headcount. Other administrative expenses decreased by €13 million to €34 million (2020: €47 million), largely as a result of outsourcing IT operations and payments processing.

VR Smart Finanz incurred a **loss before taxes** of €9 million in the year under review (2020: loss before taxes of €45 million), primarily as a consequence of the factors described above.

The **cost/income ratio** in 2021 was 93.0 percent (2020: 96.2 percent).

Regulatory RORAC was minus 5.2 percent (2020: minus 17.5 percent).

3.2.9 DVB

Net interest income in the DVB subgroup decreased by €51 million to a net expense of €21 million (2020: net income of €30 million). This decline was essentially due to the absence of interest income following the scaling back of the portfolio over the course of the reporting year and the prior year.

The nominal volume of customer loans in the DVB subgroup stood at €1.6 billion as at December 31, 2021 (December 31, 2020: €3.9 billion).

Net fee and commission income amounted to €9 million (2020: €25 million). This decrease predominantly arose because of the absence of income following the reduction of the portfolio.

Gains and losses on trading activities deteriorated by €21 million to a net gain of €5 million. The higher prior-year net gain of €26 million had mainly been 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 gain of €44 million (2020: net loss of €81 million). The net gain for the reporting year mainly reflected the positive impact of net gains on valuation of derivatives used for purposes other than trading in an amount of €19 million and net gains from the application of the fair value option in an amount of €26 million. By contrast, in the prior year there had been a negative valuation impact from derivatives that were not included in hedge accounting and from use of the fair value option.

In 2021, **loss allowances** amounted to a net reversal of €140 million (2020: net addition of €153 million), which was mainly attributable to the progress made with scaling back the portfolio and reversals in connection with individual exposures as a consequence of the better economic environment in some shipping sectors. The higher expense for loss allowances in 2020 had been primarily attributable to the COVID-19 pandemic and the further adjustment of risk parameters used to calculate expected credit risk.

Administrative expenses amounted to €118 million (2020: €154 million), a year-on-year decrease of €36 million. Staff expenses declined by €17 million to €51 million owing to the reduction in headcount (2020: €68 million). Other administrative expenses came to €66 million, which was down year on year owing, in particular, to the lower level of consultancy and legal expenses (2020: €86 million).

Other net operating income amounted to a net expense of €36 million (2020: net income of €23 million). Significant components of this figure in the reporting year were sale proceeds of €25 million in investment management, sale proceeds of €6 million from an individual offshore transaction, and restructuring expenses of €70 million.

Items of note in the prior year had included a gain of €71 million on the disposal of a further part of the aviation finance business and other effects amounting to an expense of €44 million resulting from the recognition of impairment losses on assets held for sale.

In 2021, DVB generated **profit before taxes** of €23 million (2020: loss before taxes of €285 million), largely as a consequence of the factors described above.

The **cost/income ratio** in 2021 was greater than 100.0 percent (2020: greater than 100.0 percent).

Regulatory RORAC was 25.3 percent (2020: greater than 100.0 percent).

3.2.10 DZ BANK – holding function

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

Net interest income amounted to a net expense of €32 million in the reporting year (2020: net expense of €50 million).

The average level of subordinated capital in 2021 was lower than in the previous year and the interest expense on this capital went down by €13 million to €42 million (2020: €55 million).

Net interest income from the funding of long-term equity investment carrying amounts and the investment of capital amounted to €10 million in 2021 (2021: €5 million).

Administrative expenses went up by €20 million year on year to €208 million (2020: €188 million).

Expenses from the group management function went down by €2 million to €60 million (2020: €62 million), which was predominantly attributable to lower staff expenses. Taking into account the reversal of provisions in the prior year, the expenses relating to the bank levy and contributions (in particular to the BVR protection scheme) together came to €56 million, which was €17 million higher than in the previous year (2020: €39 million). Furthermore, IT and project expenses increased from €55 million in 2020 to €63 million in 2021. Other expenses for the benefit of the group and local cooperative banks decreased by €2 million to €29 million (2020: €31 million).

3.2.11 Other/Consolidation

The consolidation-related adjustments shown under Other/Consolidation to reconcile operating segment profit/loss before taxes to consolidated profit/loss before taxes are attributable to the elimination of intragroup transactions and to the fact that investments in joint ventures and associates were accounted for using the equity method. Differences between the figures in internal management reporting and those reported in the consolidated financial statements that arise from the recognition of internal transactions in the DZ BANK – CICB operating segment are also eliminated.

The adjustments to net interest income were primarily the result of the elimination of intragroup dividend payments and profit distributions in connection with intragroup liabilities to dormant partners and were also attributable to the early redemption of issued bonds and commercial paper that had been acquired by entities in the DZ BANK Group other than the issuer. Internal transactions in the DZ BANK – CICB operating segment were also eliminated in net interest income and with offsetting entries under gains and losses on trading activities.

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

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

4 Net assets

As at December 31, 2021, the DZ BANK Group's **total assets** had increased by €32.8 billion, or 5.5 percent, to €627.3 billion (December 31, 2020: €594.5 billion). The **volume of business** amounted to €1,166.3 billion (December 31, 2020: €1,059.8 billion). This figure comprised the total assets, the assets under management at UMH as at December 31, 2021 amounting to €454.1 billion (December 31, 2020: €385.9 billion), the financial guarantee contracts and loan commitments amounting to €82.6 billion (December 31, 2020: €77.3 billion), and the volume of trust activities amounting to €2.3 billion (December 31, 2020: €2.1 billion).

The DZ BANK Group’s **cash and cash equivalents** went up by €17.6 billion, or 25.9 percent, to €86.0 billion (December 31, 2020: €68.4 billion) as a result of the corresponding rise in balances with central banks. The increase was predominantly attributable to DZ BANK – CICB (liquidity management function).

The DZ BANK Group’s **loans and advances to banks** rose to €107.7 billion, an increase of €4.7 billion or 4.5 percent. Loans and advances to banks in Germany went up by €5.6 billion to €99.9 billion, whereas loans and advances to foreign banks fell by €1.0 billion to €7.7 billion.

The DZ BANK Group’s **loans and advances to customers** amounted to €195.7 billion, which was €5.4 billion, or 2.8 percent, higher than at the end of 2020. Within this figure, loans and advances to customers in Germany rose by €5.6 billion to €169.7 billion, whereas loans and advances to customers outside Germany went down by €0.3 billion to €25.9 billion.

As at December 31, 2021, **financial assets held for trading** amounted to €47.3 billion, an increase of €4.5 billion, or 10.6 percent, on the figure as at December 31, 2020. This change was largely attributable to a rise in money market placements (up by €9.7 billion) and in bonds and other fixed-income securities (up by €0.5 billion) combined with a decline in derivatives (positive fair values) (down by €6.0 billion).

Investments declined by €7.8 billion, or 12.9 percent, to €52.4 billion. The main reason for this change was the €8.3 billion decrease in the portfolio of bonds and other fixed-income securities.

Investments held by insurance companies rose by €7.4 billion (6.1 percent) to €129.1 billion (December 31, 2020: €121.7 billion). This was due, above all, to a €3.9 billion increase in assets related to unit-linked contracts to €18.7 billion, a €2.1 billion increase in mortgage loans to €13.0 billion, and a €2.1 billion increase in variable-yield securities to €13.7 billion.

The DZ BANK Group’s **deposits from banks** as at December 31, 2021 amounted to €196.6 billion, which was €18.8 billion, or 10.5 percent, higher than the figure reported as at December 31, 2020. Deposits from domestic banks were up by €18.3 billion to €187.8 billion, while deposits from foreign banks increased by €0.5 billion to €8.8 billion. The growth reflects the expansion of support loan business since the outbreak of the COVID-19 pandemic. As at December 31, 2021, the DZ BANK Group had also participated in the ECB’s TLTRO III program with a total drawdown amount of €32.4 billion (December 31, 2020: €17.8 billion), leading to a further increase in deposits from banks.

Deposits from customers grew by €5.1 billion, or 3.8 percent, to €139.0 billion (December 31, 2020: €133.9 billion). Deposits from domestic customers decreased by €0.5 billion to €115.7 billion (December 31, 2020: €116.2 billion). Deposits from foreign customers rose by €5.6 billion to €23.3 billion (December 31, 2020: €17.7 billion).

At the end of the reporting year, the carrying amount of **debt certificates issued including bonds** in the DZ BANK Group was €79.7 billion (December 31, 2020: €70.5 billion). The rise of €9.2 billion was largely due to growth of €4.9 billion in the portfolio of other debt certificates issued to €12.6 billion while, at the same time, the portfolio of bonds issued expanded by €4.3 billion to €67.1 billion.

Financial liabilities held for trading went down by €7.0 billion, or 13.9 percent, to €43.4 billion (December 31, 2020: €50.4 billion). This change was largely attributable to a decline in derivatives (negative fair values) (down by €4.7 billion) and in money market deposits (down by €3.3 billion). On the other hand, short positions rose by €0.9 billion to €1.5 billion.

Insurance liabilities went up by €7.7 billion, or 6.9 percent, to €118.9 billion (December 31, 2020: €111.2 billion). This was largely attributable to rises of €3.7 billion in the benefit reserve, €3.5 billion in the reserve for unit-linked insurance contracts, and €1.8 billion in the provision for claims outstanding. However, the provision for premium refunds declined by €1.4 billion to €11.2 billion.

As at December 31, 2021, the **equity** reported by the DZ BANK Group was €28.7 billion (December 31, 2020: €29.1 billion). The decrease of €0.4 billion compared with the end of 2020 was due to the reduced reserve from other comprehensive income (down by €0.5 billion) and the decrease in non-controlling interests (down by €1.3 billion), which was essentially attributable to the repayment in full of the issued bonds of DZ BANK Perpetual Funding Issuer (Jersey) Limited, St. Helier, Jersey, and of the non-cumulative trust preferred securities of DZ BANK Capital Funding Trust I, DZ BANK Capital Funding Trust II, and DZ BANK Capital Funding Trust III, all Wilmington, Delaware, USA. Some of these decreases were offset by a rise in retained earnings of €1.7 million, which for the most part reflected the retention of the net profit generated in 2021.

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.7.3).

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 US CP head office program is used centrally by DZ BANK Frankfurt.

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

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

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

As at December 31, 2021, the DZ BANK Group had participated in the ECB's TLTRO III program with a total drawdown amount of €32.4 billion (December 31, 2020: €17.8 billion).

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

Monthly **structural analyses** of the various resources available on the liabilities side of DZ BANK's balance sheet are also conducted. The purpose of these analyses is to provide senior management with information that can then be used as the basis for actively managing the liability profile. In addition to this description of the funding structure, the risk report within this group management report includes disclosures on **liquidity risk** (chapter VII.6.2). 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 89 of the notes to the consolidated financial statements.