V Outlook

1 Economic conditions

1.1 Global economic trends

The Russian invasion of Ukraine and the fierce fighting are casting a pall over the global economic outlook. The European Union, including Germany, and the other western allies have been gradually tightening their sanctions against Russia. In the coming months, many countries – not just Russia – will feel the negative economic impact of the higher energy prices and the sanctions imposed. Germany and other EU countries are particularly badly affected because of the extent to which they are dependent on energy supplies from Russia.

Other factors impacting the economic outlook include the COVID-19 pandemic and international trade disputes. At the beginning of 2022, many countries saw a sharp rise in new COVID-19 infections caused by the spread of the Omicron variant of the virus. This development has had negative effects on the global economy, especially in the first quarter of 2022. It is likely to lead to greater consumer caution – especially in respect of services – and new disruptions to global supply chains. There is a risk that stringent containment measures will be imposed in some places, principally in China. Overall, the uncertainty surrounding the evolution of the COVID-19 pandemic presents the greatest threat to global economic growth in 2022.

Even though the changeover in the White House at the beginning of 2021 has lessened the risk of further protectionist measures, the trade disputes between the United States, China, and Europe have not yet been eliminated. A renewed escalation of these disputes would adversely affect the global economy and hit the heavily export-dependent German economy particularly hard. Inflation is already at a high level but rising energy prices could push up the rate even further.

Assuming that a negotiated settlement for the war in Ukraine can be found over the coming months, leading at the very least to a ceasefire, the global economy is likely to gradually recover from the third quarter of 2022.

Inflation rates soared during 2021, especially in the major industrialized nations, primarily driven by high energy prices and cost increases caused by global supply chain problems. In 2022, a further climb in inflation rates is expected at first because of the war in Ukraine and the rising price of crude oil on global markets, although a return to calmer waters is anticipated in the second half of the year. Nevertheless, it will probably be a while before inflation rates return to significantly more moderate levels.

1.2 Trends in the USA

At the end of 2021, the US was still enjoying the benefits of a strong economic upturn, with momentum derived from the release of significant pent-up demand following the end of the Delta wave of the coronavirus. However, the economic boom in the final quarter of 2021 will probably have been brought to an abrupt end in the first quarter of 2022 by the explosion in the number of new coronavirus infections following the Christmas holiday period. The war in Ukraine and the Omicron wave are unsettling consumers and bringing new disruptions to global supply chains. However, DZ BANK believes a marked recovery of the economy from the third quarter of 2022 is quite probable, making it reasonable to assume GDP growth of 3.3 percent for the whole of the year.

The rate of inflation leapt up to 7.0 percent in December 2021. Significant rises in business costs caused by supply chain problems, coupled with considerable wage pressure, are likely to ensure that the core inflation rate, i.e. excluding food and energy, remains high in 2022. Overall, however, DZ BANK believes that the energy component of inflation will diminish after the middle of the year so that the inflation rate will then start to fall again.

1.3 Trends in the eurozone

In 2021, the eurozone made up for most of the loss of growth experienced in 2020 when the COVID-19 pandemic first emerged. A weak lockdown-induced start to the year gave way to a vigorous catch-up process from the second quarter and over the summer months, despite increasing disruption to international trade. However, the final quarter of the year then saw a marked slowdown in economic growth again, caused by a fourth wave of COVID-19. Overall, eurozone GDP grew by 5.2 percent in 2021.

At the beginning of 2022, the economy was seriously impacted as the Omicron variant took hold. Shortages of raw materials and intermediate products continued to hamper industrial production, to add to the problems caused by the pandemic. However, these difficulties have been eclipsed since the end of February by the war in Ukraine. High energy prices and the sanctions imposed on Russia are weighing heavily on the eurozone economy, which is only likely to pick up momentum again from the third quarter. DZ BANK expects economic growth of 2.3 percent in 2022.

The impact of the COVID-19 pandemic has also been reflected to a considerable degree in consumer prices, not just in economic growth. Both services and foodstuffs have been subject to considerable inflationary pressure. Supply shortages have also caused the prices of industrial goods to rise more sharply than previously. However, by far the greatest proportion of the high consumer price inflation has been attributable to energy prices, which are now skyrocketing again as a result of the war in Ukraine. From the high in the spring of 2022, the price pressure at consumer level is likely to ease slowly. Under these conditions, the average rate of inflation in 2022 will probably once again be much higher than in the previous year (2.6 percent).

1.4 Trends in Germany

Despite the various waves of the COVID-19 pandemic and the global supply chain difficulties, Germany still recorded economic growth of 2.8 percent in 2021. Even before the start of the war in Ukraine, the Omicron wave and the ongoing supply problems were creating tough conditions for the German economy. As in the final quarter of 2021, negative economic growth is therefore anticipated for the first quarter of 2022. The second quarter will be largely dominated by the adverse impact of the war in Ukraine, which is likely to lead to high inflation rates and impaired foreign trade as well as to heightened uncertainty and caution among both consumers and investors. Nevertheless, the middle of the year will probably see the start of an economic rebound driven by the release of pent-up demand, mainly from consumers, with the service sector likely to benefit in particular. The effect of the disruption to production caused by supply shortages is only expected to subside gradually over the course of 2022. It would also be a mistake to think that the COVID-19 pandemic has been overcome because there is a risk that new coronavirus variants may still emerge. Overall, DZ BANK predicts that GDP growth in Germany will be 1.9 percent in 2022.

In December 2021, the inflation rate based on the European Harmonized Index of Consumer Prices (HICP) stood at 5.7 percent. The effect from the reversal of previous VAT cuts was a key factor adding to inflationary pressure in 2021, but this no longer applied from January 2022. Nonetheless, the acceleration in the prices of energy, food, and industrial goods proved to be more persistent than anticipated. Over the next few months, high energy prices mean that the inflation rate is likely to continue to rise, at least initially, and the subsequent correction in the level of prices will probably be a slow process. The average inflation rate projected for the whole of 2022 is much higher than the corresponding figure for 2021 (3.2 percent).

1.5 Trends in the financial sector

For some years, the financial sector has faced considerable pressure in terms of both adjustment and costs caused by the need to implement structural change to adapt to competitive conditions and to comply with regulatory reforms.

A large number of competitors, frequently with approaches based on the use of technology, are presenting the financial sector with the challenge of scrutinizing its existing business models, adapting them as required, and substantially improving its efficiency by digitalizing business processes, including sales channels. The corresponding capital investment is likely to continue to push up costs in the industry before the anticipated profitability gains can be realized.

The regulatory measures introduced since the financial crisis have had a range of objectives, including to make the financial sector more resilient in the event of a crisis, mainly through improved capital and liquidity adequacy, and to ensure that the risks arising from the business activities in the financial industry are not borne by the public sector.

In response to these regulatory requirements, the financial industry has reduced its leverage over the last few years and substantially bolstered its risk-bearing capacity by improving liquidity and capital adequacy. The imminent implementation of the final Basel III framework and the corresponding requirements imposed by EU banking regulators should be seen in this context. In addition, BaFin will address the specific risks in Germany by imposing a countercyclical buffer and a sectoral systemic risk buffer for the residential real estate sector from 2023. The potential ramifications of these changes will need to be studied.

Over the coming years, one issue that is likely to shape activities in the financial industry is the implementation of the multifaceted ESG standards and their implications for the business models used in the sector. The standards embody a political objective, which is to facilitate and actively support the transition of the economy to a sustainable basis, a process that is deemed to be necessary because of climate change and risks to the environment. At present, the primary challenge faced by the financial sector is to implement the relevant requirements at an operational level throughout the value chain, which includes business management, risk management, and the internal and external reporting systems. A focus in financial and capital markets on ESG is opening up new market opportunities for the financial sector. At the same time, events in the various ESG categories should also be seen as risks and managed accordingly. Information on the handling of ESG risk factors can be found in the risk report (chapter VII.4.4).

Turning to interest-rate markets, there are clear signs of a change in direction as far as monetary policy is concerned. The main central banks have signaled their intention to depart from the highly expansionary monetary policy pursued in response to the financial crisis, although there are big differences between them in terms of the extent and timing of the monetary policy measures themselves. For example, the Bank of England raised its base rate back in December 2021 in response to the surge in inflation rates. In the US, the Fed has announced that its asset purchase program will end in March 2022 and, as a result, the markets are anticipating multiple key interest-rate hikes in 2022 and 2023. Following the latest jump in the inflation rate for the spring, the ECB has announced that it is reassessing the situation, hinting at the prospect of a gradual normalization of monetary policy. It is therefore becoming increasingly probable that the bond-buying program will be terminated and the first interest-rate rise initiated, even before the end of 2022.

In view of these shifts in monetary policy, it is anticipated that the low nominal interest rates – which are accompanied by a relatively flat yield curve and prevent any significant increase in margins in interest-related business – could start to move back toward normal levels. However, a sharp rise in interest rates is currently not expected, even though the anticipated hikes in the US could trigger a certain degree of upward pressure.

In the last few years, central banks' expansionary monetary policy, and particularly the ECB's bond-buying programs, largely prevented structural problems in some EMU member countries from being perceivable in the capital markets. Because of the way in which the COVID-19 pandemic has spread, the economic fallout in these countries has been especially severe and their need to obtain funding in the capital markets has risen sharply in view of the fiscal support measures that have been required. Asset-buying programs in response to the pandemic have so far limited an increase in risk premiums. However, a funding and securities valuation risk could arise in conjunction with a generally more restrictive approach to the bond-buying programs.

As already described, the COVID-19 pandemic, global supply chain problems, and other factors are acting as a brake on the global economy (see sections 1.1 to 1.4 of the outlook). Even though the economic situation is projected to improve – a trend that could be boosted by fiscal policy support measures – and the surge in inflation is expected to ease during 2022, it is not possible to rule out the risk of stagflation, i.e. the combination of economic stagnation and rising prices.

The assumption of a global economic recovery combined with a modest rise in interest rates should serve to stabilize the financial position and financial performance of the entities in the financial sector. However, it is not possible to rule out negative effects from a potential economic stagnation in 2022, especially on businesses and consumers, which in turn could have an adverse impact on the financial sector.

The potential impact of uncertain political developments on the economic position of banks and insurance companies should also not be ignored. Relevant information on macroeconomic risk factors can be found in the risk report (chapter VII.4.2).

2 Financial position and financial performance

In 2022, the DZ BANK Group will continue to pursue its strategic objectives in the context of its role within the cooperative financial network. In an environment that remains challenging in terms of both market and competition, this means, for example, rigorously exploiting potential business in collaboration with the cooperative banks with due regard to the focus on sustainability, while at the same time maintaining the planned implementation of various initiatives aimed at the digitalization of the DZ BANK Group along the entire value chain.

The forecasts below are based on the outcome of the DZ BANK Group's annual planning process. Further information on the planning process can be found under 'DZ BANK Group fundamentals' (chapter I.2.4). Potential variances during 2022 from the underlying planning scenario, in the form of opportunities and risks, may have an influence on the financial position and the financial performance.

According to the planning for 2022, **total assets** will generally remain steady compared with the figure as at the end of 2021. The forecast growth in the customer business, which will have a corresponding impact on the balance sheet, is expected to be focused in the DZ BANK – CICB, TeamBank, and VR Smart Finanz operating segments, as well as in the R+V operating segment in relation to the projected rise in investments in line with the planned portfolio growth. The resulting increase in total assets is likely to be offset by the planned reduction in the portfolios of loans and advances of DVB, which still exists as an operating segment, and the reduced use of open market operations under the ECB's TLTRO III programs.

Despite the ongoing COVID-19 pandemic, the DZ BANK Group generated an exceptionally satisfying **profit before taxes** in the reporting year, which was boosted by a number of factors, including conditions that were extremely favorable from the perspective of loss allowances and net fee and commission income. Based on current assessments and provided that the geopolitical situation surrounding the war in Ukraine can be stabilized again, **profit before taxes** in 2022 is predicted to be at the upper end of the long-term target range of €1.5 billion to €2 billion.

The future financial performance of the DZ BANK Group could be subject to risks arising from the economic conditions outlined above, especially from the potential economic consequences of the war in Ukraine. However, as things stand at the moment, it is not yet possible to make a full assessment of the ramifications for the business activities of the DZ BANK Group arising from the economic sanctions imposed on Russia, or from any retaliatory measures.

The consequences of the war in Ukraine, unrelated price increases and supply shortages, and further potential fallout from the COVID-19 pandemic are among the challenges faced by the individual business models in the

DZ BANK Group. These challenges could impact economic growth and debt and equity markets in different ways. The uncertainties referred to above are monitored continuously and factored into the DZ BANK Group's planning, reporting system, and management.

Based on current assessments, **net interest income** (including net income from long-term equity investments) will decline slightly in 2022 because it is probable that the period of low interest rates will continue and because of the aforementioned reduction of TLTRO III open market operations. Net interest income is expected to be stabilized by the forecast growth in the interest-bearing business, especially in the DZ HYP, TeamBank, and VR Smart Finanz operating segments.

Although **net fee and commission income** is projected to be noticeably lower in 2022 compared with the exceptionally high level achieved in 2021, it will still make a hefty contribution to the earnings of the DZ BANK Group. In the UMH and DZ PRIVATBANK operating segments, slightly higher volume-related income has been budgeted in association with the net inflows, whereas income from the commission-bearing business in the DZ BANK – CICB operating segment is predicted to be well down.

Gains and losses on trading activities in 2022 are expected to show a strong improvement compared with 2021. This is likely to be attributable to the absence of effects from the valuation of own issues that had a negative impact in 2021 (see chapter II.3.2.5 'DZ BANK – CICB' of the business report) and a boost from the customer-driven capital markets business in the DZ BANK – CICB operating segment.

Gains and losses on investments are anticipated to decline sharply in 2022 because of the absence of positive one-off items recognized in 2021 (see chapters II.3.2.5 'DZ BANK – CICB' and II.3.2.6 'DZ HYP' of the business report).

Other gains and losses on valuation of financial instruments are likely to deteriorate significantly in 2022 compared with the reporting year based on the expected changes in the valuation parameters.

Net income from insurance business is predicted to decline sharply in 2022. This forecast is largely based on the anticipated deterioration in gains and losses on investments held by insurance companies, which is expected to more than offset the forecast growth in premiums earned from the insurance business in the various divisions of the R+V operating segment.

In 2022, **loss allowances** will probably rise sharply compared with the relatively low level in the reporting year in line with the volume of the lending portfolio, the targeted volume of new business, and the long-term standard risk costs.

Administrative expenses are likely to increase slightly in 2022 compared with the reporting year because of growth-related capital investment combined with a slight contraction in staff expenses and rigorous management of costs.

The **other net operating income** generated by the DZ BANK Group in 2022 is expected to rise substantially, largely because of the absence of negative one-off items recognized in 2021 (see chapters II.3.2.5 'DZ BANK – CICB' and II.3.2.9 'DVB' of the business report).

The **cost/income ratio** for the DZ BANK Group is likely to go up significantly in 2022 as a result of the forecast marked decrease in income and an almost unchanged level of expenses compared with the reporting year.

Regulatory RORAC, the risk-adjusted performance measure based on regulatory risk capital, will probably decline sharply in 2022 because of the lower earnings projections.

3 Liquidity and capital adequacy

Based on the position at the end of 2021 and the funding measures planned for 2022, the DZ BANK Group predicts that it will be able to continue maintaining an appropriate level of economic and regulatory **liquidity adequacy** in 2022.

Further information on liquidity adequacy can be found in the risk report (chapter VII.6).

As matters currently stand, the DZ BANK Group's **capital adequacy** will continue to be assured for 2022 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital and own funds necessary to cover the risks associated with the finance business and other risks arising from the group's business operations. This statement on capital adequacy already takes into account the capital requirements associated with the systemic risk buffer for the residential real estate sector announced by BaFin on January 12, 2022 and the increase in the countercyclical capital buffer enacted on January 31, 2022. According to the information currently available, these requirements will need to be met entirely by common equity Tier 1 capital from February 1, 2023.

Over the last few years, the DZ BANK Group has greatly strengthened its capital base from its own resources (through the retention of profits) and through corporate action. In 2022, a high priority will once again be given to strengthening the capital base in order to ensure stable capital ratios.

Further information on capital adequacy can be found in the risk report (chapter VII.7).

4 Operating segments in detail

4.1 BSH

Low interest rates, a housing shortage, a lack of investment alternatives, and an expanding economy are expected to continue to fuel the real estate boom in Germany in 2022. These conditions are reflected in orders on hand, which stood at almost €13 billion at the end of September 2021, which was just under 20 percent higher than the figure a year earlier. Further growth in demand is also projected; by the end of September 2021, over 282,000 homes had been approved, which equated to a year-on-year increase of 5.1 percent. Increases in the costs of construction materials, such as wood, cement, and steel, combined with the persistent skills shortage in the construction industry, are likely to continue to drive up prices. Demand for new houses and apartments will remain high in Germany over the coming years, as the Institut der Deutschen Wirtschaft (IW) [German Economic Institute] confirmed in one of its reports just recently. According to this report, there is a need for a further increase in construction activity in almost all major cities in order to meet demand in each location. The agreement forming the basis of Germany's governing coalition has targeted the building of 400,000 new homes each year during the legislative period. The Zentralverband des deutschen Baugewerbes e.V. (ZDB) [German Construction Confederation] and the Hauptverband der Deutschen Bauindustrie e.V. (HDB) [Federation of the German Construction Industry] believe this target to be ambitious because it equates to a sudden increase of around 30 percent in the number of homes completed each year. The two industry associations predict that around 320,000 homes will be completed in 2022.

On December 15, 2021, the European Commission published its proposal for a recast Energy Performance of Buildings Directive. Under these proposals, all buildings in the EU would be carbon-neutral by 2050. One of the aims would be to ensure that there are no longer any buildings in the worst efficiency category (G) by 2030. In Germany, three million buildings would be affected by these requirements. At the beginning of 2020, the European Commission set out in the Sustainable Europe Investment Plan, which forms part of the European Green Deal, where the enormous capital requirement of around €1 trillion needed for a carbon-neutral Europe was going to come from. Just under half of the total sum will be provided from the EU budget. Incentives are to be created to generate the necessary capital investment required from both the public and the private sectors. The Commission believes that the greatest need for capital investment will be in relation to buildings.

In its core home finance business, BSH has enjoyed five successive record years in terms of the volume of new business, but it expects the figure for 2022 to be slightly lower than the 2021 figure. As regards home savings, the second core business at BSH, new business is predicted to be just below the 2021 level because of the continuing challenges presented by persistently low interest rates and COVID-19 restrictions, especially in the first quarter of 2022.

Taking these various factors into account, BSH anticipates that its **profit before taxes** will see a moderate year-on-year decline in 2022.

The low interest rates are likely to have a detrimental impact on interest income in 2022. Some of the effect will be offset by the lower rates of interest in the new home savings tariffs. Based on these expectations, **net interest income** is forecast to decline marginally in 2022.

With regard to **loss allowances**, BSH will continue to benefit from Germany's improving economic performance and low unemployment rate. It is assumed that there will also be some benefit as the COVID-19 pandemic tails off during the year. Because of the substantial growth in the lending portfolio in recent years, loss allowances will probably increase slightly from their current low level.

Net fee and commission income, which was just in positive territory in the reporting year, is expected to decline sharply in 2022 in percentage terms. A marginal contraction of the home finance business, combined with new home savings business just under the 2021 level, will lead to a small net expense being recognized under net fee and commission income.

Gains and losses on investments are expected to remain at the 2021 level.

In 2022, **administrative expenses** are projected to remain unchanged compared with 2021. The reason for this is a program aimed at the structural optimization and management of costs (SOKS), which was set up in 2020. The SOKS program is a project over a number of years in the Schwäbisch Hall Group aimed at creating greater cost transparency and keeping costs to a lower level on a permanent basis.

Based on current assessments, the **cost/income ratio** will rise slightly.

Regulatory RORAC is expected to decline significantly.

4.2 R+V

In the opinion of R+V, the 2022 financial year will continue to be shaped by the challenging conditions. The market environment will remain very tough because of the economic uncertainty and the potential long-term economic consequences of the COVID-19 pandemic, and from other perspectives, including political issues, regulation, low interest rates, competition, and consumer behavior.

Building on the success of the 'Wachstum durch Wandel' (growth through change) program, R+V launched the WIR@R+V program in 2021, adapting the strategy to reflect the significant changes to the operating environment. The objective is to overcome the new challenges and maintain performance levels. In this regard, R+V has raised the level of ambition in many areas of activity in order to remain competitive. The strategy focuses on making customers as happy as possible, increasing profitability, generating growth, and maintaining a strong capital base.

In line with this strategy, R+V – the composite insurer in the cooperative financial network – is planning to continue on its trajectory of profitable growth in 2022. The value added for the cooperative financial network should also increase steadily as a result.

Slight overall growth is expected in **gross premiums written**.

The **non-life insurance** division benefited from premium growth in 2021 despite the challenges presented by the COVID-19 pandemic. From today's perspective, this growth is expected to continue in 2022. In this regard, a slight rise in **gross premiums written** is predicted. The **claims rate** is projected to be slightly below the level of 2021 as a result of the measures specified in the WIR@R+V strategy program. The slight rise in the **expense ratio** is attributable to a number of factors, including higher capital investment in IT. Overall, the **combined ratio** (total of insurance business operating expenses and claims expenses divided by premiums earned) is projected to be unchanged compared with the 2021 level. A large number of activities in connection with the strategy program aim to secure the long-term success of the division. Areas of focus in these activities include both income enhancement and customer-oriented service processes.

As the period of low interest rates continues, business management in the **life and health insurance** division will again have a greater focus on profitability in 2022. **Gross premiums written** are forecast to be slightly below the 2021 level. Within this figure, a decrease in single premiums in life insurance will probably be offset by a slight rise in business involving ongoing premiums. A hefty rise in gross premiums written is anticipated in health insurance.

The latest pension insurance report (2021) published by the Bundesministerium für Arbeit und Soziales (BMAS) [German Federal Ministry of Labour and Social Affairs] states that the ratio of pensions to pay (before tax), referred to as the net replacement rate, will fall from the current level of 49.4 percent to 45.8 percent by 2035. In the report, the German government explicitly highlights that there is a need for policyholders to take action and make additional pension provision so that their income in later life will be improved. Based on a continually updated range of products, R+V offers customers a diverse range of options in this regard to meet their needs. In addition to unit-linked products, R+V is increasingly focusing on products that combine protective components with potential returns. The pension insurance report recommends that individuals make use, in good time, of the financial latitude offered by the German Retirement Income Act (AltEinkG) and government subsidies.

The German Act to Strengthen Occupational Pensions (BRSG), which came into force on January 1, 2018, is a further component in the efforts to prevent old-age poverty. This act is focused particularly on small and medium-sized enterprises (SMEs) as well as on employees with low incomes, who are more likely to be affected by old-age poverty. Industry-specific pension schemes such as the dedicated schemes available in Germany for the chemicals industry (Chemie-Versorgungswerk), engineering industry (MetallRente), pharmacy industry (ApothekenRente), healthcare industry (KlinikRente), and media industry (Versorgungswerk der Presse) are helping to popularize occupational pension provision. In addition, the collective pay agreement in the chemicals industry includes the provision of CareFlex Chemie, a scheme for occupational long-term care insurance offered via a consortium of insurers in which R+V is the managing consortium member. The freely available monthly care benefit complements the benefits received under statutory long-term care insurance and helps to close the financing gaps.

The current German government has embedded various objectives in its coalition agreement, including the strengthening of occupational pension provision, a fundamental reform of personal pensions, and the option to add voluntary supplementary provision to statutory long-term care insurance. R+V will actively support these changes.

In the **inward reinsurance** division, awareness of economic losses from natural disasters (made more acute by various events of this nature), the return to economic growth around the globe, and the steadily growing global population are expected to generate greater demand for reinsurance. Following the major loss events that occurred in previous years, it is also anticipated that there will be a further increase in the price of reinsurance cover in 2022. The inward reinsurance division will be focusing to a greater extent on improving other insurance gains and losses in 2022 in line with an adjustment to the division's strategy. Further moderate growth in **gross premiums written** is predicted. On the costs side, R+V anticipates a slightly lower **expense ratio** (net insurance business operating expenses divided by net premiums earned) and an unchanged **combined ratio** in 2022 compared with 2021.

Investing activity is based on a long-term investment strategy combined with an integrated approach to risk management. Focusing on asset protection, the strategy is designed to ensure that insurance obligations can be met at all times.

Gains and losses on investments held by insurance companies (excluding the portion attributable to unit-linked life insurance) are forecast to deteriorate sharply compared with 2021. The corresponding net gains in 2021 had gone up compared with the prior year because of the rebound in equity markets and the beneficial impact of exchange-rate movements. In 2022, equity markets are expected to stabilize and fixed incomes to return to normal levels.

The overall result of the above factors in the planning for 2022 is a substantial decline in **profit before taxes** compared with the 2021 figure, which had reflected the improvement within the underwriting business in the gains and losses on investments held by insurance companies, positive effects of the COVID-19 pandemic, but also the negative impact of storms.

Regulatory RORAC is likely to decline sharply in 2022 because of the forecast financial performance.

4.3 TeamBank

Consumer spending, which is largely responsible for driving economic growth, will again depend to a large degree on the epidemiological situation regarding COVID-19 in 2022. Other factors include the duration of the supply shortages and the extent of the anticipated acceleration in inflation. It is likely that a substantial economic recovery will only materialize from the second quarter of 2022. Based on the information currently available, the competitive situation in the consumer finance market will remain largely unchanged, although a further increasing consumer preference for digital channels is anticipated. The greater prevalence of online sales will also encourage the use of installment payment plans in e-commerce.

In collaboration with the cooperative banks, TeamBank is aiming in 2022 to generate profitable, sustainable growth at a rate that is higher than that of the market.

TeamBank is forecasting significant portfolio growth in 2022, which is projected to lead to a marked rise in **net interest income**.

Net fee and commission income is predicted to deteriorate substantially compared with 2021, mainly because of increased bonus payments to partner banks in line with the higher level of new business and a fall in fee and commission income from the brokering of credit insurance policies as a consequence of the German Act on Supporting the Regulation of Crowdfunding Service Providers (SFBG).

Because of the portfolio growth referred to above, it is likely that **loss allowances** will rise significantly.

Administrative expenses are expected to remain steady in 2022.

In view of the changes described above, TeamBank forecasts that **profit before taxes** will fall significantly.

The **cost/income ratio** for 2022 is likely to remain at the same level as that in 2021.

Because of the change in profit before taxes in 2022, there is likely to be a significant decline in **regulatory RORAC**.

4.4 UMH
Capital markets are expected to continue to reflect the impact of the COVID-19 pandemic. The increasing problems in global supply chains and the persistently low level of interest rates will also present a challenge in addition to those surrounding the emergence and spread of new coronavirus variants and necessary associated development and widespread availability of modified vaccines. However, extensive economic and monetary policy measures are helping to provide support. Against this backdrop, UMH plans to continue to systematically exploit opportunities for business growth and maintain its trajectory of successful business performance of recent years.

UMH is aiming for a significantly higher level of assets under management by the end of 2022. New business is expected to be at a high level, but will nevertheless be down significantly compared with the exceptionally successful year in 2021. Expectations regarding overall performance are slightly higher for 2022.

Net fee and commission income is projected to fall substantially in 2022, the main reason being a sharp decrease in the income expected from performance-related management fees. On the other hand, a small increase in volume-related net fee and commission income is anticipated based on a significantly higher average level of assets under management.

Net finance costs – comprising net interest income, gains and losses on investments, and other gains and losses on valuation of financial instruments – are likely to deteriorate significantly in 2022, largely because of an anticipated sharp negative change in the effect from the valuation of guarantee commitments for investment products. In addition, the contribution from own-account investing is predicted to decline significantly.

Administrative expenses are projected to rise considerably in 2022. Staff expenses at UMH are likely to remain steady. Based on current assessments, general and administrative expenses will rise markedly, largely because of higher office expenses and greater costs associated with public relations/marketing, ongoing professional fees, real estate audits, information procurement, IT, and rents for land and buildings. Depreciation and amortization charges are likely to increase moderately, mainly in connection with office furniture and equipment and because of the recognition of new capital assets.

A sharp increase in **other net operating income** is expected. This is primarily attributable to the absence of non-recurring expenses recognized in 2021. On the other hand, there will probably be a decline in income from the remeasurement of provisions.

Based on the factors described above, **profit before taxes** in 2022 is projected to decline significantly compared with 2021.

From the current perspective, the **cost/income ratio** is expected to rise sharply and **regulatory RORAC** fall significantly.

4.5 DZ BANK – CICB
It is more or less two years since the outbreak of the COVID-19 pandemic and yet the coronavirus and its fallout still continue to have a significant impact on economic activity. The effects of the COVID-19 pandemic, combined with supply shortages and higher energy and commodity prices, are expected to push up inflation rates and unsettle financial markets.

At the same time, the COVID-19 pandemic is accelerating the process of digitalization and transforming customer behavior, thereby placing long-established institutions under pressure to offer user-friendly and innovative digital services in order to prevent their customers from drifting away to fintechs and digital banks. Additionally, the persistently low level of interest rates and recent income volatility are challenging banks to optimize their cost base so that they can safeguard their profitability in the medium term.

The strains from the challenges presented for a number of years now by low interest rates, regulation, and digitalization, combined with those from planning uncertainty and risks during the COVID-19 pandemic, mean that the ongoing trend toward consolidation in the German banking industry is likely to continue. In 2022, there is not expected to be any letup in the pressure on banks in Germany and throughout Europe in general.

In view of these circumstances, **profit before taxes** in the DZ BANK – CICB operating segment is expected to fall sharply in 2022. To a large degree, this contraction is explained by particular effects in 2021, notably negative valuation effects, unexpectedly high income from long-term equity investments, and significant income from the ECB's TLTRO III programs.

Net interest income in 2022 is predicted to fall sharply and will therefore be below the 2021 level. In the reporting year, net interest income benefited from a number of factors, including income from the TLTRO III bonus interest, the amount of which will probably be lower in 2022.

The aim will be to achieve further growth in operating income, specifically in net interest income from corporate banking based on an increase in the lending volume. The DZ BANK – CICB operating segment expects slightly higher margins in corporate banking in 2022 despite a market environment still considered to be competitive.

In line with the strategic ambitions of the DZ BANK – CICB operating segment, corporate banking will remain a key area of growth. It is intended to achieve the planned growth in volume with packages of measures under the 'Verbund First 4.0' strategy, such as greater customer focus and an improvement in new customer acquisition through greater regionalization. It is also planned to expand development lending by involving further development banks and integrating these activities into the sales platform. At the same time, there are plans for further digitalization-driven process optimization in sales in order to enhance cost efficiency and improve profitability.

In the reporting year, income from the reduction of exposures and the recognition of collateral proceeds had a positive impact on **loss allowances**. However, loss allowances are likely to rise sharply in 2022 because of the economic uncertainty and anticipated growth in the lending volume. Loss allowances will therefore continue to be shaped by the effects of the COVID-19 pandemic, which is still unlikely to be overcome in 2022.

Net fee and commission income in 2022 is not projected to reach the high level of 2021 and will probably decline significantly. This is largely the result of the prudently budgeted service fees in the individual operating units within the DZ BANK – CICB operating segment in response to the general market uncertainty.

The DZ BANK – CICB operating segment aims to continue to perform well on the back of the excellent market positioning in the Transaction Banking business line, the digitalization strategy, and a steady increase in the number of transactions in payments processing and depositary services. In addition, the net fee and commission income in the Capital Markets business line is likely to improve overall because of an expected rise in income from the brokerage fees derived from retail and institutional customers.

Gains and losses on trading activities are expected to improve significantly in 2022, provided there is no serious market turmoil. This improvement is due to the absence of negative effects arising on the valuation of own issues that had been reflected in the 2021 figure.

Gains on trading activities in the DZ BANK – CICB operating segment will be generated from margins and trading volume in customer business involving investment and risk management products and from the related customer-initiated trading contributions. In operating capital markets business, key income drivers in 2022 are likely to include the further exploitation of capital-markets-related cross-selling potential in corporate banking, the expansion of the range of products via targeted product initiatives, and the harnessing of potential in the securities business by stepping up collaboration with the cooperative banks in customer business. It is anticipated that trading activity in the market as a whole will remain at a high level in 2022 because of the COVID-19 pandemic.

In all probability, **administrative expenses** in 2022 will be slightly below the level of 2021. As things stand, based on the systematic implementation of the forward-looking 'Verbund First 4.0' strategic program, further reductions in the number of employees (full-time equivalents), and a decrease in consultancy costs, it will be possible to leverage specific efficiencies. Some of the gains are expected to be offset by rising general and administrative expenses. These include expenses related to strategic investment in further digitalization of market access and the expansion of next-generation working methods. Higher contributions to the BVR protection scheme and for banking supervision are also anticipated.

Current assessments show that the **cost/income ratio** will go down slightly in 2022 as a result of the forecast decline in financial performance compared with 2021 and the slight fall in administrative expenses.

As things stand, **regulatory RORAC** will probably decline significantly in 2022 based on slightly higher capital requirements and the forecast of lower profit before taxes.

4.6 DZ HYP

In view of the COVID-19 pandemic, real estate as an investment product is proving itself to be generally stable and there have been no material changes to this position for the moment. However, a change to demand for commercial real estate cannot be ruled out, for example, as a consequence of remote working or the growth in e-commerce. Developments are being closely monitored overall and could have an impact on lending. Because of the perpetually low level of interest rates, real estate remains an attractive investment product. Real estate in Germany will play a key role because of the economic and political stability in the country. Capital adequacy requirements in the banking sector are expected to have an adverse effect. It is anticipated that business activities will remain stable, based on reasonable lending margins combined with a volume of new real estate finance business at the level of 2021.

Net interest income in 2022 is projected to be slightly above the 2021 figure. Real estate lending is expected to increase slightly, with adequate margins.

It is anticipated that **loss allowances** will go up significantly in 2022 because of effects that could potentially hit the real estate sector as a consequence of the COVID-19 pandemic.

Current assessments show that credit spreads in public-sector finance are likely to come under pressure in 2022. **Other gains and losses on valuation of financial instruments**, which resulted in a net gain in 2021, will therefore probably move into negative territory in 2022.

Greater regulatory requirements and the continued high level of charges from third parties (such as the bank levy) will have a negative impact on **administrative expenses**, with the result that this figure is expected to be markedly higher than the corresponding 2021 figure.

Based on stable operating performance, but particularly because of the decline in other gains and losses on valuation of financial instruments and higher loss allowances, **profit before taxes** at DZ HYP in 2022 is predicted to be significantly below the corresponding 2021 figure.

Accordingly, the **cost/income ratio** is expected to rise significantly.

Regulatory RORAC is likely to decline sharply due to the fall in profit before taxes forecast for 2022.

4.7 DZ PRIVATBANK

In 2022, it is anticipated that the economic recovery will continue, inflation will fall during the course of the year, and monetary policy in Germany, the eurozone, and the US will become less expansionary.

Based on current assessments, **net interest income** will fall slightly in 2022 because of the persistently low interest rates and low market volatility.

In 2022, **net fee and commission income** is predicted to rise substantially, driven by forecasts that the private banking and fund services businesses will perform well.

The assets under management in private banking are also projected to rise due to the forecast inflows. The main value driver is fund volume, and the volume of funds from Union Asset Management Holding AG and third parties is expected to grow markedly.

Gains and losses on trading activities are forecast to deteriorate significantly in 2022 because of lower customer-driven transaction figures.

Administrative expenses are expected to rise slightly in 2022. The increase will be due not only to the sustained growth of costs relating to regulatory requirements but also to high levels of capital expenditure.

Based on current forecasts, **profit before taxes** in 2022 will be well above the corresponding 2021 figure, despite a challenging market environment.

The **cost/income ratio** in 2022 is likely to be slightly lower than the 2021 figure, whereas **regulatory RORAC** will be well above the level in the reporting year.

4.8 VR Smart Finanz

In 2022, VR Smart Finanz will continue to pursue a decentralized approach with the aim of providing the best possible support for the cooperative banks as a strategic partner in the corporate customer business and meeting the needs of their business customers for fast, easily accessible digital solutions. In this context, VR Smart Finanz will focus on joint marketing with the cooperative banks and on the objective of tapping into the available potential for income and growth from small businesses, the self-employed, and the SME segment.

Adverse effects from supply shortages and high energy prices, together with the ongoing impact of the COVID-19 pandemic, are expected to continue to affect economic activity at the beginning of 2022. Demand for German goods is likely to remain at a high level, so it is reasonable to expect the release of significant pent-up demand as supply shortages are gradually eliminated during the year.

VR Smart Finanz plans to make use of the forecast economic tailwind to return to the growth trajectory it enjoyed in the years before the COVID-19 pandemic. It intends to respond to the ever-fiercer competition by stepping up its collaboration with the cooperative banks and breaking into alternative sales channels, such as digital financing platforms. VR Smart Finanz also aims to expand data-driven analysis with a view to further strengthening the reach of the cooperative banks in the target customer segment. It is planning to tap into additional potential by developing its omnichannel capabilities and gradually integrating its solutions and digital services into the cooperative financial network's omnichannel platform. In addition, there are plans to systematically upgrade the functionality of the VR Smart Guide and Bonitätsmanager (credit status manager) based on customer feedback and to continue to step up market penetration. The latter is to be achieved by signing up more banks and making specific use of strategic partnerships.

Risks arising from the economic environment adversely impacted by the COVID-19 pandemic are to be actively managed using a proactive, IT-supported risk management system. Measures to prevent fraud are also being expanded to counter the increasing risks arising in connection with digital environments.

In the context of the forecast economic recovery, the planned initiatives to generate new business growth and accelerate collaboration with the cooperative banks and other partner banks are likely to result in a significant increase in **net interest income** and a steep rise in the **fee and commission expenses** paid to the cooperative banks for recommending VR Smart Finanz financing solutions to their customers.

Current forecasts show that **loss allowances** will rise substantially in 2022 in line with the planned new business growth. On the basis of a projected marginal decline in **administrative expenses** compared with 2021 and an increase in new business, there will be a sharp improvement in the **cost/income ratio.**

The developments described above are likely to lead to an improvement from a loss to a **profit before taxes** and a positive **regulatory RORAC** in 2022.

4.9 DVB
New COVID-19 variants and an increase in case numbers due to seasonal factors are continuing to dominate public life, unsettle financial markets, and hinder an economic recovery. In the first half of 2022, the progress made in the booster vaccination campaign and the milder spring weather are likely to pave the way for a return to a certain degree of normality.

In a challenging operating environment, DVB's top priorities continue to be to uphold the stability of its business operations, carry out all necessary tasks, and satisfy the requirements and obligations applicable to a regulated bank.

These ongoing, stable business operations remain fundamental to the diligent implementation of the strategic initiatives and the attainment of the core objectives:

– Successfully complete the post-closing activities in connection with the disposal of the old businesses (Aviation Investment Management/Aviation Asset Management)
– Continue to allow the maritime portfolio to run off successfully and actively wind down the NPL portfolio while preserving as much value as possible
– In the event that the merger of DVB with DZ BANK planned for 2022 is carried out (see chapter I.1.9 'DVB' under 'DZ BANK Group fundamentals'), implement the preparations to migrate the remaining activities from the DVB operating segment and integrate them into DZ BANK
– Seamlessly integrate the employees from the DVB operating segment into DZ BANK, thereby ensuring the stability of the business
– Finalize the internal transformation activities prior to the legal merger; includes simplifying the operating model, closing sites, and managing costs.

DVB is committed to achieving the objectives outlined above and living up to its reputation as a reliable and solid financial institution. DVB will focus on achieving the centrally determined targets for 2022. It is optimistic that its results for 2022 will be in line with the financial planning and will meet stakeholders' expectations. As the positive contribution to earnings in 2021 was attributable to special factors to a large degree, it is anticipated that DVB will report a loss before taxes in 2022 because of the contraction of its operations.

4.10 DZ BANK – holding function

The **loss before taxes** is forecast to be moderately higher in 2022.

Net interest income in 2022 is likely to improve significantly compared with the 2021 figure because of a reduction in the portfolio of subordinated liabilities.

Administrative expenses are projected to rise substantially in 2022. Within this figure, expenses related to protection levies are likely to go up significantly in the forecast period. IT and project expenses will probably see a hefty increase. A slight increase in group function expenses and in other expenses for the benefit of the group and local cooperative banks is also anticipated.