II Business report

1 Economic conditions

The spread of the Omicron variant of COVID-19 still loomed large over the start of 2022. High levels of infection meant that many employees were absent due to illness, and moderate containment measures were introduced. In addition, disruptions in international supply chains posed challenges for the industrial sector. However, over the course of the year, the pandemic faded into the background. Following Russia's invasion of Ukraine on February 24, 2022, the spotlight quickly shifted to different economic risks. Initially, these mainly comprised the immediate fallout from the war in the form of even more severe supply chain disruptions and western sanctions against Russia. The dependence of the German economy on energy exports from Russia rapidly became a prominent topic. And alongside concerns about energy security, energy costs soon also became a pressing issue. Inflation rose to record highs, forcing the central banks to abandon their long-established regime of zero interest rates. In the end, the German economy did not have to introduce gas rationing, as initially feared, but the uncertainty, combined with high inflation and concerted efforts to reduce energy consumption, did trigger a slowdown in economic growth. Germany's total economic output rose by 1.8 percent in 2022, following growth of 2.6 percent in 2021.

Despite the difficult conditions, the German economy expanded by 0.8 percent in the first quarter of 2022 compared with the previous quarter. Capital expenditure was the main source of growth impetus, whereas net exports held back growth. The aforementioned problems took a heavier toll on growth in the second quarter of 2022. Industrial output slowed over the course of the quarter, foreign trade declined, and retail sales fell compared with the first three months of the year. From the first to the second quarter of 2022, economic growth was 0.1 percent. In the third quarter of 2022, economic activity continued to pick up, with real gross domestic product (GDP) rising by 0.5 percent compared with the previous quarter. Consumer spending was the main driver of economic output between July and September 2022. Although prices continued to rise rapidly and the energy crisis began to take hold, consumers were keen to take advantage of the lifting of most coronavirus-related restrictions and spent more on activities such as travelling and going out. Most service sectors consequently recorded a quarter-on-quarter increase in economic output. Wholesale/retail, transportation, and hospitality saw the biggest improvements in gross value added (up by 3.3 percent). However, the adverse impact of high inflation became more tangible toward the end of the year. In the fourth quarter of 2022, economic output in Germany fell by 0.4 percent compared with the previous quarter.

The eurozone economy also picked up during 2022, although growth was held back by high inflation and increased uncertainty. Following a post-pandemic bounce-back in GDP in 2021 (up by 5.3 percent year on year), the eurozone's economy grew at a rate of 3.5 percent in 2022. In the first quarter of 2022, GDP went up by 0.6 percent, followed by a quarter-on-quarter rise of 0.9 percent in the second quarter. GDP growth then slowed to 0.3 percent in the third quarter and 0.1 percent in the fourth quarter.

The US economy travelled a very rocky road in 2022. The economic impact of the war in Ukraine and the resulting spike in energy prices were much less pronounced in the US than in Europe. But supply chain disruptions affected growth noticeably, and high inflation – combined with the Federal Reserve's (Fed) monetary policy shift toward rapid interest-rate increases – sapped additional momentum. In the first half of 2022, the US economy even slipped into a 'technical recession'. At 2.1 percent, GDP growth for 2022 as a whole was down significantly on the prior-year figure of 5.9 percent. A key pillar of support for the US economy was consumer spending, which – in turn – was propped up by a robust labor market. The unemployment rate fell from 3.9 percent in December 2021 to 3.5 percent in December 2022.

The rate of economic expansion in China slowed substantially during 2022. Following growth of 8.1 percent in 2021, economic output increased by just 2.8 percent in 2022. Multiple waves of severe restrictions imposed to contain the spread of COVID-19 weighed heavily on the Chinese economy. This was compounded by a slowdown in global economic growth and the weakness of the Chinese housing market.

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

Over the course of 2022, uncertainty in the capital markets increased due to the war in Ukraine, whereas the previous year had been characterized by a recovery in the markets as countries emerged from the depths of the COVID-19 pandemic.

The STOXX Europe 600, a share index comprising 600 large listed European companies, stood at 424.89 points as at December 31, 2022, which was 62.91 points lower than its level at the end of the previous year (December 31, 2021: 487.80 points). By contrast, the index had gained 88.77 points from December 31, 2020 to December 31, 2021.

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 2023 because of the COVID-19 pandemic.

At the end of the third quarter of 2022, the total borrowing of the 19 eurozone countries equated to 93.0 percent of their GDP, a decrease of 4.3 percentage points compared with the figure of 97.3 percent as at September 30, 2021.

Italy’s public debt as a percentage of GDP stood at 147.3 percent in the third quarter of 2022 (third quarter of 2021: 154.2 percent), which is the highest in the eurozone after that of Greece.

Portugal’s public debt as a percentage of GDP was 120.1 percent in the third quarter of 2022, compared with 129.1 percent in the same quarter of 2021.

In Spain, public debt as a percentage of GDP was 115.6 percent in the third quarter of 2022 (third quarter of 2021: 121.9 percent).

Based on a policy of quantitative easing, the European Central Bank (ECB) has supported the markets for government bonds in recent years, 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. 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.

At its meeting on December 15, 2022, the ECB decided to raise the rate for the deposit facility to 2.00 percent. The main refinancing rate was set at 2.50 percent, while the rate for the marginal lending facility was set at 2.75 percent. On December 16, 2021, the ECB Governing Council had decided that net asset purchases under the pandemic emergency purchase program (PEPP) with a maximum volume of €1,850.0 billion would be discontinued at the end of March 2022. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2024. On March 10, 2022, the ECB Governing Council decided to gradually reduce the monthly volume of assets bought under the asset purchase program (APP). As a result, monthly net purchases amounted to €40.0 billion in April 2022, €30.0 billion in May 2022, and €20.0 billion in June 2022. Net new purchases under the APP were discontinued in July 2022. The maturing principal payments from securities purchased under the APP must be fully reinvested until the end of February 2023. After this date, the APP portfolio will be scaled back at a measured pace by reducing the amount of maturing principal payments from securities that are reinvested. Until the end of the second quarter of 2023, the portfolio will be trimmed down by €15.0 billion per month on average. The pace of reductions beyond this point will be determined further down the line.

On December 14, 2022, the Fed announced that the federal funds rate would be raised again, to a range of 4.25 percent to 4.50 percent. In accordance with the Fed's decision of December 15, 2021, the federal funds rate had remained unchanged in the range of 0.00 percent to 0.25 percent in the previous year. The asset purchases of the Federal Reserve were wound up in March 2022. Since June 2022, the central bank has been slimming down its balance sheet by no longer fully reinvesting securities when they mature. At present, the Fed is reducing its balance sheet by US$ 95 billion per month.

The financial performance of Germany's two largest banks was generally positive in 2022. One of them tripled its net profit compared with the previous year, while the other reported a twofold increase in net profit. The loss allowances for loans and advances recognized by these major banks rose sharply compared with the previous year. With regard to administrative expenses, one of the banks achieved a significant reduction while the other recorded only a modest fall in the reporting year.

3 Financial performance

3.1 Financial performance at a glance

Market conditions in the reporting year were shaped by sharply rising interest rates, the war in Ukraine, and the after-effects of pandemic-related restrictions. In this challenging environment, the DZ BANK Group generated a profit before taxes of €1,797 million (2021: €3,096 million).

The year-on-year changes in the key figures that made up the net profit generated by the DZ BANK Group in 2022 were as described below.

FIG. 2 – INCOME STATEMENT

€ million	2022	2021
Net interest income	3,322	2,785
Net fee and commission income	2,749	2,935
Gains and losses on trading activities	823	152
Gains and losses on investments	-119	245
Other gains and losses on valuation of financial instruments	-286	242
Gains and losses from the derecognition of financial assets measured at amortized cost	35	-
Net income from insurance business	-179	842
Loss allowances	-304	120
Administrative expenses	-4,447	-4,265
Staff expenses	-2,072	-2,021
Other administrative expenses[1]	-2,374	-2,244
Other net operating income	204	41
Profit before taxes	1,797	3,096
Income taxes	-724	-920
Net profit	**1,073**	**2,176**

1 General and administrative expenses plus depreciation/amortization expense.

Operating income in the DZ BANK Group amounted to €6,549 million (2021: €7,242 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 increased by €537 million year on year to €3,322 million (2021: €2,785 million).

Within this figure, interest income from lending and money market business rose by €1,203 million to €5,726 million (2021: €4,523 million) and interest income from bonds and other fixed-income securities went up by €144 million to €485 million (2021: €341 million).

There was a positive change in interest on portfolio hedges of interest-rate risk (portfolios comprising financial assets), which improved by €304 million to a net expense of €77 million (2021: net expense of €381 million). By contrast, there was a negative change in interest on portfolio hedges of interest-rate risk (portfolios comprising financial liabilities), which deteriorated by €69 million to a net expense of €19 million (2021: net income of €50 million).

Interest expense for deposits from banks and customers rose by €594 million to €2,528 million (2021: €1,934 million) for volume-related reasons. This increase was attributable to a decline in interest expense on home savings deposits due to a one-off item of €185 million in connection with the reversal of provisions relating to building society operations and a simultaneous reduction in additions to provisions relating to building society operations of €95 million. Interest expense on debt certificates issued including bonds went up by €285 million to €494 million (2021: €209 million). This was mainly due to expansion of the portfolio of issued commercial paper.

Net fee and commission income declined by €186 million to €2,749 million (2021: €2,935 million).

Net fee and commission income from securities business diminished by €287 million to €2,325 million (2021: €2,612 million). This was primarily due to the €356 million reduction in performance-related management fees to €25 million (2021: €381 million) in the Union Investment Group. However, the Union Investment Group's volume-related net income contribution advanced by €50 million to €1,801 million (2021: €1,751 million) on the back of an increase in the average level of assets under management.

In addition, net fee and commission income from asset management improved by €14 million year on year to €128 million (2021: €114 million) and lending and trust activities by €31 million to €85 million (2021: €54 million).

Gains and losses on trading activities in 2022 came to a net gain of €823 million compared with a net gain of €152 million for the previous year.

This change was due to the significant volatility of market prices, which – as a result of risk management – had opposing effects on gains and losses on non-derivative financial instruments and embedded derivatives on the one hand and on gains and losses on derivatives on the other. Gains and losses on non-derivative financial instruments and embedded derivatives improved by €4,771 million to a gain of €4,473 million (2021: loss of €298 million). Conversely, gains and losses on derivatives deteriorated by €4,104 million to a loss of €3,794 million (2021: gain of €310 million). Gains and losses on exchange differences came to a net gain of €144 million (2021: net gain of €141 million).

Gains and losses on investments fell by €364 million to a net loss of €119 million (2021: net gain of €245 million).

Within this figure, gains and losses on the disposal of bonds and other fixed-income securities deteriorated by €180 million to a net loss of €41 million (2021: net gain of €139 million) – predominantly as a result of sales of securities in the BSH subgroup – and gains and losses on the disposal of shares and other variable-yield securities deteriorated by €64 million to a net loss of €62 million (2021: net gain of €2 million), primarily due to the disposal of investment fund units from the Union Investment Group's own-account investments.

Gains and losses on investments in associates amounted to a net gain of €15 million (2021: net gain of €109 million). The prior-year figure was, to a large extent, attributable to gains recognized on the disposal of direct equity investments held by VR Equitypartner.

Other gains and losses on valuation of financial instruments came to a net loss of €286 million (2021: net gain of €242 million).

This year-on-year change was attributable to the deterioration in gains and losses on financial instruments designated as at fair value through profit or loss of €271 million to a net loss of €160 million (2021: net gain of €111 million), in gains and losses on financial assets mandatorily measured at fair value through profit or loss of €127 million to a net loss of €75 million (2021: net gain of €52 million), in gains and losses from fair value hedge accounting of €65 million to a net loss of €45 million (2021: net gain of €20 million), and in gains and losses on derivatives used for purposes other than trading of €64 million to a net loss of €6 million (2021: net gain of €58 million).

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 2022, this figure decreased by €1,021 million to a net expense of €179 million (2021: net income of €842 million). The reduction was primarily due to the deterioration – driven by the situation in the capital markets – in gains and losses on investments held by insurance companies and other insurance company gains and losses of €8,640 million to a net loss of €3,389 million (2021: net gain of €5,251 million).

Conversely, insurance benefit payments fell by €8,229 million to €12,127 million (2021: €20,356 million). In the non-life insurance business, the overall claims rate was above the level of the prior year but below the three-year average. There was a major claim of around €71 million from a hotel business in December 2022. Expenses totaled €124 million from storms Nadia, Ylenia, Zeynep, and Antonia and €48 million from storms Emmelinde and Finja, with a corresponding impact on natural disaster claims during the reporting year. In the inward reinsurance business, the series of winter storms in Europe resulted in claims incurred of €42 million. The claims in connection with flooding in the South African province of KwaZulu-Natal came to €75 million, while claims in connection with hurricane Ian amounted to €89 million and claims resulting from tornado and hail events in April 2022 totaled €28 million. Moreover, expenses of €51 million associated with derecho storms in the United States were reflected in the ratio (a derecho is a widespread and long-lived straight-line wind storm).

Premiums earned fell by €597 million to €18,397 million (2021: €18,994 million).

As a member of the DZ BANK Group, R+V already had to measure its assets at fair value in accordance with IFRS 9. Equity and liabilities, and therefore liabilities to policyholders, will only be treated in the same way after the transition to IFRS 17 in the coming year. In 2022, insurance contracts were reported in accordance with IFRS 4 for the final time. For further information on the implications of IFRS 17 for net income from insurance business, see chapter V.4.2 of the outlook in this group management report.

Loss allowances amounted to a net addition of €304 million (2021: net reversal of €120 million).

Loss allowances for loans and advances to customers amounted to a net addition of €236 million (2021: net reversal of €71 million). The net addition to loss allowances for loans and advances to banks came to €30 million (2021: net reversal of €22 million). The net addition to other loss allowances for loans and advances was €42 million (2021: net reversal of €1 million). The net reversal of loss allowances for investments amounted to €4 million (2021: net reversal of €25 million).

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 went up by €182 million to €4,447 million (2021: €4,265 million). Within this figure, staff expenses advanced to €2,072 million, compared with €2,021 million in 2021. This increase was predominantly due to pay rises, appointments, and higher provisions for pensions and other post-employment benefits. Other administrative expenses climbed to €2,374 million (2021: €2,244 million), mainly because of increased contributions to the bank levy and higher expenses incurred in connection with consultancy and IT.

Other net operating income amounted to €204 million (2021: €41 million).

Income from the reversal of provisions and accruals rose by €71 million to €157 million (2021: €86 million), whereas expenses for restructuring fell by €73 million to €5 million (2021: €78 million). Residual other net operating income improved by €35 million to a net expense of €16 million (2021: net expense of €51 million). This was attributable, among other factors, to the recognition of canceled, non-interest-bearing home savings deposits of €30 million (2021: €9 million). There was a countervailing decline in gains and losses on non-current assets and disposal groups classified as held for sale, with the net gain falling by €21 million to €49 million (2021: net gain of €70 million).

Profit before taxes for 2022 amounted to €1,797 million, compared with €3,096 million in 2021.

The **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for the reporting year came to 67.9 percent (2021: 58.9 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 9.3 percent (2021: 15.7 percent).

Income taxes amounted to €724 million in the reporting year (2021: €920 million).

The DZ BANK Group generated a **net profit** of €1,073 million in 2022, compared with a net profit of €2,176 million in 2021.

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 2022 (chapter V of the 2021 group management report).

In 2022, the DZ BANK Group generated profit before taxes that was slightly higher than the budgeted figure.

Net interest income in the reporting year was much higher than expected, which was mainly attributable to a one-off item in connection with the reversal of provisions relating to building society operations at BSH and an increase in customer business at DZ BANK – CICB. The marked rise in net fee and commission income was driven primarily by growth in average assets under management. Gains and losses on trading activities improved substantially compared with the forecast figure, predominantly as a result of IFRS-related valuation effects in connection with own issues. Meanwhile, gains and losses on investments deteriorated sharply, in contrast to the positive forecast issued in 2021. This was attributable to losses on disposals at BSH and UMH. Net income from insurance business fell more steeply in the reporting year than had been forecast. Net additions to loss allowances remained considerably below the budgeted figure for 2022. 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 2022 compared with 2021.

3.2.1 BSH

The BSH subgroup's **net interest income** rose by €163 million in 2022 to €744 million (2021: €581 million).

Net interest income arising on investments declined by €104 million to €246 million (2021: €350 million).

Conversely, interest expense on home savings deposits fell by €324 million to €407 million (2021: €731 million). Of this reduction, €185 million was attributable to a one-off item in connection with the reversal of provisions relating to building society operations, €95 million to lower additions to provisions relating to building society operations, and €44 million to the lower interest rates applicable to current tariffs.

In the case of loans issued under advance or interim financing arrangements and other building loans, income amounted to €1,039 million (2021: €1,083 million). Income from home savings loans amounted to €70 million (2021: €70 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 2022, the amortization amount included in interest cost was €209 million (2021: €200 million).

Net fee and commission income amounted to €11 million in the reporting year (2021: €12 million).

In the home savings business in 2022, BSH entered into approximately 463 thousand (2021: 441 thousand) new home savings contracts with a volume of €34.1 billion (2021: €24.0 billion) in Germany.

In the home finance business, the realized volume of new business came to €16.3 billion (2021: €18.3 billion) in Germany.

Gains and losses on investments amounted to a net loss of €90 million (2021: net gain of €22 million). Within this figure, gains and losses on the disposal of bonds deteriorated to a net loss of €60 million (2021: net gain of €27 million). Valuations of joint ventures led to a net loss of €30 million (2021: net loss of €5 million).

Loss allowances amounted to a net addition of €16 million (2021: net addition of €14 million). The increase in loss allowances in the reporting year primarily related to the updating of macroeconomic parameters, while the main factor in the prior year had been the effect of recalibrating the rating systems.

Administrative expenses went up by €13 million to €528 million (2021: €515 million). At €274 million, staff expenses were €42 million higher than the prior-year level of €232 million. A €9 million rise in administrative expenses in the BSH subgroup was mainly caused by salary increases under collective pay agreements and by the inflation compensation payment. The remaining increase in staff expenses and the drop in other administrative expenses resulted largely from the first-time consolidation of Schwäbisch Hall Facility Management GmbH, BAUFINEX GmbH, and Schwäbisch Hall Wohnen GmbH. Other administrative expenses declined by €29 million to €254 million (2021: €283 million).

Other net operating income decreased by €26 million to €16 million (2021: €42 million). The recognition of canceled, non-interest-bearing home savings deposits generated income of €30 million (2021: €9 million). However, expenses relating to pre-litigation legal risks increased to €48 million (2021: €3 million).

Profit before taxes went up by €13 million to €143 million (2021: €130 million) because of the changes described above.

The **cost/income ratio** in 2022 was 76.7 percent (2021: 78.1 percent).

Regulatory RORAC was 11.2 percent (2021: 10.0 percent).

3.2.2 R+V

Premiums earned came to €18,397 million (2021: €18,994 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 fell by a total of €693 million to €8,707 million (2021: €9,400 million).

Premiums earned from the life insurance business declined by €792 million to €7,842 million. Except for the business involving unit-linked products, all product groups recorded a downturn in premium income, with single premiums falling particularly sharply.

In the health insurance business, net premiums earned rose by a total of €99 million to €865 million across all product groups.

In the non-life insurance business, premium income earned grew by €174 million to €6,738 million, with most of this growth being generated from corporate customer business and banks/deposit business.

Premiums earned from the inward reinsurance business diminished by €77 million to €2,952 million. The portfolio in the UK motor vehicle liability division was scaled back. All other product groups, particularly loans and deposits, recorded increases in premium income. While business in the US and Asia improved, Europe and all other regions recorded downturns. Nonetheless, Europe remains the biggest market.

Gains and losses on investments held by insurance companies and other insurance company gains and losses deteriorated by €8,648 million to a net loss of €3,368 million (2021: net gain of €5,280 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 level of long-term interest rates was significantly higher than in 2021. The ten-year swap rate was 3.20 percent as at December 31, 2022 (December 31, 2021: 0.30 percent). The movement of spreads on interest-bearing securities had a negative impact on gains and losses on investments held by insurance companies and other insurance company gains and losses. In the year under review, spreads continued to widen. A weighted spread calculated in accordance with R+V's portfolio structure stood at 89.8 points as at December 31, 2022 (December 31, 2021: 66.7 points). In the comparative period, this spread had risen from 50.3 points as at December 31, 2020 to 66.7 points as at December 31, 2021.

During the reporting year, equity markets relevant to R+V performed worse than in 2021. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, fell by 504 points over the reporting year to 3,794 points. In 2021, this index had risen by 745 points.

In the reporting year, movements in exchange rates between the euro and various currencies were generally less favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2022 was 0.937 compared with 0.879 as at December 31, 2021. In the previous year, the exchange rate had moved from 0.817 as at December 31, 2020 to December 0.879 as at December 31, 2021.

Overall, these trends in the reporting year essentially resulted in a €7,918 million negative change – resulting from the effects of changes in negative fair values – in unrealized gains and losses to a net loss of €5,302 million (2021: net gain of €2,616 million), a €937 decrease in the contribution to earnings from the derecognition of investments to a loss of €866 million (2021: gain of €70 million), a €363 million deterioration in foreign-exchange gains and losses to a net gain of €399 million (2021: net gain of €761 million), and a €25 million decline in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €101 million (2021: net expense of €76 million). However, net income under current income and expense rose by €133 million to €2,229 million (2021: €2,096 million), while other insurance gains and losses and non-insurance gains and losses improved by €460 million to a net gain of €272 million (2021: net loss of €187 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 €12,127 million, which equated to a fall of €8,229 million compared with the corresponding figure of €20,356 million in 2021.

The change 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 change in gains and losses on investments held by insurance companies from unit-linked life insurance was also reflected in insurance benefit payments in the form of a €5,167 million fall in the expenses (2021: €2,846 increase in expenses). Another factor in the decrease in insurance benefit payments was the change in premium refunds, which resulted from the change, recognized in profit or loss, in the provision for premium refunds. A reversal of €176 million was made from the supplementary change-in-discount-rate reserve (2021: addition of €730 million).

In the non-life insurance business, the overall claims rate was above the level of the prior year but below the three-year average. There was a major claim of around €71 million from a hotel business in December 2022. Expenses totaled €124 million from storms Nadia, Ylenia, Zeynep, and Antonia and €48 million from storms Emmelinde and Finja, with a corresponding impact on natural disaster claims during the reporting year.

In the inward reinsurance business, the net claims ratio was 73.3 percent (2021: 73.5 percent). The ratios for basic and medium claims were below those of the previous year. By contrast, the ratio for major claims went up. The series of winter storms in Europe resulted in claims incurred of €42 million. The claims in connection with flooding in the South African province of KwaZulu-Natal came to €75 million, while claims in connection with hurricane Ian amounted to €89 million and claims resulting from tornado and hail events in April 2022 totaled €28 million. Moreover, expenses of €51 million associated with derecho storms in the United States were reflected in the ratio (a derecho is a widespread and long-lived straight-line wind storm).

Insurance business operating expenses incurred in the course of ordinary business activities went down by €10 million to €3,173 million (2021: €3,183 million). This change was attributable to the fact that the increase of €70 million in the non-life division was more than offset by decreases of €40 million each in the inward reinsurance and life/health insurance divisions.

Other net operating income decreased by €42 million to a net expense of €5 million (2021: net income of €37 million). The prior-year figure had been significantly boosted by gains on property disposals. This effect was not repeated in the reporting year.

The factors described above resulted in a **loss before taxes** of €268 million (2021: profit before taxes of €772 million).

Regulatory RORAC was minus 2.9 percent (2021: 7.7 percent).

3.2.3 TeamBank

Net interest income amounted to €511 million and thus improved year on year (2021: €492 million). Average loans and advances to customers in the reporting year came to €9,119 million (2021: €9,395 million).

As at December 31, 2022, loans and advances to customers stood at €9,583 million (December 31, 2021: €9,208 million). The number of customers rose to 1,010 thousand (December 31, 2021: 984 thousand). TeamBank had made credit facilities from easyCredit-Finanzreserve totaling €3,041 million available to its customers as at December 31, 2022 (December 31, 2021: €2,555 million). In 2022, 23.2 percent (2021: 18.6 percent) of new business was generated through easyCredit-Finanzreserve.

As at December 31, 2022, TeamBank was working with 669 (December 31, 2021: 701) of Germany's 729 (December 31, 2021: 772) cooperative banks and with 154 (December 31, 2021: 148) partner banks in Austria.

Net fee and commission income saw a negative change of €12 million to a net expense of €13 million (2021: net expense of €1 million). Fee and commission income from the brokering of credit insurance policies fell as a consequence of the German Act on Supporting the Regulation of Crowdfunding Service Providers (SFBG). However, this was mitigated by making adjustments to the R+V framework agreement.

The net addition to **loss allowances** amounted to €100 million, which was up by €43 million compared with the prior-year figure of €57 million. Rating downgrades due to customers' poorer payment history and, to a lesser extent, a rise in new business prompted a higher net addition to loss allowances. The partial reversal of the post-model adjustment recognized in the previous year had a countervailing effect. The relevant risks materialized in the reporting year and were reflected in the increased expense for loss allowances. Moreover, the expense for loss allowances had been exceptionally low in 2021.

Administrative expenses amounted to €286 million (2021: €289 million). Within this figure, staff expenses totaled €108 million (2021: €110 million) while other administrative expenses came to €178 million (2021: €179 million).

Profit before taxes stood at €134 million and thus decreased by €17 million compared with the prior-year figure of €151 million.

TeamBank's **cost/income ratio** in 2022 was 55.1 percent (2021: 58.1 percent).

Regulatory RORAC was 22.8 percent (2021: 26.1 percent).

3.2.4 UMH

Net fee and commission income declined by €257 million to €2,036 million (2021: €2,293 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 €7.4 billion to €428.7 billion (2021: €421.3 billion), the volume-related contribution to net fee and commission income rose to €1,801 million (2021: €1,751 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 €25 million (2021: €381 million). The decrease was largely the result of some high-volume funds not fulfilling the conditions for the transfer of a performance-related management fee in 2022. Income from real estate fund transaction fees came to €75 million (2021: €90 million). Expenses for the performance bonus for sales partners totaled €44 million (2021: €101 million).

Union Investment generated net inflows from its retail business of €10.7 billion (2021: €19.7 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, stood at 3.8 million contracts as at December 31, 2022, with a decrease in the 12-month savings volume to €7.1 billion (December 31, 2021: €7.4 billion).

The total assets in the portfolio of Riester pension products amounted to €23.3 billion (December 31, 2021: €27.5 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at December 31, 2022 totaled 6.5 million (December 31, 2021: 6.4 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 €2.7 billion in 2022 (2021: €2.6 billion).

Assets under management in the PrivatFonds family amounted to €22.7 billion as at December 31, 2022 (December 31, 2021: €27.2 billion).

In its institutional business, the Union Investment Group generated net inflows amounting to €6.8 billion (2021: €20.8 billion).

The portfolio volume of funds conforming with article 8 or article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) amounted to €122.4 billion (December 31, 2021: €125.6 billion). As at December 31, 2022, this figure included €81.2 billion in assets defined as sustainable by Union Investment based on its own criteria.

Gains and losses on investments amounted to a net loss of €58 million (2021: net gain of €2 million), largely due to the net loss realized on the disposal of investment fund units from Union Investment's own-account investments.

Other gains and losses on valuation of financial instruments deteriorated by €195 million to a net loss of €155 million (2021: net gain of €40 million), which was largely attributable to a net loss of €125 million from the valuation of guarantee commitments (2021: net gain of €37 million) and the net loss of €30 million arising on the valuation of Union Investment's own-account investments (2021: net gain of €2 million).

Administrative expenses went up by €76 million to €1,194 million (2021: €1,118 million). Staff expenses increased by €11 million to €567 million (2021: €556 million) due to the rise in expenses for semi-retirement and pensions and as a result of average pay rises. Other administrative expenses climbed by €65 million to €627 million (2021: €562 million), mainly because of higher expenses incurred in connection with IT, consultancy, office management, information procurement, public relations, marketing, and rents for land and buildings.

Other net operating income amounted to net income of €54 million (2021: net income of €0 million). This year-on-year rise was mainly attributable to higher expenses for provisions in the previous year, for example in connection with taxation relating to corporate action and various other matters.

Based on the changes described above, **profit before taxes** amounted to €695 million (2021: €1,233 million).

The **cost/income ratio** in 2022 was 63.2 percent (2021: 47.5 percent).

Regulatory RORAC was greater than 100.0 percent (2021: 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 by €87 million to €1,113 million (2021: €1,026 million).

In 2022, the allocation of bonus interest resulting from participation in the TLTRO III program was changed from decentralized distribution among the business lines to centralized disclosure. Consequently, the following information on the business lines does not include earnings from TLTRO III and the figures for the previous year have been restated accordingly. The TLTRO III program's impact on earnings is disclosed separately below.

In the Corporate Banking business line, net interest income rose by €27 million to €550 million (2021: €523 million). The net interest income in the four regional corporate customer divisions plus Central Corporate Banking increased to €309 million (2021: €286 million). The rise in the operating lending business was due to the growth of the lending volume.

At €173 million, net interest income in the Structured Finance division was on a par with the previous year. The figure for 2022 was boosted by successful business activities that resulted in a greater lending volume in all product units and by the appreciation of the US dollar.

In the Investment Promotion division, net interest income advanced by €4 million to €68 million (2021: €64 million). This year-on-year increase primarily resulted from new business commitments and substantial portfolio growth in 2021, and from the fact that some of the associated development loans were only made available over the course of 2022 due to high demand for residential development funding.

At €1 million, net interest income from the separately managed real estate lending portfolio was down compared with the prior-year figure of €11 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 money market and capital markets business increased by €262 million to €383 million (2021: €121 million). This increase was thanks to the growth of business with cooperative financial network customers and institutional customers in the short-dated maturity segment, and to the treasury portfolios. Repayment gains on repurchased own issues also contributed to the improvement.

Net interest income attributable to bonus interest resulting from participation in the TLTRO III program decreased by €96 million to €71 million (2021: €167 million). The prior-year figure had included the share of interest generated in the second half of 2020.

Other net interest income from loan administration fees advanced by €6 million to €29 million (2021: €23 million).

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 €79 million (2021: €182 million). The reduction compared with 2021 can be explained by lower income from long-term equity investments at VR Equitypartner GmbH (down by €78 million to €23 million) and DZ Beteiligungsgesellschaft mbH Nr. 18 (down by €21 million to €9 million).

Net fee and commission income rose by €18 million to €489 million (2021: €471 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 €32 million higher than in 2021 at €183 million (2021: €151 million). Of this increase, €10 million was attributable to the syndicated loan business, €9 million to fees and commissions on loans in the securitization business, €5 million to fees and commissions in connection with loan processing, and €4 million to financial guarantee contracts / loan commitments.

In the Capital Markets business line, the contribution to net fee and commission income fell by €32 million to €192 million (2021: €224 million). One reason for this change was a €17 million rise in expenses for bonuses on own issues. Another was a €14 million decline in income from securities brokerage business.

Net fee and commission income in the Transaction Banking business line was also up year on year at €170 million, a rise of €12 million compared with the prior-year figure of €158 million. This increase was primarily driven by currency transactions in the service business (contribution of €8 million) and by the safe custody and securities management business (contribution of €3 million). Payments processing fees increased as well, but this was more than offset by higher fee and commission expenses payable to equensWorldline SE.

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 Logistik 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 €201 million (2021: €190 million) and were broken down and reported under the net fee and commission income for the business lines as follows: Corporate Banking €9 million (2021: €9 million) and Capital Markets/Transaction Banking €192 million (2021: €181 million).

Gains and losses on trading activities amounted to a net gain of €871 million (2021: net gain of €67 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 – apart from credit rating effects – also included in gains and losses on trading activities. The credit-rating-related effects pertaining to these financial instruments are included in other gains and losses on valuation of financial instruments if the instruments are financial assets or in equity if the instruments are financial liabilities.

Gains and losses on operating trading activities in the Capital Markets business line amounted to a net gain of €528 million, compared with €616 million in 2021.

Widening credit spreads had a substantial adverse impact on gains and losses on trading activities.

Income in the business with institutional customers went up year on year across all customer groups. Helping customers to protect their investments against rising interest rates through the use of derivative hedge transactions was a focal topic.

The foreign-exchange business improved in light of volatility in the currency markets. Business in interest-rate structures also picked up in terms of both profitability and volume. Secondary market business in bonds was weaker than in the previous year due to the market environment.

Whereas there had been a significant negative impact from IFRS-related effects in 2021, IFRS-related effects made a positive contribution to gains and losses on trading activities in the reporting year. In 2022, the key factors behind this figure included the fair value gains and losses relating to own issues in the fair value PL and fair value option subcategories. Whereas mark-ups had narrowed in the previous year, mainly due to calmer conditions in the bond markets following the COVID-19 crisis (2021: loss of €257 million), these mark-ups widened again in 2022, which gave rise to a net gain of €241 million for these issues under fair value gains and losses.

Ineffectiveness in hedge accounting also boosted earnings. This income was matched by an expense in the same amount recognized under other gains and losses on valuation of financial instruments.

Gains and losses on investments deteriorated by €88 million to a net loss of €13 million (2021: net gain of €75 million). The net loss in the reporting year resulted from losses of €145 million from the sale of securities in the category 'financial assets measured at fair value through other comprehensive income' combined with gains of €131 million arising from the termination of hedges held in the fair value hedge accounting portfolio.

Other gains and losses on valuation of financial instruments deteriorated to a net loss of €91 million (2021: net gain of €58 million). Within this figure, the valuation of financial instruments measured at fair value through profit or loss declined by €10 million to a net loss of €7 million (2021: net gain of €3 million), credit-risk-related measurement effects relating to financial assets measured using the fair value option declined by €29 million to a net gain of €5 million (2021: net gain of €34 million), and the effects of ineffectiveness in hedge accounting declined by €110 million to a net loss of €89 million (2021: net gain of €21 million).

Gains and losses from the derecognition of financial assets measured at amortized cost improved by €3 million to a net gain of €32 million (2021: net gain of €29 million).

Loss allowances amounted to a net addition of €172 million (2021: net reversal of €89 million). Within this figure, the net additions in the lending business and in respect of investments amounted to €199 million. Of this total, net reversals of €11 million related to the loss allowances in stage 1, while net additions of €121 million and €89 million respectively related to the loss allowances in stage 2 and stage 3. The net reversal in respect of recoveries on loans and advances previously impaired, directly recognized impairment losses, other gains and losses on purchased or originated credit-impaired assets (POCI assets), additions to other provisions for loans and advances, and gains and losses from the credit-risk-related modification was €27 million (2021: net reversal of €68 million).

Of the net additions in stages 1 and 2, €32 million was required 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.

Furthermore, loss allowances were increased in stages 2 and 3 owing to geopolitical risks and changes in the credit ratings of individual industries and counterparties.

In 2021, loss allowances had been influenced by reversals in stage 3 that were largely the result of the scaling back of an individual exposure of €51 million.

Administrative expenses went up by €58 million to €1,350 million (2021: €1,292 million).

Staff expenses fell by €8 million to €622 million (2021: €630 million). This was attributable, among other factors, to interest-rate-related measurement effects on provisions for employee benefits.

Other administrative expenses grew by €65 million to €728 million (2021: €663 million). Within this figure, the expenses for the restructuring fund for banks (bank levy) and contributions to the BVR protection scheme rose by €3 million to €81 million (2021: €78 million).

Furthermore, IT costs increased by €18 million to €192 million (2021: €174 million), office expenses by €7 million to €31 million (2021: €24 million), and consultancy expenses by €32 million to €205 million (2021: €173 million). The depreciation and amortization charges included in other administrative expenses went down by €3 million to €76 million (2021: €79 million). The breakdown of these charges was as follows: depreciation of right-of-use assets €29 million (2021: €32 million), depreciation of property, plant and equipment, and investment property €29 million (2021: €28 million), and amortization of other intangible assets €18 million (2021: €19 million).

Other net operating income amounting to €26 million (2021: net expense of €58 million) included reversals of provisions and accruals amounting to income of €67 million (2021: income of €38 million), expenses for paydirekt of €19 million (2021: expenses of €11 million), and additions to provisions for onerous contracts relating to leased out buildings amounting to an expense of €18 million (2021: expense of €18 million).

Profit before taxes amounted to €904 million in the reporting year, which was €439 million higher than the figure of €465 million reported for 2021.

The **cost/income ratio** in 2022 was 55.6 percent (2021: 77.5 percent).

Regulatory RORAC was 15.2 percent (2021: 8.6 percent).

3.2.6 DZ HYP

At €732 million, the **net interest income** of DZ HYP was €11 million higher than in the previous year (2021: €721 million).

The rise in net interest income was mainly the result of portfolio growth. The volume of real estate loans swelled by €1,192 million to €56,686 million (December 31, 2021: €55,494 million).

The volume of new business (including public-sector finance) stood at €10,439 million (2021: €12,048 million). In the corporate customer business, the volume of new business came to €8,064 million (2021: €8,736 million). In the retail customer business, the volume of new commitments amounted to €1,624 million (2021: €2,730 million). In the public-sector business, DZ HYP generated a new business volume of €751 million (2021: €582 million).

The volume of new lending jointly generated with the local cooperative banks in the corporate customer business amounted to €2,978 million in 2022 (2021: €3,859 million).

Net fee and commission income stood at €18 million (2021: €18 million).

Gains and losses on investments deteriorated to a net gain of €31 million (2021: net gain of €42 million). Of this net gain for 2022, €30 million was linked to the sale of Portuguese government bonds. In the previous year, there had been gains of €43 million from disposals of Spanish government bonds.

Other gains and losses on valuation of financial instruments declined by €77 million to a net loss of €14 million (2021: net gain of €63 million). A narrowing of credit spreads was evident in both 2022 and 2021, although this had resulted in a more positive overall valuation effect in 2021. For example, the gains and losses on valuation of bonds from the peripheral countries of the eurozone amounted to a net gain of €25 million in 2022 (2021: €87 million). Of this amount, a loss of €1 million (2021: gain of €33 million) was attributable to Italian government bonds, a gain of €20 million (2021: €39 million) to Spanish government bonds, and a gain of €6 million (2021: €15 million) to Portuguese government bonds. Valuation effects relating to other financial instruments had a countervailing influence, resulting in the overall net loss.

Loss allowances amounted to a net addition of €78 million (2021: net addition of €24 million). In light of significant changes in the economic environment, loss allowances for loans and advances relating to risks that had previously not been covered specifically were increased in order to take account of lingering uncertainty in the market. Reversals of loss allowances in stage 3 in connection with specific exposures had a countervailing effect.

Administrative expenses went up by €9 million to €256 million (2021: €247 million). Staff expenses rose by €8 million to €104 million (2021: €96 million) due to the increase in headcount and higher provisions for pensions and other post-employment benefits. Other administrative expenses were unchanged at €152 million.

Profit before taxes fell to €455 million (2021: €588 million).

The **cost/income ratio** in 2022 was 32.4 percent (2021: 28.8 percent).

Regulatory RORAC was 33.6 percent (2021: 41.6 percent).

3.2.7 DZ PRIVATBANK

The **net interest income** of DZ PRIVATBANK rose by €24 million to €83 million (2021: €59 million). This improvement was mainly attributable to higher income in the lending and money market businesses due to the changed interest-rate regime and market opportunities being seized in liquidity management.

In 2022, 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 €5.2 billion (2021: €4.9 billion).

Net fee and commission income went up by €8 million to €220 million (2021: €212 million).

The increase in net fee and commission income was mainly attributable to the larger contributions to income from private banking and the fund services business as a result of higher average asset volumes.

As at December 31, 2022, high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, came to €21.2 billion (December 31, 2021: €22.2 billion).

The value of funds under management amounted to €168.0 billion as at December 31, 2022 (December 31, 2021: €182.1 billion). The number of fund-related mandates was 565 (December 31, 2021: 550).

Administrative expenses increased by €26 million to €277 million (2021: €251 million). Staff expenses rose by €6 million to €160 million (2021: €154 million), predominantly due to the higher number of employees, the statutory index-linking of salaries in Luxembourg, pay rises, and a negative EUR/CHF exchange-rate effect. Other administrative expenses went up year on year to €116 million (2021: €97 million) due, in particular, to increased IT costs, higher regulatory contributions, maintenance costs for the bank building, and higher advertising and consultancy costs in connection with capital expenditure aimed at boosting the growth of the front-office divisions.

Profit before taxes climbed to €52 million (2021: €41 million).

The **cost/income ratio** in 2022 was 83.7 percent (2021: 85.7 percent).

Regulatory RORAC was 14.1 percent (2021: 12.1 percent).

3.2.8 VR Smart Finanz

Net interest income at VR Smart Finanz amounted to €116 million in the reporting year (2021: €125 million). The decrease in net interest income was mainly due to a slight year-on-year decline in the lending and object finance portfolio volume to €2,919 million (December 31, 2021: €3,015 million), which resulted from the discontinuation of the 'VR Smart flexibel' support loan as of April 30, 2022. This product had been offered in collaboration with Germany's KfW development bank. Longer delivery times for assets, which led to delays in final billing, meant that this effect could not be fully offset by income from object finance business.

New lending and object finance business with customers in the small business, self-employed, and SME segments was encouraging in the reporting year, increasing by €157 million to €1,026 million (2021: €869 million). Against the backdrop of a rise in investing activities among small and medium-sized enterprises (SMEs), demand for object finance, especially the hire purchase solution 'VR Smart express', was high in 2022. The volume of new 'VR Smart express' business came to €472 million (2021: €381 million). New business involving the 'VR Smart flexibel' business loan increased to €310 million (2021: €193 million). This reflected growth in the need for liquidity finance over the course of the year.

Net fee and commission income, which amounted to a net expense of €29 million (2021: net expense of €30 million), was predominantly influenced by the fees and commissions paid to the cooperative banks.

Loss allowances in 2022 amounted to a net addition of €9 million (2021: net addition of €14 million). This fall in expenses was primarily attributable to the change in the volume of lending and a year-on-year reduction in loan defaults among SME customers.

Administrative expenses went down by €4 million to €76 million (2021: €80 million) as a result of strict management of costs. The reduction in headcount meant that staff expenses declined by €2 million to €45 million (2021: €47 million). Other administrative expenses fell by €2 million to €32 million (2021: €34 million).

Other net operating income amounted to €0 million (2021: net expense of €9 million). The prior-year figure had included higher restructuring expenses than in 2022 as a result of a site closure.

The **profit before taxes** of VR Smart Finanz amounted to €3 million (2021: loss before taxes of €9 million).

The **cost/income ratio** in 2022 was 86.4 percent (2021: 93.0 percent).

Regulatory RORAC was 1.8 percent (2021: minus 5.2 percent).

3.2.9 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 €51 million in the reporting year (2021: net expense of €32 million).

The interest expense on subordinated capital went up by €5 million to €47 million (2021: €42 million) against the backdrop of an increase in the volume of this capital in the third quarter of 2022.

Net interest income from the funding of long-term equity investment carrying amounts and the investment of capital amounted to a net expense of €4 million in 2022 (2021: net income of €10 million). This decline was caused by higher funding expenses for long-term equity investments due to changes in market interest rates.

Administrative expenses went up by €20 million year on year to €228 million (2021: €208 million).

The expenses relating to the bank levy and contributions (in particular to the BVR protection scheme) rose by €11 million to €67 million (2021: €56 million). Furthermore, IT and project expenses increased from €63 million in 2021 to €72 million in 2022. Other expenses for the benefit of the group and local cooperative banks decreased by €1 million to €28 million (2021: €29 million). Expenses from the group management function amounted to €61 million, a year-on-year increase of €1 million (2021: €60 million).

3.2.10 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.

As part of the merger of DVB Bank into DZ BANK, changes were made to the internal reporting in 2022. DVB no longer constitutes a separate management unit and is therefore included under 'Other/Consolidation'. The prior-year figures have been restated accordingly.

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

4 Net assets

As at December 31, 2022, the DZ BANK Group's **total assets** had decreased by €0.3 billion to €627.0 billion (December 31, 2021: €627.3 billion) and thus held steady.

The **volume of business** amounted to €1,130.9 billion (December 31, 2021: €1,166.3 billion). This figure comprised the total assets, the assets under management at UMH as at December 31, 2022 amounting to €413.1 billion (December 31, 2021: €454.1 billion), the financial guarantee contracts and loan commitments amounting to €88.6 billion (December 31, 2021: €82.6 billion), and the volume of trust activities amounting to €2.2 billion (December 31, 2021: €2.3 billion).

Cash and cash equivalents went up by €7.7 billion to €93.7 billion (December 31, 2021: €86.0 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).

Loans and advances to banks rose to €123.4 billion (December 31, 2021: €107.7 billion). Loans and advances to banks in Germany swelled to €114.0 billion (December 31, 2021: €99.9 billion) while loans and advances to foreign banks increased to €9.4 billion (December 31, 2021: €7.7 billion).

Loans and advances to customers amounted to €203.6 billion, which was higher than the figure of €195.7 billion reported as at December 31, 2021. Loans and advances to customers in Germany grew to €176.1 billion (December 31, 2021: €169.7 billion) while loans and advances to foreign customers rose to €27.5 billion (December 31, 2021: €25.9 billion).

Financial assets held for trading amounted to €48.9 billion (December 31, 2021: €47.3 billion). Within this amount, derivatives (positive fair values) stood at €21.5 billion (December 31, 2021: €16.2 billion), bonds and other fixed-income securities at €7.7 billion (December 31, 2021: €11.0 billion), shares and other variable-yield securities at €1.4 billion (December 31, 2021: €1.8 billion), receivables at €18.3 billion (December 31, 2021: €18.4 billion), money market placements at €17.1 billion (December 31, 2021: €17.1 billion), and promissory notes and registered bonds at €1.3 billion (December 31, 2021: €1.3 billion).

Investments declined by €9.0 billion to €43.4 billion (December 31, 2021: €52.4 billion). The main reason for this change was a decrease in the portfolio of bonds and other fixed-income securities of €8.4 billion to €40.7 billion (December 31, 2021: €49.1 billion).

Investments held by insurance companies fell by €23.1 billion to €106.0 billion (December 31, 2021: €129.1 billion). This was due to a €13.7 billion decrease in fixed-income securities to €47.7 billion (December 31, 2021: €61.4 billion), a €3.1 billion decrease in registered bonds to €5.4 billion (December 31, 2021: €8.5 billion), a €2.3 billion decrease in assets related to unit-linked contracts to €16.4 billion (December 31, 2021: €18.7 billion), and a €2.0 billion decrease in mortgage loans to €11.0 billion (December 31, 2021: €13.0 billion).

Deposits from banks as at December 31, 2022 amounted to €186.8 billion, which was €9.8 billion lower than the figure reported as at December 31, 2021 of €196.6 billion. Deposits from domestic banks were down by €17.1 billion to €170.7 billion (December 31, 2021: €187.8 billion), whereas deposits from foreign banks rose by €7.3 billion to €16.1 billion (December 31, 2021: €8.8 billion). As at December 31, 2022, the nominal value of the DZ BANK Group's participation in the ECB's TLTRO III program was €11.0 billion (December 31, 2021: €32.4 billion).

Deposits from customers grew by €20.4 billion to €159.4 billion (December 31, 2021: €139.0 billion). Deposits from domestic customers rose by €14.0 billion to €129.7 billion (December 31, 2021: €115.7 billion) and deposits from foreign customers by €6.5 billion to €29.8 billion (December 31, 2021: €23.3 billion).

At the end of the reporting year, the carrying amount of **debt certificates issued including bonds** was €82.3 billion (December 31, 2021: €79.7 billion). Within this figure, bonds issued totaled €68.3 billion (December 31, 2021: €67.1 billion) while the portfolio of other debt certificates came to €14.1 billion (December 31, 2021: €12.6 billion).

Financial liabilities held for trading went up by €9.1 billion to €52.5 billion (December 31, 2021: €43.4 billion). The change was largely attributable to an increase in derivatives (negative fair values) of €11.2 billion and a countervailing decline of €2.2 billion in the amount of bonds issued.

Insurance liabilities went down by €15.1 billion to €103.8 billion (December 31, 2021: €118.9 billion). This was largely attributable to the decrease of €15.6 billion in the provision for premium refunds to €4.4 billion (December 31, 2021: €11.2 billion) and the decrease of €0.9 billion in the reserve for unit-linked insurance contracts to €14.9 billion (December 31, 2021: €15.8 billion). By contrast, the benefit reserve increased by €1.0 billion to €75.2 billion (December 31, 2021: €74.2 billion) and the provision for claims outstanding by €0.4 billion to €16.8 billion (December 31, 2021: €16.4 billion).

As at December 31, 2022, **equity** stood at €23.1 billion, which equates to a year-on-year fall of €5.6 billion (December 31, 2021: €28.7 billion). This change was due to a reduction in the reserve from other comprehensive income of €5.8 billion to minus €4.1 billion (December 31, 2021: €1.7 billion) and a fall in non-controlling interests of €0.7 billion to €1.1 billion (December 31, 2021: €1.8 billion).

The **capital adequacy** of the DZ BANK financial conglomerate, the DZ BANK banking group, and the R+V Versicherung AG insurance group is described in the risk report within this group management report (chapter VII.8).

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, 2022, the nominal value of the DZ BANK Group's participation in the ECB's TLTRO III program was €11.0 billion (December 31, 2021: €32.4 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 adequacy** (chapter VII.7). 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.