# V Outlook

## 1 Economic conditions

### 1.1 Global economic trends

The war in Ukraine and the resultant energy crisis continue to cast a shadow over the outlook for the global economy. The European Union, including Germany, and the other western allies have been gradually tightening their sanctions against Russia. Many countries – not just Russia – are feeling the negative economic impact of the higher energy prices and the sanctions imposed. The adverse effect on Germany, in particular, and other EU countries is especially pronounced because they have been heavily dependent on energy supplies from Russia until now.

Other factors impacting the economic outlook include the COVID-19 pandemic and international trade disputes. Although the virus variants that are currently circulating are less dangerous, there is significant uncertainty about how the coronavirus pandemic will develop going forward.

The risk of new protectionist measures in trade relations between the United States, China, and Europe has increased in recent months, as can be seen from the debate surrounding the US Inflation Reduction Act. Geopolitical tensions, such as over the position of Taiwan, may prompt a further escalation of trade disputes. This would adversely affect the global economy and hit the heavily export-dependent German economy particularly hard. Supply chain problems and renewed upswings in energy prices could prolong the phase of elevated inflation rates.

Although Germany and the rest of Europe will probably be able to avoid a physical shortage of gas, the energy crisis – and the resulting high level and volatility of energy prices – is likely to trigger a recession in some parts of the world at the start of 2023. Another factor is the surge in interest rates, which has made companies and consumers less willing to invest. In the case of the latter, this particularly affects investment in real estate. Nonetheless, the regions affected by recession should start to stage an economic recovery this year.

With rates already high before the outbreak of the war in Ukraine, inflation shot up in many regions of the world in 2022 as a consequence of the energy crisis. Although it probably reached its zenith at the end of 2022, inflation is likely to fall only gradually because, for many products, it will take quite some time for the high energy prices to filter through the various production stages before reaching end customers. This means that, despite their downward trajectory, inflation rates are expected to remain far above the western central banks' target levels in 2023.

### 1.2 Trends in the USA

The US economy did not present a clear-cut picture in 2022. Despite various challenges, the growth rate for gross domestic product (GDP) was moderate at 2.1 percent.

However, the prospects for 2023 are much gloomier as inflation is predicted to fall only gradually, with an average rate for the year of around 6 percent. Inflation therefore continues to eat into consumers' real incomes. The problems created by restrictive monetary policy are increasingly taking their toll on the real economy too. Sentiment has already deteriorated markedly, especially in the construction industry. A period of recession in 2023 now appears inevitable. Consequently, DZ BANK anticipates a year-on-year decline in US economic output of around 0.8 percent in 2023, even though the economy is likely to embark on a rally in the second half of the year. From the current perspective, however, the consistently stable condition of the US labor market should particularly help to avoid a more severe recession.

### 1.3 Trends in the eurozone

The Ukraine war is grinding on and the EU is continuing to impose sanctions on Russia, resulting in persistently high uncertainty. Back in the summer of 2022, the cutting off of Russian gas supplies to Europe was seen as a serious risk for the economies of the eurozone. However, Europe's gas storage facilities were filled for the winter much more quickly than had been expected when the war began. Increased deliveries of gas from other countries are making up for some of the volume that would otherwise be supplied by Russia.

Nevertheless, gas and electricity prices remain much higher than before the crisis. This is leading to significant production restrictions, as the high prices make certain production processes unprofitable and they are therefore being cut back. On the one hand, these partial production shutdowns are helping to achieve the targeted gas savings but, on the other, the loss of value creation is contributing to the decline in economic growth. In addition, high energy prices and inflationary pressures right across the goods and food sectors are making consumers less willing to make purchases. This is squeezing consumer spending.

The eurozone economy is thus likely to slip into recession. A moderate economic recovery is then expected but not until spring 2023, when the warmer weather will reduce demand for energy. This in turn will reduce the upward pressure on prices. While the eurozone's economic growth was fairly robust at 3.5 percent in 2022, economic output is likely to shrink by 1.0 percent in 2023. DZ BANK expects the inflation rate to decrease from 8.5 percent in 2022 to 6.0 percent in 2023, but it will therefore still be at a very high level. The combination of the generally mild winter weather and the fall in gas and electricity prices is reducing the burden on households and companies, raising the prospect of more favorable macroeconomic conditions ahead.

### 1.4 Trends in Germany

Since the outbreak of the war in Ukraine, the sustained interruption of gas supplies from Russia has always been seen as the biggest risk to the German economy. Although this has become a reality, huge efforts have been made to fill the gas storage facilities since the start of the war. In 2022, high volumes of gas were stored more quickly than in the previous year, partly thanks to increased deliveries of gas from other countries. The opening of Germany's first liquid gas terminal at the beginning of 2023 is expected to bring further relief for the country's tight supply situation. Nevertheless, the high energy prices mean that less gas is being consumed, and this is essential if a shortage is to be avoided. In particular, however, production restrictions in industry are acting as a brake on economic growth.

The prolonged upward trend in the German real estate market initially continued in 2022. However, demand for property, which had previously been fueled by historically low financing rates and capital market yields, suddenly slumped in the second quarter owing to the surge in interest rates. Having previously risen sharply, residential real estate prices peaked in mid-2022 and are expected to fall by between 4 percent and 6 percent in 2023. Commercial real estate prices stagnated in both 2021 and 2022, largely as a result of adverse pandemic-related factors such as people working from home and shopping online. In 2023, commercial properties may see a price fall of between 7 percent and 9 percent because investors are demanding higher returns. Despite the high price level in the real estate market, the tight supply of properties should counteract a more pronounced price correction. Nevertheless, the jump in financing and construction costs has put paid to many building projects. This makes a marked reduction in completions likely in 2023.

The decline in construction activity is holding back economic growth and high inflation is eating into consumers' budgets. As a result, the German economy is slipping into recession, even in the absence of an actual shortfall in gas supplies. Following GDP growth of 1.8 percent in 2022, DZ BANK predicts a slight contraction in 2023. The relief measures planned by the German government for companies and households, such as the cap on gas and electricity prices, will ease the energy-price-related fallout from record-high inflation rates somewhat but not cancel it out completely. DZ BANK anticipates only a moderate decline in inflation from its elevated levels. The inflation forecast for 2023 is 6.5 percent, compared with 8.7 percent in 2022. Energy is expected to make less of a contribution to inflation over the course of 2023, but industrial goods

and food will probably increase the upward pressure on prices. In Germany too, the sharp fall in energy prices in recent months has been a major factor in the improvement in sentiment among companies and consumers and is resulting in brighter economic prospects. From the current perspective, a more pronounced fall in economic output could therefore be avoided this year.

### 1.5 Trends in the financial sector

In 2022, the world's major central banks abandoned the expansionary monetary policy that they had introduced in response to the financial crisis and hiked interest rates dramatically. The financial markets had not anticipated a monetary policy shift of these proportions. The US Fed has been raising the federal funds rate in order to curb inflation, with the latest increase taking it to a range of 4.5 percent to 4.75 percent. Having previously been at zero, the ECB's main refinancing rate now stands at 3.0 percent.

The Fed discontinued its bond-buying program in March 2022 and then began trimming its balance sheet in May 2022, while the ECB intends to start gradually reducing its holdings under the asset purchase program (APP) from March 2023. The ECB plans to reinvest the maturing principal payments from the securities purchased under the pandemic emergency purchase program (PEPP) until at least the end of 2024. This cautious approach from the ECB, which has been designed with flexibility in mind and is complemented by the transmission protection instrument (TPI) introduced in July 2022, should help to prevent spreads on the bonds of individual eurozone countries from rising excessively – where the ECB does not see these rises as justified by the fundamentals – and thus to counter potential fragmentation risk. It remains to be seen what effect these measures will have, including in terms of the stability of the eurozone.

Monetary policy and geopolitical conditions prompted a sharp rise in the nominal interest rate, which had been at a low level at the start of 2022. Nevertheless, the yield curve in the euro area remains relatively flat and has recently inverted. The US dollar yield curve is currently exhibiting a pronounced inversion, reflecting the recession that is expected in the United States.

The shift in the term structure of interest rates to positive territory should benefit interest-related business in the financial sector. However, there is a concern that a further rise in interest rates, combined with the predicted softening of the economy, may result in higher levels of loan defaults and to slumps in the financial markets, such as the real estate and bond markets. Expected price levels are likely to determine whether the major central banks conclude their cycle of interest-rate hikes in 2023 and then leave key interest rates at a level that real interest rates become restrictive. This would bring them closer to the goal of price stability again.

As described above, the factors acting as a brake on the global economy include the problems affecting supply chains around the world (which could flare up again if the pandemic worsens in China), geopolitical tensions, and the related trade disputes. Irrespective of any government support measures, the intensity of the expected recession, particularly in Europe, is likely to depend on developments in the war in Ukraine and on the supply of commodities and energy at reasonable prices (see also chapters 1.1 to 1.4 of the outlook and chapter VII.4.2 of the risk report with regard to the macroeconomic risk factors).

Given that the uncertainty factors – which are relevant to the major economic areas (United States, Europe, and China) – are occurring simultaneously and have an impact on each other, it is impossible to rule out unexpected adverse effects on companies and households, which in turn would have negative implications for the financial position and financial performance of the financial sector in 2023.

Regardless of the aforementioned macroeconomic conditions, the financial sector has faced considerable pressure in terms of both adjustment and costs in recent years. This is due to the need to implement structural change to adapt to competitive conditions, but may be intensified by the strong upward pressure on prices and the potential threat of a wage/price spiral. A large number of competitors, frequently with approaches

based on disruptive technologies, 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.

The agenda of regulatory reforms initiated in response to the financial crisis has a range of objectives, including making the financial sector more resilient in the event of a crisis, mainly through improved capital and liquidity adequacy, and ensuring that the risks arising from the business activities in the financial industry are not borne by the public sector. As a result, the financial industry has progressively reduced its leverage and substantially bolstered its risk-bearing capacity by improving liquidity and capital adequacy. The steps to implement the Basel III framework that are still planned should be seen in this context, as should the corresponding requirements imposed by EU banking regulators.

The issue that is likely to continue shaping activities in the financial industry in the long term is the implementation of the multifaceted ESG standards and their implications for the business models used in the sector. Among other aims, the standards embody a political objective, which is to facilitate and actively support the transition of the economy to an environmentally sustainable basis, a process that is deemed to be necessary because of climate change and the related risks. 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. The consideration of ESG aspects in the financial and capital markets is, on the one hand, opening up new market opportunities for the financial sector. On the other, events in the various ESG categories should also be seen as risks and managed accordingly. Information on the handling of ESG risks can be found in the risk report (chapter VII.6).

## 2 Financial position and financial performance

In 2023, 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 2023 from the underlying planning scenario, in the form of opportunities and risks, may have an influence on financial position and financial performance.

According to the planning for 2023, **total assets** will generally remain steady compared with the figure as at the end of 2022. The forecast growth in the customer business, which will have a corresponding impact on the balance sheet, is expected be focused in the BSH, DZ HYP, 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, among other factors, the reduced use of open market operations under the ECB's TLTRO III programs.

Based on current assessments, **net interest income** (including net income from long-term equity investments) will decline markedly for various reasons in 2023, even though the operating business is expected to be robust. One reason is the absence of positive effects seen in the reporting year (see chapters II.3.2.1 'BSH' and 3.2.5 'DZ BANK – CICB' of the business report). Net interest income is expected to be stabilized by the forecast growth in the interest-bearing business, especially in the operating segments in the DZ BANK Group that are sensitive to interest rates.

Although **net fee and commission income** is projected to be slightly lower in 2023 compared with the high level achieved in 2022, it will still make a hefty contribution to the earnings of the DZ BANK Group. In the UMH operating segment, a small reduction in volume-related net fee and commission income has been budgeted on the assumption that average assets under management will hold steady. Income from the commission-bearing business in the DZ BANK – CICB and DZ PRIVATBANK operating segments is predicted to fall slightly.

**Gains and losses on trading activities** in 2023 are expected to deteriorate significantly compared with 2022 owing to the absence of positive effects seen in the reporting year (see chapter II.3.2.5 'DZ BANK – CICB' of the business report).

**Gains and losses on investments** are anticipated to improve noticeably to a net gain in 2023, partly because the figure for 2022 was depressed by sales of investments and other factors (see chapters II.3.2.1 'BSH' and II.3.2.4 'UMH' of the business report).

**Other gains and losses on valuation of financial instruments** are likely to improve significantly in 2023, returning to a normal level. This is based on the expected changes in the valuation parameters and the absence of negative valuation effects recognized in the reporting year (see chapter II.3.2.4 'UMH' of the business report).

**Net income from insurance business** is predicted to rise sharply in 2023. In respect of the R+V operating segment, this forecast is rooted not only in expectation of an encouraging level of insurance operating business but also, in particular, in the predicted normalization of gains and losses on investments held by insurance companies and, to a lesser extent, in the expected effects of the changes to the accounting standards for insurance companies (see chapter V.4.2 'R+V' of the outlook).

Expenses for **loss allowances** will probably go up significantly in 2023, reflecting the targeted volume of new business in a macroeconomic environment that is expected to deteriorate.

**Administrative expenses** are likely to rise slightly in 2023 compared with the reporting year because of growth-related capital investment, inflation, and the planned increases in the contributions to the bank levy and the BVR deposit guarantee fund.

The **other net operating income** generated by the DZ BANK Group in 2023 is expected to fall substantially, largely because of the absence of positive one-off items recognized in 2022 (see chapters II.3.2.4 'UMH' and 3.2.5 'DZ BANK – CICB' of the business report).

Despite the challenging geopolitical conditions that saw a sharp correction in the capital markets and a surge in interest rates, the DZ BANK Group's profit before taxes was slightly higher than budgeted in 2022, which is an indication of the DZ BANK Group's resilience. Based on current assessments, **profit before taxes** in 2023 is predicted to be within the long-term target range of €1.5 billion to €2.0 billion because the macroeconomic environment is expected to remain very difficult.

The future financial performance of the DZ BANK Group could be subject to risks arising from possible variances from the macroeconomic base data assumed in the planning scenario. The strength of the predicted recession, the level of price increases, and the related financial and capital market influences are among the uncertainties that are creating challenges for the individual business models in the DZ BANK Group. These uncertainties are monitored continuously and factored into the DZ BANK Group's planning, reporting system, and management.

The **cost/income ratio** for the DZ BANK Group is likely to edge up in 2023 as a result of the expected small year-on-year increase in income and simultaneous small rise in expenses.

**Regulatory RORAC**, the risk-adjusted performance measure based on regulatory risk capital, will probably decline a little in 2023 because of the lower earnings projections.

## 3 Liquidity and capital adequacy

Based on the position at the end of 2022 and the funding measures planned for 2023, the DZ BANK Group predicts that it will be able to continue maintaining an appropriate level of economic and regulatory **liquidity adequacy** in 2023.

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

As matters currently stand, the DZ BANK Group's **capital adequacy** will continue to be assured for 2023 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital and eligible own funds necessary to cover the risks associated with the finance business and other risks arising from the group's business operations. For 2023, this takes into account the introduction of the sectoral systemic risk buffer of 2 percent of risk-weighted assets for domestic loans secured by residential real estate and the raising of the countercyclical capital buffer rate for Germany to 0.75 percent. These capital buffers need to be met entirely from 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 2023, a high priority will once again be given to strengthening the capital base in order to ensure stable capital ratios.

For 2023, DZ BANK anticipates that the **common equity Tier 1 capital ratio** of the DZ BANK Group will be strengthened significantly as a result of the introduction of the IFRS 17 accounting standard in the R+V operating segment with effect from January 1, 2023. One of the main changes stemming from application of these new accounting rules for the insurance industry is that not only the assets but now also the equity and liabilities of the R+V operating segment will be measured at fair value, which means that the temporary valuation effects that led to a fall in the DZ BANK Group's common equity Tier 1 capital ratio in 2022 owing to the change in interest rates should be largely cancelled out again. Overall, DZ BANK is aiming for a common equity Tier 1 capital ratio of above 14 percent in 2023.

Further information on capital adequacy can be found in the risk report (chapter VII.8).

## 4 Operating segments in detail

### 4.1 BSH

After a boom lasting many years, the rise in lending rates and construction prices is likely to once again take its toll on demand for residential real estate in 2023. Following the sharp increase in lending rates in 2022, experts at the Institut der Deutschen Wirtschaft (IW) [German Economic Institute] predict that the situation will ease slightly in 2023, with rates expected to rise only moderately. On the supply side, construction activity is likely to remain muted owing to shortages of materials and labor. The Zentralverband des Deutschen Baugewerbes e. V. (ZDB) [German Construction Confederation] is therefore forecasting the completion of just 245,000 homes in 2023, compared with 280,000 in 2022.

Cost continues to be a major stumbling block when deciding whether to improve the energy efficiency of a residential property. However, the decline in construction activity and persistently high energy prices are likely to push householders toward modernization in 2023, providing further momentum for energy efficiency measures. Building societies are helping their customers to save up specifically so that they can afford to invest in boosting the efficiency of their homes. Two-thirds of home savings in Germany are plowed into real estate, for example to update the heating technology or the roof.

Although the economy is expected to soften, the labor market will probably remain robust in 2023. On the whole, German households' debt levels are not excessively high. Consequently, a significant increase in payment difficulties among borrowers with building loans is not anticipated in the forecast period.

In the core home finance business, the volume of new business is likely to fall sharply in 2023. This can mainly be explained by the significant volume in the first half of 2022, which will affect the year-on-year comparison. Whereas the 'Schwäbisch-Hall-instantly-available-home finance-loans' are predicted to see a substantial decline, BSH anticipates a sharp rise in respect of home savings loans and bridging loans, albeit from a low level. This also reflects the expected fall in demand for residential real estate and an increase in energy efficiency measures.

As regards home savings, the second core business at BSH, new business is predicted to be slightly below the record level achieved in 2022 because of the rise in interest rates in 2022, combined with the likely continuation of economic uncertainty.

The low level of interest rates in previous years means that the rise in interest rates will not have much of a positive impact on interest income in 2023. However, the rapid rise in interest rates will have a greater effect on the funding that is required – partly for regulatory reasons – in 2023. Moreover, net interest income in 2022 was boosted by a one-off item (see chapter II.3.2.1 'BSH' of the business report). Based on these expectations, **net interest income** is forecast to decline significantly in 2023.

**Net fee and commission income** is likely to decline sharply in 2023 in percentage terms. A substantial reduction in new home finance business, combined with a small year-on-year decrease in new home savings business, will probably lead to a low level of net fee and commission income being recognized.

**Gains and losses on investments** are predicted to improve significantly because action taken in response to the surge in interest rates weighed heavily on the figure for 2022 (see chapter II.3.2.1 'BSH' of the business report).

With regard to loss allowances, BSH will benefit from the expected ongoing stability of the labor market, despite volatile economic conditions in Germany. Support measures introduced by the German government will also provide relief. Despite the substantial growth of the lending portfolio in recent years, **loss allowances** will probably be down moderately from their already low level in 2022.

In 2023, **administrative expenses** are projected to rise slightly compared with 2022. The increase is expected to remain significantly below the rate of inflation.

Taking these various factors into account, BSH anticipates that its **profit before taxes** will see a sharp year-on-year fall in 2023.

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

**Regulatory RORAC** is expected to decline markedly.

### 4.2 R+V

Given the macroeconomic risk factors and geopolitical tensions, 2023 will be another very challenging year. Nonetheless, R+V – the composite insurer in the cooperative financial network – is planning to continue on its trajectory of profitable growth in 2023. This is based on the WIR@R+V strategic program, which focuses on making customers happy, increasing profitability, and maintaining a strong capital base.

With effect from the 2023 financial year, R+V's underwriting business will be reported in accordance with IFRS 17 Insurance Contracts, which supersedes the transitional standard IFRS 4. Based on the new valuation methods and in accordance with the rules of IFRS 17, the R+V operating segment will use a new structure for its income statement consisting of insurance revenue, insurance service expenses, insurance finance income or expenses, and other components.

In connection with the introduction of this new accounting standard, the existing performance indicators will continue to be used, with adjustments where necessary. Other indicators will be developed over time by looking at the approach taken in the wider insurance industry and based on internal considerations.

For 2023, the IFRS 4-oriented bottom-up planning was used to produce additional planning in accordance with IFRS 17. Overall, a significant improvement in **profit before taxes** compared with 2022 is expected. This improvement can be seen in the original IFRS 4 planning and is due primarily to the predicted normalization of gains and losses on investments held by insurance companies and, to a lesser extent, to the changes under IFRS 17.

Regardless of the IFRS 17 requirements regarding the new structure for the income statement and the notes to the consolidated financial statements, R+V plans to continue disclosing its gross premiums written in the notes as well as its **combined ratio** (total of insurance business operating expenses and claims expenses divided by premiums earned). These continue to be financial key performance indicators and are implicit elements of the insurance revenue and insurance service expenses to be reported under IFRS 17. R+V anticipates a sharp rise in **gross premiums written** in 2023. Based on the fair-value-oriented valuation methods in IFRS 17 for liabilities arising from insurance contracts, the combined ratios reported in the non-life insurance and inward reinsurance businesses are generally expected to improve year on year.

The values budgeted for in the IFRS 4-based bottom-up planning are explained below in order to provide comparability between the forecasts for 2023 and 2022. However, the planning is subject to uncertainty because potential variances from the assumed planning scenario may arise in the current environment.

The **non-life insurance** division is expected to continue generating growth in 2023 and will tackle both existing and new challenges in the context of the Füreinander WIRKEN strategy. The new IT platform PhoeniX, along with interdisciplinary collaboration between agile teams, will support the rapid, customer-oriented development of products.

A slight rise in **gross premiums written** is predicted for 2023. The **claims rate** calculated in accordance with IFRS 4 valuation methods (net expenses for claims divided by net premiums earned) is forecast to hold steady compared with 2022, based on the economic performance assumed in the planning and the level of households' disposal incomes. The **expense ratio** (net insurance business operating expenses divided by net premiums earned) will probably be a little higher than the 2022 level.

Even after the period of low interest rates, business management in the **life and health insurance** division will continue to focus on profitability in 2023.

**Gross premiums written** in **life insurance** are predicted to be higher than in 2022, which will be a very ambitious achievement in the current environment. A sharp rise in **gross premiums written** is anticipated in **health insurance**.

In the **inward reinsurance** division, the improvement in prices and conditions for reinsurance cover is expected to continue in 2023. The influence of climate change on natural disaster events in recent years has made it clear that the agreements between primary insurers and their reinsurance partners do not yet adequately take into account events with short return periods or the increase in high-volume minor claims. There are also catch-up effects in terms of prices, firstly as a result of the claims incurred in the past in relation to the COVID-19 pandemic and secondly for higher claims in 2022 due to the rise in inflation.

The inward reinsurance division will continue to focus on improving other insurance gains and losses in line with the ongoing adjustment of the division's strategy. Further moderate growth in **gross premiums written** is predicted. From the perspective of expenses under IFRS 4, a slight improvement in the **expense ratio** and an unchanged **claims rate** are expected for 2023.

In 2023, **gains and losses on investments held by insurance companies** (excluding the portion attributable to unit-linked life insurance) are forecast to improve sharply compared with 2022. The rise in interest rates and the setbacks on the stock markets weighed heavily on gains and losses on investments held by insurance companies in 2022.

**Regulatory RORAC** is projected to rise considerably in 2023 because of the negative earnings figure reported under IFRS in 2022 (sharp rise in interest rates; see chapter II.3.2.2 'R+V' of the business report).

### 4.3 TeamBank

Government relief measures are stabilizing households' disposal incomes and have helped to avoid a slump in consumer spending. However, the continued potential for escalation of the war in Ukraine and for an energy shortage next winter remains a material economic risk.

Having contracted as a result of the coronavirus pandemic, the consumer finance market returned to growth in 2023. Consumers are showing extremely little inclination to make purchases, whereas the inclination to obtain finance is stable. Overall, therefore, borrowing is expected to fall slightly in the next twelve months. By contrast, consumers' growing preference for digital channels is likely to encourage the use of installment payment plans in e-commerce.

In collaboration with the cooperative banks, TeamBank is aiming in 2023 to generate profitable, sustainable growth at a rate that is higher than that of the market. This should result in a noticeable increase in **net interest income**.

**Net fee and commission income** is predicted to deteriorate sharply compared with 2022, mainly because of increased bonus payments to partner banks in line with the anticipated higher level of new business and a further 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).

The expense for **loss allowances** is likely to rise significantly in 2023 because of the significant portfolio growth that is targeted and because, compared with 2022, there will be no beneficial impact from reversals resulting from model adjustments.

**Administrative expenses** are expected to remain steady in 2023.

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

The **cost/income ratio** for 2023 is likely to remain at the same level as that in 2022.

Primarily because of the change in profit before taxes in 2023, there is likely to be a slight decline in **regulatory RORAC**.

### 4.4 UMH

Economic conditions continue to be shaped by slowing economic growth, high inflation, and more restrictive monetary policy. As a result, the central banks are firmly focused on tackling inflation and are therefore prepared to accept a further weakening of growth. This is likely to continue to be the dominant factor for the global economy in the months ahead in 2023. Geopolitical risks are also weighing heavily on the markets. Against this backdrop, UMH intends to continue generating profitable growth.

As in previous years, this will require UMH to be much more successful than its competitors. It intends to do so by becoming more agile and innovative. In the new environment, companies have to be able to act much more quickly if they are to maintain a strong customer focus. It is more important than ever to respond flexibly and rapidly to requirements. UMH also intends to further improve its efficiency by making greater use of the opportunities presented by digitalization within the cooperative financial network. Achieving these objectives – primarily securing UMH's competitiveness, but also satisfying ongoing regulatory requirements – calls for substantial capital expenditure.

UMH is aiming for a significantly higher level of assets under management by the end of 2023. New business is expected to be on a par with 2022 and, in terms of overall performance, 2023 should see a modest return on investment.

**Net fee and commission income** is projected to fall slightly in 2023, the main reasons being a sharp decrease in the income expected from performance-related management fees, a small reduction in volume-related net fee and commission income, and a steady level of average 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 improve significantly in 2023, largely because of an anticipated sharp positive change in the effect from the valuation of guarantee commitments for investment products and from a much higher contribution from the investment fund units held as part of own-account investing activities.

**Administrative expenses** are projected to rise slightly in 2023, including a small increase in staff expenses at UMH. Based on current assessments, general and administrative expenses will rise markedly, largely because of higher expenses for public relations/marketing, consultancy, and rents for land and buildings. Depreciation and amortization charges are expected to increase significantly, mainly in connection with software.

A sharp decrease in **other net operating income** is expected, mainly because of the anticipated decline in income from the reversal of provisions.

Based on the factors described above, **profit before taxes** in 2023 is projected to be significantly higher than in 2022.

From the current perspective, a slight fall in the **cost/income ratio** and a moderate fall in **regulatory RORAC** are expected.

### 4.5 DZ BANK – CICB
Economic growth in Germany and the rest of the eurozone is heavily influenced by geopolitical developments and has an impact on the banking sector.

Faced with rising inflation rates, the ECB changed tack with its monetary policy in 2022, which affected the financial performance of German banks in various ways. On the one hand, rising interest rates can provide a boost to banks' lending business but, on the other, securities bought in the past – particularly government and corporate bonds – fall in value.

The inflation-related pressure on costs and margins is being compounded by major foreign banks entering the market with innovative products and cost advantages and by fintechs and non-banks offering specialist solutions for corporate banking. This means that banks still need to optimize their cost base in an environment of volatile markets so that they can maintain their profitability in the medium term. As a result, no letup in the economic challenges faced by banks in Germany and throughout Europe is expected in 2023.

**Net interest income** (excluding income from long-term equity investments) is predicted to fall sharply in 2023. It will therefore be below the 2022 level, which was influenced by a number of factors, including income from the bonus interest under the ECB's TLTRO III program.

The aim will be to achieve further growth in operating income, specifically in net interest income from corporate banking based on a predicted increase in the lending volume. In line with the strategy of the DZ BANK – CICB operating segment, corporate banking will remain the key area of growth.

The planned growth in volume is to be achieved with packages of measures under the 'Verbund First 4.0' strategic program, such as greater customer focus, an improvement in new customer acquisition through greater regionalization, and investment in skills training for employees. The DZ BANK – CICB operating segment also plans to strengthen development lending by involving further development banks and integrating them into a digital sales platform. At the same time, processes will be automated throughout the value chain in order to improve efficiency, resulting in positive effects on net interest income. This includes the plans to largely digitalize the lending and risk processes, particularly in corporate banking.

The DZ BANK – CICB operating segment expects slightly higher margins in some parts of the corporate banking business in 2023 despite a market environment still considered to be competitive.

**Net fee and commission income** in 2023 is projected to not quite reach the high level of 2022 and will probably decline slightly. This is largely the result of not only rising fee and commission expenses but also the slightly more cautiously estimated service fees in the individual operating units within the DZ BANK – CICB operating segment in response to the general market uncertainty.

The aim is to achieve continued growth of fee and commission income thanks to the strong market positioning in the Transaction Banking business line on the back of the digitalization strategy and thanks to a steady increase in the number of transactions in payments processing and securities services. In payments processing, the trend toward mobile payments is expected to continue, especially in view of advancing digitalization.

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. Operating fee and commission income should be generated from growth driven by strengthening existing customer relationships, signing up new customers, and expanding the product range.

**Gains and losses on trading activities** will probably deteriorate sharply in 2023. This can be explained by positive valuation effects resulting from the widening of mark-ups for own issues in 2022 (see chapter II.3.2.5 'DZ BANK – CICB' of the business report) and the corresponding pull-to-par effects in 2023.

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 the operating capital markets business, key income drivers in 2023 are likely to include the further exploitation of capital-markets-related cross-selling potential in corporate banking. A higher level of money market income is also expected from the increase in interest rates and the harnessing of potential in the securities business by stepping up collaboration with the cooperative banks in customer business. Trading activity is anticipated to remain at a high level in 2023, with the market as a whole subject to significant volatility.

In 2022, **loss allowances** were affected by additions in connection with the war in Ukraine and the resulting macroeconomic conditions. Loss allowances are likely to rise sharply in 2023 because of the ongoing economic uncertainty and a nevertheless anticipated increase in the lending volume.

In all probability, **administrative expenses** will go up significantly in 2023. General and administrative expenses are expected to increase, partly due to inflation and partly in connection with strategic capital expenditure on IT infrastructure and IT security. Higher contributions to the BVR protection scheme and for banking supervision are also anticipated. Staff expenses are projected be driven up by strategic investment, primarily aimed at the further expansion of corporate banking in 2023.

In view of these circumstances, **profit before taxes** in the DZ BANK – CICB operating segment is expected to fall sharply in 2023. The main reasons for this decrease are the one-off items recognized in 2022, in particular income from the ECB's TLTRO III programs and the net gain under gains and losses on trading activities (see chapter II.3.2.5 'DZ BANK – CICB' of the business report).

Current assessments show that the **cost/income ratio** will go up sharply in 2023 as a result of the forecast decline in financial performance compared with 2022 and a rise in administrative expenses.

As things stand, **regulatory RORAC** will probably decline markedly in 2023 – despite slightly lower capital requirements – owing to the reduction in profit before taxes.

### 4.6 DZ HYP

In view of the surge in interest rates and ongoing uncertainty, particularly in connection with the war in Ukraine, 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 fall in demand for commercial real estate as a result of structural change cannot be ruled out. Developments are being closely monitored overall and could have an impact on lending. Moreover, DZ HYP expects real estate to generally remain an attractive investment product, despite the change in interest-rate levels. It also anticipates that the significant decrease in the new-build volume will continue to create substantial pressure from buyers and renters in the real estate markets.

**Net interest income** in 2023 is projected to be slightly below the 2022 figure. DZ HYP anticipates 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 2022.

Current assessments show that credit spreads in public-sector finance are likely to hold steady or even improve a little in 2023. **Other gains and losses on valuation of financial instruments**, which resulted in a net loss in 2022, will therefore probably move into positive territory in 2023.

A significantly higher expense for **loss allowances** is expected in 2023.

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 up sharply on the corresponding 2022 figure.

Based on a stable operating performance, but particularly because of the decline in net interest income, higher loss allowances, and rising administrative expenses, **profit before taxes** in 2023 is predicted to be significantly below the 2022 figure.

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

**Regulatory RORAC** is likely to decline markedly due to the fall in profit before taxes forecast for 2023.

### 4.7 DZ PRIVATBANK

DZ PRIVATBANK's operating business is expected to deliver a positive performance thanks to a predicted rise in volume-related key figures, particularly in connection with the anticipated inflows into assets under management in private banking, and due to the higher level of interest rates.

**Net interest income** is projected to fall sharply in 2023 because of the absence of one-off income recognized in 2022 (see chapter II.3.2.7 'DZ PRIVATBANK' of the business report).

DZ PRIVATBANK anticipates a small decrease in **net fee and commission income** in 2023 in expectation of higher expenses for the acquisition of asset management mandates. The main value driver is fund volume, and the volume of funds from Union Asset Management Holding AG and third parties is expected to be up significantly at the end of 2023.

**Gains and losses on trading activities** are forecast to deteriorate significantly in 2023 because customer-driven transaction figures are likely to be lower.

DZ PRIVATBANK's **administrative expenses** are projected to fall slightly in 2023.

Based on current forecasts, a moderate decrease in **profit before taxes** is expected for 2023 as a gloomier market environment is forecast.

The **cost/income ratio** is likely to rise slightly in 2023, while **regulatory RORAC** will probably hold steady at its 2022 level.

### 4.8 VR Smart Finanz

Despite the challenging economic environment, VR Smart Finanz believes there is potential to significantly expand its finance business in 2023, as it did in 2022. Demand for object finance is expected to grow in view of the rise in asset prices and a persistently high need for investment, particularly in energy efficiency measures and digitalization. 'VR Smart flexibel' provides businesses with a solution with which to cover their growing liquidity requirements, for example due to higher energy prices, increased warehousing costs, and the ending of coronavirus support measures.

VR Smart Finanz intends to respond to the ever-fiercer competition by stepping up its collaboration with the cooperative banks and other sales partners, such as digital financing platform providers. Starting in 2023, VR Smart Finanz's solutions are to be gradually transferred to an API-enabled infrastructure so that new sales partners and sales channels can be integrated more quickly in an automated process. Sustainability-related activities are also to be stepped up. VR Smart Finanz is planning to unlock further sales potential by expanding its omnichannel capabilities and gradually integrating its solutions and digital services into the cooperative financial network's omnichannel platform.

In the context of the growing need for liquidity and finance, the planned initiatives to generate new business growth and accelerate collaboration with the cooperative banks and other partners are likely to result in a strong increase in **net interest income** and 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 significantly in 2023 in line with the planned new business growth. On the basis of a projected moderate rise in **administrative expenses** compared with 2022 and a jump in new business, there should be a noticeable improvement in the **cost/income ratio**.

The developments described above should mean a stable **profit before taxes** and an unchanged level of **regulatory RORAC** in 2023.

### 4.9 DZ BANK – holding function

**Net interest income** is predicted to fall markedly in 2023. This forecast is due to growth in the volume of subordinated liabilities and a market-price-driven decrease in the balance of expenses for the funding of long-term equity investment carrying amounts and income from the investment of capital.

**Administrative expenses** are projected to rise substantially in 2023. This will be driven primarily by the much higher expenses that are expected for the group function, by IT and projects, and by other expenses for the benefit of the group and local cooperative banks.

A significant increase in the **loss before taxes** is forecast for 2023.