II Business report

1 Economic conditions

The German economy had to navigate choppy waters in the first half of 2023. The long-feared shortfall in the supply of energy did not materialize and energy prices were down from their peak in 2022. Nevertheless, energy prices were still considerably higher than they had been before the outbreak of the ongoing war in Ukraine, despite lower prices in the wholesale markets and government compensation measures in connection with the cap on energy prices. These high energy prices drove up inflation, which continued to act as a brake on consumer spending. At the same time, diminishing demand from abroad took its toll on industrial output and exports, while rising interest rates and stricter financing conditions weighed heavily on capital investment and housebuilding. Despite this difficult situation, the German labor market proved robust. However, the German economy saw a fall in gross domestic product (GDP) of 0.1 percent in the first quarter of 2023 compared with the previous quarter.

Despite bouts of turmoil in the US and Swiss banking sectors, key sentiment indicators both for corporates and consumers improved from the start of 2023 onward, albeit at a low level. But the brightening of corporate sentiment ground to a halt in the middle of the second quarter of 2023. Gloomier business expectations suggested difficulties in the pipeline for new orders, particularly for industry. German GDP in the second quarter was unchanged on the previous quarter.

Adjusted for inflation, the average decrease in economic output for the first half of 2023 compared with the second half of 2022 was therefore 0.3 percent. Compared with the first half of 2022, the decrease was 0.2 percent.

The aforementioned negative factors also affected the economy of the eurozone in the first six months of 2023, albeit to a lesser extent overall than the German economy. This was partly because some member states were less severely affected by the high energy prices. Following a 0.7 percent year-on-year rise in GDP in the second half of 2022 compared with the first half of 2022, the eurozone recorded slight growth of 0.1 percent in economic output in the first half of 2023 compared with the second half of 2022. This was because, although GDP stagnated in the first quarter of 2023, the economy expanded a little – by 0.3 percent – in the second quarter of 2023 compared with the previous quarter, with particularly pronounced increases in Spain’s and France’s GDP.

The US economy faced a variety of economic risks in the first half of 2023. The inflation rate remained very high, forcing the US Federal Reserve (Fed) to continue raising interest rates. Both of these factors are problematic for the economy. For example, a number of small and medium-sized US banks collapsed, in some cases as an indirect consequence of the Fed’s interest-rate hikes. Concerns about the banking industry have now abated, but further disruption in the sector cannot be ruled out. Another factor was the political dispute about raising the US debt ceiling, with Congress managing to reach an agreement shortly before the US would have been at risk of defaulting on its debt. Nevertheless, the US economy generated solid growth in the first and second quarter of 2023, supported by strong demand for services, the alleviation of supply chain problems, government investment programs, and a healthy labor market.

China abruptly ended its strict zero-COVID policy at the end of 2022, and the Chinese economy then rallied strongly in the first quarter of 2023. The service sector and retail were the main beneficiaries. Although the effects of this reopening were still discernible in the second quarter of 2023, momentum waned markedly.

However, weak global demand increasingly took its toll on industry throughout both quarters. The central bank loosened monetary policy slightly in the second quarter.

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

The war in Ukraine created uncertainty in the capital markets in both the reporting period and the prior-year period. Trading was also affected by concerns about inflation in the first six months of 2023.

The STOXX Europe 600, a share index comprising 600 large listed European companies, stood at 461.93 points as at June 30, 2023, which was 37.04 points higher than at the end of the previous year (December 31, 2022: 424.89 points). By contrast, the index had dropped by 80.60 points in the prior-year period.

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

At the end of the first quarter of 2023, the total borrowing of the 20 eurozone countries equated to 91.2 percent of their GDP, a decrease of 3.8 percentage points compared with the figure of 95.0 percent as at March 31, 2022.

Italy's public debt as a percentage of GDP stood at 143.5 percent in the first quarter of 2023 (first quarter of 2022: 151.4 percent), which is the highest in the eurozone after that of Greece.

Portugal's public debt as a percentage of GDP was 113.8 percent in the first quarter of 2023, compared with 126.4 percent in the first quarter of 2022.

In Spain, public debt as a percentage of GDP stood at 112.8 percent in the first quarter of 2023 (first quarter of 2022: 117.4 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.

By the third quarter of 2022, the central banks in the US and eurozone were pursuing more restrictive monetary policy and made it clear that they would not waver from their cycle of interest-rate hikes aimed at tackling stubbornly high inflation.

At its meeting on June 15, 2023, the ECB decided to raise the rate for the deposit facility to 3.50 percent. The main refinancing rate was set at 4.00 percent, while the rate for the marginal lending facility was set at 4.25 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). Net new purchases under the APP were discontinued in July 2022. The maturing principal payments from securities purchased under the APP were fully reinvested until February 2023, with only some reinvested after that date. On June 15, 2023, the ECB Governing Council decided that the reinvestment of maturing principal payments under the APP would cease with effect from July 2023.

On June 14, 2023, the Fed announced that it would keep the federal funds rate unchanged in the range of 5.00 to 5.25 percent following ten increases in succession.

In accordance with the Fed's decision of December 15, 2021, the federal funds rate had been kept unchanged in the range of 0.00 percent to 0.25 percent. On March 16, 2022, there was a shift in the Fed's interest-rate policy, and the key interest rate was raised by 0.25 percentage points, the first increase since 2018. This was followed by further hikes of 0.50 percentage points in May 2022 and 0.75 percentage points in June 2022. 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$ 95.0 billion per month.

3 Financial performance

3.1 Financial performance at a glance

Despite the persistently challenging market conditions resulting from the sharp rise in interest rates, high inflation, and the war in Ukraine, the DZ BANK Group reported an encouraging profit before taxes of €1,954 million in the reporting period (first half of 2022: €938 million).

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

Fig. II. 1 – INCOME STATEMENT

€ million	**Jan. 1–Jun. 30, 2023**	Jan. 1–Jun. 30, 2022
Net interest income	1,863	1,475
Net fee and commission income	1,314	1,364
Gains and losses on trading activities	293	359
Gains and losses on investments	-8	-53
Other gains and losses on valuation of financial instruments	63	105
Gains and losses from the derecognition of financial assets measured at amortized cost	5	11
Net income from insurance business	745	-178
Loss allowances	-52	-60
Administrative expenses	-2,320	-2,242
Staff expenses	-1,044	-1,001
Other administrative expenses[1]	-1,276	-1,240
Other net operating income	51	156
Profit before taxes	1,954	938
Income taxes	-542	-362
Net profit	**1,412**	**577**

1 General and administrative expenses plus depreciation/amortization expense.

Operating income in the DZ BANK Group amounted to €4,326 million (first half of 2022: €3,239 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 rose by €388 million year on year to €1,863 million (first half of 2022: €1,475 million).

Within this figure, interest income from lending and money market business went up by €2,739 million to €5,101 million (first half of 2022: €2,362 million) and interest income from bonds and other fixed-income securities by €194 million to €404 million (first half of 2022: €210 million), predominantly due to the general rise in interest rates.

There was a positive change in interest on portfolio hedges of interest-rate risk (portfolios comprising financial assets), which improved by €799 million to net income of €595 million (first half of 2022: net expense of €204 million). By contrast, there was a negative change in interest on portfolio hedges of interest-rate risk (portfolios comprising financial liabilities), which deteriorated by €231 million to a net expense of €187 million (first half of 2022: net income of €44 million).

Interest expense for deposits from banks and customers rose by €2,387 million to €3,294 million (first half of 2022: €907 million) for volume-related reasons and due to the general rise in interest rates. The figure for the prior-year period had included a reduction in interest expense for home savings deposits as a result of a positive one-off item of €140 million connected to the reversal of provisions relating to building society operations. Interest expense on debt certificates issued including bonds went up by €477 million to €720 million in the reporting period (first half of 2022: €243 million). This was mainly due to expansion of the portfolio of issued commercial paper.

Net fee and commission income fell by €50 million to €1,314 million (first half of 2022: €1,364 million). Net fee and commission income from securities business decreased by €116 million to €1,060 million (first half of 2022: €1,176 million). Within this total, there was a €15 million reduction in performance-related management fees to €3 million (first half of 2022: €18 million) and a €15 million reduction in the volume-related net income contribution to €902 million (first half of 2022: €917 million) in the Union Investment Group. However, net fee and commission income from lending and trust activities rose by €11 million to €51 million (first half of 2022: €40 million), from financial guarantee contracts and loan commitments by €9 million to €38 million (first half of 2022: €29 million), and from payments processing (including card processing) by €5 million to €82 million (first half of 2022: €77 million), while other net fee and commission income improved by €53 million to €29 million (first half of 2022: net expense of €24 million).

Gains and losses on trading activities in the first six months of 2023 came to a net gain of €293 million compared with a net gain of €359 million for the prior-year period. 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 deteriorated by €4,565 million to a net loss of €937 million (first half of 2022: net gain of €3,628 million). By contrast, gains and losses on derivatives improved by €4,603 million to a net gain of €1,216 million (first half of 2022: net loss of €3,387 million). The net gain under gains and losses on exchange differences fell by €104 million to €14 million (first half of 2022: €118 million).

Gains and losses on investments amounted to a net loss of €8 million (first half of 2022: net loss of €53 million). Within this figure, gains and losses on the disposal of bonds and other fixed-income securities improved by €13 million to a net loss of €1 million (first half of 2022: net loss of €14 million). The figure for the first half of 2022 had been affected by the disposal of securities in the BSH subgroup, whereas there were no sales during the reporting period. Gains and losses on the disposal of shares and other variable-yield securities improved by €47 million to a net loss of €2 million (first half of 2022: net loss of €49 million), mainly because the figure for the prior-year period had included a realized loss resulting from 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 loss of €5 million (first half of 2022: net gain of €11 million).

The net gain under **other gains and losses on valuation of financial instruments** fell by €42 million to €63 million (first half of 2022: €105 million), largely because of the movement of credit spreads on bonds from eurozone periphery countries. This decrease was due to the deterioration in gains and losses on financial instruments designated as at fair value through profit or loss of €103 million to a net loss of €21 million (first half of 2022: net gain of €82 million) and in gains and losses from fair value hedge accounting of €33 million to a net loss of €27 million (first half of 2022: net gain of €6 million). By contrast, gains and losses on financial assets mandatorily measured at fair value through profit or loss improved by €93 million to a net gain of €43 million (first half of 2022: net loss of €50 million) and the net gain on derivatives used for purposes other than trading rose by €2 million to €68 million (first half of 2022: €66 million).

Net income from insurance business comprises the insurance service result, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance finance income or expenses, and gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business.

IFRS 17 Insurance Contracts superseded the previous standard for accounting for insurance contracts (IFRS 4 Insurance Contracts) with effect from January 1, 2023 and is required to be applied to insurance contracts, reinsurance contracts, and investment contracts with discretionary participation features. IFRS 17 requires comparative information to be presented for the period immediately preceding the date of initial application of IFRS 17. Retrospective initial application thus resulted in adjustments to the income statement for the prior-year period.

Net income from insurance business improved by €923 million to €745 million (first half of 2022: net expense of €178 million). This positive change was primarily due to the improvement – 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 €5,677 million to a net gain of €2,075 million (first half of 2022: net loss of €3,602 million). By contrast, insurance finance income or expenses deteriorated by €4,863 million to a net expense of €2,496 million (first half of 2022: net income of €2,367 million), largely in relation to policyholders' share of investment returns. The insurance service result amounted to €1,163 million (first half of 2022: €1,051 million).

There was a net addition to **loss allowances** of €52 million (first half of 2022: net addition of €60 million). The net addition to loss allowances for loans and advances to customers was €81 million (first half of 2022: net addition of €42 million). By contrast, there was a net reversal of other loss allowances for loans and advances of €14 million (first half of 2022: net addition of €7 million), a net reversal of loss allowances for loans and advances to banks of €9 million (first half of 2022: net addition of €13 million), and a net reversal of loss allowances for investments of €6 million (first half of 2022: net reversal of €3 million).

Further disclosures on the nature and extent of risks arising from financial instruments can be found in note 46 in the notes to the interim consolidated financial statements.

Administrative expenses increased by €78 million to €2,320 million (first half of 2022: €2,242 million). Within this figure, staff expenses advanced by €43 million to €1,044 million, compared with €1,001 million in the first half of 2022. This increase was predominantly due to pay rises and appointments to vacant positions. Other administrative expenses rose by €36 million to €1,276 million (first half of 2022: €1,240 million), largely because of higher expenses for consultancy and IT.

Other net operating income amounted to €51 million (first half of 2022: €156 million).

Within this figure, impairment losses on other intangible assets increased by €50 million to €50 million (first half of 2022: €0 million) owing to the impairment of recognized customer relationships in the Union Investment Group, the net gain on non-current assets and disposal groups classified as held for sale fell by

€24 million to €3 million (first half of 2022: €27 million), and residual other net operating income declined by €18 million to €25 million (first half of 2022: €43 million), partly due to the recognition of cancelled, non-interest-bearing home savings deposits of €28 million. Furthermore, gains on the disposal of other assets contracted by €12 million to €11 million (first half of 2022: €23 million).

Profit before taxes for the first half of 2023 stood at €1,954 million, compared with €938 million in the first half of 2022.

The **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for the reporting period came to 53.6 percent (first half of 2022: 69.2 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 21.1 percent (first half of 2022: 9.6 percent).

Income taxes amounted to €542 million in the period under review (first half of 2022: €362 million).

Net profit for the first half of 2023 was €1,412 million, compared with €577 million for the first half of 2022.

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 the first half of 2023 compared with the corresponding period of 2022.

3.2.1 BSH

Net interest income in the BSH subgroup fell by €175 million to €244 million (first half of 2022: €419 million), predominantly due to positive effects from the reversal of provisions relating to building society operations in the prior-year period and an increase in interest expense for borrowing during the reporting period.

Interest expense in building society operations (including interest expense on hedges) went up by €169 million to €351 million (first half of 2022: €182 million). Within this figure, interest expense for home savings deposits amounted to €327 million (first half of 2022: €185 million). This included additions to provisions relating to building society operations of €89 million (first half of 2022: €70 million) and a sum of €226 million attributable to the interest rates applicable to current tariffs (first half of 2022: €249 million). The prior-year period had been influenced by a positive one-off item of €140 million connected to the reversal of provisions relating to building society operations. The interest-rate swaps used to manage interest income and expense in the context of portfolio fair value hedge accounting reduced net interest income by a total of €24 million (first half of 2022: increase in net interest income of €3 million).

In the case of loans issued under advance or interim financing arrangements and other building loans, income amounted to €527 million (first half of 2022: €528 million). Income from home savings loans amounted to €43 million (first half of 2022: €34 million).

Interest income arising on investments rose by €45 million to €188 million (first half of 2022: €143 million). Interest expense for borrowing increased by €64 million to €69 million (first half of 2022: €5 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. In the reporting period, this decreased net interest income by €100 million (first half of 2022: €104 million).

Net fee and commission income amounted to a net expense of €6 million (first half of 2022: net income of €13 million), largely due to the growth of new home savings business.

In the home savings business, BSH entered into approximately 261 thousand (first half of 2022: 219 thousand) new home savings contracts with a volume of €17.9 billion (first half of 2022: €16.1 billion) in Germany.

In the home finance business, the realized volume of new business came to €4.7 billion (first half of 2022: €9.3 billion) in Germany.

Gains and losses on investments stood at €0 million (first half of 2022: net loss of €46 million). The figure for the first half of 2022 had been affected by the disposal of bonds, whereas there were no disposals during the reporting period.

Loss allowances amounted to a net addition totaling €4 million (first half of 2022: net addition of €6 million).

Administrative expenses increased by €11 million to €269 million (first half of 2022: €258 million). At €136 million, staff expenses in the BSH subgroup were €7 million higher than the figure for the prior-year period of €129 million. This was mainly as a result of the first-time consolidation of BAUFINEX GmbH and Schwäbisch Hall Wohnen GmbH. Other administrative expenses increased by €4 million to €133 million (first half of 2022: €129 million), largely owing to a rise in office expenses and property costs that was partly offset by lower expenses for the deposit guarantee fund at subsidiary Fundamenta-Lakáskassza (FLK).

Other net operating income went down by €24 million to €18 million (first half of 2022: €42 million). This is because the figure for the prior-year period had been influenced by the recognition of cancelled, non-interest-bearing home savings deposits amounting to €28 million, whereas just €3 million was recognized in the reporting period.

As a result of the changes described above, there was a **loss before taxes** of €14 million, which represented a deterioration of €182 million compared with the profit before taxes of €168 million in the first half of 2022.

The **cost/income ratio** in the period under review was greater than 100.0 percent (first half of 2022: 59.6 percent).

Regulatory RORAC was minus 2.3 percent (first half of 2022: 25.9 percent).

3.2.2 R+V

IFRS 17 Insurance Contracts superseded the previous standard for accounting for insurance contracts (IFRS 4 Insurance Contracts) with effect from January 1, 2023. IFRS 17 requires comparative information to be presented for the period immediately preceding the date of initial application of IFRS 17. Retrospective initial application thus resulted in adjustments to the income statement for the prior-year period.

The **insurance service result** came to €1,152 million (first half of 2022: €975 million), thanks to the tight integration of the R+V subgroup into the cooperative financial network. This figure included insurance revenue amounting to €6,209 million (first half of 2022: €6,380 million) and insurance service expenses of €4,968 million (first half of 2022: €5,342 million). Net expenses from reinsurance contracts held stood at €89 million (first half of 2022: €63 million).

In the life and health insurance business, insurance revenue amounted to €1,773 million (first half of 2022: €2,086 million). Insurance service expenses in this business amounted to €1,165 million (first half of 2022: €1,084 million). This included amortization of the contractual service margin in an amount of €114 million (first half of 2022: €128 million) and release of the risk adjustment in an amount of €31 million (first half of 2022: €6 million).

In the non-life insurance business, insurance revenue rose by €121 million to €3,493 million (first half of 2022: €3,371 million). The main influence on this revenue was premiums earned on portfolios measured under the premium allocation approach. The insurance service expenses of this business stood at €3,257 million (first half of 2022: €3,435 million). Of this sum, €2,386 million (first half of 2022: €2,313 million) was attributable to expenses for claims, comprising payments for claims and the change in the liability for incurred claims. It also includes the change in losses on insurance contracts, which amounted to a decrease of €62 million (first half of 2022: €46 million); the pattern of business means that such losses generally arise at the start of the year and are offset over the course of the year. Other insurance service expenses totaled €809 million (first half of 2022: €813 million) and primarily consisted of insurance acquisition cash flows and administration costs. In the period to June 30, 2023, claims in the non-life insurance business remained at a moderate level. Net expenses from reinsurance contracts held in this business totaled €81 million (first half of 2022: net income of €4 million). The combined ratio (gross), which is the ratio of insurance service expenses to insurance revenue, stood at 93.3 percent (first half of 2022: 101.91 percent).

Insurance revenue in the inward reinsurance business amounted to €944 million (first half of 2022: €922 million). This included not only premium income but also amortization of the contractual service margin in an amount of €114 million (first half of 2022: €137 million) under the general measurement model. Insurance service expenses came to €545 million (first half of 2022: €823 million). The level of claims in the inward reinsurance business was unremarkable during the reporting period. Net expenses from reinsurance contracts amounted to €10 million (first half of 2022: €68 million).

Gains and losses on investments held by insurance companies and other insurance company gains and losses improved by €5,680 million to a net gain of €2,104 million (first half of 2022: net loss of €3,576 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), which amounted to a net gain of €1,168 million (first half of 2022: net loss of €2,447 million). 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.

Long-term interest rates were far higher than in the first half of 2022. The ten-year Bund/swap rate was 3.01 percent as at June 30, 2023 (June 30, 2022: 2.16 percent). Spreads on interest-bearing securities largely held steady during the reporting period and had a more positive impact on gains and losses on investments held by insurance companies and other insurance company gains and losses than in the prior-year period, when spreads had widened. A weighted spread calculated in accordance with R+V's portfolio structure stood at 84.5 points as at June 30, 2023 (December 31, 2022: 89.8 points). In the comparative period, this spread had risen from 66.7 points as at December 31, 2021 to 100.2 points as at June 30, 2022.

During the reporting period, equity markets relevant to R+V performed better than in the first half of 2022. For example, the EURO STOXX 50, a share index comprising 50 large, listed companies in the EMU, saw a rise of 605 points from the start of 2023, closing the reporting period on 4,399 points (December 31, 2022: 3,794 points). The index had dropped by 843 points in the prior-year period.

Movements in exchange rates between the euro and various currencies were generally less favorable in the first half of 2023 than in the prior-year period. For example, the US dollar/euro exchange rate on June 30, 2023 was 0.9166, compared with 0.9370 as at December 31, 2022. In the first half of 2022, the US dollar/euro exchange rate had changed from 0.8794 as at December 31, 2021 to 0.9565 on June 30, 2022.

Overall, these trends in the reporting period essentially resulted in a €6,067 million positive change – resulting from the effects of changes in positive fair values – in unrealized gains and losses to a net gain of €1,335 million (first half of 2022: net loss of €4,732 million), a €581 million improvement in the contribution to earnings from the derecognition of investments to a loss of €101 million (first half of 2022: loss of €682 million), a

€36 million improvement in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €23 million (first half of 2022: net expense of €59 million), and a €21 million rise in net income under current income and expense to €1,185 million (first half of 2022: net income of €1,164 million). However, there was a €775 million deterioration in foreign-exchange gains and losses to a net loss of €94 million (first half of 2022: net gain of €681 million). Furthermore, other non-insurance gains and losses declined by €250 million to a net loss of €198 million (first half of 2022: net gain of €53 million). Changes in gains and losses on investments held by insurance companies are offset to an extent by corresponding changes in insurance finance income or expenses, so the effect on profit or loss is only partial.

Insurance finance income or expenses deteriorated by €4,863 million to a net expense of €2,496 million (first half of 2022: net income of €2,367 million). In the life and health insurance business, this line item deteriorated by €4,788 million to a net expense of €2,373 million (first half of 2022: net income of €2,415 million), which was mainly due to the aforementioned compensatory effect of some parts of gains and losses on investments held by insurance companies being reclassified to the reserve from other comprehensive income. Insurance finance income or expenses came to a net expense of €68 million in the non-life insurance business (first half of 2022: net expense of €9 million) and to a net expense of €54 million in inward reinsurance (first half of 2022: net expense of €39 million). The proportion within insurance finance income or expenses relating to discounting at the discount rate used at initial measurement (locked-in discount rate) amounted to a net expense of €59 million in non-life insurance (first half of 2022: net expense of €30 million) and a net expense of €54 million in inward reinsurance (first half of 2022: net expense of €39 million).

The factors described above resulted in a **profit before taxes** of €762 million (first half of 2022: loss before taxes of €233 million).

Regulatory RORAC was 17.1 percent (first half of 2022: minus 5.0 percent).

3.2.3 TeamBank

Net interest income was up year on year at €268 million (first half of 2022: €247 million), largely due to an €11 million rise attributable to the growth in the average volume of loans and advances and the increase in income from investments to €13 million as a result of positive interest rates (first half of 2022: expense of €2 million). Average loans and advances to customers in the reporting period came to €9,648 million (first half of 2022: €9,355 million).

As at June 30, 2023, loans and advances to customers totaled €9,713 million (December 31, 2022: €9,583 million). The number of customers rose to 1,031 thousand (December 31, 2022: 1,010 thousand). TeamBank had made credit facilities from easyCredit-Finanzreserve and the Finanzieller Spielraum product totaling €3,303 million available to its customers as at June 30, 2023 (December 31, 2022: €3,041 million). In the period under review, 29.1 percent (first half of 2022: 20.8 percent) of new business was generated through easyCredit-Finanzreserve and Finanzieller Spielraum.

As at June 30, 2023, TeamBank was working with 663 (December 31, 2022: 669) of Germany's 722 (December 31, 2022: 729) cooperative banks and with 159 (December 31, 2022: 154) partner banks in Austria.

Net fee and commission income declined by €30 million to a net expense of €22 million (first half of 2022: net income of €8 million), mainly owing to the €26 million reduction in fee and commission income from the brokerage of credit insurance policies as a consequence of the German Act on Supporting the Regulation of Crowdfunding Service Providers (SFBG).

The net addition to **loss allowances** amounted to €51 million (first half of 2022: net addition of €53 million).

Administrative expenses held more or less steady at €143 million (first half of 2022: €141 million). Within this figure, staff expenses totaled €52 million (first half of 2022: €53 million) and other administrative expenses came to €91 million (first half of 2022: €88 million).

Profit before taxes stood at €57 million and was thus down by €11 million on the figure for the first half of 2022 of €68 million.

TeamBank's **cost/income ratio** came to 57.0 percent (first half of 2022: 53.8 percent).

Regulatory RORAC was 23.4 percent (first half of 2022: 22.9 percent).

3.2.4 UMH

Net interest income amounted to €17 million (first half of 2022: €0 million), predominantly due to income from credit balances with banks.

Net fee and commission income fell by €12 million to €988 million (first half of 2022: €1,000 million). The change in net fee and commission income was predominantly due to the factors described below.

Because of the decrease in the average assets under management of the Union Investment Group, which fell by €13.4 billion to €424.1 billion (first half of 2022: €437.5 billion), the volume-related contribution to net fee and commission income declined to €902 million (first half of 2022: €917 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 €3 million (first half of 2022: €18 million). The decrease was largely the result of few funds fulfilling the conditions for the transfer of a performance-related management fee in the period under review. Income from real estate fund transaction fees came to €22 million in the period under review (first half of 2022: €20 million). Expenses for the performance bonus for sales partners reduced to €27 million (first half of 2022: €47 million).

Union Investment generated net inflows from its retail business of €6.2 billion (first half of 2022: €8.1 billion) in collaboration with the local cooperative banks.

The number of traditional fund-linked savings plans, which are used by retail customers as investments aimed at long-term capital accumulation, stood at 3.8 million contracts as at June 30, 2023, with a decrease in the 12-month savings volume to €6.7 billion (December 31, 2022: €7.1 billion).

The total assets in the portfolio of Riester pension products amounted to €25.2 billion (December 31, 2022: €23.3 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at June 30, 2023 totaled 6.5 million (December 31, 2022: 6.5 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 €0.4 billion (first half of 2022: €1.8 billion).

Assets under management in the PrivatFonds family amounted to €22.3 billion as at June 30, 2022 (December 31, 2022: €22.7 billion).

In its institutional business, the Union Investment Group registered net outflows of €0.5 billion (first half of 2022: net inflows of €1.5 billion).

The portfolio volume of funds conforming with article 8 or article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) amounted to €126.3 billion (December 31, 2022: €122.4 billion). As at June 30, 2023, this figure included €87.5 billion in assets defined as sustainable by Union Investment based on its own criteria (December 31, 2022: €81.2 billion).

Gains and losses on investments amounted to a net loss of €2 million (first half of 2022: net loss of €49 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 improved by €127 million to a net gain of €71 million (first half of 2022: net loss of €56 million), which was largely attributable to the net gain of €52 million from the valuation of guarantee commitments (first half of 2022: net loss of €20 million) and the net gain of €18 million arising on the valuation of Union Investment's own-account investments (first half of 2022: net loss of €36 million).

Administrative expenses increased by €31 million to €595 million (first half of 2022: €564 million). Staff expenses went up by €15 million to €291 million (first half of 2022: €276 million) owing to higher average pay and appointments to new and vacant posts. Other administrative expenses climbed by €16 million to €303 million (first half of 2022: €287 million), mainly because of higher expenses incurred in connection with IT, consultancy, information procurement, public relations, marketing, and office management.

Other net operating income amounted to a net expense of €37 million (first half of 2022: net income of €39 million). This change was mainly attributable to impairment losses on recognized customer relationships and smaller reversals of provisions.

Based on the changes described above, **profit before taxes** amounted to €442 million (first half of 2022: €371 million).

The **cost/income ratio** came to 57.4 percent in the first half of this year (first half of 2022: 60.4 percent).

Regulatory RORAC was greater than 100.0 percent (first half of 2022: 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), the portfolios from the capital markets business (including the portfolios of Group Treasury), and the long-term equity investments allocated to the central institution and corporate bank. Net interest income rose by €184 million to €658 million (first half of 2022: €474 million).

In the Corporate Banking business line, net interest income went up by €4 million to €282 million (first half of 2022: €278 million). The net interest income in the four regional corporate customer divisions plus Central Corporate Banking increased to €160 million (first half of 2022: €154 million). The €6 million rise in the operating lending business was due to the growth of the lending volume.

Net interest income in the Structured Finance division amounted to €81 million, a decrease of €8 million compared with the figure for the first half of 2022 of €89 million. The increased volume of lending did not make up for the lower margins, which were partly due to the competitive situation.

In the Investment Promotion division, net interest income advanced by €6 million to €41 million (first half of 2022: €35 million). This year-on-year increase primarily resulted from new business commitments and portfolio growth in 2022, and from the fact that some of the associated development loans were only made available over the course of this year.

Net interest income from money market and capital markets business swelled by €273 million to €341 million (first half of 2022: €68 million). This increase was firstly attributable to the deposit-taking operating business in the short-dated maturity segment, particularly deposits from corporate customers. Secondly, the rise in interest rates in the money market led to increased net interest income from the investment of liquidity in the balance of non-interest-bearing assets and liabilities.

As bonus interest is no longer paid in connection with participation in the TLTRO III program, no such bonus interest was received in the first half of 2023 (first half of 2022: €71 million).

Other net interest income from loan administration fees declined by €2 million to €12 million (first half of 2022: €14 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 €23 million (first half of 2022: €41 million). The year-on-year decrease was attributable to the fall in income from long-term equity investments at DZ Vierte Beteiligungsgesellschaft mbH – owing to the merger in the second half of 2022 (first half of 2022: €8 million) – and at Deutsche WertpapierService Bank AG (first half of 2023: €0 million; first half of 2022: €6 million). Furthermore, income from long-term equity investments at VR Equitypartner GmbH went down by €8 million to €3 million.

Net fee and commission income declined by €59 million to €203 million (first half of 2022: €262 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 €17 million higher than in the prior-year period at €106 million (first half of 2022: €89 million). Of this increase, €6 million was attributable to financial guarantee contracts / loan commitments, €5 million to fees and commissions in connection with loan processing, €3 million to fees and commission on loans of the New York branch, and €2 million to advice in relation to mergers & acquisitions.

In the Capital Markets business line, the contribution to net fee and commission income declined by €97 million to €31 million (first half of 2022: €128 million). One of the main reasons for this was the increase in brokerage expenses in the first half of the year.

Net fee and commission income in the Transaction Banking business line was up year on year at €95 million, a rise of €13 million compared with the restated figure of €82 million for the first half of 2022. Of this rise, €8 million was attributable to an increase in payments processing transactions and €4 million to safe custody and securities management business on the back of a higher volume.

As part of service procurement arrangements, DZ BANK has transferred processing services 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 service procurement agreement with Schwäbisch Hall Kreditservice was terminated at the end of 2022. The expenses arising in connection with obtaining services from the above external processing companies amounted to a total of €105 million (first half of 2022: €101 million) and were reported under the net fee and commission income of the Capital Markets / Transaction Banking business lines in an amount of €105 million (first half of 2022: €96 million).

Gains and losses on trading activities amounted to a net gain of €584 million (first half of 2022: net gain of €347 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 €369 million, compared with €207 million in the prior-year period.

Gains and losses on operating trading activities in the first half of 2023 were influenced by a more favorable capital market environment than in the prior-year period. This could be seen from narrowing spreads, which particularly benefited fixed-income trading.

As had also been the case in the first six months of 2022, IFRS-related effects made a positive contribution to gains and losses on trading activities during the reporting period. One of the key factors in this context was changes in the fair value gains and losses relating to own issues (including pull-to-par effects) in the fair value PL and fair value option subcategories, which were higher overall than in the first half of 2022. These changes amounted to an increase of €225 million in the reporting period and included pull-to-par effects amounting to a decrease of €36 million (first half of 2022: increase of €57 million, including pull-to-par effects amounting to an increase of €15 million).

In the prior-year period, there had also been a positive impact of €62 million from derivative hedging transactions that were related to finance within the DZ BANK Group and were therefore not permitted to be included in hedge accounting. A small expense of €16 million arose in the first half of 2023.

Gains and losses on investments came to a net loss of €1 million and were therefore unchanged on the first half of 2022. The net loss in the reporting period resulted from expenses of €95 million from the sale of securities in the category ‘fair value through other comprehensive income’ combined with gains of €91 million arising from the unwinding of hedges accounted for in the category ‘fair value through other comprehensive income’ in the context of portfolio fair value hedge accounting. Securities in the category ‘fair value through profit or loss’ generated a net gain of €3 million.

Other gains and losses on valuation of financial instruments declined to a net loss of €91 million (first half of 2022: net loss of €6 million). Within this figure, credit-risk-related measurement effects relating to financial assets measured using the fair value option declined by €75 million to a net loss of €53 million (first half of 2022: net gain of €21 million) and the net loss from ineffectiveness in hedge accounting increased by €24 million to €41 million (first half of 2022: net loss of €17 million). Conversely, the valuation of financial instruments measured at fair value through profit or loss improved by €17 million to a net gain of €7 million (first half of 2022: net loss of €10 million).

The net gain under **gains and losses from the derecognition of financial assets measured at amortized cost** was unchanged year on year at €5 million.

Overall, **loss allowances** amounted to a net reversal of €36 million (first half of 2022: net addition of €44 million). The net additions in respect of the lending business and investments totaled €1 million (first half of 2022: net additions of €61 million). Within this figure, there were net reversals of €27 million related to loss allowances in stage 1 (first half of 2022: net reversals of €3 million), net reversals of €14 million related to loss allowances in stage 2 (first half of 2022: net additions of €60 million), and net additions of €42 million related to loss allowances in stage 3 (first half of 2022: net additions of €4 million). 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), and additions to other provisions for loans and advances was €37 million (first half of 2022: net reversal of €17 million).

In the first half of 2023, the net reversals of €41 million in stages 1 and 2 were mainly attributable to the change in the macroeconomic shift factors. Furthermore, loss allowances were increased in stage 3 owing to additions in respect of individual counterparties owing to changes in credit ratings. These were partly offset by reversals as a result of improvements in the credit ratings of some counterparties.

Administrative expenses increased by €53 million to €732 million (first half of 2022: €679 million).

Staff expenses rose by €23 million to €319 million (first half of 2022: €296 million) owing to increases in wages and salaries and in the associated expenses for social security. Pension and other post-employment benefit expenses were on a par with the prior-year period at €18 million.

Other administrative expenses went up by €30 million to €413 million (first half of 2022: €383 million). Within this figure, the expenses for the restructuring fund for banks (bank levy) and contributions to the BVR protection scheme amounted to €88 million and were thus virtually unchanged (first half of 2022: €87 million).

Furthermore, consultancy expenses increased by €15 million to €98 million (first half of 2022: €83 million), office expenses by €5 million to €19 million (first half of 2022: €14 million), IT costs by €4 million to €95 million (first half of 2022: €91 million), expenses for property and occupancy costs by €4 million to €27 million (first half of 2022: €23 million), and expenses for information procurement by €3 million to €25 million (first half of 2022: €22 million). The depreciation and amortization charges included in other administrative expenses went down by €2 million to €36 million (first half of 2022: €38 million). The breakdown of these charges was as follows: depreciation of right-of-use assets €14 million (first half of 2022: €15 million), depreciation of property, plant and equipment, and investment property €12 million (first half of 2022: €15 million), and amortization of other intangible assets €10 million (first half of 2022: €8 million).

Other net operating income, which totaled €35 million (first half of 2022: €12 million), included income from the reversal of provisions and accruals of €45 million (first half of 2022: €20 million).

Profit before taxes amounted to €697 million in the reporting period, which was €328 million higher than the figure of €369 million reported for the comparative period.

The **cost/income ratio** came to 52.5 percent in the first half of 2023 (first half of 2022: 62.1 percent).

Regulatory RORAC was 25.7 percent (first half of 2022: 12.6 percent).

3.2.6 DZ HYP

At €346 million, the **net interest income** of DZ HYP was €41 million lower than in the prior-year period (first half of 2022: €387 million). This change largely related to the lower level of early redemption payments received in the first half of 2023, which amounted to €1 million (first half of 2022: €31 million), and bonus interest of €7 million in the prior-year period resulting from DZ HYP's participation in the ECB's TLTRO III program; there was no such bonus interest in the reporting period.

The volume of real estate loans, which is the main driver of net interest income, stood at €56,771 million as at June 30, 2023 (December 31, 2022: €56,686 million).

The volume of new business (including public-sector finance) stood at €3,626 million (first half of 2022: €5,174 million). In the corporate customer business, the volume of new business came to €3,058 million (first half of 2022: €3,964 million). In the retail customer business, the volume of new commitments stood at €349 million (first half of 2022: €1,050 million). In the public-sector business, DZ HYP generated a new business volume of €219 million (first half of 2022: €160 million).

The volume of new lending jointly generated with the local cooperative banks in the corporate customer business amounted to €1,501 million (first half of 2022: €1,531 million).

Net fee and commission income amounted to €5 million (first half of 2022: €12 million). The figure for the prior-year period had included income of €11 million from participation in the DZ BANK Group's bidder group in the ECB's TLTRO III tender procedures; there was no such income in the reporting period.

Gains and losses on investments deteriorated to €0 million (first half of 2022: net gain of €33 million). The net gain for the first half of 2022 included income of €30 million resulting from the sale of Portuguese government bonds.

The net gain under **other gains and losses on valuation of financial instruments** declined by €46 million to €27 million (first half of 2022: €73 million). The main influence on this figure was the movement of credit spreads. For example, the gains and losses on valuation of bonds from the peripheral countries of the eurozone amounted to a net gain of €15 million in the six months under review (first half of 2022: net gain of €44 million).

Loss allowances amounted to a net addition of €20 million (first half of 2022: net addition of €14 million). There were additions in stage 3 in connection with specific material exposures during the reporting period. In the prior-year period, the main influence on loss allowances had been due to adjustments to the model-driven calculation.

Administrative expenses decreased by €9 million to €153 million (first half of 2022: €162 million). Staff expenses amounted to €55 million (first half of 2022: €53 million). Other administrative expenses declined to €98 million (first half of 2022: €109 million), largely because of the reduction in expenses for the bank levy.

Profit before taxes fell to €212 million (first half of 2022: €335 million).

The **cost/income ratio** came to 39.6 percent (first half of 2022: 31.7 percent).

Regulatory RORAC was 31.4 percent (first half of 2022: 48.8 percent).

3.2.7 DZ PRIVATBANK

Net interest income at DZ PRIVATBANK rose by €36 million to €70 million (first half of 2022: €34 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.

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 €5.1 billion (first half of 2022: €5.1 billion).

Net fee and commission income fell by €3 million to €109 million (first half of 2022: €112 million). Contributions to earnings in private banking and the fund services business are the main drivers of net fee and commission income.

As at June 30, 2023, high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, amounted to €22.8 billion (June 30, 2022: €20.8 billion; restated).

The value of funds under management amounted to €178.1 billion (June 30, 2022: €168.9 billion). The number of fund-related mandates was 560 (June 30, 2022: 571).

Administrative expenses increased by €7 million to €144 million (first half of 2022: €137 million). At €77 million, staff expenses were on a par with the prior-year period (first half of 2022: €76 million). Other administrative expenses amounted to €67 million (first half of 2022: €62 million). This year-on-year rise was essentially due to increased regulatory contributions and higher costs for IT and consultancy.

Profit before taxes climbed to €53 million (first half of 2022: €19 million).

The **cost/income ratio** came to 73.1 percent (first half of 2022: 88.4 percent).

Regulatory RORAC was 33.0 percent (first half of 2022: 11.1 percent).

3.2.8 VR Smart Finanz

Net interest income at VR Smart Finanz amounted to €60 million (first half of 2022: €58 million). The increase in net interest income was mainly due to a slight year-on-year rise in the lending and object finance portfolio volume to €2,985 million (June 30, 2022: €2,944 million) and higher net margins.

New lending and object finance business with customers in the small business, self-employed, and SME segments was encouraging in the reporting period, increasing by €141 million or 30.4 percent to €605 million (first half of 2022: €464 million). The volume of new business for the 'VR Smart express' hire purchase solution came to €271 million (first half of 2022: €225 million), while new business for the other object finance solutions totaled €124 million (first half of 2022: €80 million). New business involving the 'VR Smart flexibel' business loan increased to €210 million (first half of 2022: €135 million).

Net fee and commission income, which amounted to a net expense of €14 million (first half of 2022: net expense of €15 million), was predominantly influenced by the small uptick in fees and commissions paid to the cooperative banks.

Loss allowances amounted to a net addition of €12 million in the period under review (first half of 2022: net addition of €3 million). The increased expenses were mainly due to the rise in defaults in respect of 'VR Smart flexibel' and 'VR Smart express' and to large additions to loss allowances in stages 1 and 2.

Administrative expenses went down by €1 million to €37 million (first half of 2022: €38 million) as a result of the management of costs. Staff expenses held steady at €22 million (first half of 2022: €22 million).

The **loss before taxes** of VR Smart Finanz amounted to €6 million, primarily owing to the higher loss allowances (first half of 2022: profit before taxes of €3 million).

The **cost/income ratio** came to 86.0 percent (first half of 2022: 88.4 percent).

Regulatory RORAC was minus 7.7 percent (first half of 2022: 3.5 percent).

3.2.9 DZ BANK – holding function

Net interest income contains the interest expense on subordinated capital and senior non-preferred paper purchased by group entities as well as issued subordinated capital and senior non-preferred paper. It also contains the net interest income/expense from the funding of liquidity from the balance of non-interest-bearing assets and liabilities.

Net interest income amounted to a net expense of €55 million in the period under review (first half of 2022: net expense of €9 million).

The net interest expense on purchased and issued subordinated capital and senior non-preferred paper increased by €19 million to €36 million (first half of 2022: €17 million).

The net interest expense from the funding of liquidity from the balance of non-interest-bearing assets and liabilities amounted to €19 million in the period under review (first half of 2022: net interest income of €8 million). The deterioration was due to higher market interest rates in the short-dated segment.

Administrative expenses increased by €6 million year on year to €139 million (first half of 2022: €133 million).

The protection levies (in particular the bank levy and contributions to the BVR protection scheme) declined by €13 million to €45 million (first half of 2022: €58 million). Furthermore, IT and project expenses increased from €32 million in the first six months of 2022 to €41 million in the period under review. Expenses from the group management function rose by €6 million to €36 million (first half of 2022: €30 million). Other expenses for the benefit of the group and local cooperative banks swelled by €4 million to €17 million (first half of 2022: €13 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.

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

4 Net assets

As at June 30, 2023, the DZ BANK Group's **total assets** had increased by €24,977 million to €653,374 million (December 31, 2022: €628,397 million).

The **volume of business** amounted to €1,179,069 million (December 31, 2022: €1,132,301 million). This figure comprised the total assets, the assets under management at UMH as at June 30, 2023 amounting to €432,327 million (December 31, 2022: €413,115 million), the financial guarantee contracts and loan commitments amounting to €91,286 million (December 31, 2022: €88,618 million), and the volume of trust activities amounting to €2,082 million (December 31, 2022: €2,171 million).

Cash and cash equivalents went up by €19,634 million to €113,351 million (December 31, 2022: €93,717 million) 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 €130,065 million (December 31, 2022: €123,444 million). Loans and advances to banks in Germany swelled to €123,057 million (December 31, 2022: €114,015 million), while loans and advances to foreign banks increased to €7,008 million (December 31, 2022: €9,429 million).

Loans and advances to customers amounted to €205,407 million, which was higher than the figure of €203,646 million reported as at December 31, 2022. Loans and advances to customers in Germany grew to €177,997 million (December 31, 2022: €176,145 million), whereas loans and advances to foreign customers declined to €27,410 million (December 31, 2022: €27,501 million).

Financial assets held for trading amounted to €37,790 million (December 31, 2022: €48,909 million). Within this amount, derivatives (positive fair values) stood at €18,850 million (December 31, 2022: €21,474 million), bonds and other fixed-income securities at €9,661 million (December 31, 2022: €7,729 million), shares and other variable-yield securities at €1,386 million (December 31, 2022: €1,388 million), receivables at €7,893 million (December 31, 2022: €18,318 million), money market placements at €6,868 million (December 31, 2022: €17,058 million), and promissory notes and registered bonds at €1,025 million (December 31, 2022: €1,259 million).

Investments increased by €3,317 million to €46,710 million (December 31, 2022: €43,393 million). The main reasons for this change were an increase of €2,594 million in bonds and other fixed-income securities to €43,325 million (December 31, 2022: €40,731 million) and an increase of €729 million in shares and other variable-yield securities to €2,691 million (December 31, 2022: €1,962 million).

Investments held by insurance companies grew by €5,658 million to €111,206 million (December 31, 2022: €105,548 million). This was due to a €3,019 million rise in fixed-income securities to €50,671 million (December 31, 2022: €47,652 million), a €2,839 million rise in assets related to unit-linked contracts to €19,268 million (December 31, 2022: €16,429 million), a €405 million rise in mortgage loans to €11,365 million (December 31, 2022: €10,960 million), and a €205 million rise in other loans to €1,039 million (December 31, 2022: €834 million). The overall increase was partly offset by, in particular, a €188 million decrease in derivatives (positive fair values) to €90 million (December 31, 2022: €278 million) and a €60 million decrease in registered bonds to €5,370 million (December 31, 2022: €5,430 million).

Deposits from banks as at December 31, 2022 amounted to €181,505 million, which was €5,282 million lower than the figure reported as at December 31, 2022 of €186,787 million. Deposits from domestic banks went down by €13,093 million to €157,619 million (December 31, 2022: €170,712 million), whereas deposits from foreign banks rose by €7,811 million to €23,886 million (December 31, 2022: €16,075 million). As at June 30, 2023, the nominal value of the DZ BANK Group's participation in the ECB's TLTRO III program was €9.5 billion (December 31, 2022: €11.0 billion).

Deposits from customers grew by €4,962 million to €164,391 million (December 31, 2022: €159,429 million). Deposits from domestic customers grew by €6,317 million to €135,996 million (December 31, 2022: €129,679 million). By contrast, deposits from foreign customers shrank by €1,355 million to €28,395 million (December 31, 2022: €29,750 million).

At the end of the reporting period, the carrying amount of **debt certificates issued including bonds** was €100,053 million (December 31, 2022: €82,349 million), predominantly because of increased issues of mortgage Pfandbriefe and a rise in commercial paper. Within the total figure, bonds issued came to €80,062 million (December 31, 2022: €68,271 million), while the portfolio of other debt certificates stood at €19,991 million (December 31, 2022: €14,077 million).

Financial liabilities held for trading went up by €329 million to €52,807 million (December 31, 2022: €52,478 million). Within this figure, derivatives (negative fair values) decreased by €4,783 million. However, deposits rose by €2,468 million, bonds issued by €1,568 million, and short positions by €1,077 million.

Insurance contract liabilities increased by €4,590 million to €102,239 million (December 31, 2022: €97,649 million). This was predominantly due to the €4,816 million rise in the liability for remaining coverage to €90,805 million (December 31, 2022: €85,989 million), combined with a fall of €226 million in the liability for incurred claims to €11,433 million (December 31, 2022: €11,659 million).

As at June 30, 2023, **equity** had advanced by €2,768 million to €30,877 million (December 31, 2022: €28,109 million). The increase was mainly due to growth of €1,545 million in retained earnings to €16,301 million (December 31, 2022: €14,756 million) and to the rise in additional equity components to €3,293 million (December 31, 2022: €2,150 million) resulting from the issue of a tranche of additional Tier 1 notes (AT1 bonds) in a total volume of €1,143 million.

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 interim group management report (chapter VI.5).

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 June 30, 2023, the nominal value of the DZ BANK Group's participation in the ECB's TLTRO III program was €9.5 billion (December 31, 2022: €11.0 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.

The risk report within this interim group management report includes disclosures on **liquidity adequacy** (chapter VI.4). 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 interim consolidated financial statements.