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## **Statement**

**Press conference on the 2019 consolidated  
financial statements of the Volksbanken  
Raiffeisenbanken Cooperative Financial Network**

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National Association  
of German Cooperative  
Banks • BVR

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Ladies and gentlemen: The coronavirus crisis represents a real-life stress test for every sector of the German economy. The approximately 174,000 employees of the Cooperative Financial Network are playing their part in keeping our economy going. This is particularly the case when it comes to fundamental services, such as the supply of cash, electronic payment systems, lending, and the securities business. A number of cooperative banks did have to temporarily close branches during the lockdown. However, they were able to work remotely instead, enabling them to continue serving customers seamlessly. It is now clear that customers and banks alike have embraced digitalization all the more during the coronavirus crisis. In our payments processing business, we acted quickly to support contactless debit card payments, which is a much preferred option for both consumers and merchants. The limit for contactless payments without a PIN was raised from €25 to €50 per transaction and will now remain at that level. This is a significant step given that one in two debit card payments in Germany are now contactless. Within our network alone, that equates to around 2 million of the 4 million payments made every day. The growing acceptance of new digital technologies is also illustrated by instant payments, which we have been offering as part of our online banking service and via Kwitt for over a year. On average, we now process more than 100,000 instant payment transactions per day for our customers. The European Payment Council raised the maximum amount that can be transferred as an instant payment from €15,000 to €100,000 with effect from July 1, 2020. This makes instant payments even more appealing, particularly to our corporate customers.

The aim of our **digitalization initiative** is for the Cooperative Financial Network to serve its customers as an omnichannel bank that offers ever more integrated touchpoints across the full range of sales channels. This is accompanied by enhanced functions in the customer service center, such as live chat and video communication. Our institutions report that customers found personal contact very helpful during the coronavirus crisis, even though it did not always happen in the typical manner inside a branch. Ms. Kolak has already mentioned the successful implementation of KfW's development loan programs. Here too, agile processes enabled us to work as a team across the Cooperative Financial Network to get the digital loan application function market-ready within two weeks, including all of the necessary interfaces to the core banking process. The digitalization initiative is currently focusing on two further solutions: Now that the new VR online banking is available for corporate customers, we will expand online banking for retail customers and, in combination with the new VR banking app, offer a central hub for all banking services that combines cutting-edge functionality with a very modern look. During the coronavirus crisis, we have already seen record daily numbers of online and mobile logins.

Now let us turn to the **2019 consolidated financial statements**. These are prepared by reconciling the cooperative banks' financial statements, which are based on the German Commercial Code (HGB), to International Financial Reporting Standards (IFRS). In 2019, the Volksbanken Raiffeisenbanken Cooperative Financial Network increased its **consolidated profit before taxes** to €10.2 billion. This equates to substantial year-on-year growth of almost 31 percent and is primarily attributable to measurement effects at the end of 2019 – mainly in connection with the reversal of impairment losses recognized at the end of 2018 – and the successful insurance business. The contribution to profits from traditional banking business with retail and corporate customers was down slightly compared with the previous year. This is nonetheless a good result because the banking business was still beset by the challenge of low interest rates. All of the consolidated entities – the cooperative banks, the DZ BANK Group, and Münchener Hypothekenbank – made a positive contribution to this result and the growth in business volume.

**Net interest income** was only just short of the 2018 level at €18.2 billion in 2019. This decrease, which was primarily attributable to the European Central Bank's policy of low interest rates and the related deterioration of margins, was mitigated by the strong growth of lending. The **net fee and commission income** of the Cooperative Financial Network rose by 4 percent to €7.1 billion, the main sources of which were the securities brokerage business and payments processing. At €5.7 billion, the cooperative banks made the largest contribution to net fee and commission income. In absolute terms, the €183 million reduction in net interest income was more than offset by the €276 million increase in net fee and commission income. **Loss allowances, which are determined in accordance with IFRS 9**, amounted to a net addition of €832 million in 2019 owing to the change in the general level of risk and an adjustment to the method of calculation. In 2018, the net addition to loss allowances had been much smaller at €151 million. **Gains and losses on investments** improved substantially in 2019 to reach a net gain of €961 million, compared with a net loss of €913 million in the previous year. **Other gains and losses on valuation of financial instruments** also improved, amounting to a net gain of €226 million in 2019. The uptrend for these two line items was predominantly due to price rises in the capital markets and the narrowing of credit spreads on periphery bonds. There was an encouraging rise in **net income from insurance business** to almost €1.7 billion, compared with €0.9 billion in 2018. This growth was mainly thanks to the significant improvement in the gains and losses on investments held by insurance companies and in the other insurance company gains and losses reported by R+V Versicherung on the back of the fall in interest rates. **Administrative expenses** were almost unchanged year on year at €18.1 billion. Staff expenses again accounted for a large part of these expenses (€10.1 billion). General and administrative expenses accounted for

€7 billion, of which €190 million was attributable to the bank levy alone. The **cost/income ratio** was much better, falling from 69.5 percent in 2018 to 62.2 percent in 2019.

As a result of the improvement in business performance, the tax expense climbed by a substantial €800 million to €3.1 billion. A large part of this sum is paid directly to the individual local governments due to our decentralized structure. The Cooperative Financial Network's consolidated **net profit after taxes** therefore increased to just over €7.0 billion, which is around 30 percent higher than the figure of €5.4 billion reported for 2018. The **lending business** of the Cooperative Financial Network grew by 6.2 percent to €844.6 billion in the year under review. There was a further increase in its **deposit-taking business**, which swelled from €842.4 billion in the previous year to €880.4 billion in 2019. **Consolidated total assets** amounted to €1,384.1 billion as at December 31, 2019.

The coronavirus pandemic, which has taken a huge toll on many aspects of our day-to-day lives and on economic activity, constitutes a watershed event and is the dominant factor in the **outlook for the current year**. The fallout from the pandemic will also be reflected in the **Cooperative Financial Network's consolidated earnings for 2020**. Although we still anticipate generating a profit before taxes in 2020, it is likely to be much lower than the very good figure reported for 2019. An increase in loss allowances in the traditional lending business will have a considerable adverse impact, in particular because of the procyclical effect of IFRS 9. The aforementioned positive contributions to profits in 2019, which were attributable to the performance of the capital markets, will be cancelled out by high price volatility in 2020, resulting in significant fair value losses on securities. The actual level depends on how the pandemic continues to unfold – which remains unclear – and its impact on prices and spreads at the end of the year. We are confident that, in these difficult circumstances, the Cooperative Financial Network will achieve satisfactory results that will enable us to continue investing in our business model. Ultimately, interest rates will remain low for a long while yet and customer needs will continue to be met increasingly through the use of digital technologies. The platforms and ecosystems of global providers – including ones outside the financial sector – are vying for access to customers. The Cooperative Financial Network is facing up to these challenges in its ongoing **strategy process**. It is doing so as one of the most profitable and best capitalized banking groups in Europe, occupying a position of financial strength and benefiting from stable relationships with its members and customers.