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PRESSEMITTEILUNG

Cooperative banks generate significant growth in customer business in 2021 / Enhanced resilience in a challenging environment dominated by the war in Ukraine

Frankfurt, March 22, 2022 — The 772 German cooperative banks generated a solid profit before taxes in 2021 thanks to brisk customer business. This was achieved despite the many challenges that arose during the year. Higher volumes of loans and advances, deposits, and brokerage business resulted in a profit before taxes of €7.7 billion. The equity base was also further strengthened, building up even greater resilience to possible economic stresses and strains for the cooperative banks.

"Given the war that is currently raging, it feels difficult to highlight our financial success in 2021," says Marija Kolak, President of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks]. Discussion of the war's economic impact on Germany is not a matter of major concern, she explains. Nonetheless, it is the case that the direct consequences for the cooperative banks are very limited.

In terms of the effects of the war in Ukraine on the German economy, the BVR anticipates an average increase in consumer prices for 2021 of around 5 percent and real economic growth of around 2 percent owing to the sharp rise in commodity and energy prices. Kolak: "By getting rid of negative interest rates this year, the European Central Bank could demonstrate that it is acting decisively to counteract high inflation levels. It should now only be a question of when, not whether."

"Companies that, through no fault of their own, have ended up in financial difficulties due to the sanctions imposed on Russia, need to receive government

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support as soon as possible," states Kolak. "As with the coronavirus crisis support, this can be achieved with support loan programs from the German federal and state development banks."

Across all customer groups, the cooperative banks' volume of lending went up by 6.9 percent to €710 billion as at December 31, 2021. Market share rose by 0.3 percentage points to 17.9 percent. Lending to retail customers grew by 6 percent to €341 billion, and market share in this segment was up by 0.1 percentage points to 23.8 percent. The volume of lending to corporate banking customers (including other customers) increased by 7.6 percent to €370 billion. In this segment, market share grew by an impressive 0.5 percentage points to 22 percent.

The institutions also registered a year-on-year jump in deposits. Deposits from customers went up by 5.4 percent to €833 billion. Market share rose by 0.4 percentage points to 19.5 percent.

Despite the low level of interest rates, net interest income advanced by 3 percent to €16.5 billion. Net fee and commission income climbed by 5.7 percent to €6 billion. Payments processing and, in particular, the brokerage business with entities in the Cooperative Financial Network performed exceptionally well. Fee and commission income from cooperative network business swelled by 15.6 percent to €2.8 billion in 2021. Brisk demand for securities investments – especially Union Investment's fund-linked savings plans – resulted in a 20.7 percent jump in assets under custody at the cooperative banks. There was also an increase in the number of custody accounts managed, which rose by 5.4 percent to a total of 6.6 million.

General and administrative expenses grew by 0.4 percent to €15 billion in 2021, while staff expenses were unchanged at €8.5 billion. The cost/income ratio (in the narrow sense) improved substantially to 66.5 percent, compared with 68.7 percent in 2020.

Operating income went up by 11 percent to €7.5 billion in 2021. Operating profit including gains and losses on valuation increased by 20.2 percent to €7.9 billion. Profit before taxes advanced by 20.4 percent to €7.7 billion. Income taxes amounted to €2.2 billion. A sum of €3.5 billion is likely to have been transferred to the fund for general banking risks. After taxes, net income for the year therefore stood at €1.9 billion.

The cooperative banks continue to have a solid level of capital adequacy. Regulatory own funds rose by €4.1 billion to €102.5 billion. Tier 1 capital increased by €5.1 billion to €92.9 billion. The Tier 1 capital ratio fell slightly, by 0.34 percentage points, to 15 percent owing to the significant rise in lending. The total capital ratio was 16.6 percent at the end of 2021, which was considerably higher than the regulatory requirement.

The cooperative banks' combined total assets grew by 6.5 percent year on year to reach €1,145 billion. The average total assets per institution stood at just over €1.5 billion at the end of 2021.

Stability is more important than ever – discussion of EDIS is misplaced
The BVR regards Europe's current banking union as the foundation that is underpinning the stability of banks at the present time. It believes that the existing system for compensating depositors in the European Union (EU) runs smoothly and is efficient and effective. The ongoing discussions about strengthening the banking union should therefore no longer focus on the mutualization of the national deposit insurance systems (EDIS). The BVR sees it as particularly important to substantially reduce the growing risks faced by European banks as a result of the pandemic and the war in Ukraine. "It is now the job of the coalition to make its views very clear in the further negotiations in the EU," says Kolak.

Three dimensions of sustainability

Given their cooperative values, the German cooperative banks believe they have a particular responsibility with respect to all three dimensions of sustainability: environment, social, and corporate governance. “Customers specifically want sustainability to be taken into account when they are being advised on their investments, and this is seen by the cooperative banks as not only a duty but also a shared opportunity to make a difference,” explains Kolak. However, she warns against excessive regulatory requirements. “It is doubtful whether customers can actually take in all the product information that has to be provided under the Sustainable Finance Disclosure Regulation, Taxonomy, and MiFID. To some extent, it undermines the understandable and admirable goal of creating more transparency for customers.” ■