

2019 financial year: high level of profit before taxes / institutions prepared for an economic downturn

Frankfurt, March 17, 2020 — In 2019, the 841 local cooperative banks, Sparda banks, PSD banks, and cooperative specialized institutions are expected to have achieved a profit before taxes of €7.6 billion in 2019. This year-on-year increase of 19.3 percent was primarily due to the exceptionally strong uptrend in the capital markets. Lending rose by 6.0 percent and deposits by 5.5 percent during the reporting period. Whereas net fee and commission income climbed by 5.7 percent, there was a moderate decrease in net interest income of 0.6 percent.

“These results are, not least, a reflection of sustained demand from our more than 30 million customers and 18.6 million members,” said Marija Kolak, President of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks]. “We will tackle the impact of the coronavirus crisis with confidence and self-belief. During this crisis, the local cooperative banks will act as a dependable partner and provider of funding and do everything they can to help their corporate customers. We will work with the affected small and medium-sized enterprises to find solutions so that the banks can support their customers in the best way possible with loans and liquidity. The Cooperative Financial Network will play its part in overcoming this crisis.”

The **capital adequacy** of the cooperative banks remains robust. Own funds, calculated in accordance with the Capital Requirements Regulation (CRR), rose by 3.7 percent to €93.9 billion. The Tier 1 capital ratio was 14.9 percent. The total capital ratio under the CRR stood at 17.1 percent and was thus much higher than the minimum requirement of 8 percent.

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Further growth in the lending and deposit-taking businesses

Loans and advances to retail and corporate customers went up by 6 percent, or €36 billion, to €626 billion thanks to the relative stability of Germany's domestic economy. Market share increased by 0.3 percentage points to 17.2 percent. The growth trajectory of recent years is therefore continuing. In the period 2014 to 2019, lending rose by an average of 5.4 percent. The **corporate customer** lending business grew by 6.8 percent to €290 billion. Market share went up by 0.4 percentage points to 20.9 percent as at the end of 2019. The **retail customer** lending business expanded by 5.1 percent to €305 billion, while market share held steady at 23.7 percent. The sustained growth over many years is partly attributable to the strong demand for real estate loans. In this segment, loans to retail customers rose by 6.2 percent to €261 billion and market share increased slightly, by 0.1 percentage points, to 24.8 percent.

The growth in lending was matched by expansion of the deposit-taking business. The cooperative banks' total **deposits from customers** amounted to €735 billion, a year-on-year increase of €38 billion or 5.5 percent. Market share rose by 0.4 percentage points to 18.9 percent.

The **aggregated total assets** of all cooperative banks went up by 5.3 percent year on year to reach €985 billion. The average total assets per institution stood at €1.2 billion at the end of 2019 (December 31, 2018: €1.1 billion).

Good financial performance enables reserves to be strengthened

The extreme interest-rate situation led to a fall in **net interest income** to €16.3 billion, although the decrease was fairly modest at 0.6 percent. net fee and commission income rose by 5.7 percent to €5.5 billion in the year under review. The main sources of income were payments processing and brokerage business with entities in the Cooperative Financial Network. The customer volume not recognised on the balance sheet again increased sharply, advancing by a total of 12.8 percent to €480 billion.

General and administrative expenses went up only moderately, by 2.2 percent, to €14.8 billion thanks to rigorous management of costs. The main item of capital expenditure was IT. At the end of 2019, the cooperative banks had a total of 140,000 employees and 8,300 trainees. The number was therefore down by 2 percent compared with the end of 2018 and, as in previous years, the decline was due almost entirely to age-related staff turnover.

Operating income fell by 1.8 percent to €6.9 billion in 2019. Fair value gains and losses were encouraging, amounting to a net gain of €500 million in 2019 (2018: net loss of €900 million). **Profit before taxes** is likely to have reached €7.6 billion, which is 19.3 percent higher than in 2018. Income taxes amounted to €2.3 billion (2018: €2.1 billion). The cooperative banks are expected to have contributed €3.1 billion to the fund for general banking risks in 2019, thereby further strengthening their already sound capital adequacy. **Net income for the year** after taxes is therefore predicted to have been €2.2 billion. ■