PRESSEMITTEILUNG

With substantial profit growth in 2021 and improved capital adequacy, the Cooperative Financial Network is braced for challenging times

Frankfurt, July 12, 2022 — In 2021, the Volksbanken Raiffeisenbanken Cooperative Financial Network reported consolidated profit before taxes of €10.5 billion in an environment shaped by the coronavirus pandemic and expansionary monetary policy. This rise of nearly 46 percent compared with the prior-year figure of €7.2 billion is attributable to growth in the operating business and a marked reduction in the need to recognize loss allowances. The Cooperative Financial Network's equity swelled by 6.4 percent to €129.5 billion. The increased volume of customer business meant that consolidated total assets grew by a further 6.1 percent to €1,566 billion.

"The results demonstrate in impressive fashion that the Cooperative Financial Network is able to deliver a solid performance again and again by managing its business actively and with commercial prudence," said Marija Kolak, President of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks]. "In consequence, we are well prepared for the challenges arising in the capital markets in connection with the war in Ukraine and surging yields and can provide reliable support to our retail and corporate customers," she added.

Kolak emphasized that record inflation rates were one of the biggest causes for concern at present and that it was high time the European Central Bank (ECB) took action. "The first interest-rate increase, which has been announced for the meeting of the Governing Council on July 21, is long overdue. The ECB should opt for a substantial increase of 50 basis points, i.e. it should raise the main refinancing operations interest rate to 0.50 percent and the deposit interest

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rate to 0 percent, in order to give the markets a clear signal that it is taking decisive action to combat inflation," stressed the President of the BVR.

She suggested that economic policy also needed to be realigned with a view to tackling long-term challenges. "We need more investment in digitalization and the fight against climate change," said Kolak, adding that, as a funding partner for small and medium-sized enterprises, banks have a crucial part to play in this respect. The responsibility of policymakers was to create a streamlined and consistent regulatory framework. And the taxonomy, for instance, was in urgent need of improvement.

Kolak also believes that pressures arising from supply chain disruptions and shortages of skilled workers need to be alleviated significantly in order to get investment in the future flowing. "The effective date for Germany's Supply Chain Due Diligence Act should be pushed back to the start of 2023 so as not to place an additional burden on companies at this challenging time. This would also reduce administrative expenses for small and medium-sized suppliers that are indirectly affected by relevant documentation requirements," explained Kolak.

She believes that trust and stability crucially depend on a functioning European banking market with strong banks. "Contrary to what the European Commission is suggesting by debating a European deposit insurance scheme (EDIS), a banking union does not mean solving all problems by mutualizing existing risks on the banks' balance sheets. The German government is therefore justified in resisting pressure from Brussels and rejecting the implementation of a European deposit insurance scheme that would aim to deliver precisely that – mutualization," said Kolak. Instead, the focus should be on pushing ahead with the integration of the European banking market and the reduction of existing risks.

The consolidated financial statements in detail

The annual consolidated financial statements of the Cooperative Financial Network provide information on the 2021 financial year of the 770 local cooperative banks, Sparda banks, PSD banks, and other specialized institutions in the Cooperative Financial Network as well as the DZ BANK Group and Münchener Hypothekenbank. For the purposes of the consolidated reporting, the cooperative banks' financial statements, which are based on the German Commercial Code (HGB), are reconciled to International Financial Reporting Standards (IFRS).

Net interest income was once again influenced by the ECB's policy of low interest rates in 2021. This meant that margins remained tight, but the cooperative institutions were able to offset this through volume growth in the lending business. Consequently, the Cooperative Financial Network delivered a stable performance in 2021, with net interest income remaining virtually unchanged on the previous year at €18.2 billion. The **net fee and commission income** of the Cooperative Financial Network jumped by 16.6 percent to €8.7 billion in 2021, mainly thanks to the thriving securities business and the payments processing business.

The level of **loss allowances** was better than expected in 2021, resulting in income from the reversal of loss allowances of around €0.3 billion. Following a net addition of €2.3 billion in the previous year, this item has thus normalized over the past two years.

Administrative expenses came to €18.6 billion and were thus slightly higher than in the previous year. Staff expenses again accounted for a large part of these expenses (€10.4 billion), while other administrative expenses accounted for €8.2 billion. The slight increase was mainly attributable to salary adjustments and continued investment in digitalization. The **cost/income ratio** of the Cooperative Financial Network fell from 65.4 percent in 2020 to 64.6 percent in 2021. Income tax of €3.1 billion paid by the Cooperative Financial Network in 2021 also represents a contribution to society as this money goes toward the funding of local governments and authorities that will be able to invest it. The Cooperative Financial Network's **consolidated net profit after taxes** amounted to just over €7.5 billion (2020: €5.0 billion).

Key items on the consolidated **balance sheet** of the Cooperative Financial Network also followed a positive trend. The **lending business** grew robustly once again in 2021, rising by 6.0 percent to €944 billion as at December 31, 2021. Long-term home finance was the driver of this growth. The combination of low interest rates, a healthy level of employment, and rising household incomes fueled strong demand for real estate loans. The **deposit-taking business**, which is used to fund the lending business, grew by 5.0 percent to €985 billion as at December 31, 2021. The increased volume of customer business meant that, for the first time, consolidated **total assets** exceeded €1.5 trillion in 2021. As at December 31, 2021, consolidated total assets amounted to €1,566 billion (up by 6.1 percent).

The Cooperative Financial Network continued to strengthen its capital base in 2021. **Equity** rose by 6.4 percent to €129.5 billion. Around 84 percent of the network's equity continues to be held by the local cooperative banks. The consolidated **Tier 1 capital ratio**, the calculation of which has been aligned with IFRS requirements since 2021, remained virtually unchanged at 15.2 percent (down by 0.1 percent) despite strong customer growth. The **total capital ratio** dropped from 16.3 percent to 15.8 percent in line with expectations as the application period for the transitional guidance came to an end. The **leverage ratio** remained unchanged at 8.0 percent and thus above the average for the industry. Fitch recently confirmed the group's AA- credit rating with a stable outlook. S&P rates the Cooperative Financial Network as A+ with a stable outlook. ■

For further information, see: www.bvr.de/KJA

Background information about the Volksbanken Raiffeisenbanken Cooperative Financial Network:

The local cooperative banks, Sparda banks, PSD banks, the cooperative church banks, and the specialized institutions hold virtually all of the capital of the Cooperative Financial Network – including that of the central institution, DZ BANK AG. They have more than 30 million customers, 18.2 million of whom are members of the local cooperative banks and thus their shareholders. The ownership structure of the cooperative banking group is therefore very broad and the group is entirely in private hands.

The central institution and specialized service providers within the Cooperative Financial Network, which include Bausparkasse Schwäbisch Hall AG, DZ HYP AG, Union Asset Management Holding AG, and R+V Versicherung AG as well as Münchener Hypothekenbank eG, VR Smart Finanz AG, TeamBank AG Nürnberg, and DZ PRIVATBANK S.A., provide the local cooperative banks with financial products and services, from which each cooperative bank compiles a package that is tailored to its positioning in the market and meets the needs of its customers. The BVR is the strategic competence center of the cooperative banking group. As an umbrella organization for the banking sector, it represents the interests of the cooperative banking group at both national and international levels.

The BVR also operates a dual system of bank protection. Its wholly owned subsidiary, BVR Institutssicherung GmbH, has been officially recognized as a deposit insurance scheme and, in addition to protecting banks, fulfills the statutory remit of ensuring depositors affected by a bank's insolvency are compensated in accordance with national deposit insurance legislation. The BVR protection scheme is an additional, voluntary system that also guarantees that deposits are safe by protecting the banks.

Short profiles of the members of the Board of Managing Directors can be found on our website: About us - Our remit - BVR - National Association of German Cooperative Banks