

## Cooperative banks remain reliable and successful during difficult periods / Kolak: "German government needs to adopt a firm anti-EDIS stance"

Berlin, March 16, 2021 — The German cooperative banks performed well in 2020 against a backdrop of challenging economic conditions. The 814 institutions were a reliable financial partner to small and medium-sized enterprise (SME) customers and retail customers during the pandemic. As a result, loans and advances increased by 6.2 percent and deposits by 7.6 percent. Net interest income fell by 1.9 percent, whereas net fee and commission income climbed again year on year (by 3.8 percent). Preliminary net income for the year came to €2.1 billion. The cooperative banks further strengthened their capital adequacy, with an improvement of 4.1 percent.

As a result of their strong ties to their local regions, the cooperative banks share the concerns of their SME customers. "In 2021, the sectors hit hardest by the lockdown will probably not be able to make up for the revenue they have lost so far," said Marija Kolak, President of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks]. "SMEs need a reliable and evidence-based re-opening strategy that will enable to the economy to get going again quickly."

In these conditions, it is all the more important that the cooperative banks provide an anchor of stability. "The institutions have risk under control, even in the situation created by the coronavirus pandemic," explained Kolak, adding that there has been a good balance between risk, earnings, and equity for many years.

Kolak is critical of the unwavering determination of the European Commission and the Portuguese presidency of the Council of the EU to introduce a European deposit insurance scheme (EDIS). She believes that the focus must be

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on reducing the risks on banks' balance sheets rather than on redistributing the risks, particularly in view of the economic uncertainties created by the pandemic. Kolak: "Mutualization of liability for existing risks increases the systemic threats within the banking union. The German government therefore needs to adopt a firm anti-EDIS stance because the conditions are not right for such a far-reaching step."

### **Stable customer business**

Across all customer groups, lending went up by 6.2 percent to €665 billion as at December 31, 2020. Market share increased by 0.4 percentage points to 17.6 percent. This trend was driven by continued brisk demand for long-term home loans, which make up more than half of the credit portfolio of the cooperative banks.

The cooperative banks have also recorded significant growth in deposits in the past few years, with deposits from customers rising by 7.6 percent to €791 billion at the end of 2020.

The robust customer business is also reflected in the provisional income statement figures. **Net interest income** fell slightly, decreasing by €311 million to just over €16 billion. However, this figure did not include a dividend from DZ BANK due to a recommendation from the European Central Bank. In 2019, a dividend of €322 million had been distributed. **Net fee and commission income** climbed by 3.8 percent to €5.7 billion in 2020. The main sources of income were again payments processing and brokerage business with entities in the Cooperative Financial Network. The **customer volume not recorded on the balance sheet** increased by 5.5 percent to €507 billion.

The cooperative banks reduced their **general and administrative expenses** by 0.3 percent to €14.8 billion in 2020. Within this figure, staff expenses were almost unchanged compared with 2019 at €8.5 billion. The cooperative banks had a total of 138,100 employees, which represented a year-on-year decrease

of 1.8 percent. The number of trainees rose by 200 to 8,600. The cost/income ratio went up only slightly to 68.6 percent (2019: 68.3 percent).

**Operating income** remained almost unchanged at €6.8 billion in 2020, a year-on-year fall of 1 percent. **Operating profit before gains and losses on valuation** was up slightly compared with 2019, rising by 0.4 percent to €7.3 billion. The cooperative banks' **fair value gains and losses** amounted to a net loss of €927 million in 2020. Despite the pandemic, the lending business recorded only a moderate level of impairment losses and loss allowances, which meant that the fair value gains and losses on loans and advances amounted to a net loss of €412 million. Loss allowances in the securities business amounted to €206 million in 2020 owing to write-downs in the securities portfolio. In spite of the increase in impairment losses and loss allowances for loans and advances and the securities business, the cooperative banks still had enough headroom to recognize further **allowances for general banking risks** of €309 million in accordance with section 340f of the German Commercial Code (HGB).

**Own funds** pursuant to the Capital Requirements Regulation (CRR) went up by 4.8 percent to €98.4 billion. The Tier 1 capital ratio increased slightly to reach 15.4 percent. The total capital ratio stood at 17.2 percent at the end of 2020, a rise of 0.15 percentage points. It therefore remained well above the minimum standard of 8 percent.

**Operating profit including gains and losses on valuation** totaled €6.4 billion, a decrease of €1.4 billion. Preliminary **profit before taxes** came to €6.3 billion, down by 16.9 percent compared with 2019. Income taxes amounted to around €2 billion. The local cooperative banks are likely to have transferred a sum of €2.3 billion to the **fund for general banking risks** in 2020, thereby further strengthening their already sound capital adequacy. ■