V Outlook

1 Economic conditions

1.1 Global economic trends

In 2020, the COVID-19 pandemic plunged the global economy into the deepest recession since the end of the Second World War. Global economic output contracted by almost 4 percent.

Even at the end of 2020 and at the beginning of 2021, the effects of COVID-19 remained all-pervading. However, various announcements over the last few weeks have given hope that the development of a number of vaccines to combat COVID-19 has been successful. During the course of 2021, a blanket global population vaccination program is therefore likely to stabilize the health emergency and then also help economic activity to return to normal. If this works, the pandemic will fade into the background, allowing everyone to focus on other issues. In almost every region, pent-up demand will then also probably give a huge boost to economic growth.

An enormous rebound in the global economy is anticipated during 2021, with growth predicted at 5.2 percent. Nevertheless, there is a risk that the vaccination program will not deliver a sufficient level of protection, as a consequence of which the COVID-19 pandemic could weigh on the economy and society at large for a much longer period.

Only brief upward pressure on consumer prices is expected in 2021. In key national economies, inflation rates are unlikely to reach a level that could be considered a cause for concern by central banks.

1.2 Trends in the USA

While the changeover in the White House at the beginning of 2021 is likely to open the way for negotiations on resolving the international trade disputes between the United States, China, and Europe, this does not mean that these disputes have been eliminated. In the absence of a lasting solution, there is still a risk that countries will impose protectionist measures, delivering a further blow to world trade already weakened by the impact of the COVID-19 pandemic. This would adversely affect the global economy and hit the heavily export-dependent German economy particularly hard.

In the most likely scenario, the US economy is expected to recover in 2021 from the pandemic-induced recession in 2020. Economic output in the country is predicted to rise by 6.0 percent, with the recovery probably being driven mainly by consumer spending.

1.3 Trends in the eurozone

The economic bounce-back in the eurozone was brought to a halt at the end of 2020 by the second wave of the pandemic. GDP contracted again in the final quarter of 2020 and the situation was expected to remain challenging in the first quarter of 2021. Many of the containment measures will remain more or less in place, acting as a brake on economic growth. Current assessments are that the situation will only normalize later in the year with the help of rising vaccination rates and warmer weather, at which point the economy is likely to kick into gear. Following a contraction of 6.8 percent in GDP in 2020, hefty economic growth of 3.7 percent is projected for 2021.

Consumer prices are only expected to be subject to a little upward pressure. The effect of falling energy prices will probably fade away during 2021, as will the pandemic-related weakness in the prices of other goods and services. The price of crude oil, in particular, is likely to climb as the economy recovers. While the inflation rate in 2020 was low at just 0.3 percent, consumer prices are expected to rise by an average of 1.6 percent in 2021.

1.4 Trends in Germany

As a consequence of high COVID-19 infection rates, lockdown measures were tightened again in December 2020 in order to bring about a lasting reduction in new cases. These restrictions are expected to have caused a recession in the fourth quarter of 2020 and first quarter of 2021, although current assessments indicate that this is likely to have been significantly less severe than in the first half of 2020.

A vigorous recovery is anticipated from the spring of 2021, bolstered by progress in the distribution of vaccines. An economic growth rate of 2.7 percent is projected for 2021. There is undoubtedly a significant risk that this forecast could be overstated if there were to be a harder and longer lockdown that extends beyond the first quarter of 2021. On the other hand, rapid success in combating the pandemic (for various reasons including faster distribution of vaccines) could bring the chance of a quicker recovery.

The average rate of inflation in Germany for 2021 will probably be markedly higher than in the previous year at 2.1 percent (2020: 0.4 percent). The main reasons are the end of the temporary reduction in VAT and a return to higher energy prices. There are no predictions of higher inflationary pressure over the longer term in Germany.

1.5 Trends in the financial sector

For some years, the financial sector has faced considerable pressure in terms of both adjustment and costs caused by the need to comply with regulatory reforms and implement structural change to adapt to competitive conditions.

The regulatory measures introduced since the financial crisis have had a range of objectives, including to make the financial sector more resilient in the event of a crisis, mainly through improved capital and liquidity adequacy, and to ensure that the risks arising from the business activities in the financial industry are not borne by the public sector.

In response to these regulatory requirements, banks have reduced their leverage over the last few years and substantially bolstered their risk-bearing capacity by improving liquidity and capital adequacy.

In addition, new competitors with approaches based on the use of technology are presenting the financial sector with the challenge of scrutinizing its existing business models, adapting them as required, and substantially improving its efficiency by digitalizing business and IT processes. The corresponding capital investment is initially likely to push up costs in the industry before the anticipated profitability gains can be realized.

From the current perspective and in view of the expansionary monetary policy pursued by virtually all central banks, efforts to address the challenges in the financial sector described above will be made more difficult in 2021 by what is expected to remain a comparatively low level of nominal interest rates. This will be accompanied by a relatively flat yield curve and will prevent any significant increase in margins in interest-related business. Accordingly, interest rates are not expected to return to normal levels in 2021.

In the last few years, central banks' expansionary monetary policy, and particularly the ECB's bond-buying programs, largely prevented structural problems, mainly in some EMU member countries, from being perceivable in the capital markets. Because of the way in which the COVID-19 pandemic has spread, the economic fallout in these countries has been especially severe and their need to obtain funding in the capital markets has risen sharply in view of the fiscal support measures that have been required. Asset-buying programs in response to the pandemic have so far limited an increase in risk premiums. However, a securities valuation risk could arise in conjunction with a potentially more restrictive approach to the bond-buying programs.

Because of the expansionary monetary policy pursued by central banks and the fiscal policy measures implemented in many countries, it is reasonable to assume that there will be a global economic recovery, which should also help to stabilize financial performance in the financial sector. However, it is not possible to rule out potential negative effects from the COVID-19 pandemic on businesses and consumers in 2021, which in turn could have an adverse impact on the financial sector.

The potential impact of uncertain political developments on the economic position of banks and insurance companies should also not be ignored. Relevant information on macroeconomic risk factors can be found in the risk report (chapter VII.2.3).

2 Financial position and financial performance

In a market and competitive environment that will continue to be challenging despite the projected economic recovery, key features of the 2021 financial year for the DZ BANK Group will include the planned evolution of the group's operating business and capital expenditure on digitalization.

The forecasts below are based on the outcome of the DZ BANK Group's annual planning process. Further information on the planning process can be found under 'DZ BANK Group fundamentals' (chapter I.2.4). Variances during 2021 from the underlying planning scenario, in the form of opportunities and risks, may have an influence on financial position and financial performance.

According to the planning for 2021, **total assets** will end the year slightly higher overall compared with the figure as at the end of 2020. The forecast growth in the customer business, which will have a corresponding impact on the balance sheet, is expected to be focused in the BSH, DZ BANK – CICB, DZ HYP, TeamBank, and R+V operating segments. Some of the growth in total assets will be offset by the planned reduction in the portfolios of loans and advances in the DVB operating segment.

Despite economic activity being dominated by the COVID-19 pandemic, the DZ BANK Group generated a very respectable **profit before taxes** in 2020. Based on current assessments and taking into account the persistently challenging conditions, the **profit before taxes** in 2021 is predicted to be lower than in 2020 and thus below the long-term target range of €1.5 billion to €2.0 billion.

The future financial performance of the DZ BANK Group could be subject to risks arising from the economic conditions outlined above. The situation is monitored continuously and factored into the DZ BANK Group's planning and management.

In 2021, **net interest income** including income from long-term equity investments is currently anticipated to rise slightly despite the likelihood of interest rates remaining low, mainly because of the projected positive trends in the BSH, TeamBank, and DZ BANK – CICB operating segments. Potential income in connection with the use of open market operations as part of the ECB's TLTRO III programs could have a positive impact on net interest income. The chances of generating this income are likely to have gone up because of the decision made in February 2021 to expand the existing joint bidder group comprising the DZ BANK – CICB and TeamBank operating segments to include the DZ HYP operating segment.

Net fee and commission income is projected to rise slightly and continue to make a hefty contribution to the earnings of the DZ BANK Group in 2021. This is due to the significant budgeted growth in the volume of assets under management and the associated volume-related income in the UMH and DZ PRIVATBANK operating segments.

Gains and losses on trading activities in 2021 are expected to decline sharply compared with 2020. The absence of the positive one-off items in 2020 will probably cancel out the intended boost from the customer-driven capital markets business in the DZ BANK – CICB operating segment.

Gains and losses on investments are anticipated to decline sharply in 2021 because of the absence of positive one-off items that were recognized in 2020 (see chapters II.3.2.1 BSH and II.3.2.4 UMH of the business report).

Other gains and losses on valuation of financial instruments are likely to improve significantly in 2021 compared with the reporting year.

Net income from insurance business in 2021 is expected to be well above the 2020 figure. In addition to the premium growth that has been assumed in the different divisions of the R+V operating segment, the net gains under gains and losses on investments held by insurance companies are predicted to rise sharply.

Expenses for **loss allowances** are likely to rise moderately in 2021 compared with their level in 2020 because of potential negative consequences of the COVID-19 pandemic on businesses and consumers.

In 2021, **administrative expenses** are likely to rise marginally compared with 2020. While staff expenses will decline slightly according to current predictions, general and administrative expenses are likely to rise markedly in view of the planned growth and capital spending requirements.

The **other net operating income** generated by the DZ BANK Group in 2021 is expected to fall sharply because of the absence of positive one-off items recognized in 2020 (see chapter II.3.2.9 DVB of the business report).

The **cost/income ratio** for the DZ BANK Group is likely to rise slightly in 2021 as a result of the expected slight year-on-year decrease in income and marginal rise in the level of expenses. As before, the DZ BANK Group will be focusing its energies on managing costs and generating growth in the operating business.

Regulatory RORAC, the risk-adjusted performance measure based on regulatory risk capital, will probably decline in 2021 because of the lower earnings projections.

3 Liquidity and capital adequacy

Based on the position in the year under review and the funding measures planned for 2021, the DZ BANK Group predicts that it will be able to continue maintaining an appropriate level of economic and regulatory **liquidity adequacy** in 2021.

Further information on liquidity adequacy can be found in the risk report (chapter VII.4).

As matters currently stand, the DZ BANK Group's **capital adequacy** will continue to be assured for 2021 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital necessary to cover the risks associated with the finance business and other risks arising from the group's business operations.

Over the last few years, the DZ BANK Group has greatly strengthened its capital base from its own resources (through the retention of profits) and through corporate action. In 2021, a high priority will once again be given to strengthening the capital base.

Further information on capital adequacy can be found in the risk report (chapter VII.5).

4 Operating segments in detail

4.1 BSH

According to research institute forecasts, the key drivers behind the demand for home ownership, namely a sustained uptrend in employment, real income growth, and affordable financing terms and conditions, will all remain in place in 2021 despite the COVID-19 pandemic. Furthermore, a backlog of more than half a million approved, but as yet uncompleted, homes has built up over the last few years. It is therefore unlikely that there will be any letup in the pressure on housing markets in 2021, particularly in urban centers and surrounding areas, no matter how the pandemic evolves. The Zentralverband des deutschen Baugewerbes (ZDB) [German Construction Confederation] predicts that around 300,000 new homes will be constructed in 2021, which is similar to the level of the previous year.

Around 35 percent of Germany's entire final energy consumption is accounted for by buildings, where the energy is used primarily for heating and hot water. The German government is aiming to ensure that all buildings in the country are carbon-neutral by 2050. In the intervening years, capital investment in the buildings sector is expected to be in a range from €500 billion to €1,000 billion. As an incentive to improve the energy-efficiency of housing, the German government is imposing a carbon tax on fossil fuels from 2021, making it more expensive to use such fuels. Capital investment in the use of climate-friendly technologies will thus be more financially worthwhile in the future.

In its core home finance business, BSH expects the volume of new business to be slightly lower than the record level achieved in 2020. As regards home savings, the second core business at BSH, new business is predicted to be at the same level as 2020 because of the continuing challenges presented by persistently low interest rates and temporary restrictions imposed as a consequence of the COVID-19 pandemic.

Taking these various factors into account, BSH anticipates that its **profit before taxes** will see a moderate year-on-year decline in 2021.

The low interest rates are likely to have a substantial detrimental impact on interest income in 2021. However, there will be a positive year-on-year effect from a sharp fall in interest expense caused by a lower addition to the provisions for risks attaching to older rate scales in building society operations. Based on these assumptions, **net interest income** is projected to rise moderately in 2021.

With regard to **loss allowances**, BSH will only benefit in the second half of 2021 from Germany's recovering economy and reduction in short-time working. A slight increase in unemployment in Germany will lead to higher loss allowances. As a result of the above and because of the comparatively low figure in 2020, loss allowances are anticipated to rise sharply in 2021.

Net fee and commission income in 2021 is expected to remain virtually unchanged based on a marginal contraction of the home finance business and little movement in the new home savings business from the 2020 level.

Gains and losses on investments are expected to deteriorate significantly compared with 2020.

Administrative expenses in 2021 will probably remain at the 2020 level. The reason for this is a program aimed at the structural optimization and management of costs (SOKS), which was set up in 2020. The SOKS program is a project over a number of years in the Schwäbisch Hall Group aimed at creating greater cost transparency and keeping costs to a lower level on a permanent basis.

Based on current assessments, the **cost/income ratio** is projected to improve slightly, largely because of a rise in net interest income combined with stable administrative expenses.

Regulatory RORAC will probably be down significantly because of the higher capital requirements and the fall in profit before taxes.

4.2 R+V

In the opinion of R+V, the 2021 financial year will continue to be shaped by the challenging conditions. In addition to the impact of the COVID-19 pandemic, the market environment will remain very tough from any number of perspectives, including political issues, regulation, low interest rates, economic conditions, and consumer behavior.

Back in 2017, R+V launched its 'Wachstum durch Wandel' (growth through change) program with the overall objective of consolidating its position in the market and equipping itself for the future. The main aims within the strategic program are to safeguard profitable growth over the long term, bring about further growth in sales, refine the strong R+V corporate culture, and sharpen the focus on customer needs.

In line with this strategy, R+V – the composite insurer in the Volksbanken Raiffeisenbanken cooperative financial network – is planning to continue on its trajectory of profitable growth in 2021. The value added for the cooperative financial network should also increase steadily as a result.

Slight overall growth is expected in **gross premiums written**.

The **non-life insurance** division benefited from premium growth in 2020 despite the duration and intensity of the COVID-19 pandemic. This growth is likely to continue in 2021 as part of the ongoing strategic 'Wachstum durch Wandel' program. In this regard, a slight rise in **gross premiums written** is predicted. The **claims rate** will probably be a little higher than the level of 2020. This is because the number of traffic accidents and natural disaster events are expected to return to normal levels. The rate also takes into account the risk of a rise in insolvencies as a consequence of the pandemic. Based on a modest rise in the expense ratio, the **combined ratio** (total of insurance business operating expenses and claims expenses divided by premiums earned) is projected to be a little higher than the 2020 figure. In 2021, R+V will again participate as a credit insurer in the protective shield for supply chains agreed between the insurance industry and the German government. This protective shield supports supply arrangements for businesses that were financially sound prior to the COVID-19 pandemic but that have run into financial difficulties because of the pandemic.

As the period of low interest rates continues, business management in the **life and health insurance** division will be increasingly focused on profitability in 2021. Following the growth of recent years, **gross premiums written** are likely to decline moderately overall. Within this figure, a decrease in single premiums in life insurance will probably be offset by a slight rise in business involving ongoing premiums. A sharp rise in gross premiums written is anticipated in health insurance.

The latest pension insurance report (2020) published by the Bundesministerium für Arbeit und Soziales (BMAS) [German Federal Ministry of Labour and Social Affairs] states that the ratio of pensions to pay (before tax), referred to as the security level, will fall from the current level of 48.2 percent to 46.0 percent by 2034. In the report, the German government explicitly highlights that there is a need for policyholders to take action so that their income in later life will be improved. Based on a redesigned range of products, R+V offers customers a diverse range of options in this regard to meet their needs. In addition to unit-linked products, R+V is increasingly focusing on products that combine protective components with potential returns.

The pension insurance report recommends that individuals make use, in good time, of the financial latitude offered by the German Retirement Income Act (AltEinkG) and government subsidies. The German Act to Strengthen Occupational Pensions (BRSG), which came into force on January 1, 2018, is a further component in the efforts to prevent old-age poverty. This act is focused particularly on small and medium-sized enterprises (SMEs) as well as on employees with low incomes, who are more likely to be affected by old-age poverty. Industry-specific pension schemes such as the dedicated schemes available in Germany for the chemicals industry (Chemie-Versorgungswerk), engineering industry (MetallRente), pharmacy industry (ApothekenRente), healthcare industry (KlinikRente), and media industry (Versorgungswerk der Presse) are helping to popularize occupational pension provision.

In the chemicals industry, occupational long-term care insurance (CareFlex Chemie) has also been introduced as part of the collective pay agreement. This insurance is offered through a consortium of insurers in which R+V is the managing consortium member. The freely available monthly care benefit under CareFlex Chemie complements the benefits received under statutory long-term care insurance and helps to close the financing gaps.

In the **inward reinsurance division** awareness of economic losses from natural disasters (made more acute by the COVID-19 pandemic), the return to economic growth around the globe, and the steadily growing global population are expected to generate greater demand for reinsurance. Following the major loss events that occurred in previous years as a result of natural disasters and the adverse impact of the COVID-19 pandemic, a substantial increase in the price of reinsurance cover is also anticipated in 2021. The inward reinsurance division will be focusing to a greater extent on improving other insurance gains and losses in 2021 in line with an adjustment to the division’s strategy.

Further substantial growth in **gross premiums written** is predicted. On the costs side, R+V anticipates a slightly higher expense ratio (net insurance business operating expenses divided by net premiums earned) and a significant year-on-year improvement in the **combined ratio** in 2021.

Investing activity is based on a long-term investment strategy combined with an integrated approach to risk management. Focusing on asset protection, the strategy is designed to ensure that insurance obligations can be met at all times.

The forecast net gains under **gains and losses on investments held by insurance companies** for 2021 are much higher than the figure achieved in 2020. The net gains in 2020 fell sharply because of the turmoil in capital markets triggered by the COVID-19 pandemic. By contrast, capital markets are expected to rally in 2021. In the context of the strategic ‘Wachstum durch Wandel’ program, R+V decided to realign and optimize its strategic asset allocation (SAA) with effect from December 31, 2020. This involves a comprehensive change to the management of its investments. As a result of this strategic realignment, R+V is reviewing its existing business models in accordance with IFRS 9. Under the changes that have been introduced, the strategy and management used for the investment of financial instruments will be realigned toward the ‘hold to collect and sell’ business model and away from the ‘hold to collect’ and ‘other’ business models. The necessary reclassifications in the portfolio will be carried out prospectively from January 1, 2021. This will lead to a lower volume of investments whose changes in fair value are recognized directly in the income statement. As a result, market value volatility is expected to have a lower impact on the forecast earnings.

The overall result of the above factors in the planning for 2021 is a substantial rise in **profit before taxes** compared with the 2020 figure, which had been significantly impacted by the consequences of the COVID-19 pandemic.

Regulatory RORAC is projected to rise considerably in 2021 because of the low pandemic-related profit before taxes in 2020.

4.3 TeamBank

Economic growth and consumer spending will again depend to a large degree on the epidemiological situation regarding COVID-19 in 2021. It is likely that a substantial economic recovery will only materialize from the second half of the year. Based on the information currently available, the competitive situation in the consumer finance market will remain largely unchanged, although an increasing consumer preference for digital channels is anticipated. The greater prevalence of online sales will also encourage the use of installment payment plans in e-commerce.

In collaboration with the cooperative banks, TeamBank is aiming in 2021 to generate profitable, sustainable growth at a rate that is higher than that of the market.

TeamBank is forecasting significant portfolio growth in 2021, which is projected to lead to a marked rise in **net interest income**.

As a consequence of the portfolio growth and beneficial one-off items in 2020, there is likely to be a hefty increase in **loss allowances** in 2021 and therefore a return to the level in the medium-term planning horizon.

Administrative expenses will probably rise sharply in 2021, mainly because of the planned additional investment to expand the technical infrastructure as a prerequisite for the focus on growth.

In view of the changes described above, **profit before taxes** is projected to fall substantially.

Consequently, the **cost/income ratio** for 2021 will worsen slightly compared with the 2020 level.

Because of the change in profit before taxes in 2021, there is likely to be a significant decline in **regulatory RORAC**.

4.4 UMH

Against the backdrop of persistently tough political and economic conditions (the consequences of the COVID-19 pandemic, the associated extensive support measures and the broad availability of vaccines, the withdrawal of the UK from the EU, and the continuation of low interest rates in Europe and many other parts of the world), UMH intends to continue systematically exploiting opportunities to deliver a positive business performance.

UMH is aiming for a significantly higher level of assets under management by the end of 2021. New business is expected to climb sharply. Expectations regarding overall performance are slightly higher for 2021.

Net fee and commission income is projected to rise substantially in 2021, mainly as a consequence of the expected slight increase in volume-dependent income resulting from the significantly higher average level of assets under management and the sharp rise in forecast income from performance-related management fees.

Net finance costs – comprising net interest income, gains and losses on investments, and other gains and losses on valuation of financial instruments – are likely to improve significantly in 2021, largely because of an anticipated sharp fall in the expense from the valuation of guarantee commitments for investment products. On the other hand, the figure will no longer include the one-off item recognized in 2020 in connection with the acquisition of the majority stake in ZBI Partnerschaftsholding GmbH; in addition, the contribution from own-account investing is predicted to deteriorate substantially.

Administrative expenses will probably go up significantly again in 2021 because these expenses benefited from predominantly one-off cost-cutting measures in 2020 in order to safeguard the level of earnings. Staff expenses at UMH will rise slightly; general and administrative expenses will increase considerably, primarily because of consultancy and office operating costs, and expenses incurred in connection with public relations and marketing. Depreciation, amortization, and impairment will increase significantly, mainly as a result of costs for buildings and of the first-time recognition of capital expenditure.

A sharp decrease in **other net operating income** is expected, mainly because of a significant fall in the forecast figure for income from the remeasurement of provisions.

Based on the factors described above, **profit before taxes** in 2021 is projected to be slightly higher than in 2020.

The **cost/income ratio** is expected to rise a little and **regulatory RORAC** will probably remain at a high level.

4.5 DZ BANK – CICB

The effects of the COVID-19 pandemic on economic output and on banks in Germany and the rest of Europe are likely to continue at the same level in 2021. In particular, this has led to greater planning uncertainty and risk. Around the world, banks are faced with new challenges, primarily in terms of expected earnings, an associated greater level of loss allowances, and a potential rise in capital requirements.

Greater competitive pressure combined with low interest rates and rising costs, specifically those resulting from further IT upgrades and increasing digitalization expenses, are creating both the incentive and the need for consolidation measures in the European banking landscape.

In view of these developments, **profit before taxes** in 2021 in the DZ BANK – CICB operating segment is expected to fall sharply. A large part of this contraction can be explained by particular items in 2020, notably positive valuation effects, that will no longer be included in the 2021 figure.

Net interest income in 2021 is predicted to be well above the 2020 level. The intended growth in net interest income is likely to be derived mainly from corporate banking, largely through an expansion in volume. The DZ BANK – CICB operating segment expects slightly higher margins in corporate banking in 2021 despite a market environment still considered to be competitive.

It is also likely that 2021 will see an increase in the drawdown of loan facilities because of the COVID-19 pandemic. In addition, the Investment Promotion division anticipates further portfolio expansion caused by heavy demand for COVID-19 support.

In line with the strategic ambitions of the DZ BANK – CICB operating segment, corporate banking will remain a key area of growth. It is intended to actively support the planned growth in volume with packages of measures under the ‘Verbund First 4.0’ strategy, such as greater customer focus and digitalization-driven streamlining of sales processes.

In 2020, **loss allowances** were increased because of the COVID-19 pandemic and additional effects from major individual exposures. Despite the forecast that 2021 will see a substantial economic recovery, thereby easing the need to apply a PD shift, loss allowances are likely to rise slightly. Loss allowances will continue to be shaped by the effects of the COVID-19 pandemic, which are unlikely to be fully overcome in 2021.

Net fee and commission income in 2021 is only expected to be down a little, i.e. almost at the high level of 2020 again, primarily as a result of the planned steady level of service fees in individual operating units. The DZ BANK – CICB operating segment aims to achieve this level of performance by maintaining its excellent market positioning in the Transaction Banking business line, by continuing to implement the digitalization strategy, and by steadily increasing the number of transactions in payments processing and depositary services.

Gains and losses on trading activities are expected to deteriorate significantly in 2021, provided there is no substantial market turmoil. The reasons for the substantial change are the one-off item from the adjustment of valuation curves and the positive effects of the COVID-19 pandemic on the capital markets business in 2020. Effects to the same degree are neither planned nor expected in 2021.

Gains on trading activities in the DZ BANK – CICB operating segment will be generated from margins and trading volume in customer business involving investment and risk management products and from the related customer-initiated trading contributions. In operating capital markets business, key income drivers in 2021 are likely to include the further exploitation of capital-markets-related cross-selling potential in corporate banking, the expansion of the range of products via targeted product initiatives, and the harnessing of potential in the securities business by stepping up collaboration with the cooperative banks in customer business.

Administrative expenses in 2021 will probably remain at the 2020 level. Despite the systematic implementation of the forward-looking 'Verbund First 4.0' strategic program with the leveraging of specific efficiencies, further cuts in the number of full-time equivalents, and the reduction of project portfolios, there will be countervailing charges under general and administrative expenses. These include expenses related to strategic investment in further digitalization of market access and the expansion of next-generation working methods. Higher contributions to the BVR protection scheme and for banking supervision are also expected.

Current assessments show that the **cost/income ratio** will rise significantly in 2021 as a result of the projection of financial performance compared with 2020 and a steady level of administrative expenses.

As things stand, **regulatory RORAC** will probably decline significantly in 2021 based on slightly higher capital requirements and the forecast of lower profit before taxes.

4.6 DZ HYP

In the reporting year, the effects of the COVID-19 pandemic were reflected in the German economy, which was therefore unable to sustain the relatively high growth rates of previous years. This also had an impact on the volumes traded in the real estate market. Because of the perpetually low level of interest rates, real estate remains an attractive investment product. According to current assessments, capital in search of suitable real estate, coupled with the continued economic strength of Germany and the ECB's expansionary monetary policy, will lead to steady turnover in real estate markets. On the supply side, in terms of real estate finance, there is likely to be ongoing pressure to consolidate within the industry accompanied by increased capital requirements in the banking sector.

Overall, this creates a solid foundation for DZ HYP, which is once again forecasting that the volume of new business in real estate finance will exceed €10 billion with comfortable interest margins.

Net interest income in 2021 is projected to be slightly below the 2020 figure. Real estate lending is expected to remain at a stable level overall, with the associated margins also remaining adequate.

It is anticipated that **loss allowances** will go up significantly in 2021 because of potential risks from the COVID-19 pandemic that have not yet been identified.

In the public-sector financing business, only small changes in spread levels are expected in 2021 compared with 2020. **Other gains and losses on valuation of financial instruments**, which resulted in a net gain in 2020, will therefore probably be close to zero in 2021.

Administrative expenses are projected to be much higher than in 2020, largely because of one-off items in 2020 in connection with the bank levy.

Overall, **profit before taxes** at DZ HYP is predicted to be well below the corresponding 2020 figure, mainly because of the higher loss allowances and the zero figure under other gains and losses on valuation of financial instruments.

Based on the projected changes, the **cost/income ratio** is expected to rise significantly.

Regulatory RORAC will probably decline significantly as a consequence of the deterioration in other gains and losses on valuation of financial instruments and the sharp rise in loss allowances in 2021.

4.7 DZ PRIVATBANK

It is anticipated that 2021 will see a recovery of the economy, which has been badly hit by the effects of the COVID-19 pandemic. The inflation rate in the eurozone will probably go up, but is unlikely to exceed the ECB’s target of 2 percent.

Based on current assessments, **net interest income** will fall sharply in 2021 because of the persistently low interest rates and low market volatility.

In 2021, **net fee and commission income** is predicted to rise substantially, driven by forecasts that the private banking and fund services businesses will perform well.

The assets under management in private banking are also projected to rise because of planned increases in inflow rates. The main value driver is fund volume, and UMH funds and third-party funds are expected to grow markedly.

Gains and losses on trading activities are forecast to deteriorate significantly in 2021 following the exceptionally high customer-driven transaction figures in 2020.

Administrative expenses are expected to rise slightly in 2021. The increase will be due not only to the sustained growth of costs relating to regulatory requirements but also to high levels of capital expenditure.

Based on current forecasts, **profit before taxes** in 2021 will remain at the 2020 level, despite a challenging market environment.

The **cost/income ratio** in 2021 is likely to be slightly higher than the 2020 level, whereas **regulatory RORAC** will be well below the level in the reporting year.

4.8 VR Smart Finanz

The priorities for VR Smart Finanz in 2021 are to continue to deal with the economic consequences of the COVID-19 pandemic, step up collaboration with the cooperative banks, and achieve a greater level of market penetration for the existing solutions aimed at small-business and self-employed customers.

In 2021, VR Smart Finanz will also continue to pursue a decentralized approach with the aim of providing the best possible support for the cooperative banks as a strategic partner in the corporate customer business and meeting the needs of their business customers for fast, easily accessible digital solutions. In this context, VR Smart Finanz will focus on joint marketing with the cooperative banks and on the objective of tapping into the available potential for income and growth from small businesses, the self-employed, and the (lower) SME segment.

It is expected that 2021 will see a gradual containment of the COVID-19 pandemic and an ensuing economic recovery accompanied by a significant rise in demand for lending from SMEs.

In these circumstances, VR Smart Finanz expects to benefit from a sharp rise in the number of customers and in the volume of new business. Areas of the business likely to contribute to this increase include asset finance and also the 'VR Smart flexibel' business loan, which has been reintroduced after being temporarily withdrawn between March and November in 2020 because of the volatile market environment. The automated 'VR Smart flexibel support loan' product, which was launched during the pandemic, will also continue to be offered in 2021 until KfW's underlying support program expires. VR Smart Finanz also intends to exploit the potential offered by financing platforms on a decentralized basis to establish its financing solutions in a rapidly growing sales channel and broaden the offering from cooperative banks. In addition, there are plans to systematically refine the VR Smart Guide and Bonitätsmanager (credit status manager) digital value-added services based on customer feedback. The primary focus will be on greater marketing and further market penetration for the value-added services. This is to be achieved by signing up more banks and making specific use of strategic partnerships.

The economic recovery, the planned initiatives to accelerate collaboration with the cooperative banks, and the relaunch of 'VR Smart flexibel' business loans to be offered alongside the 'VR Smart flexibel support loan' are likely to result in a steep rise in **net interest income** and also in the **fee and commission contributions** paid to the cooperative banks for recommending VR Smart Finanz financing solutions to their customers.

The transaction and outsourcing activities implemented in 2020 are helping VR Smart Finanz to focus on areas of business that make it stand out from its competitors as a provider of digital solutions. VR Smart Finanz outsources certain areas of activity with the aim of enabling it to leverage synergies in the DZ BANK Group and benefit from divisions that operate as centers of expertise. The completion of the sale of the non-strategic businesses, the reduction in headcount, and the progressive automation of the financing solutions mean that it will probably be possible to substantially reduce **administrative expenses** compared with 2020. This is also likely to be reflected in a significant improvement in the **cost/income ratio**.

The effects of the ongoing COVID-19 pandemic and its economic consequences are again expected to be evident in the **loss allowance requirement** in 2021. Risk costs are therefore likely to be at the level of 2020.

Due to the assumed adverse impact of loss allowances, VR Smart Finanz is likely to report a small **loss before taxes** in 2021. However, the loss before taxes will be much improved compared with 2020 owing to the significant rise in net interest income and sharp fall in administrative expenses, while risk costs are predicted to hold steady. **Regulatory RORAC** is expected to be negative.

4.9 DVB
DVB's outlook for 2021 is determined by sector-specific developments and macroeconomic factors. Moreover, the strategic considerations that emerged during 2018 will continue to have an impact on DVB's business performance in 2021. Following the sale of core business activities in 2019, DVB initiated a run-off plan for its remaining portfolios. As a result, it is continuing to manage its existing business as a fully operational bank but, in the shipping finance business, has ceased active marketing and, as a rule, is not entering into any new business.

In view of the general state of transport markets and the aforementioned strategic decisions, the objectives for 2021 are as follows:

In a challenging operating environment, the top day-to-day priorities are to uphold operational stability, maintain an ongoing dialog with customers, and satisfy all the requirements applicable to a regulated bank.

In addition, the progress made with the strategic initiatives listed below will determine the future structure of the DVB operating segment.

- Successfully complete the disposal activities:
  - Carry out the sale and carve-out of Aviation Investment Management/Aviation Asset Management
  - Sell the Shipping & Intermodal Investment Management portfolio
  - Complete the post-closing activities and obligations associated with the aviation business
- Continue to allow the maritime portfolio to run off and actively wind down the non-performing loan portfolio
- Implement the run-off plan while maintaining value; includes simplifying the operating model, closing sites, and managing costs
- Carry out an open-ended review to establish whether the remaining activities of the DVB operating segment can be integrated into the DZ BANK – CICB operating segment.

Overall, DVB's projected financial performance in 2021 will be heavily influenced by conditions in the maritime market and the potential decisions on the future structure of the DVB operating segment. The bank is committed to achieving the objectives outlined above and living up to its reputation as a reliable and solid financial institution. It is optimistic that its results for 2021 will be in line with the financial planning and will meet stakeholders' expectations. For 2021, DVB currently anticipates that its performance in terms of **profit or loss before taxes** will be much improved compared with 2020.

4.10 DZ BANK – holding function
The **loss before taxes** is forecast to be markedly higher in 2021.

Net interest income in 2021 is likely to deteriorate slightly compared with the 2020 figure.

Administrative expenses are projected to rise substantially in 2021. Within this figure, expenses related to protection levies are likely to go up significantly in the forecast period. A slight increase in group function expenses and in IT and project expenses is also anticipated.

By contrast, there will probably be a slight fall in the other expenses for the benefit of the group and local cooperative banks.