V Outlook

1 Economic conditions

The outlook for the macroeconomic environment provides the basis for projections for 2024 regarding financial position and financial performance as well as expected liquidity and capital adequacy. Any adverse macroeconomic factors that present a material risk to the DZ BANK Group are addressed and examined in detail in chapter VII.4.2 of the risk report. Opportunities arising from favorable factors are presented in chapter VI.2.1 of the opportunity report.

1.1 Global economic trends

The energy crisis triggered by the Russia-Ukraine war is not over yet but has abated somewhat. This is reflected, for example, in noticeably lower energy prices (including electricity prices) and well-filled gas storage facilities. Interest rates have risen strongly and rapidly, resulting in more challenging investment conditions. One of the sectors most keenly affected by this is residential construction. At the same time, structural problems in China, for example in the real estate sector, are holding back the country's economic growth and, by extension, global trade. As inflation rates continue to fall, the economy of the eurozone is predicted to stage a recovery in 2024. From the second half of the year, this upturn should enjoy a tailwind from the first interest-rate cuts but is nonetheless expected to remain relatively weak in 2024.

Threats to global economic growth include the risk of fresh protectionist measures being imposed on trade between the US, China, and Europe. This is reflected in the debate about the Inflation Reduction Act in the US and the ever-growing list of sensitive raw materials for which Chinese export licenses are required. Geopolitical tensions, such as over the position of Taiwan, may also prompt a further escalation of trade disputes. This would adversely affect the global economy and hit the heavily export-dependent German economy particularly hard. Supply chain problems and renewed upswings in energy prices could prolong the phase of elevated inflation rates.

In many parts of the world, the dramatic rise in inflation had already reached its peak at the end of 2022. Consequently, inflation rates came down noticeably in 2023, but still remained well above the target levels of major central banks. For many products, it took a while for the impact of the extreme energy price spike during the energy squeeze to filter through the various production stages to the retail prices charged to end customers. In addition, healthy wage increases – designed to offset the inflation-linked erosion of purchasing power – prompted businesses in the service sector and other industries to raise their prices, which consequently slowed down the fall in inflation rates. In 2024, inflation should generally continue to come down but will likely still remain above central bank targets.

1.2 Trends in the USA

The US economy remained in surprisingly robust shape over the course of 2023. Quarter-on-quarter GDP growth was particularly pronounced in the third quarter of 2023. The fact that the US economy continued to perform well in spite of rising interest rates is likely attributable to a significant upturn in employment, the favorable long-term mortgage finance deals that many private households had secured when interest rates were still low, and – last but not least – government spending measures. Thanks to these sources of support, a recession now looks avoidable, although it remains a risk.

For 2024, DZ BANK predicts a marked slowdown in economic growth. Strongly elevated interest rates can be expected to put a damper on investment and consumer spending, thereby holding back economic growth. Against this backdrop, gross domestic product will likely grow by only 1.5 percent. US politics also remain a risk factor. As the government's majority in the House of Representatives is wafer-thin, the budget negotiation process is proving long and arduous. A temporary government shutdown cannot be ruled out for 2024. One driver of the discord in the US political arena may well be the upcoming presidential and congressional elections in November 2024. This environment could heighten concerns about a potential fiscal policy crisis. The sustainability of US government debt levels may be called into question. And further interest-rate hikes in the US would certainly also take their toll on other economies.

The trajectory of inflation is a further risk factor. Inflation is trending downward, but high wage demands and efforts to boost production in the US make it likely that heightened inflationary pressures will persist for some time yet. DZ BANK thus expects inflation to remain at clearly elevated levels beyond 2023. On this basis, it projects an average inflation rate of 3.0 percent for the US in 2024.

1.3 Trends in the eurozone

Overall, the eurozone economy performed sluggishly in 2023. Consumer spending was weakened by persistently high inflation, while higher interest rates continued to act as a drag on investment over the course of the year. In addition, exports faced increasingly strong headwinds in connection with weak global economic growth. The eurozone recorded economic growth of 0.5 percent in 2023.

Over the course of 2024, the bloc should gradually emerge from its economic weak patch. Upward pressures on consumer prices should continue to ease, which – paired with continuing wage growth – should improve the spending headroom of private households. The fact that interest rates have reached their peak and may start to be cut again in the second half of the year should reduce adverse pressures on investment. However, there is a risk of interest rates remaining high or even being raised further. This could also have unfavorable fiscal policy implications, as highly indebted countries in the eurozone are vulnerable to the pressures arising from a growing interest burden.

Provided the global economy starts to gather pace in the second half of 2024, even if only moderately, European exports should enjoy a small boost. DZ BANK anticipates that the eurozone economy will grow at a rate of 0.8 percent in 2024 as a whole.

The normalization of previously overblown gas and electricity prices also started to push down consumer prices, a trend that still remains intact. This led to a reduction in the inflation rate to an average of 5.4 percent in 2023. In 2024, inflation should continue to slow, albeit only very gradually. Government measures implemented to mitigate soaring energy prices are set to expire in a number of eurozone countries. In addition, upward pressure on prices in the service sector due to wage increases remains strong and will abate only slowly. DZ BANK predicts an inflation rate of 3.0 percent for the eurozone in 2024.

1.4 Trends in Germany

Amid a perfect storm of adverse factors ranging from high energy prices and interest-rate hikes to weak global economic growth, Germany's economy has slid into recession. Although survey-based leading indicators seemed to be showing small signs of improvement in the autumn, they closed 2023 at very low levels. Uncertainty also stemmed from the debate about budgetary funding in the wake of the German Federal Constitutional Court's ruling on the debt brake. There is no immediate prospect of an upturn. In 2023 as a whole, economic output shrank by 0.3 percent.

The outlook for the coming year is similarly bleak. Energy prices are still higher than before Russia's war of aggression against Ukraine, meaning that Germany's industrial sector remains burdened with a competitive disadvantage. The health of the global economy also remains precarious and exports are consequently unlikely to bounce back to the strong levels seen before the pandemic. In addition, bureaucratic barriers to investment will take time to dismantle. Nonetheless, the economy should be able to stage a modest recovery in 2024. The marked easing of inflationary pressures is a positive signal. DZ BANK expects inflation to gradually fall in 2024. It anticipates that consumer prices will rise by 3.2 percent in 2024, compared with an average inflation rate for 2023 of 6.0 percent.

Demand in the real estate market has been depressed significantly by the sharp rise in interest rates. Compared with 2021, new business in the consumer home finance segment has fallen by almost half while investment in commercial real estate and residential property portfolios has diminished by nearly two-thirds. Property prices have been falling across all market segments since mid-2022. In 2024, the year-on-year reduction in prices should slow to between 2 and 4 percent for residential real estate and between 5 and 7 percent for commercial real estate. The combination of high interest rates and sharp increases in construction costs meant that many construction projects were put on hold as building of rented housing has become unprofitable. There were many insolvencies among project developers in 2023. The housing market is likely to see much fewer completions in 2024, in spite of substantial demand for housing. The extremely sparse supply of homes is causing a marked rise in rental prices. Consequently, the housing market environment is set to be even more fraught in 2024.

Conditions for investment remain challenging. The construction sector is struggling with high interest rates and increased construction costs. However, slowing inflation and robust wage growth are easing the pressure on consumers' purses. In addition, the ECB looks likely to start cutting interest rates again from the second half of the year. Headwinds for exporters should diminish as the international trade environment begins to improve in the second half of 2024. All in all, DZ BANK expects the German economy to grow by 0.5 percent in 2024.

1.5 Trends in the financial sector

In 2023, major central banks around the world maintained the new policy direction that they had embarked on in the previous year. The US Fed had already discontinued its bond-buying program and had begun to trim its balance sheet in 2022. The ECB followed suit in 2023, gradually reducing its holdings under the asset purchase program and terminating the pandemic emergency purchase program (PEPP). Repayments under the PEPP will continue to be reinvested until the end of 2024 but can be allocated in a flexible manner. This cautious approach from the ECB, which has been designed with flexibility in mind and is complemented by the transmission protection instrument (TPI), has helped to prevent the excessive widening of spreads on the bonds of individual eurozone countries and thus to counter potential fragmentation risk. Current spread levels also reflect the somewhat muted economic environment. As economic conditions brighten over the course of 2024, spreads could narrow.

The Fed raised the upper end of the federal funds rate range to 5.5 percent in 2023. This appears to be the highest that it will go, and interest-rate cuts are likely in 2024. Moreover, the ECB increased its main refinancing rate to 4.5 percent in 2023. With inflation coming down faster than originally anticipated, the first reductions in key eurozone interest rates are predicted for the second half of 2024. Consequently, interest-related business probably reached its maximum upside potential in 2023. Although the developments described above may stimulate the real estate market, the growth of this market will be held back by interest rates remaining at a high level, the general economic situation, and high investment costs.

Despite the headwinds created by geopolitical turmoil and the related trade disputes on the global economic stage, DZ BANK expects the German economy to grow slightly (see also chapter 1.4 of the outlook). Given that the uncertainty factors – which are relevant to the major economic areas (United States, Europe, and China) – are occurring simultaneously, it is impossible to rule out unexpected adverse effects on companies and households, which in turn would have negative implications for the financial position and financial performance of the financial sector in 2024.

The year ahead is therefore likely to be challenging for the financial sector. Regardless of the aforementioned macroeconomic conditions, the financial sector has also faced considerable pressures in terms of both adjustment and costs in recent years. These arise from structural changes and regulatory requirements and could be intensified by upward pressure on prices and the potential threat of a wage/price spiral. This environment is 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 processes.

The agenda of regulatory reforms initiated in response to the financial crisis has a range of objectives, including making the financial sector more resilient in the event of a crisis – mainly through improved capital and liquidity adequacy – and ensuring that the risks arising from the business activities in the financial industry are not borne by the public sector. As a result, the financial industry has progressively reduced its leverage and substantially bolstered its risk-bearing capacity by improving liquidity and capital adequacy. The planned implementation of EU banking regulations must also be seen in this light.

The issue that is likely to continue shaping activities in the financial industry in the long term is the implementation of the multifaceted ESG standards and their implications for the business models used in the sector. At present, the primary challenge faced by the financial sector is to implement the relevant requirements at an operational level throughout the value chain, which includes business management, risk management, and the internal and external reporting systems. The consideration of ESG aspects in the financial and capital markets is, on the one hand, opening up new market opportunities for the financial sector. On the other, events in the various ESG categories should also be seen as risks and managed accordingly. Information on the handling of ESG risks can be found in the risk report (chapter VII.5).

2 Financial position and financial performance

In 2024, the DZ BANK Group will continue to pursue its strategic objectives in the context of its role within the Cooperative Financial Network. In an environment that remains challenging in terms of both market and competition, this means, for example, rigorously exploiting potential business in collaboration with the cooperative banks, while at the same time maintaining the planned implementation of various initiatives focused on the digitalization and sustainability of the DZ BANK Group along the entire value chain.

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). Potential variances during 2024 from the underlying planning scenario, in the form of opportunities and risks, may have an influence on financial position and financial performance. These uncertainties are monitored continuously and factored into the DZ BANK Group's planning, reporting system, and management.

According to the planning for 2024, **total assets** will hold steady compared with the figure as at the end of 2023.

In light of the muted economic outlook and expected change in interest-rate levels, **net interest income** (including net income from long-term equity investments) is predicted to fall substantially in 2024 compared with the high level recorded in 2023. The figure for the reporting year received a significant boost not only from the good level of income from the operating business but also from accounting-related effects that had a positive impact on net interest income but a countervailing impact on gains and losses on trading activities.

Although **net fee and commission income** is projected to diminish slightly year on year in 2024 owing to the anticipated uncertain capital market environment, it will still make a hefty contribution to the earnings of the DZ BANK Group.

Gains and losses on trading activities will amount to a substantial net gain in 2024, which represents a significant improvement compared with 2023. This can be explained by the accounting-related effects mentioned above in connection with net interest income, which resulted in a net loss on trading activities in the reporting year.

Gains and losses on investments are anticipated to improve noticeably to a net gain in 2024, partly because the figure for the reporting year included losses on the sale of securities and impairment losses on a joint venture (see chapters II 3.2.4 'UMH' and 3.2.5 'DZ BANK – CICB' of the business report).

Other gains and losses on valuation of financial instruments will deteriorate markedly in 2024, returning to a normal level. This will largely be driven by the anticipated slight widening of credit spreads in public-sector finance.

Net income from insurance business is predicted to rise sharply in 2024. This projection is based on the expectation of a healthy operating performance in the insurance business.

Expenses for **loss allowances** are expected to be much higher in 2024 in view of the targeted volume of new business, the likely reduction in reversals of loss allowances, and the decline in income from loans and advances previously impaired.

Administrative expenses are expected to rise only marginally in 2024 compared with 2023, primarily because higher general and administrative expenses and staff expenses will be largely offset by savings in connection with the bank levy.

The DZ BANK Group's **other net operating income** will increase in 2024, returning to a normal level. This is mainly because the 2023 figure was affected by non-recurring items (see chapters II 3.2.4 'UMH' and 3.2.7 'DZ PRIVATBANK' of the business report).

In spite of the challenging geopolitical conditions, accompanied with further interest-rate hikes, the DZ BANK Group was able to generate significantly higher profit before taxes in the reporting year than originally projected. Based on current assessments, **profit before taxes** in 2024 is predicted to be within the long-term target range – which has been raised to between €2 billion and €2.5 billion – as the macroeconomic environment is expected to remain challenging.

The **cost/income ratio** for the DZ BANK Group is likely to be a little higher in 2024 as a result of the expected small year-on-year decrease in income and simultaneous slight rise in administrative expenses.

Regulatory RORAC is predicted to fall sharply in 2024 owing to the expected decrease in income, the rising regulatory base rate of return used in the calculation, and R+V's growing solvency capital requirement.

3 Liquidity and capital adequacy

Based on the position at the end of the reporting year and the funding measures planned for 2024, the DZ BANK Group predicts that it will be able to continue maintaining an appropriate level of economic and regulatory **liquidity adequacy** in 2024.

Further information on liquidity adequacy can be found in the risk report (chapter VII.6).

As matters currently stand, the DZ BANK Group's **capital adequacy** will continue to be assured for 2024 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital and eligible own funds 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 2024, a high priority will once again be given to strengthening the capital base in order to ensure stable capital ratios.

For 2024, DZ BANK anticipates that the DZ BANK Group's **common equity Tier 1 capital ratio** will hold steady at above 15 percent.

Further information on capital adequacy can be found in the risk report (chapter VII.7).

4 Operating segments in detail

4.1 BSH

For years, housing starts enjoyed a healthy tailwind from exceptionally low interest rates on residential real estate loans and substantial excess demand. However, this dynamic collapsed under the combined pressure of the interest-rate policy turnaround, rising prices, supply bottlenecks, and high energy costs. Around the end of 2023 and the start of 2024, some of the regressive factors that had dominated the market environment in the recent past, such as the COVID-19 pandemic, high inflation, and supply chain disruption, began to fade into the background. But the significantly higher level of interest rates and the increase in costs look set to remain a drag on residential construction in 2024. The Zentralverband des Deutschen Baugewerbes e. V. (ZDB) [German Construction Confederation] is therefore forecasting the completion of just 235,000 or so homes in 2024, which equates to a year-on-year decline of 4.1 percent. This forecast is subject to significant uncertainty though. Geopolitical challenges could cause inflation and interest rates to rise again, which would put additional adverse pressure on loan-financed housing starts.

By contrast, the market for renovation work and energy efficiency measures will continue to act as an anchor of stability in 2024 amid the prevailing construction crisis. The roadmaps set out for achieving official climate targets will require buildings to be made compliant with higher energy efficiency standards going forward. The European Energy Performance of Buildings Directive (EPBD) envisages a reduction in primary energy consumption of 16 percent by 2030 and 22 percent by 2035. Measures to improve the energy performance of the least efficient residential buildings are expected to deliver 55 percent of the total planned reduction. From 2024, Riester savings products will be eligible as a means of funding for building renovation projects.

The weak economic environment will likely also be reflected in lower demand for labor from businesses. However, companies will be keen to retain skilled staff, meaning that unemployment is expected to rise in 2024 only to the extent that the overall labor force is set to grow. Consequently, a significant increase in payment difficulties within BSH’s existing building loans portfolio is not anticipated in the forecast period.

The core home finance business is expected to pick up again slightly in 2024 following the slump induced by the crisis in 2023. Statutory requirements aimed at climate change mitigation are becoming noticeably tougher and having a positive impact. New business in the home savings segment, the other area of core business, declined in 2023 but remained at a good level and is expected to trend sideways in 2024 as macroeconomic conditions are likely to remain challenging.

The subsidiary Fundamenta-Lakáskassza Lakástakarékpénztár Zrt. (FLK), Budapest, is scheduled to be removed from the scope of consolidation in the first half of 2024 following its sale. At group level, FLK was treated as a disposal group not qualifying as a discontinued operation in accordance with IFRS 5 in the year under review. Consequently, FLK is not included in the analysis below.

Taking these various factors into account, BSH anticipates a higher, albeit still low, **profit before taxes** in 2024 that will comprise the following.

The sharp rise in interest rates will have a growing positive impact on own-account investing and building loan business at BSH in 2024. Whereas funding measures relating to regulatory requirements had a significant negative impact on interest expense in the reporting year due to soaring interest rates, no substantial increase is expected in this regard in 2024. Based on these expectations, **net interest income** is forecast to rise markedly in 2024.

Net fee and commission income is likely to decline sharply in 2024 in percentage terms, primarily due to a contraction in new home savings business.

With regard to loss allowances, BSH will benefit from the expected solidity of the labor market, despite volatile economic conditions in Germany. Interest rates peaked in 2023, as anticipated, and the trajectory of inflation is looking moderate for 2024. These circumstances should have a stabilizing effect. Against this backdrop, **loss allowances** should remain virtually unchanged, even though the loan portfolio has grown substantially in recent years.

In 2024, **administrative expenses** are projected to be a little lower than in 2023, partly as a result of strategic and operational adjustments to the management of costs at BSH.

Based on current assessments, the **cost/income ratio** will fall slightly.

Regulatory RORAC is expected to record a mild increase.

4.2 R+V

Given the macroeconomic risk factors and geopolitical tensions, 2024 will be another very challenging year. Nonetheless, R+V – the composite insurer in the Cooperative Financial Network – is planning to continue on its trajectory of profitable growth in 2024.

Overall, R+V anticipates a small year-on-year increase in the insurance segment's **profit before taxes** in 2024. Insurance revenue is forecast to decline slightly. The premiums included in insurance revenue, which comprise the premiums actually received, will hold steady compared with the reporting year.

Gains and losses on investments held by insurance companies are expected to deteriorate markedly year on year based on the capital market parameters forecast for 2024. Insurance finance income or expenses will also deteriorate sharply.

The **non-life insurance** division is expected to continue to grow as planned in 2024. A significant increase in insurance revenue is predicted for 2024. Premiums received should show significant growth too. The combined ratio (net) is projected to improve, falling to just below the level of the reporting year.

Insurance revenue in the **life and health insurance** division is expected to be a little lower in 2024 than in 2023. For reasons of comparability, this does not take account of the experience adjustments for 2023. These adjustments are defined in Appendix A to IFRS 17. Premiums received are expected to fall sharply in 2024. The contractual service margin will be on a par with the 2023 level in 2024. The amortization of the contractual service margin will increase substantially.

In the **inward reinsurance** division, the improvement in prices for reinsurance cover is expected to continue in 2024. This should result in significant growth of insurance revenue and a jump in the volume of premiums received, which are included in this revenue. The forecast shows a sharp rise in the combined ratio (net).

Regulatory RORAC will see a substantial decline in 2024 owing to the higher base rate of return used in the calculation.

4.3 TeamBank

The overall economic environment is expected to improve slightly in 2024 and inflation should continue to slow. Moreover, the labor market remains stable and wages have recently risen – sharply in some cases. All of these factors may boost consumers' purchasing power and willingness to spend. As a result, both the inclination to make purchases and the inclination to borrow may strengthen.

In collaboration with the cooperative banks, TeamBank is aiming in 2024 to generate profitable, sustainable growth at a rate that is higher than that of the market. This may result in a noticeable increase in **net interest income**.

Net fee and commission income is predicted to fall substantially year on year, mainly because of the expected increase in bonus payments to partner banks in line with the higher level of new business.

The reversals in 2023, which were mainly attributable to changed expectations resulting from new insights into the impact of insolvency law reforms, are likely to give way to a significant rise in the **expense for loss allowances** in 2024, especially in view of the strong portfolio growth being targeted.

Administrative expenses are expected to remain steady in 2024.

In view of the changes described above, TeamBank forecasts a significant increase in **profit before taxes**.

The **cost/income ratio** for 2024 is predicted to improve substantially year on year.

There is likely to be a marked fall in **regulatory RORAC** in 2024, primarily because of the strong growth in the base rate of return used in the calculation.

4.4 UMH

The capital market environment has improved in recent weeks. Inflation looks set to continue to slow in 2024, albeit only very gradually. Although geopolitical risks remain elevated, conditions in the capital markets are improving on balance when considering key factors such as growth, inflation, monetary policy, and financial market stability. Consequently, 2024 is shaping up to be both a challenging and a promising year for the capital markets.

In this environment, UMH plans to continue on its profitable growth path in 2024 and to boost its success relative to its competitors. It intends to do so by becoming more agile and innovative. Progress is also being made with the digitalization of offerings and processes and the use of artificial intelligence. At the same time, efforts are being made to improve effectiveness, for example through the creation of the FitForFuture program. Under this program, measures have been developed to wind down activities that are not delivering much benefit and instead focus resources on more promising activities. The first measures are expected to contribute to making UMH more robust in 2024.

UMH is aiming for a significantly higher average level of assets under management in 2024. New business is expected to be down year on year and overall performance to be just into positive territory in 2024.

Net fee and commission income for 2024 is projected to be up slightly compared with the year under review.

A significant deterioration in **net financial income/net finance costs** – comprising net interest income, gains and losses on investments, and other gains and losses on valuation of financial instruments – is likely in 2024, largely because of an anticipated sharp negative change in the effect from the valuation of guarantee commitments for investment products and from a much lower contribution from the investment fund units held as part of own-account investing activities.

Administrative expenses are projected to rise slightly in 2024. UMH intends to keep staff expenses at the same level as in 2023 but, based on current assessments, general and administrative expenses will rise markedly, largely because of higher expenses for consultancy. Depreciation and amortization charges are predicted to be on a par with 2023.

A sharp increase in **other net operating income** is expected. This is mainly because non-recurring items, such as non-recurring write-offs or restructuring expenses, are no longer included in the planning.

Based on the factors described above, **profit before taxes** in 2024 is projected to be a little lower than in 2023.

From the current perspective, a slight increase in the **cost/income ratio** and a significant fall in **regulatory RORAC** are expected.

4.5 DZ BANK – CICB

Energy prices are coming down again compared with 2023, allowing inflation in the eurozone to slow and easing upward pressure on prices. This will bring about a slight improvement in economic growth. Against this backdrop, the ECB is expected to start to gradually lower its key interest rates in late 2024 and share prices are projected to edge up.

Net interest income (excluding income from long-term equity investments) for 2024 is predicted to be below the 2023 figure. In the reporting year, net interest income was boosted by volume growth in the Corporate Banking business line and increases in income from the money market and capital markets business. The lending volume in the Corporate Banking business line is predicted to remain level with 2023. In the Structured Finance division, the contribution margin is expected to remain stable in spite of an even more competitive market environment and higher funding costs due to the expansion of the business in key product fields. Net interest income in the money market and capital markets business will likely fall sharply due to anticipated interest-rate cuts by the ECB.

Net fee and commission income is projected to not quite match the high level of 2023 and will probably decline significantly in 2024. This is largely the result of slightly more conservative estimates for service fees in the individual operating units within DZ BANK – CICB in response to the general market uncertainty. The Corporate Banking business line's net fee and commission income for 2024 is expected to be slightly below the strong 2023 figure. In the Transaction Banking business line, net fee and commission income is likely to stabilize in 2024 due to the strong positioning of this business in the market resulting from the sustained trend toward the use of credit cards and additional mobile payment options, driven mainly by advancing digitalization and connectivity. Net fee and commission income in the Capital Markets business line is projected to fall. One of the sources of such income is the underwriting business, in which brokerage fees are collected from retail and institutional customers. The approach for generating operating fee and commission income remains focused on strengthening existing customer relationships, signing up new Depot-B-customers, and expanding the product range.

Gains and losses on trading activities are generated from margins and trading volume in customer business involving investment and risk management products and from the related customer-initiated trading contributions. In the operating business in the Capital Markets business line, a key income driver in 2024 is likely to be the further exploitation of capital-markets-related cross-selling potential in corporate banking. Moreover, measures to intensify collaboration with the cooperative banks in the Depot-B-customer business will be taken to leverage additional potential in the securities business. Trading activity is anticipated to remain at a high level in 2024, with the market as a whole subject to significant volatility. Consequently, and due to pull-to-par effects on own issues, gains and losses on trading activities will probably deteriorate sharply in 2024.

Loss allowances for 2023 included not only reversals but also a significant volume of income from recoveries on loans and advances previously impaired. This income is not expected to be at the same level in 2024, so there is likely to be a much greater need for net additions to **loss allowances** in 2024.

Administrative expenses are projected to rise slightly in 2024.

In view of these circumstances, **profit before taxes** in the DZ BANK – CICB operating segment is expected to fall sharply in 2024.

Current assessments show that the **cost/income ratio** will go up significantly in 2024 as a result of the pronounced decline in financial performance that is forecast relative to 2023 and a slight rise in administrative expenses.

As things stand, **regulatory RORAC** will probably decrease markedly in 2024 – despite slightly lower capital requirements – owing to the reduction in profit before taxes.

4.6 DZ HYP

Further interest-rate increases by the central banks in 2023 and soaring prices for construction products and services have put a damper on real estate investment. However, the fall in purchase prices began to slow in the fourth quarter of 2023 and the ECB is expected to cut interest rates. These and other factors suggest that the real estate market will start to stabilize in 2024, which will result in a higher volume of transactions. Moreover, real estate is maintaining its appeal as an investment product.

Net interest income in 2024 is projected to be on a par with the 2023 figure. DZ HYP anticipates that business activities will remain stable, based on reasonable lending margins combined with a marked increase in the volume of new real estate finance business compared with 2023.

Current assessments show that credit spreads in public-sector finance are likely to widen slightly in 2024. Consequently, **other gains and losses on valuation of financial instruments** are expected to amount to a small net loss in 2024.

Loss allowances in 2024 are projected to be on a par with 2023.

Greater regulatory requirements and the digital transformation of DZ HYP are having a negative impact on **administrative expenses**, with the result that this figure is expected to be up noticeably on the corresponding 2023 figure.

Based on a stable operating performance, but particularly because of the deterioration in **other gains and losses on valuation of financial instruments** and rising administrative expenses, **profit before taxes** in 2024 is predicted to be well below the 2023 figure.

Accordingly, the **cost/income ratio** is expected to rise significantly.

Regulatory RORAC is likely to decline markedly due to the fall in profit before taxes forecast for 2024.

4.7 DZ PRIVATBANK

DZ PRIVATBANK's operating business is expected to perform well thanks to the projected rise in the volume-related key figures in its various areas of business.

Net interest income will probably decline considerably in 2024 as certain items of non-recurring income that had a positive effect in 2023 will not be repeated.

Net fee and commission income is likely to rise slightly in 2024. 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 the volume of funds from Union Asset Management Holding AG that are held by DZ PRIVATBANK is expected to grow markedly.

Gains and losses on trading activities are forecast to improve significantly in 2024 because customer-driven transaction figures are likely to be higher.

DZ PRIVATBANK's **administrative expenses** are projected to hold steady in 2024.

As the 2023 figure included non-recurring items, DZ PRIVATBANK's other **net operating income** will increase in 2024, returning to a normal level.

Based on current forecasts, a modest increase in **profit before taxes** is expected for 2024 despite challenging market conditions.

The **cost/income ratio** for 2024 is likely to be on a par with the reporting year, while **regulatory RORAC** will probably be down slightly due to the higher base rate of return used in the calculation.

4.8 VR Smart Finanz

As the economic environment begins to normalize and the German economy gradually returns to growth, VR Smart Finanz intends to significantly expand its finance business in 2024, as it did in 2023. Demand for object finance is expected to continue to increase in view of the rise in asset prices and a persistently high need for investment, particularly in energy efficiency measures and digitalization.

VR Smart Finanz intends to respond to the ever-fiercer competition by stepping up its collaboration with the cooperative banks and other sales partners, such as digital financing platform providers. Sustainability-related activities will also be intensified. Further sales potential can be unlocked by expanding omnichannel capabilities and gradually integrating solutions and digital services into the Cooperative Financial Network's omnichannel platform. VR Smart Finanz also aims to expand data-driven analysis and the digital market reach with a view to further strengthening the marketing of the cooperative banks in the target customer segment.

To ensure a state-of-the-art IT infrastructure, VR Smart Finanz will continue to drive forward the implementation of SAP S/4HANA. Contract processing will be further automated in order to improve efficiency and thus help to stabilize costs.

Risks arising from the emerging renewed upturn in insolvencies are actively managed using a proactive, IT-supported risk management system. Measures to prevent fraud are also being expanded to counter the increasing risks arising in connection with digital environments.

In the context of SME customers' growing need for liquidity and finance, the planned initiatives to generate new business growth and accelerate collaboration with the cooperative banks and other partners are likely to result in a strong increase in **net interest income**.

A sharp rise in **loss allowances** is also projected for 2024, reflecting the planned growth in the volume of existing and new business.

On the basis of a jump in administrative expenses compared with 2023 and a significant increase in income, there will be a noticeable improvement in the **cost/income ratio**.

The developments described above should mean a substantial improvement in **profit before taxes** in 2024, accompanied by slightly higher **regulatory RORAC** resulting from a sharply rising base rate of return used in the calculation.

4.9 DZ BANK – holding function

Net interest income is predicted to fall markedly in 2024. This forecast is mainly due to changes in average interest rates and in the balance of expenses for the funding of long-term equity investment carrying amounts and income from the investment of capital.

Administrative expenses are projected to decrease substantially in 2024. This can be explained, for the most part, by an expected fall in protection levies (bank levy).

A significantly smaller **loss before taxes** is forecast for 2024.