Volksbanken Raiffeisenbanken
cooperative financial network

ANNUAL REPORT 2021

dzhyp.de

DZ HYP

OVERVIEW

€ mn	2021	2020
DEVELOPMENT OF NEW BUSINESS		
Corporate Clients	8,736	8,039
Retail Customers	2,730	2,066
Public-Sector Clients	582	631
PORTFOLIO DEVELOPMENT	**31 Dec 2021**	**31 Dec 2020**
Total assets	81,631	81,920
Mortgage loans	55,494	53,338
Originated loans to local authorities	9,571	10,209
Local authority lending*)	10,101	10,899
Bank bonds	225	440
Mortgage-backed securities (MBS)	309	378
Pfandbriefe and other debt securities	51,681	51,121
Own funds	2,387	2,329
Total capital ratio (in %)	15.3	13.2
Tier 1 ratio (%)	11.1	9.8
Common equity tier 1 ratio (in %)	10.7	9.0
PROFIT AND LOSS ACCOUNT	**1 Jan to 31 Dec 2021**	**1 Jan to 31 Dec 2020**
Net interest income	668.7	605.4
Net commission result	-38.3	-38.1
Administrative expenses	251.3	251.2
Net other operating income/expenses	0.3	8.7
Risk provisioning	-35.0	-54.5
Net financial result	-5.0	6.5
Operating profit	339.4	276.8
Allocation to the fund for general banking risks	147.0	78.0
Partial profit transfer	14.7	15.8
Taxes	125.5	126.0
Profits transferred under a profit and loss transfer agreement	52.2	57.0
Distributable earnings	199.3	139.9
Cost/income ratio in %	41.9	45.5
Return on equity in %	16.1	13.9
NUMBER OF EMPLOYEES	**31 Dec 2021**	**31 Dec 2020**
Annual average	831	819

*) lending transactions with national governments and sub-sovereign entities as well as state-guaranteed corporate bonds

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

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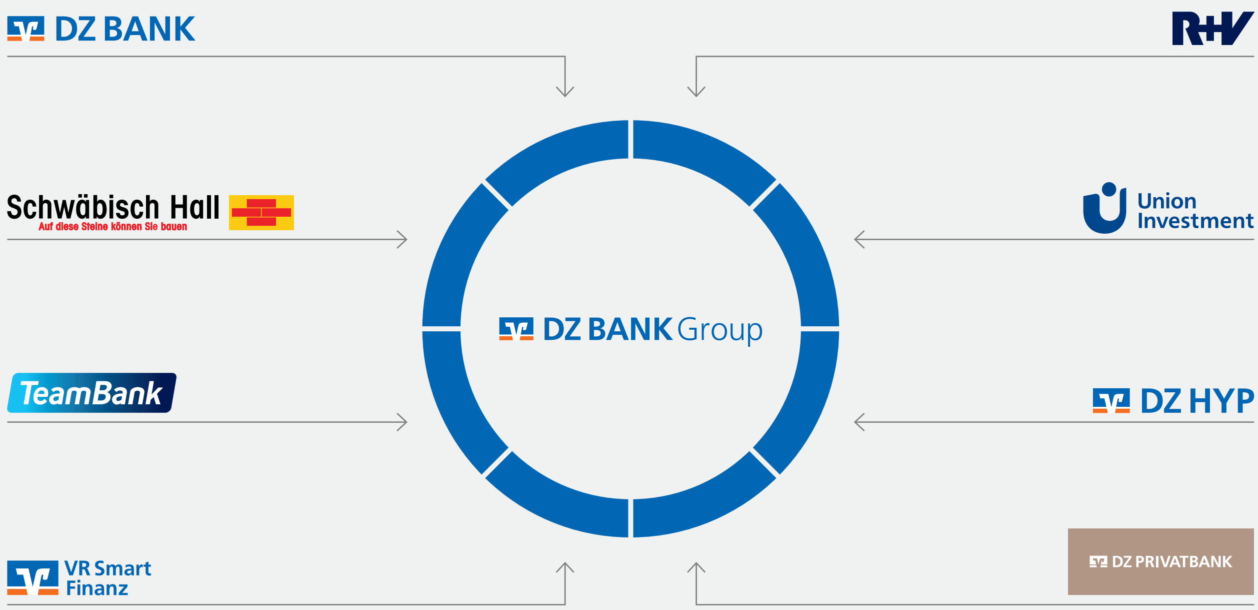
DZ HYP

DZ HYP – PART OF A STRONG GROUP (SELECTED COMPANIES)



DZ HYP is itself a part of DZ BANK Group and therefore of the Volksbanken Raiffeisenbanken Cooperative Financial Network, which comprises 814 individual cooperative banks. In terms of total assets, the network ranks among the largest financial services organisations in Germany. Within the Cooperative Financial Network, DZ BANK AG acts as the central institution, tasked with supporting the local cooperative banks' transactions as well as strengthening their competitive position. It operates as a commercial bank, and exercises the holding entity function for the DZ BANK Group.

DZ BANK Group comprises Bausparkasse Schwäbisch Hall building society, DZ HYP, DZ PRIVATBANK, R+V Versicherung insurance, TeamBank, Union Investment Group, VR Smart Finanz as well as various other specialist financial services providers. The various DZ BANK Group entities and its strong brands are the cornerstones of a comprehensive range of financial services offered through the Cooperative Financial Network. The DZ BANK Group has organised its strategy and range of services for the cooperative banks and their customers along the lines of four business segments: Retail Banking, Corporate Banking, Capital Markets and Transaction Banking.

Combining banking services with insurance products, home loan savings and a range of investment services has a long tradition within the Cooperative Financial Network. The specialist institutions within the DZ BANK Group each offer highly competitive and appropriately-priced products in their respective area of expertise. This allows Germany's cooperative banks to offer their clients an end-to-end range of first-class financial services.

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LETTER FROM THE MANAGEMENT BOARD

The Management Board of DZ HYP
From left to right: Jörg Hermes, Dr Georg Reutter (Chief Executive Officer), Sabine Barthauer

Dear Business Associates,

2021 will be etched in all our memories as yet another year dominated by the COVID-19 pandemic. Following the lockdown that lasted well into the spring, we were hoping for a gradual normalisation as positive news began to prevail again. Economic activity picked up and vaccination rates accelerated at an increasing pace. The fourth wave of the pandemic that started in autumn, the new Omicron variant at the end of the year, ever increasing infection rates and the population's diminishing willingness to be vaccinated made the light at the end of the tunnel seem somewhat dimmer again. At the same time, we experienced a year characterised by high momentum on the German real estate markets, with transaction volumes exceeding the € 100 billion mark for the first time. Persistently low interest rates and negative bond yields on the capital markets also had a favourable effect.

Despite the challenging environment, DZ HYP performed well during the 2021 financial year, maintaining its position as one of the leading real estate banks in Germany. DZ HYP's new business increased once again year-on-year. We are particularly pleased with an increase in volume of around one-third in our private home loan business, which is mainly brokered via the German cooperative banks. We also achieved pleasing results with our partner banks in the Corporate Clients segment. Our joint lending business increased by around 15 per cent compared to 2021, demonstrating our ability to maintain and build on the trusting partnership we have with our partners and clients, even in challenging times.

The COVID-19 pandemic affected the mood on the German real estate markets in the year under review. However, financing conditions for real estate also remained favourable in this second pandemic year thanks to persistently low interest rates. It is remarkable how robust and crisis-resistant the market proved to be. This is due to high transaction volumes for both commercial real estate investments and the private housing market. Purchase prices and rents for residential properties in Germany continue to rise.

Our role as a successful real estate bank in Germany enabled us to take advantage of the high momentum on the transaction market in the year under review. Our market position was further strengthened by a 12 per cent increase in new business volume to € 12 billion (including business with public-sector clients). Strong demand for residential real property is also reflected in our new business figures. At € 2.7 billion, business with retail customers clearly exceeded the previous year's level. In the Corporate Clients segment, we achieved a volume of around € 3.9 billion in joint lending business with German cooperative banks, compared to the previous year's figure of € 3.3 billion. The collaboration we enjoy with cooperative banks, which is founded on partnership and trust, enables us to maintain a broad presence in the market.

Despite the COVID-19 pandemic, DZ HYP consistently pursued its business and risk strategy during the reporting year. A viable business model, an accelerated build-up of general risk provisions and an absence of any obvious risks to date provided the basis for a sound financial position and performance.

2021 marked DZ HYP's 100th anniversary. The former Deutsche Genossenschafts-Hypothekenbank was founded in Berlin on 11 May 1921. DZ HYP has repeatedly demonstrated its resilience to crisis during its 100 year history, which clearly illustrates the importance of our integration within the German Cooperative Financial Network. Today, DZ HYP is a leading market player and Germany's largest Pfandbrief bank. This is due not least to the commitment of our employees. The music enthusiasts among them put their commitment into practice through a very special project: with the help of professional artists, they recorded the anniversary song "Together for the next 100 years". Following lengthy preparations, a grand ceremony was held in the Recital Hall of the Elbphilharmonie Concert Hall with leading speakers representing financial, political and business circles. Unfortunately, COVID-19 restrictions meant that we were only able to livestream this event. This autumn, we would like to take the opportunity to finally catch up with our employees at our grand anniversary celebration in Berlin, the city where we were founded. We very much hope that we will all be able to gather in person and enjoy the celebratory mood of this special occasion together.

One issue that is of intense concern to the real estate industry as a whole, and also to us at DZ HYP, is sustainability. In order to live up to our social responsibility and to demonstrate our ambition, we launched a bank-wide project in September 2020. A significant milestone in the past year was the adaptation of our existing sustainability strategy, which was extended in particular to incorporate DZ HYP's banking business objectives. As a result, we have put conditions in place allowing us to sharpen our activities in this area and to issue a sustainable refinancing product, a Green Pfandbrief. Our first Green Pfandbrief was subsequently and successfully issued in February 2022 following a period of intensive preparatory work.

Following the merger in 2018, we conducted our first "Pulse Check" workforce satisfaction survey at the end of 2020. The results were published in March 2021, confirming our findings: DZ HYP is a good employer. We were delighted to see so many positive aspects come to light. The survey also highlighted areas for action and its results provide us with a good starting point. At the end of last year, in order to build on this feedback and to gain more in-depth knowledge, DZ HYP launched its own "culture project". We want to work together with our employees to make our strategic orientation even more tangible, so that DZ HYP can continue to be successful. Our staff are actively involved in the implementation of this project through a variety of initiatives. The results will be published in the spring.

We plan to conduct another banking and customer survey in 2022. This survey will help us to analyse how DZ HYP is currently perceived within the Financial Network and in the market, as a collaborative partner, and in relation to its competitors. It aims to identify areas for action that can be used to optimise customer and partner satisfaction. The issues of sustainability and digitalisation will also be included in the surveys.

The COVID-19 pandemic will remain with us this year. However, the past two years, with all its ups and downs, have shown us that DZ HYP is built on solid foundations – not least thanks to our conservative risk strategy and our membership in the German Cooperative Financial Network. The collaboration we enjoy with cooperative banks, which is founded on partnership and trust, underpins our position as an efficient and reliable financing partner. We look ahead to the future with confidence.

Yours sincerely,

Dr Georg Reutter
Chief Executive Officer

Sabine Barthauer

Jörg Hermes

The Management Board
Hamburg and Münster, 31 March 2022

ABOUT DZ HYP

PARTNER FOR REAL ESTATE FINANCING AND PUBLIC-SECTOR LENDING IN THE GERMAN COOPERATIVE FINANCIAL NETWORK

As a member of the Cooperative Financial Network, DZ HYP is committed to the success of its partners and clients. We are strengthening the market position of the cooperative banks in the business areas of Corporate Clients, Retail Customers and Public Sector. In DZ HYP, local cooperative banks have a partner supporting them, with a strong funding base, a decentralised approach and proximity to its clients.

The Bank's central business policy role is to anchor real estate financing and public-sector lending in the Cooperative Financial Network, and to realise financing solutions together. To this end, DZ HYP offers a solution-oriented range of products and services to the German cooperative banks, working hand in hand with them to cultivate the regional markets. In this context, both sides benefit from the partnership – DZ HYP from the direct contact with regional clients, and the German cooperative banks from the business relationships arising from developing the market throughout Germany.

In the business with corporate clients, cooperation with DZ HYP using the the IMMO META product family puts the cooperative banks in a position to realise larger financing solutions for their medium-sized real estate customers and companies in the housing industry, as well as to diversify their own risk. The German cooperative banks can tap into the specific financing expertise of their partner within the network, while at the same time contributing their regional market knowledge. In the Retail Customers segment, DZ HYP offers initial and follow-up financings for new construction, purchase and modernisation/refurbishment for successful cooperation with cooperative banks based on the VR-Baufi range of products. Thanks to DZ HYP's extensive product range of home loans – with fixed-interest terms of up to 30 years – cooperative banks can offer their customers solutions which fit their needs exactly. DZ HYP acts as a centre of competence within the DZ BANK Group for coverage of the Public Sector business.

Other services offered to the Cooperative Financial Network include the rating of commercial real estate clients, property valuations performed by the Bank's wholly-owned subsidiary VR WERT Gesellschaft für Immobilienbewertungen mbH, a municipal ranking that uses the latest data to provide information on the economic, budgetary and debt situation of the municipalities in the individual business regions, and the daily loan terms newsletter "VR-BaufiOfferte".

Ratings

Standard & Poor's (S&P) lowered DZ HYP's issuer rating by one notch to "A+/A-1" in an industry-wide re-rating in June 2021. At the same time, its rating outlook was changed from negative to stable. The downgrade of the issuer rating reflects the view that COVID-19 has compounded the challenges facing the German banking sector. S&P believes that German banks are making slow progress in improving their earnings diversification, cost structures and digitalisation, and as a result are less competitive internationally, especially compared to institutions from Scandinavia. Moreover, German banks operate in a highly competitive and structurally overcrowded banking market with low gross margins. Accordingly, S&P has lowered the BICRA (Banking Industry and Country Risk Assessment) for Germany from "a-" to "bbb+", and its rating outlook was changed from negative to stable. The BICRA forms the anchor for the issuer rating in S&P's rating methodology. As a result, a number of non-state-affiliated banks located in Germany were downgraded, including the Cooperative Financial Network. DZ HYP's Mortgage Pfandbriefe and Public Pfandbriefe continue to enjoy a top "AAA/A-1+" rating awarded by S&P, with a stable outlook.

Moody's downgraded DZ HYP's long-term issuer rating by one notch to "Aa2" in October 2021, and its rating outlook changed from negative to stable. The short-term issuer rating remains unchanged at "P-1". The rationale behind lowering the long-term issuer rating is the view that the ongoing pressure on margins will moderately reduce the still extremely high level of resilience of the Cooperative Financial Network's financial profile in the future. Even after the downgrade, the Cooperative Financial Network's issuer rating still ranks globally among the strongest universal banking groups as rated by Moody's due to its very strong capitalisation, high asset quality and robust funding profile. In June 2021, Moody's assigned its first-ever rating to DZ HYP's Mortgage Pfandbriefe and Public Pfandbriefe. Both cover pools were assigned the highest rating "Aaa/P-1" and a stable outlook.

Fitch Ratings evaluates DZ HYP as part of the joint rating assigned to the Cooperative Financial Network Group, and confirmed an issuer rating of "AA-"/"F1+" in 2021. This rating is Fitch's way of recognising not just the cohesion, but also the strong risk-adjusted capitalisation, low leverage, solid asset quality, above-average profitability and excellent funding profile within the Cooperative Financial Network. The rating outlook was changed from negative to stable in July 2021 to reflect the reduced risk of a significant deterioration in the operating environment and the associated permanent weakening of the Cooperative Financial Network's asset quality and profitability.

RATING OVERVIEW

	Standard & Poor's	Moody's	Fitch Ratings*)
ISSUER CREDIT RATING	**A+**	**Aa2**	**AA-**
Outlook	**Stable**	**Stable**	**Stable**
Short-term liabilities	**A-1**	**Prime-1**	**F1+**
ISSUE RATINGS			
Mortgage Pfandbriefe	**AAA**	**Aaa**	**–**
Public Pfandbriefe	**AAA**	**Aaa**	**–**
LONG-TERM LIABILITIES			
- Preferred senior unsecured	**A+**	**Aa2**	**AA**
- Non-preferred senior unsecured	**A**	**A3**	**AA-**

*) Joint rating of the Cooperative Financial Network

DIGITALISATION

Digitalisation as an integral component

DZ HYP continued to pursue its digitalisation strategy in the 2021 financial year. Measures to optimise the execution of internal bank processes, and internal and external reporting have been supported by digital solutions over the past few years. During the year under review, DZ HYP expanded and intensified the integration of digital solutions into business processes with the Bank’s clients. In addition to the further development of the “VR-BaufiConnect” platform for retail banking business with the cooperative banks, activities also focused on digitalising processes in the Corporate Banking segment.

Examples of the measures designed to achieve further progress in the interaction with DZ HYP’s customers include the automation of lending decisions and the collection and further processing of property data, supported by digital solutions. During the year under review, DZ HYP continued to drive forward with its system landscape for the Bank-wide changeover to SAP/4 HANA, and started the first migration processes. This work will continue systematically until 2024, allowing DZ HYP to use the latest digitalisation technologies to its advantage in this area, too.

Exploiting trends and new technologies

Digitalisation has already been changing the banking sector for several years now, and going into year two of the pandemic merely served to accelerate this trend in 2021, reinforcing DZ HYP’s commitment to investment in digitalisation as a key and increasingly accepted requirement. The Bank has set up initial pilots in robotics technology, and is also preparing for greater reliance on cloud technologies, which is set to gain in intensity over the coming years.

SUSTAINABILITY

Publication of ninth sustainability report

As a member of the DZ BANK Group, DZ HYP is committed to the fundamental cooperative concept of responsible business practices. This means that the Bank's entrepreneurial spirit has a long-term horizon; it uses natural resources in a sensitive and efficient manner, and takes risks and opportunities into consideration as part of its decision-making processes. DZ HYP has been providing information about its sustainability performance in its annual sustainability report since 2012. 2021 saw the publication of the ninth report, for the 2020 financial year, based on the sustainability reporting standards set by the Global Reporting Initiative (GRI). This sustainability report was prepared following the GRI standard guidelines in their "Core" option.

Sustainability rating: "Prime" status confirmed

By awarding an ESG corporate rating of "C" in the year under review, the sustainability rating agency ISS ESG confirmed DZ HYP's retention of "Prime" status in the "Financials/Mortgage & Public Sector Finance" peer group.

Sustainable corporate governance and strategy

Corporate governance finds its bearings in the underlying principles laid down in DZ HYP's sustainability strategy. Sustainability thus plays a central role in the Bank's governance and business strategy and influences many other strategies, such as employee matters or the credit risk strategy. The sustainability strategy does not contradict our other strategies, but rather influences them. We work with the respective departments to determine the interdependencies between sustainability and our other strategies and incorporate them as necessary. Other operational sustainability issues are implemented in the respective departments through various guidelines and work instructions. Details of the individual measures required to achieve the level of ambition are set out and recorded in a catalogue of measures. This catalogue is approved annually by the departmental representatives who are responsible for these measures.

To satisfy the requirements of policy makers, supervisory authorities, investors and society, DZ HYP established various committees. Due to its significant importance, the overarching responsibility for sustainability lies with DZ HYP's Management Board. The Sustainability Committee, which is composed of the Management Board and Department Heads, creates the optimum framework for the Bank to pursue a sustainable approach. The Committee acts as a central decision-making body, connecting the sustainability management team with the Bank's various organisational units. The Sustainable Products Committee is responsible for evaluating and selecting suitable assets. The Coordination Committee is responsible for the operational design and management of the different themes. DZ HYP has also developed a methodology for identifying sustainable real estate, which is based on a catalogue of data records that also takes into account current regulatory requirements. These sustainability requirements have been integrated into the new business process in the Corporate Clients segment, the corresponding process structures have been created, and a significant proportion of the portfolio has already been classified.

As a participant in the UN Global Compact, DZ BANK Group is committed to the ten global principles that have been established in the fields of human rights, labour, environment and anti-corruption. The Group also feels bound by the 2030 Agenda for Sustainable Development.

Responsibility for its employees

Entrepreneurial success depends on the dedication and performance of the Bank's employees. As a result, DZ HYP pursues a human resources policy that strikes a balance between the needs of its employees and economic requirements in an environment characterised by demographic change. Components of this policy include personnel development, talent recruitment and talent training, and moves to promote career advancement amongst women. In addition to ensuring that its employees can reconcile their work and family commitments, DZ HYP offers an extensive occupational health management programme for its staff. Measures are also taken to help employees strike a balance between personal and professional commitments. In recognition of our family-friendly human resources policy, the non-profit Hertie Foundation first awarded DZ HYP the "audit berufundfamilie" certificate back in 2013. The Bank has since regularly received the seal of quality, which has to be acquired anew every three years. A re-audit took place in June 2021 and applies to the two main locations in Hamburg and Münster.

During the year under review, DZ HYP was once again awarded the "Fair Trainee Programme" seal by the independent consultancy and market research institute "trendence". Companies seeking to achieve certification have to comply with defined quality standards including the benefits associated with, and the overall conditions of, the trainee programme, mentoring and support, training and further development opportunities, as well as career prospects. Our trainee programme scores above average with regard to benefits and overall conditions, as well as in the area of mentoring. The certification process has shown that trainees are assigned responsible tasks right from the outset and feel supported and encouraged by their mentors and managers.

Social commitment

The cooperative basic values of aiding empowerment, solidarity as well as sustainable and responsible conduct are cornerstones of DZ HYP's social commitment. In keeping with these values, the Bank promotes the Active Citizenship Association (Aktive Bürgerschaft), which advocates civic action and non-profit organisations. It also supports the CLUB OF ROME's German charter by providing the club's branch office with premises in Hamburg at no charge. Further, DZ HYP is the host and financial backer of the annual meeting of the CLUB OF ROME schools network.

In August of the year under review, DZ HYP raised € 60,000 through an internal fundraising campaign for the people who were badly affected by the floods in North Rhine-Westphalia and Rhineland-Palatinate. Employees donated a total of just under € 30,000, with DZ HYP doubling the amount and rounding it up to € 60,000. Two charitable foundations in the affected regions received € 30,000 each. The beneficiaries of the donations identified people and organisations that most urgently needed the help.

Within the scope of the "Schools and Business Partnership" project launched by a chamber of commerce and industry, DZ HYP cooperates with two schools in Münster. The Bank also supports hands-on vocational orientation as part of the "Don't leave school without the prospect of a job" project run by the State of North-Rhine Westphalia. The COVID-19 pandemic put a stop to the placements within DZ HYP in the reporting year.

In 2021, as part of its commitment to social responsibility, DZ HYP subsidised the Hamburg Donors' Parliament (Hamburger Spendenparlament), which supports initiatives to tackle homelessness and people living in poverty, as well as initiatives to promote integration in Hamburg. As in previous years, the Bank also doubled the staff's Christmas collection initiated by the Works Council, alongside other customer-related donations. Again, donations totalling € 17,500 benefited two different charitable organisations: the first was the SOS Children's Village in Hamburg-Dulsberg, which trains volunteers at the SOS Family Centre to provide unbureaucratic and rapid support to families in difficult situations in times of need. The Bank also supported the container project for homeless women, who receive advice and support from social workers and students from the University of Applied Sciences (HAW). This is a joint project between Caritas Hamburg and HAW.

As in previous years, DZ HYP once again decided to largely refrain from sending out Christmas cards in 2021, instead using the amount saved to provide financial support to two social projects proposed by its employees. One of these projects is the association "DER HAFEN HILFT e.V." based in Hamburg. Since 2009, the association has been bringing together the needs of social institutions and their users with the surpluses from private households and companies across various sectors. Another beneficiary of the financial support was Berlin's largest children's and inclusive sports club, "Pfeffersport e.V.". This association has been committed to inclusion in and through sport for a number of years.

Ecological responsibility

As part of a programme to modernise the buildings at DZ HYP, the head offices in Hamburg and Münster have been undergoing renovation work since 2018 and 2019, respectively. Construction work in Hamburg was completed mid-2021. In addition to completing the inner courtyard and roof areas, the focus was on optimising the working environment. By opening up the second floor office space, we were able to turn the large green inner courtyard into a space for the staff to use and convert the roof areas into recreational spaces. Areas previously used for storage were converted into social areas for staff, enhancing the range of sporting activities on offer. A TV and media studio was added to the existing space in 2020, which meant that events could continue to take place in line with COVID-19 regulations. Certification of the entire building project by the German Sustainable Building Council (DGNB) will take place in the first quarter of 2022.

The first construction phase in Münster was completed successfully in November 2020 with the DZ HYP Tower. All floors of the tower were completely refurbished and converted to allow for contemporary office use as a multi-tenant property. As well as helping to save energy through new air conditioning and heating technology, the construction measures will create state-of-the-art, flexible workplaces. The individual floors of the tower have been designed as seven distinct office units with separate infrastructure. Renovations started on the ground floor in December 2000. A prestigious entrance on Sentmaringer Weg, training rooms, a restaurant for staff, tenants and external guests on the ground floor, as well as a separate access route to the indoor bike parking spaces, which are located close to showers and changing rooms for cyclists, turn the communal areas into a high-quality and future-proof office location, too. Completion is scheduled for March 2022. The modernisation work means that Munster will also obtain certification from the German Sustainable Building Council (DGNB). The Bank is going for "Gold" in Münster.

The fact that the Münster site has been certified under the ÖKOPROFIT programme (an ecological project for integrated environmental technology involving the City of Münster, industry, chambers of commerce and national partners) since 2012 bears testimony to the quality of the environmental management system. Since 2018, the Bank has been using almost exclusively Blue Angel certified recycling paper. The power supplied to both of the main locations comes from certified green electricity from hydropower. Since 2016, employees in Hamburg have been able to use an electric car for business-related travel. The Bank also gives its employees at both head offices the opportunity to lease bikes and e-bikes via bicycle leasing provider JobRad.

Sustainability in the DZ BANK Group

With a view to integrating sustainability to an even greater extent in business processes, DZ HYP has been playing a role in the DZ BANK Group's sustainability market initiative since 2012. For this purpose, a permanent Corporate Responsibility Committee (CRC) was formed in 2014, of which DZ HYP is a member. The results of this collaboration include, for example, common supplier standards and the development of a policy on sustainability in lending.

In a joint climate strategy, the entities of DZ BANK Group have committed to reducing CO_2 emissions. This is how we intend to support the Federal German Government's Climate Action Plan and the UN's Paris Agreement. Initially, Group entities had committed to reducing their aggregated CO_2 emissions by at least 80 per cent by the year 2050. However, in the course of the strategic further development of our sustainability profile, the Group entities have once again strengthened their commitment. To reduce greenhouse gas emissions further, they have pledged to become climate neutral by 2045 at the latest. Greenhouse gas emissions will be reduced by 65 per cent by 2030 in doing so.

MANAGEMENT REPORT

BUSINESS MODEL

The commercial real estate bank for the Cooperative Financial Network

DZ HYP is a leading provider of real estate finance and a major Pfandbrief issuer in Germany, as well as a centre of competence for public-sector clients within the Volksbanken Raiffeisenbanken Cooperative Financial Network. The Bank is active in three business segments: Corporate Clients, Retail Customers and the Public Sector. In its business activities, DZ HYP targets direct clients and acts as a partner to cooperative banks in Germany.

DZ HYP is represented nationwide, with two head offices in Hamburg and Münster, six real estate centres in the business hubs of Hamburg, Berlin, Dusseldorf, Frankfurt, Stuttgart and Munich, and regional offices in Hanover, Kassel, Leipzig, Mannheim, Munster and Nuremberg. The decentralised structure gives DZ HYP regional proximity to local cooperative banks and their customers.

Joint market coverage with the German cooperative banks

DZ HYP provides its partner banks and clients in its business segments with an extensive range of tailor-made financing solutions, which are adapted to suit client needs and current market developments. The resulting opportunities are exploited together with the German cooperative banks. Servicing these banks as an associated provider is a key element of the Bank's sales activities. It is committed to supporting the regional market development of the local banks with a broad, decentralised structure and proximity to its customers.

Customised financing solutions for corporate clients

In its Corporate Clients business segment, DZ HYP is active both as part of its direct business and as a partner to the cooperative banks in Germany, working with commercial real estate investors and the housing sector. DZ HYP focuses on financing properties in the German market, as well as providing support for German clients' investment projects in selected international markets. Its commercial real estate finance activities are focused on the core segments of office, residential and retail properties. DZ HYP is also involved in the specialist segments of hotels, logistics and real estate for social purposes, within the scope of its credit risk strategy. Target clients are private and institutional investors, as well as commercial and residential real estate developers. When selecting exposures, the priorities are the quality of the client relationship, the third-party usability of the financed property, and collateralisation through first-ranking liens.

DZ HYP aims its housing sector activities on customised financing solutions for residential or mixed-use properties. The Bank provides loans to cooperative, municipal, church-related and other housing companies in Germany for new construction, modernisation and renovation projects, sometimes in combination with subsidised development loans granted by the German government-owned development bank Kreditanstalt für Wiederaufbau (KfW). DZ HYP focuses on long-standing customer relationships with companies that create sustainable and affordable housing. As a premium member of the umbrella industry organisation, the Federal Association of German Housing and Real Estate Companies (GdW), the Bank is committed to intensive dialogue between the housing industry and real estate financing providers.

Collaboration with the German Cooperative Financial Network for corporate clients

With the IMMO META product family, DZ HYP offers German cooperative banks a comprehensive range of products for cooperation in the Corporate Clients business segment. Via IMMO META, DZ HYP participates on a pari-passu basis in real estate finance exposures originated by cooperative banks in their region. The respective cooperative banks retain their lead manager role with such financings. Using IMMO META REVERSE, the cooperative banks can get involved in selected large-volume DZ HYP financing projects in their regions, from as early as the origination phase. The financing partners themselves decide on the level of their involvement, participating on a pari-passu basis. IMMO META REVERSE+ allows a large number of cooperative banks to acquire individual tranches of a property financing arrangement concluded by DZ HYP, as partners in the syndicate, of equal rank and in a standardised manner. The German cooperative banks can access an online platform to simplify the process and ensure efficient distribution. A framework agreement must be concluded prior to utilisation. Since it was launched on the market back in 2009, 445 framework agreements have been concluded with cooperative banks, with 307 institutions having participated in financing transactions on one or more occasions.

Managing real estate risks

To complement its product range, DZ HYP provides the German cooperative banks with the web-based rating application "agree21VR-Rating-IMMO" that is uniform across the cooperative network. This application allows the cooperative banks to determine the client-specific probabilities of default for their commercial real estate clients. DZ HYP offers this application in collaboration with Atruvia and parcIT GmbH. The banks can use the process to implement a modern risk management process that takes account of all the relevant factors. It is aimed at cooperative banks with commercial real estate financing activities, and at those for which commercial real estate accounts for a significant proportion of their credit portfolio. It provides an important foundation for joint business within the Cooperative Financial Network. As at 31 December 2021, 557 German cooperative banks were using agree21VR-Rating-IMMO, compared to 558 at the end of 2020.

Solutions for retail customers

As part of the Cooperative Financial Network, DZ HYP works closely with the cooperative banks in their business with retail customers. Retail business is largely originated through intermediation by cooperative banks. DZ HYP's offering includes initial as well as rollover financings for new construction, purchase and modernisation/refurbishment. Thanks to DZ HYP's broad product range of home loans – with fixed-interest terms of up to 30 years – cooperative banks can offer their customers solutions which fit their needs exactly. Business with retail customers is based on standardised credit processes, and is characterised by swift lending decisions. The full distribution potential of the Cooperative Financial Network is made available to reach retail customers through technological integration of the products into the distribution systems of individual cooperative banks, and through using largely automated processes.

The Bank's retail business bundles the entire life cycle, from submission of the application to repayment, in one front-office unit. DZ HYP has dedicated regional directors to support the banks responsible for intermediating the loans in their sales and market activities. Queries regarding specific cases are also answered and resolved quickly by the Bank's customer dialogue centre. DZ HYP has developed the VR-Baufi product family, which spans the entire private home loan financing spectrum, to aid cooperation in this business segment. Annuity loans can be agreed with different product features to suit individual customer requirements, including a variety of options for unscheduled repayments and changes in repayment rates.

DZ HYP has developed a new product, VR-BaufiSelect, in response to the increase in platform business. VR-BaufiSelect makes even greater use of the platforms' technical design options, thus providing our distribution partners with the best possible terms and conditions. The product optimises risk-adjusted pricing and replaces the VR-Baufi annuity loan in this distribution channel.

VR-BaufiTop is a streamlined solution for customers with standardised financing needs. The product is aimed at salaried employees, manual workers, civil servants and pensioners who wish to buy an owner-occupied residential property. The product offers intermediary banks conditions that are updated daily and the option of basing the lending decision on a traffic light system with immediate approval. Both products are available to cooperative banks on the GENOPACE and BAUFINEX network portals.

Centre of competence for public-sector clients

As a centre of competence for public-sector clients within the Cooperative Financial Network, DZ HYP supports cooperative banks across Germany in developing their business with countys, towns/cities and local authorities, their legally dependent operations, municipal special public-law administrative unions and public-sector institutions. The core of both the business conducted jointly with the German cooperative banks and the direct business is the granting of loans to local authorities and short-term public-sector loans. In addition, DZ HYP offers banks a municipal ranking that uses the latest data to provide information on the economic, budgetary and debt situation of the municipalities in the individual business regions. The public-sector client target group includes smaller and medium-sized municipalities in particular.

Real estate valuation by the subsidiary VR WERT

The wholly-owned subsidiary of DZ HYP, VR WERT Gesellschaft für Immobilienbewertungen mbH, appraises real estate for banks, the corporate sector, investors and housing cooperatives. The range of services offered includes market and mortgage lending value appraisals, advice/consultancy on real estate matters and product audits of appraisals performed by German cooperative banks. Depending on what the client requests, mortgage lending values are calculated in accordance with the Regulation on the Determination of the Mortgage Lending Value or the uniform Valuation Directive 3.0 (Wertermittlungsrichtlinie 3.0) of the Cooperative Financial Network. The company values properties financed by DZ HYP with a focus on the business with corporate clients, who require a particularly sophisticated and individual case analysis, as well as on privately owned properties.

ECONOMIC REPORT

ECONOMIC ENVIRONMENT

Recovery of the German economy

The COVID-19 pandemic continued to impact the economic landscape in 2021. While the situation started to improve in the spring, the number of infections started to rise again, particularly from mid-October onwards. By the end of December, around 7.2 million infections were registered in Germany. Meanwhile, the number of people who had received the vaccination increased although the rate started to drop off from the autumn onwards. By the end of the year, 59.1 million of Germany's 83.2 million citizens had received two vaccinations and 31.6 million had also received their third dose. At the end of November, Omicron, a new COVID-19 variant, emerged in South Africa, which progressively spread to other parts of the world and was soon confirmed in Germany as well. A resurgence in infections from autumn 2021 onwards affected the economy, particularly in the fourth quarter. The authorities in Germany reacted to the increase in the rate of infection and the spread of the Omicron variant by imposing renewed contact restrictions and further hygiene and social distancing rules.

Gross domestic product rose by 2.7 per cent last year. Consequently, Germany's economy has recovered from its slump of the previous year, which saw growth contract by 4.6 per cent. Negative effects such as the COVID-19 pandemic and also supply and material bottlenecks were thus partially offset over the course of the year. However, economic output did not return to pre-crisis levels in 2021. Almost all sectors were impacted by the recovery. In the manufacturing sector, price-adjusted gross value added in 2021 increased by 4.4 per cent year-on-year. The services sector grew by 5.4 per cent. At 3.0 per cent, the trade, transport and hospitality sector grew somewhat more slowly. With regard to the construction industry, economic output declined by 0.4 per cent in the reporting year, even though the pandemic had not left any visible traces in the previous year.

Inflation climbs to more than 5 per cent

The inflation rate in Germany, measured as the year-on-year change in the consumer price index, climbed to 5.3 per cent in December 2021. The average annual rate was 3.1 per cent. Inflation has been especially high since July. The Federal Statistical Office attributed this to base effects, including the temporary reduction in VAT rates in the second half of the previous year, and also to increases in the prices of household energy and fuel. In addition, crisis-related effects such as supply bottlenecks and price increases at upstream economic levels played a part in higher inflation.

Private consumer spending stabilised in price-adjusted terms compared to the previous year and thus remained below the level at which it was prior to the COVID-19 pandemic. Construction investments grew by 0.5 per cent last year, the lowest increase in five years. Bottlenecks in labour and materials were the main obstacle to stronger growth. Investment in equipment – which is mainly machinery, equipment and vehicles – increased by 3.2 per cent.

Foreign trade recovered over the course of the reporting year following the sharp drop in the previous year. In price-adjusted terms, the German economy exported 9.4 per cent more goods and services in 2021 compared with the previous year. Imports increased by 8.6 per cent in terms of value, thereby less strongly than exports. Overall, German foreign trade was only slightly below the level of 2019, the most recent reporting year before the outbreak of the COVID-19 pandemic.

Government consumption expenditure

In 2021, government consumption expenditure increased by 3.4 per cent in price-adjusted terms, following a rise of 3.5 per cent in the previous year. This was mainly attributable to costs associated with the nationwide introduction of free rapid antigen tests, the purchase of COVID-19 vaccines and the running of testing and vaccination centres. Since the onset of the pandemic in February 2020 until the end of 2021, € 130 billion in state economic aid has been paid out to companies and the self-employed in Germany. This was supplemented by a further € 42 billion in short-time work allowances. At the end of last year, public sector budgets recorded a financing deficit of € 153.9 billion, compared to € 145.2 billion a year earlier. At 4.3 per cent of nominal gross domestic product, the deficit ratio remained unchanged in 2021 compared to 2020.

Labour market continues recovery

The German labour market is recovering. In December 2021, just under 4.29 million people in Germany received unemployment benefit or unemployment benefit II, i.e. 480,000 less than in December 2020. The unemployment rate stood at 5.1 per cent in December 2021. As in the previous year, the labour market in 2021 was supported by short-time work schemes. However, the take-up rate is falling, and the number of employees subject to social security contributions has increased. At the same time, mini-jobs and self-employment decreased on average for the year, such that employment remained unchanged overall. The effects of the COVID-19 pandemic have weakened within the labour market over the past year, but are visible in increased long-term unemployment. Compared to March 2020, a month before the pandemic began in Germany, the number of people unemployed for more than twelve months rose by 38 per cent to 977,000. The number of long-term unemployed as a proportion of the total number of unemployed increased from 30.3 to 42.0 per cent during this period.

Euro area economy growing again

Inflation in the euro area picked up sharply to 5.0 per cent in the reporting period, from -0.3 per cent a year earlier. Gross domestic product rose by 5.2 per cent in both the euro area and the European Union as a whole. In the third quarter, gross value added in the euro area increased by 2.3 per cent compared to the same quarter of the previous year, with growth weakening to 0.3 per cent in the final quarter of the year. On a seasonally adjusted basis, Italy recorded the highest economic growth among the euro area countries in the last three months of the reporting year, with an increase of 6.4 per cent compared to the same quarter of the previous year. Germany stood at the lower end of the scale with an increase of 1.4 per cent. Seasonally adjusted unemployment in the euro area fell to 7.0 per cent at the end of December, down from 8.2 per cent a year earlier.

Markets continue to be bolstered by low interest rates

Stock markets across Europe have largely posted strong gains in 2021. The DAX, the German blue-chip index, closed the year at 15,885 points, up around 14 per cent year-on-year. The average current yield for public sector bonds rose from -0.6 per cent to -0.28 per cent in the year under review. The European Central Bank (ECB) left its key interest rates unchanged. Both the main refinancing rate and marginal lending facility rates remained at 0.0 per cent and 0.25 per cent, respectively and the deposit facility rate at -0.5 per cent. In December, the ECB Governing Council announced that it would gradually reduce the pace of its asset purchases over the coming quarters. As such, the ECB resolved to end net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) by the end of March 2022, also announcing that it would reduce net asset purchases under the Asset Purchase Programme (APP).

MARKET DEVELOPMENTS

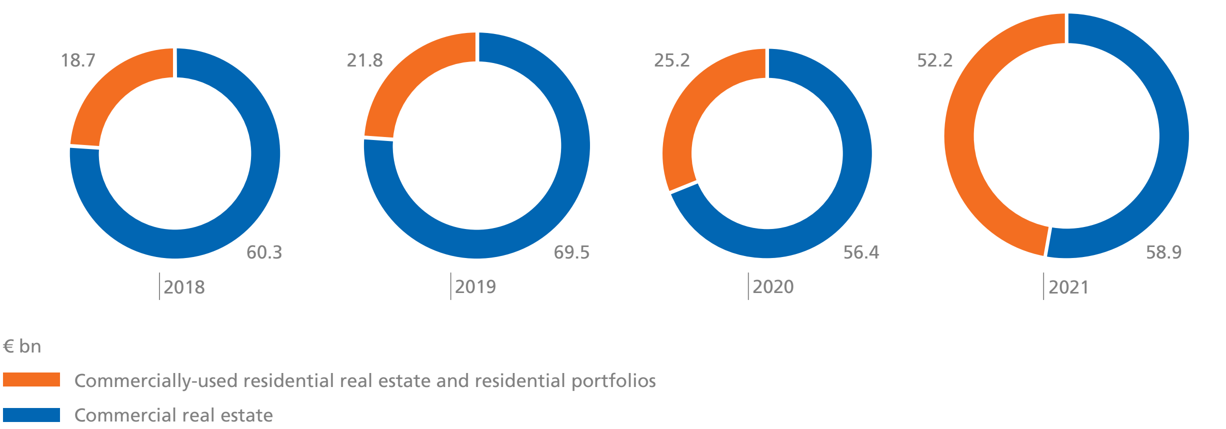
Highest turnover to date on the German real estate investment market

Financing conditions for real estate remained favourable in 2021, with interest rates at a sustained low level. In addition, rising inflation in the second half of the year pushed real interest rates down. Another factor driving demand is the lack of yield-generating investment alternatives. Against this background, the transaction volume*) on the German real estate investment market, including commercial residential investments (Living asset class), rose to € 111.1 billion in 2021, up 36 per cent on the previous year's figure of € 81.5 billion. In the second half of the year alone, € 77.0 billion worth of real estate was traded, with the third and fourth quarters contributing almost 70 per cent of the annual result. In contrast to the previous year, investors invested more heavily in value-add real estate in addition to the crisis-driven focus on core real estate investments. This trend demonstrates just how attractive the German real estate market is.

Berlin records highest transaction volume nationwide

At € 70.7 billion, around 64 per cent of all transaction volumes was attributable to Germany's seven top real estate locations of Hamburg, Berlin, Dusseldorf, Cologne, Frankfurt, Stuttgart and Munich. This equates to an increase of around 75 per cent compared to 2020. The frontrunner in the 2021 financial year was Berlin, increasing by 193 per cent to € 37.5 billion. Even without the large-volume merger of two housing companies with a transaction volume of € 23.5 billion, Germany's capital city still comes out on top the country's other major cities. Frankfurt ranked second. Investors in the Main metropolis invested € 9.4 billion in commercial real estate in the reporting year, an increase of 18 per cent over the previous year. Bavaria's capital Munich ranked third with a transaction volume of € 7.9 billion (+32 per cent), followed by Hamburg with € 6.2 billion. Transaction volume in Hamburg was thus 9 per cent below the figure for 2020. Cologne recorded the second-highest growth, increasing by 160 per cent, with transaction volume totalling € 4.5 billion. Dusseldorf recorded a decline of 23 per cent at € 2.9 billion, while the value in Stuttgart almost doubled to € 2.3 billion (+96 per cent).

TRANSACTION VOLUME IN GERMANY



Source: Jones Lang LaSalle

*) Transaction volume includes office, retail, logistics and industrial properties, hotels, land, special properties, mixed-use properties as well as the Living asset class with multi-family houses and residential portfolios with ten or more residential units and 75 per cent residential use, sales of company shares (excluding IPOs), apartment buildings, student housing, senior citizens/nursing care properties and clinics.

Residential investments lead the way

At € 52.2 billion, or 47 per cent of the total transaction volume, residential real estate was again the most sought-after asset class. Office properties followed with a share of almost 25 per cent, or € 27.5 billion of the total transaction volume, an increase of 12 per cent on 2020. Logistics properties came in third with a share of 9.3 per cent. € 10.2 billion was invested in distribution, production and warehousing facilities in the reporting year, more than ever before. Retail properties accounted for a total of € 8.5 billion, or 8 per cent of the total transaction volume. This asset class dropped down a place from the previous year, accounting for € 10.4 billion of the total volume for the reporting year. Mixed-use properties saw less in demand in 2021 than in the previous year. At € 6.1 billion or 5 per cent of the total transaction volume, the result was lower than the € 8.7 billion, or 10 per cent of the total volume reported in 2020. Hotels, building plots and real estate for social purposes accounted for € 6.5 billion of the total volume in the reporting year, compared to € 4.2 billion in 2020.

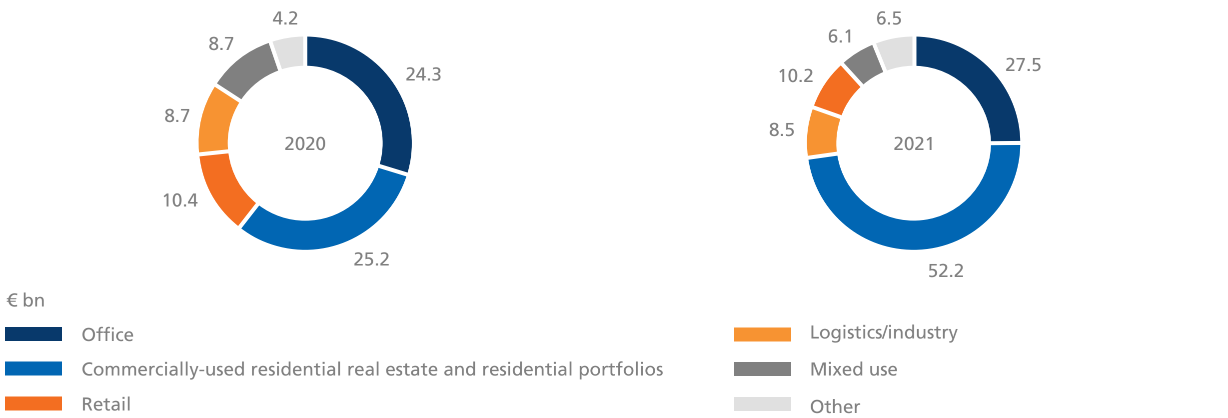
Downward trend in yields continues

Yields continued to fall in most asset classes as the reporting year drew to a close. Yields for specialist retail parks anchored by grocery stores stood at 3.50 per cent at the end of the year, as a result of a further 25 basis point decline in the final quarter of 2021. Supermarkets also continued to decline, with yields falling below the 4 per cent mark to 3.85 per cent for the first time in the period under review. Yields for logistics real estate declined by 35 basis points since the end of 2020 to 3.03 per cent at the end of the reporting year. Despite challenging conditions, prime yields for city centre commercial properties remained stable over the year at an average of 2.91 per cent across the top seven locations. However, yields for specialist retail products continued to fall as demand remained high. Yields for stand-alone specialist retail stores fell by 10 basis points to 4.5 per cent, while yields for specialist retail parks fell by 40 basis points to 3.5 per cent. Office properties achieved the lowest average yield of all asset classes, declining by 17 basis points. Yields averaged 2.64 per cent across all of the top seven locations at the end of the reporting year.

Residential investment market affected by price increases

Residential investments saw the greatest demand in the reporting year, accounting for transaction volume of € 52.2 billion. This figure was more than double the previous year's level of € 25.2 billion, which was also a result of several large deals beyond the billion euro mark. Overall, the residential investment market achieved 426 transactions in the reporting year. Although this number is 5.4 per cent below the previous year's level, it exceeds the five-year average by 3.0 per cent. 2021 was also a year affected by price increases. This was partly due to increased construction costs of 12.6 per cent compared to the previous year.

TRANSACTION VOLUME BY MAIN TYPE OF USE



Source: Jones Lang LaSalle

Prices reflect a shortage of supply in the residential investment market. Against this backdrop, nursing and healthcare properties are becoming an increasingly interesting proposition for investors. Once again, the focus of investment activity in 2021 was on the top seven locations, accounting for 69 per cent of total investment volume. Berlin accounted for € 26.2 billion, followed by Frankfurt with € 3.2 billion. Hamburg took third place with a volume of € 2.7 billion. Residential project developments were in demand in the reporting year, not least due to the increasing importance of sustainability. Out of a total of 105 deals, 24.5 per cent were forward deals, an increase of 3.5 per cent over the previous year.

Stronger demand for office properties than in the previous year

The office property market has recovered following the COVID-related slump of the previous year. Accounting for almost 25 per cent of the market and up 12 per cent on 2020, this asset class achieved its third-best result of the past ten years. Demand for office space picked up again in the last quarter of the reporting year. Take-up of space across the top seven locations totalled 3.29 million square metres at the end of 2021, an increase of more than 23 per cent on the previous year. In percentage terms, this is almost twice as much as in the third quarter. Office take-up was up on the previous year across all seven major cities. The largest increases were in Cologne (+58 per cent), Frankfurt (+35 per cent) and Hamburg (+34 per cent), each of them significantly exceeding their respective previous year's results. In addition, almost 1.6 million square metres of new office space was completed across all the top locations in the reporting year, an increase of more than 10 per cent on the previous year. Only about a quarter of this was still available post-construction. Most of the space was already filled before the the construction phase was completed.

In 2021, prime office rents averaged € 33.00 per square metre in Germany's seven top locations, up 2.5 per cent year on year. Rents continued to rise in five of the seven top locations in the reporting year, with Munich reporting the highest increase of 5.1 per cent to € 41.50 per square metre. In Berlin, top rents rose by 3.9 per cent to € 40.50 per square metre. Frankfurt remained the city with the highest office rents in Germany in 2021 at € 42.00 per square metre, a year-on-year increase of 2.4 per cent for the Hessian metropolis. In Cologne, rents increased by 2.0 per cent to € 25.00 per square metre and in Hamburg by 1.6 per cent to € 31.50 in the reporting year. Dusseldorf (€ 26.50) and Stuttgart (€ 24.00) showed a sideways trend. Average vacancy rates in the seven top locations were 4.5 per cent at the end of 2021, compared to 3.5 per cent in the previous year. Vacancy levels were at their highest in Frankfurt (8.2 per cent) and Dusseldorf (7.3 per cent). In the other locations, they ranged between 3.2 per cent in Berlin, followed by 3.3 per cent in Stuttgart and Cologne, and 3.9 per cent in Hamburg and Munich.

Retail properties: Specialist retail products dominate demand

A total of € 8.5 billion was invested in retail properties in the reporting year. This equates to an increase of around 18.0 per cent compared to 2020. As a result, this asset class accounted for 8 per cent of the total investment volume. At € 5.3 billion, 62.0 per cent of the total was achieved in the second half of the year. The main reason for the lower result is the reduced number of large-volume transactions in the triple-digit million range, which fell by half compared to the previous year. A total of € 6 billion (71.0 per cent) was invested in specialist retail stores, supermarkets and discount stores as well as predominantly grocery-anchored specialist retail parks. The reason for these products experiencing such high demand is that they are not in competition with online retailers and remained open even during the lockdowns. Shopping centres and department stores saw little demand at 6 per cent and 3 per cent, respectively. Higher demand came from investors from Germany in 2021, unlike in previous years.

The lowest top rent in 2021 was in Stuttgart at € 205 per square metre. Stuttgart also saw the weakest rental development among the seven top locations, with a decline of 8.9 per cent compared to the previous year. Munich continued to be the most expensive location with a top rent of € 315 per square metre, thus keeping its top rent consistently above the € 300 mark since 2012. For a while, Berlin rose to become the second most expensive German shopping location alongside Frankfurt, but fell behind Frankfurt and Dusseldorf in the reporting year due to a 6.9 per cent drop in rents. In 2021, with a top rent of € 270 per square metre, Germany's capital trailed behind Frankfurt and Dusseldorf, where rents averaged € 275 per square metre in both cities. Hamburg ranked next with a top rent of € 250 per square metre at the end of the year, accounting for a decline of 7.4 per cent. Rents in Cologne averaged € 225 per square metre in 2021 compared to € 245 the previous year, down 8.2 per cent on 2020.

Logistics real estate: Demand continues to rise

Logistics real estate continued to experience strong growth in 2021. Considered crisis-resistant, this asset class is attracting more and more investors. Distribution, production and warehousing facilities accounted for a total of € 10.2 billion in transaction volume, compared to € 8.7 billion in the previous year, equivalent to an increase of 17.2 per cent. Logistics real estate thus accounted for 9.3 per cent of total transaction volume. Such high investment volumes underline the strength of demand for this asset class. As a result of the simultaneously limited supply, primarily of core properties, the prime yield is continually declining. At the end of 2021, this yield stood at 3.0 per cent across the top locations, 35 basis points lower than in the previous year. The top group of investors were the German "Spezialfonds", who also proved to be the most active group of buyers, accounting for around 30 per cent of total investment volume. Investment/asset managers and equity/real estate funds ranked second with 15 per cent and 11 per cent respectively, closely followed by real estate corporations/REITs with around 10 per cent. Residential project developers accounted for over 8 per cent.

Top rents for warehouse and logistics space increased in all seven top locations in the reporting year. Munich was the most expensive location in this segment at € 7.50 per square metre, closely followed by Berlin at € 7.30, Stuttgart at € 7.10 and Frankfurt at € 7.00. Hamburg and Dusseldorf trailed at a distance at € 6.50 and € 6.20 per square metre, respectively. Cologne came in at the bottom of the scale with a top rent of € 6.00.

Signs of recovery in the hotel investment market

In 2021, transaction volumes in the German hotel investment market reached just under € 2.5 billion. This equates to an increase of around 25 per cent compared to 2020. The fourth quarter also proved to be the strongest of the entire year, as well as being the busiest quarter in terms of volume since the beginning of the pandemic. During the last three months of 2021, investors were involved in property transactions worth more than € 1 billion. At just under € 1.6 billion (63 per cent), German investors were the most active investors in the German hotel investment market in the reporting year, just as they had been in 2020. However, at more than € 900 million, foreign investment almost doubled compared to the previous year. At € 865 million, institutional investors accounted for the largest share with 35 per cent, followed by private individuals at 20 per cent or € 483 million, followed by hotel operators with a share of 14 per cent or € 345 million. Private equity companies accounted for 13 per cent or € 325 million. At € 716 million, around 29 per cent of the transaction volume related to project developments. 18 per cent of the hotels formed part of a mixed-use property (€ 454 million) and 10 per cent were serviced apartments (€ 252 million).

Residential rents rise more slowly

The continuous increase in residential rents seen in Germany's seven largest cities over recent years signalled the start of a slowdown in 2017. This trend continued in the reporting year, and is particularly evident in rents on re-letting, which account for the largest share of newly-rented flats. In 2021, the average rental price per square metre in the top locations came to € 13.50, compared to € 13.20 the previous year. The highest rental prices were paid in Munich, where one square metre cost € 18.00. Stuttgart and Frankfurt followed some way behind at € 14.80 and € 14.60, respectively. In the other four top German business locations, Hamburg, Cologne, Dusseldorf and Berlin, between € 12.80 and € 10.90 per square metre was paid.

One reason for the slowdown in rental growth was the continuous decline in population growth that has been registered all over Germany since 2017. Since 2019, it has remained more or less at the same level. On balance, the population in the top locations has even declined, caused by people moving away to outlying areas as a result of the lack of housing and the high rents, as well as the slowdown in the influx to Germany. Another reason for the slowdown in rental growth is the expansion of residential construction. More than 40,000 flats have been built each year consistently since 2016. However, this is not true for average first-occupancy rent, which rose faster in the top locations compared to 2020, at a rate of 4.0 per cent in the reporting year (2020: 3.1 per cent). In the new-build segment, rents of € 16.30 were paid in the reporting year, compared to € 15.70 the previous year. Munich continued to command by far the highest price for first occupancy rents among the top locations at € 20.70 per square metre, followed by Frankfurt at € 17.30 and Stuttgart at € 16.80. Bringing up the rear were Dusseldorf at € 13.50 per square metre and Cologne at € 13.90. Berlin and Hamburg ranked fourth and fifth respectively at € 16 and € 15.40 per square metre, respectively.

Sustained demand for private home loan financing

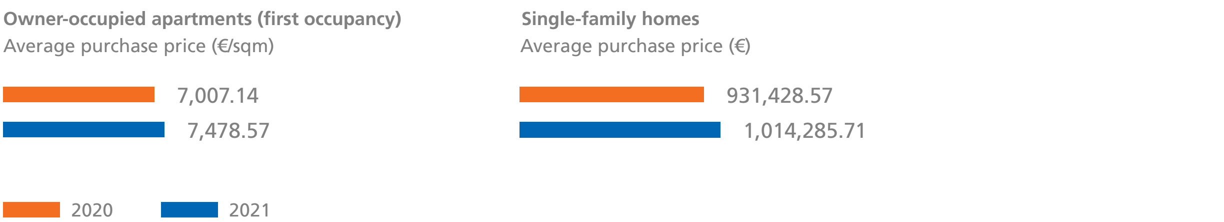
Owner-occupied residential property was affordable for quite some time, even though average purchase prices have almost doubled compared to 2009. In the first half of 2021, the average purchase price was € 422,000. Disposable monthly income rose by only a third in the same period, thus lagging behind the growth in property prices. Meanwhile, mortgage interest rates on housing loans have been falling continuously since 2009, with few exceptions, and most recently stood at 1.2 per cent in 2021. The sustained low interest rates further favoured the demand for owner-occupied apartments and single-family homes for private households, as it makes buying a property more affordable compared to renting. Since 2019, the rise in real estate prices has continued to accelerate, increasing the amount of equity contributed from an average of € 62,000 to € 84,000.

Rising purchase prices for owner-occupied apartments and single-family homes

The purchase prices of owner-occupied flats and single-family homes have increased between 110 and 140 per cent within ten years, outpacing rent increases. This continued into the reporting year despite COVID-19, the slowdown in population growth and the expansion of residential construction. In addition to the continued high demand driven by the persistently low interest rate environment, significantly higher construction prices in 2021, which made building work more expensive, also played a key role. Even the prospect of obtaining an affordable rental apartment through increasing rent regulation could not slow down the price increase. Nor is there any evidence of a "remote work effect" or a braking impact from the prices that had already risen sharply before. In 2021, the price increase for newly built owner-occupied apartments accelerated by 6.4 per cent. The price per square metre for a new apartment in the seven top locations ranged from € 6,300 in Cologne to € 9,800 in Munich. Frankfurt was the second most expensive location at € 8,200 per square metre. Stuttgart, Dusseldorf and Hamburg followed some way behind at € 7,400, € 7,100 and € 6,900, respectively. In Berlin, the price per square metre in 2021 was € 6,650.

Single-family homes are also a good example of how purchase prices have risen at a faster pace than rents. In the country's major cities, the average price in the reporting year was € 1.0 million. In 2020, it was more than € 70,000 lower. This means that the price of single-family homes in the top locations rose by around 9 per cent in 2021. The most dynamic development

PURCHASE PRICE DEVELOPMENT IN GERMANY'S TOP LOCATIONS



Sources: bulwiengesa, RIWS

was observed once again in Berlin, where prices rose by 13.2 per cent. The German capital is also, however, the cheapest top location, with an average price of € 600,000 for a single-family home. Munich comes in at the other end of the spectrum, with a purchase price of around € 1.7 million. Here, purchase prices increased by 7 per cent despite being high to begin with. Double-digit increases were also achieved in Cologne (11.8 per cent), Hamburg (10.3 per cent) and Frankfurt (10.0 per cent). Stuttgart reported the lowest pace of growth among the major cities, with prices rising by 6.1 per cent to € 1.05 million for a single-family home. At the same time, Stuttgart is among the more expensive locations. The only city that comes even closer to Munich in terms of price is Frankfurt, at € 1.1 million. Cologne and Dusseldorf are on a par, with an average of € 950,000. In penultimate place is the Hanseatic city of Hamburg with an average purchase price of € 750,000.

Rental yields drive up prices of multi-family homes

Since 2018, prices for multi-family homes have been rising faster across Germany than in the seven largest cities. The reason is that rental yields are higher than bond yields, which are negative. Higher rental yields can be achieved with often good letting prospects in areas other than the top locations. However, prices for multi-family homes also picked up in the reporting year in the major cities as well. However, at around 5 per cent, the annual growth rate here is far below the high values – in some cases in double-digits – that were observed from 2011 to 2018. The reasons for a slower pace are likely to be the already high price level and the less favourable letting prospects.

BUSINESS DEVELOPMENT

Credit Business

New business volume above the previous year's level

In the 2021 financial year, DZ HYP originated new real estate finance business – with both corporate clients and retail customers – totalling € 11,466 million (2020: € 10,105 million). Including financing for public-sector clients, the Bank originated new business of € 12,048 million (2020: € 10,736 million).

Corporate Clients segment

In its business with corporate clients, in 2021 DZ HYP generated new business of € 8,736 million (2020: € 8,039 million). The German core market accounted for € 8,241 million (2020: € 7,584 million), in line with the Bank's strategic focus. Within the Cooperative Financial Network, joint lending business with the cooperative banks totalled € 3,859 million in 2021 (2020: € 3,349 million). To avoid cyclical peaks in the portfolio, DZ HYP continued to apply its conservative risk strategy with strict quantitative targets for its financing decisions in the year under review. Besides carrying out a comprehensive qualitative analysis of properties and location, including stress testing, the quality of the client relationship is essential.

As part of the process of consolidating the business activities of the Cooperative Financial Network, it was decided in 2017 to bundle at DZ HYP the commercial real estate financing business absorbed from WGZ BANK in the course of the merger with DZ BANK. The portfolio originally held assets of around € 2.6 billion. In the 2021 financial year, 34 exposures with a volume of € 268.2 million were transferred to DZ HYP. Transfer of the portfolio was completed on schedule as at 30 June 2021.

Retail Customers segment

Within the Cooperative Financial Network, lending to retail customers is dominated by real estate financing. Customer demand for long fixed-interest periods remained stable in the 2021 financial year, supported by the ongoing low interest rates. Thanks to the refinancing options available to it, DZ HYP is in a position to provide real estate financing to the cooperative banks that suits their needs. The volume of new commitments in the retail business, which is intermediated via the core banking procedures of the Cooperative Financial Network and the GENOPACE and BAUFINEX network portals, rose to € 2,730 million in the reporting year (2020: € 2,066 million), up 32.2 per cent.

Public Sector segment

DZ HYP is a centre of competence for business with public-sector clients in the Cooperative Financial Network. In this function, it supports cooperative banks in developing business with domestic local authorities as well as their legally dependent operations, which are serviced across Germany. DZ HYP originated new business of € 582 million in loans to local authorities during the period under review (2020: € 631 million), of which € 497 million (2020: € 521 million) was intermediated by cooperative banks and € 85 million (2020: € 110 million) was originated directly. This means that around 85 per cent of all transactions in this business area were intermediated by cooperative banks.

Reduction of non-strategic portfolios

DZ HYP's non-strategic portfolio comprises the portfolio of mortgage-backed securities (MBS) and the non-strategic part of the sovereign/bank securities portfolio, which includes Portugal, Italy and Spain. The primary objective is to run the portfolio down carefully. In the 2021 financial year, the non-strategic portfolio was wound down further as a result of portfolio optimisations and repayments, from around € 4.1 billion as at 31 December 2020 to around € 3.5 billion as at 31 December 2021. DZ HYP plans to continue to adhere to these strategies, and to reduce its portfolio as a result.

Refinancing

Major price fluctuations were repeatedly observed on the international capital markets during 2021, mainly due to the course of the pandemic and the associated restrictions on the public and on the economy. In addition, higher inflation rates caused uncertainty on markets worldwide. Despite this volatile environment, the Pfandbrief market proved robust and refinancing premiums for covered bonds remained largely stable.

The covered bond market was also given significant support in 2021 by the monetary policy measures implemented by the European Central Bank (ECB). Firstly, the bond purchase programmes PEPP (Pandemic Emergency Purchase Programme) and APP (Asset Purchase Programme) increased demand, and secondly, the ECB's favourable refinancing conditions influenced issuing behaviour on the capital markets. In addition, many issuers took advantage of the attractive long-term refinancing transactions offered by the Bundesbank (TLTRO III). For this purpose, they retained Pfandbrief issues and deposited them as collateral.

Overall, at around € 100 billion, the issue volume of covered bonds in 2021 was almost at the level of the previous year (€ 94 billion). The most active issuers came from France and Germany. The covered bond market was very buoyant with a large number of new issues, particularly in September and October 2021 following the summer break.

In some European countries, including Germany, the legal basis for harmonising covered bonds has already been implemented. All EU states must have implemented the Covered Bond Directive into national law by July 2022 at the latest. One of the most significant innovations for the German Pfandbrief is what is known as maturity extensions. According to the amendment, the cover pool administrator can postpone maturities and repayments on Pfandbriefe by up to one year if this can ensure repayment to the creditors in the event of the Pfandbrief bank's insolvency.

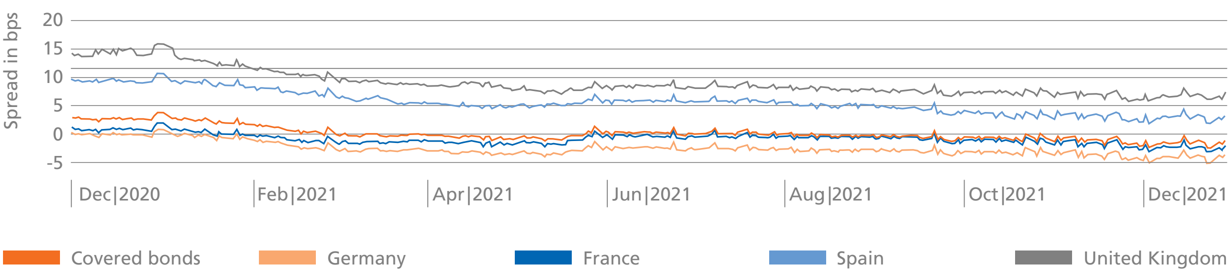
In the 2021 financial year, DZ HYP issued covered bonds with a total volume of € 3.8 billion*) (2020: € 4.4 billion). Publicly placed benchmark bonds accounted for the largest share with € 3.8 billion Mortgage Pfandbriefe (2020: € 3.8 billion) in maturities of five to nine years. No Public Pfandbriefe were issued on the capital market in the reporting year (2020: € 0.0 billion).

The total portfolio of covered bonds thus amounted to € 45.6 billion (2020: € 46.2 billion). Of this amount, € 33.3 billion (2020: € 33.1 billion) was attributable to Mortgage Pfandbriefe and € 12.4 billion to Public Pfandbriefe (2020: € 13.1 billion). DZ HYP raised a further € 3.7 billion (2020: € 2.5 billion) in unsecured liquidity in 2021, primarily from the Cooperative Financial Network. The total volume of unsecured funding amounted to € 22.3 billion as at the reporting date (2020: € 23.8 billion).

Since June 2020, DZ HYP has taken part in the Bundesbank's longer-term refinancing operations (TLTRO III) in the amount of € 3.0 billion.

*) Exclusive own issues to secure the ECB's longer-term refinancing operations TLTRO III

REFINANCING PREMIUMS OF COVERED FIVE-YEAR BONDS



Source: DZ BANK Research

NET ASSETS, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Net assets

At € 81.6 billion, DZ HYP's total assets in the financial year 2021 were down € 0.3 billion compared to the previous year (€ 81.9 billion). The real estate loan portfolio rose by € 2.2 billion to € 55.5 billion. This was attributable in particular to the € 1.5 billion increase in the private real estate financing portfolio to € 12.9 billion. The portfolio of real estate finance business with corporate clients increased by € 0.7 billion to € 42.6 billion.

New business with public-sector clients originated during 2021 fell short of ongoing repayments, thus reducing the portfolio by € 0.6 billion to € 9.6 billion. DZ HYP's investment strategy in this area remains focused on supporting the cooperative banks, whilst ensuring a balanced risk/return profile.

Furthermore, the public finance portfolio declined by € 0.8 billion, to € 10.1 billion during the reporting year, as a result of portfolio optimisations and repayments. The portfolio of bank bonds were down € 0.2 billion compared to the previous year's figure of € 0.4 billion. Exposures to countries and banks that are particularly affected by the debt crisis have developed as follows (details excluding MBS):

	Sovereigns*)		Banks		Total	
Nominal amounts € mn	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Spain	**1,049**	1,290	**–**	110	**1,049**	1,400
Italy	**1,551**	1,564	**–**	–	**1,551**	1,564
Portugal	**550**	750	**–**	–	**550**	750
Total	**3,150**	3,604	**–**	110	**3,150**	3,714

*) Including state-guaranteed corporate bonds and sub-sovereign entities

Undisclosed reserves on DZ HYP's securities that are treated as fixed assets (excluding MBS) totalled € 1,477.3 million as at 31 December 2021 (31 December 2020: € 2,008.3 million); hidden burdens totalled € 15.4 million (31 December 2020: € 21.0 million). This was offset by effects from derivatives hedges taken out within the scope of overall bank management. Taking into account the net effects from these hedges, hidden burdens from this securities portfolio amounted to € 334.8 million (31 December 2020: € 472.1 million). Following a comprehensive assessment of these securities, DZ HYP has concluded that none of the securities are permanently impaired.

There have been no new investments in mortgage-backed securities (MBS) since mid-2007. The portfolio in this business area, which is being phased out, was reduced by € 0.1 billion to € 0.3 billion during the 2021 financial year, as a result of ongoing repayments and sales. MBS holdings are intensively monitored by means of a detailed risk management system, regular analyses of individual exposures, and comprehensive stress testing. The development of material risk factors has confirmed the stabilisation of this non-strategic portfolio, which has been ongoing for several years now. Undisclosed reserves on the MBS portfolio totalled € 0.1 million on the reporting date (31 December 2020: € 0.0 million). Hidden burdens on this exposure in the amount of € 12.4 million (31 December

2020: € 26.8 million) predominantly reflect market illiquidity and stricter regulatory capital requirements. In this respect, DZ HYP anticipates a write-back over the remaining term of the MBS portfolio.

Overall, DZ HYP's credit portfolio was increased as follows by 0.6 per cent during the 2021 financial year.

DEVELOPMENT OF LENDING VOLUME

€ mn	31 Dec 2021	31 Dec 2020	Change from the previous year € mn	in %
Mortgage loans*)	**55,494**	**53,338**	2,156	4.0
Originated loans to local authorities)**	**9,571**	**10,209**	-638	-6.2
Public-sector lending*)**	**10,101**	**10,899**	-798	-7.3
Bank bonds**)**	**225**	**440**	-215	-48.9
MBS	**309**	**378**	-69	-18.3
Total	**75,700**	**75,264**	**436**	**0.6**

*) Mortgage loans including short-term loans collateralised by real property liens
**) Lending business with direct liability of German local authorities or their legally dependent operations
***) Securities issued by national governments and sub-sovereign entities as well as state-guaranteed corporate bonds
****) Securities issued by banks

DZ HYP's financial position is sound.

CALCULATION OF AVERAGE INVESTED ROE-RELEVANT EQUITY

€ mn	2021	2020
Share capital	150.0	150.0
Capital reserves	884.2	884.2
Retained earnings	93.1	93.1
General risk provisions pursuant to section 340f of the HGB	170.9	170.8
Fund for general banking risks pursuant to section 340g of the HGB	792.0	645.0
Relevant equity	**2,090.2**	**1,943.1**
Average invested relevant equity	**2,016.7**	**1,901.7**

Regulatory capital

With effect from the reporting date of 31 December 2012, DZ HYP has applied an own funds waiver option provided for under article 7 of the Capital Requirements Regulation (CRR), and is thus exempt from applying certain regulatory requirements at individual institution level. DZ HYP makes use of the regulatory capital requirements for internal management purposes.

	31 Dec 2021	31 Dec 2020
Own funds (€ mn)	**2,387**	**2,329**
Total capital ratio (%)	**15.3**	**13.2**
Tier 1 ratio (%)	**11.1**	**9.8**
Common equity tier 1 ratio (%)	**10.7**	**9.0**

To further strengthen common equity tier 1 capital, in coordination with DZ BANK, DZ HYP agreed to allocate a material portion of the profit generated in the 2021 financial year to the fund for general banking risks pursuant to section 340g of the HGB.

Financial position

Within the scope of liquidity management, DZ HYP differentiates between the ongoing liquidity management and structural funding. In DZ HYP's view, appropriate management systems are in place for both types of liquidity. Liquidity management takes into account and complies with the limits of the internal liquidity risk model, DZ BANK's liquidity risk model, and the regulatory risk requirements. The liquidity waiver provided for under article 8 of the CRR with DZ BANK will be taken into account from the date of first application, with effect from 31 December 2021.

» Ongoing liquidity management aims to guarantee a reliable and continuous provision of liquidity at all times. Given DZ HYP's integration in the Cooperative Financial Network and its affiliation with DZ BANK, DZ HYP consciously refrains from maintaining an independent market presence for the purposes of short-term liquidity management, which is carried out in close coordination with DZ BANK. Due to its central bank function within the Cooperative Financial Network, DZ BANK raises cash and cash equivalents of various maturities, and applies the funds raised within its Group. Within this Group liquidity management framework, subsidiaries such as DZ HYP may call upon funding from DZ BANK. This is based on closely coordinated, regular risk reporting about future changes to the liquidity position.

» Structural funding is exposed to the risk that, due to various influencing factors, the Bank might be unable to maintain the required funding levels, and that in certain circumstances, debt may not be sufficiently available in the desired maturities. As a Pfandbrief issuer, DZ HYP is licensed to issue Pfandbriefe. This licence is the foundation for covered funding, and thus provides a safe and cost-efficient way to raise liquidity. DZ HYP maintains its own market presence as a Pfandbrief issuer, placing Pfandbriefe with investors within as well as outside the Volksbanken Raiffeisenbanken Cooperative Financial Network.

DZ HYP's liquidity situation is adequate.

Financial performance

DZ HYP's real estate finance business is aimed at achieving sustainable results, and this is also reflected in the results for the 2021 financial year. Due to the lower than expected risk provisioning and the increased net interest income, significant amounts were allocated to general risk provisions whilst retaining the forecast pro-rata profit transfer.

By completing its "Focus 2020" strategy, DZ HYP managed to partially reduce administrative expenses and unlock new revenue potential in the financial year under review. In this context, the Bank focused on measures to enhance client focus, optimise and digitalise its processes, and realise market potentials in the retail customers and corporate client business.

As part of its holistic management approach, DZ HYP uses the business performance indicators shown in the following table, which are derived from HGB accounting, and condenses them into the key performance indicators presented below.

OVERVIEW OF THE PROFIT AND LOSS ACCOUNT

			Change from the previous year	
€ mn	2021	2020	€ mn	in %
Net interest income	668.7	605.4	63.3	10.5
Net fee and commission income	-38.3	-38.1	-0.2	0.5
Administrative expenses	251.3	251.2	0.1	0.0
Net other operating income/expenses	0.3	8.7	-8.4	-96.6
Risk provisioning*)	-35.0	-54.5	19.5	-35.8
Net financial result)**	-5.0	6.5	-11.5	>-100.0
Operating profit	**339.4**	**276.8**	**62.6**	**22.6**
Allocation to the fund for general banking risks	147.0	78.0	69.0	88.5
Taxes	125.5	126.0	-0.5	-0.4
Partial profit transfer	14.7	15.8	-1.1	-7.0
Profit transfer	52.2	57.0	-4.8	-8.4

*) Equates to the income statement line items 'write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions'
**) Equates to the income statement line item 'income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets'

Net interest income

DZ HYP's net interest income of € 668.7 million in 2021 was € 63.3 million higher than the previous year's figure of € 605.4 million. The increase in the average real estate loan portfolio in particular has a positive effect, accompanied by increased margins in the lending business and lower interest expenses due to the sustained low interest rates. In addition, the Bank recognised negative interest and premiums for an open market transaction with Deutsche Bundesbank (TLTRO III), resulting in a reduction in interest expenses of € 26.4 million year-on-year. The stable development of net interest income is evidence of DZ HYP's management of its banking book, which is geared towards generating long-term, matched-maturity margins.

NET INTEREST INCOME IN DETAIL

€ mn	2021	2020
Interest income	1,748.3	1,768.7
Interest expenses	1,083.3	1,166.5
Current income from participations	0.0	0.1
Income from profit pooling, profit transfer, and partial profit transfer agreements	3.7	3.1
Net interest income	**668.7**	**605.4**

Net fee and commission income

Compared to the previous year, net fee and commission income decreased by € 0.2 million to € -38.3 million. A total of € 77.8 million (previous year: € 61.2 million) was paid in fee and commission expenses for brokerage services provided to cooperative banks within the Cooperative Financial Network. At the same time, € 27.1 million (previous year: € 26.4 million) in commission income was generated from the lending business, which depend both on the respective product mix and disbursement timing. Furthermore, for the first time, commission income of € 18.1 million was generated from open market business.

Administrative expenses

Administrative expenses in the 2021 financial year, as the total of general administrative expenses (€ 244.7 million; previous year: € 245.2 million) and write-downs on intangible assets and tangible fixed assets (€ 6.6 million; previous year: € 6.0 million), remained almost unchanged (€ 251.3 million; previous year: € 251.2 million). Personnel expenses of € 93.6 million were up € 6.8 million year-on-year, which was due, among other things, to the increased pension provisions (up € 2.9 million compared to the previous year's figure) recognised based on the expectation of higher future pension payments.

Other administrative expenses were reduced by € 7.3 million compared to the previous year. Project expenses decreased significantly from € 46.0 million in the previous year to € 33.4 million. One of the reasons for this was that expenses in the amount of € 8.5 million for the merger with former WL BANK in 2018 were recognised for the last time in the previous year. In addition, positive effects from the measures implemented in connection with the "Focus 2020" project are already evident.

The bank levy increased by € 6.3 million to € 39.2 million (previous year: € 32.9 million), especially due to the significant increase in the fund's target volume. As in the previous years, pledged collateral amounting to 15 per cent was taken into account, so that a further € 6.9 million (previous year: € 5.8 million) of the total contribution of € 46.1 million was deposited with Deutsche Bundesbank as cash collateral in addition to the aforementioned € 39.2 million.

Net other operating income/expenses

At € 22.6 million, other operating income, generated largely from reversals of provisions of € 5.5 million (previous year: € 9.8 million) and rental income of € 9.1 million (previous year: € 9.3 million), was down on the prior-year value of € 29.0 million. € 1.4 million of the € 2.0 million increase in other operating expenses to € 22.3 million (previous year: € 20.3 million) was due to the higher interest cost in calculating pension provisions. Net other operating income and expenses, as the balance of the two aforementioned income statement line items, fell by € 8.4 million to € 0.3 million.

Risk provisioning

The Bank's risk provisioning expenses in the lending business were markedly lower than expected. In the business with corporate clients and in the private real estate financing business, specific impairments of € -12.6 million (previous year: € -13.3 million) had to be recognised. For the asset classes most affected by the COVID-19 pandemic, loss allowance totalling € -5.5 million (previous year: € -21.5 million) was recognised for credit risks for which no specific impairments have been recognised yet. This year, additional loss allowance was recognised for credit exposures in the shopping centres asset class, while last year the hotel and department store asset classes were most affected. Through its active risk management, DZ HYP identifies the respective risks in a timely matter and responds to the negative effects. Overall, provisions for loan losses amounted to € -25.2 million (previous year: € -47.1 million).

In addition, expenses of € -9.7 million (previous year: € -2.5 million) were reported for securities as well as for additions to general risk provisions pursuant to section 340f of the HGB, which were lower than in the previous year. This resulted in risk provisions totalling € -35.0 million (previous year: € -54.5 million). Analyses and coordination regarding the implications for DZ HYP's clients and credit collateral that were affected by the floods that hit parts of Germany in mid July 2021 have been completed. Based on current insights from direct contacts with corporate clients holding property in the potentially affected regions and from contacts with and feedback from cooperative banks, as well as the loss reports and flood-related deferral requests received to date, DZ HYP was not materially affected overall. The volume of loans collateralised with properties that show material flooding-related damage or significantly reduced usability amounts to a low double-digit million euro amount, most of which is covered by elemental damage insurance. Furthermore, public assistance measures contribute to the restoration of the affected properties.

Net financial result

The depreciation and net valuation result for the MBS portfolio amounted to € -6.1 million (previous year: € 7.5 million) and is due primarily to the disposal of two mortgage-backed securities (MBS). Other realisation and measurement effects on securities and credit derivatives intended to be held permanently totalled € 2.3 million (previous year: € -0.9 million). In total, the net financial result was down € 11.5 million to € -5.0 million (previous year: € 6.5 million).

Operating profit

Operating profit reflects DZ HYP's performance in its core business, and is used for the internal management of the operating business segments. Due in particular to higher net interest income and lower than planned risk provisioning expenses, the operating result of € 339.4 million (previous year: € 276.8 million) surpassed the Bank's projections.

Change in the fund for general banking risks

During the 2021 financial year, € 147.0 million (previous year: € 78.0 million) was allocated to the special item for general banking risks pursuant to section 340g of the German Commercial Code (HGB), to take account of particular risks facing the business area.

Taxes

Taxes amounting to € 125.5 million (previous year: € 126.0 million) were allocated to DZ HYP. This largely includes a € 124.9 million income tax expense from tax allocations determined on a stand-alone basis (previous year: € 108.6 million). There were no one-off effects in the year under review (previous year: € 13.9 million). Other tax expenses amounted to € 0.3 million (previous year: € 0.7 million) and mainly related to real estate taxes payable for the Bank's properties.

Profit transfer

DZ HYP allocated a partial profit of € 14.7 million (previous year: € 15.8 million) to its silent investors – slightly lower than in the previous year, reflecting lower interest rates. After taxes, profits of € 52.2 million (previous year: € 57.0 million) will be transferred to DZ BANK in accordance with the agreed distribution policy.

DZ HYP's key performance indicators are set out below.

Distributable earnings

Distributable earnings are a key performance indicator for measuring DZ HYP's earnings power, and are composed as follows:

COMPOSITION OF DISTRIBUTABLE EARNINGS

€ mn	2021	2020
Net income before profit transfer	52.2	57.0
Allocation to general risk provisions pursuant to section 340f of the HGB	0.1	4.9
Allocations to the fund for general banking risks pursuant to section 340g of the HGB	147.0	78.0
Distributable earnings	**199.3**	**139.9**

The positive development of DZ HYP's earnings situation is also reflected in the growth in distributable earnings, and resulted in this key performance indicator increasing by € 59.4 million to € 199.3 million. This figure was well above expectations (planned figure for 2021: € 89.0 million).

Cost/income ratio

The cost/income ratio (CIR) expresses the ratio of administrative expenses (including other operating expenses) to the aggregate of net interest income, net commission result, and other operating income. The CIR serves as a yardstick for the efficiency of commercial activities; as such, it is a central management parameter. Reflecting higher net interest income, in particular, the CIR of 41.9 per cent in the 2021 financial year improved by 3.6 percentage points from the previous year's figure of 45.5 per cent, thus also exceeding the planned figure for 2021 of 50.0 per cent.

STRUCTURE OF CIR COMPONENTS

€ mn	2021	2020
Administrative expenses	251.3	251.2
Other operating expenses	22.3	20.3
Total relevant expense items	**273.6**	**271.5**
Net interest income	668.7	605.4
Net fee and commission income	-38.3	-38.1
Other operating income	22.6	29.0
Total relevant income items	**653.0**	**596.3**

Return on equity

Another key performance indicator is the return on equity (RoE), which is used to measure a company's profitability. RoE is a measure of net income before taxes and allocation to general risk provisions in relation to the average invested relevant equity (funds from the reporting year and the previous year). In the year under review, the RoE improved to 16.1 per cent (previous year: 13.9 per cent). RoE is thus significantly above the 8.0 per cent planned for 2021.

COMPOSITION OF NET INCOME BEFORE INCOME TAXES AND ALLOCATION TO GENERAL RISK PROVISIONS

€ mn	2021	2020
Net income before profit transfer	52.2	57.0
Allocation to general risk provisions pursuant to section 340f of the HGB	0.1	4.9
Allocations to the fund for general banking risks pursuant to section 340g of the HGB	147.0	78.0
Tax expense on income	125.2	125.3
Net income before taxes and allocations to general risk provisions	**324.5**	**265.2**

Despite the COVID-19 pandemic, DZ HYP's rigorously pursued business and risk strategy led to a stable financial situation and a robust financial performance in 2021, whereby an accelerated build-up of hidden reserves and general risk provisions, combined with an absence of any obvious risks in the target business, provide the basis for a sound financial position and performance based on what DZ HYP sees as a viable business model.

REPORT ON OPPORTUNITIES, RISKS AND EXPECTED DEVELOPMENTS

REPORT ON OPPORTUNITIES

DZ HYP defines opportunities as positive unexpected deviations from the financial performance expected for the next financial year. The key factors determining value for the financial performance in this context (value drivers) were included in the forecast, as planning assumptions. Opportunities exist especially in the form of sources of income identified therein exceeding projections, or expenses remaining below projections. Despite the COVID-19 pandemic, DZ HYP was able to use these opportunities to its advantage during the 2021 financial year and – particularly due to interest income exceeding projections – the Bank's net income before transfer to reserves and profit transfer came in above the planned levels.

As a subsidiary of DZ BANK, DZ HYP is a member of the Cooperative Financial Network – a network characterised by a high degree of solidity, strong credit quality, and liquidity through customer deposits. The broadly diversified market position of the Cooperative Financial Network forms the basis for DZ HYP to finance business, with a view to risks and returns. DZ HYP will continue to use this ability to act in the future, jointly with the German cooperative banks, as a reliable financing partner to its clients.

As a member of DZ BANK Group, DZ HYP is committed to the fundamental cooperative concept of responsible business practices. This means that the Bank's entrepreneurial spirit has a long-term horizon; it uses natural resources in a sensitive and efficient manner, and takes risks and opportunities into consideration as part of its decision-making processes.

Corporate governance finds its bearings in the underlying principles laid down in DZ HYP's sustainability strategy. Sustainability thus plays a central role in the Bank's governance and business strategy and influences many other strategies, such as employee matters or the credit risk strategy. Other operational sustainability issues are implemented in the respective departments through various guidelines and work instructions.

A Sustainability Committee, which is composed of the Management Board and Department Heads, creates the optimum framework for the Bank to pursue a sustainable approach. The Committee acts as a central decision-making body, connecting the sustainability management team with the Bank's various organisational units. The Sustainable Products Committee is responsible for evaluating and selecting suitable assets. The Coordination Committee is responsible for the operational design and management of the different themes. DZ HYP has also developed a methodology for identifying sustainable real estate, which is based on a catalogue of data records that also takes into account current regulatory requirements. These sustainability requirements have been integrated into the new business process in the Corporate Clients segment, the corresponding process structures have been created, and a significant proportion of the portfolio has already been classified.

Managing opportunities

Exploiting business opportunities whilst observing risk and return targets is an integral part of DZ HYP's enterprise management. The activities driven by the Bank's business model require the ability to identify, measure, assess, manage, monitor and communicate opportunities.

DZ HYP's opportunities management is integrated into DZ BANK Group's annual strategic planning process. Strategic planning allows the identification and analysis of trends and changes to the market, and to the competitive environment; it forms the basis for assessing potential opportunities. Reports submitted to the Management Board on opportunities arising from future business development, as derived from the business strategy, are based on the results of the strategic planning process. Staff are informed about potential opportunities identified in the course of communicating the business strategy.

Non-financial reporting

DZ HYP is included in the non-financial Group Management Report of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and thus is exempt from issuing its own non-financial statement. The non-financial Group Management Report forms part of the Sustainability Report of DZ BANK Group and is available in German on the following website: www.dzbank.de/berichte

RISK REPORT

Under its former company name "DG HYP", DZ HYP has made use of the capital waiver pursuant to section 2a (1) sentence 1 of the KWG (as amended at the time), with respect to sections 10, 13 and 25a (1) sentence 3 no. 1 KWG (as amended at that time) since 31 December 2012. DZ HYP continues to apply the capital waiver, with the objective of securing DZ HYP's integration into the risk management of DZ BANK Group. As a result, according to Art. 7 (1) in conjunction with Art. 6 (1) and (5) of the CRR, DZ HYP is not required to comply on a single-entity level with the requirements set out in parts 2, 3, 4, 7, 7A and 8 of the CRR, section 2 of Regulation (EU) 2017/2402 as well as with certain requirements as defined in section 2a (2) of the KWG pursuant to section 25a (1) of the KWG. In the context of the capital waiver, economic and regulatory capital adequacy is being monitored, ascertained and disclosed at the level of DZ BANK Group.

With the first-time application of 31 December 2021, the ECB also approved the application of a liquidity capital waiver pursuant to Art. 8 of the CRR between DZ BANK and DZ HYP, whereby DZ HYP is exempt from complying on a single-entity level with the requirements set out in Articles 412, 413 and 430 (1) lit. d) of the CRR. Instead, these requirements must be met at the level of the liquidity sub-group comprising DZ BANK and DZ HYP pursuant to Art. 8 (2) and (6) of the CRR.

I) Fundamental principles of risk management

Risk management at DZ HYP takes into account the requirements under the German Banking Act (KWG), the Minimum Requirements for Risk Management in Banks (MaRisk) and other relevant statements of the Supervisory Authorities, and is an integral part of the strategic and operative management of the Bank as a whole. Assuming risks in a targeted and controlled manner, observing target returns, is an element of enterprise management within the DZ BANK Group, and hence, also within DZ HYP. The business activities derived from DZ HYP's business model require the ability to identify, measure and assess, manage, monitor and communicate risks. In addition, maintaining an adequate level of equity backing for risk exposure is fundamentally important as a prerequisite for the Bank's continued operation. As a guiding principle for all business activities carried out by DZ BANK Group – and hence, also by DZ HYP – risk is assumed only to the extent required to achieve business policy objectives and provided that the Bank has an adequate understanding and expertise for measuring, assessing and managing the risks assumed.

To implement this principle, DZ HYP's Management Board has defined a Risk Appetite Statement, which is in line with Group guidelines. Based on the risk policy guidelines and the business strategy, a Risk Strategy Framework was prepared and the respective risk strategies were determined for the material types of risk.

The risk inventory, which is carried out at least annually or on an event-driven basis, identifies the types of risk that are relevant for DZ BANK Group and assesses them with regards to their materiality. A materiality analysis is carried out for any type of risk that may occur in principle, given the business activities of DZ BANK Group entities. In a next step, all types of risk classified as material are evaluated as to what extent risk concentrations exist.

Credit risk, market price risk, liquidity risk, operational risk, investment risk, reputational risk, business risk and longevity risk, as a sub-type of actuarial risk, have been identified as material risk types for DZ HYP. These types of risk are explained in sections II to IX. With the exception of liquidity risk, economic capital – referred to as the risk capital requirement – is determined for these types of risk; for risk types measured by DZ BANK, the so-called risk contribution is used accordingly.

Risk is generally determined using a value-at-risk (VaR) figure based on a one-year holding period and a confidence interval of 99.9 per cent. To account for types of risk for which capital requirements cannot yet be (sufficiently) determined, a capital buffer is set aside. As soon as adequate measures to quantify such risks become available (if the exposure can be included in the risk capital requirement or risk contribution, respectively), this buffer will be released again. The ratio of economic capital relative to reputational risk is taken into consideration or determined using the business risk model. Longevity risk is reflected via a capital buffer.

The methods and procedures for managing liquidity risk are explained in section IV.

a) Responsibilities

The Management Board – as the Bank's highest internal decision-making body – is responsible for the management of DZ HYP. Management Board resolutions are taken during weekly meetings. Concerning DZ HYP's risk governance, the Management Board has the sole power of representation and management authority, in accordance with sections 77 and 78 of the German Public Limited Companies Act (AktG). The Management Board is responsible for managing and monitoring risks of the entire Bank at a portfolio level, as well as for the allocation of risk capital. It decides upon individual loan exposures in line with its lending authority. In addition, DZ HYP is integrated into the committee structures of DZ BANK Group and the Cooperative Financial Network, where DZ HYP's Management Board members or other employees are represented.

The Supervisory Board monitors the activities of the Management Board and thereby receives the Management Board's reports, including reports on the business development and risk situation in accordance with section 90 of the AktG and the regulatory reports. The Supervisory Board decides, among other things, on personnel matters and remuneration of the Management Board, the Rules of Procedure and Schedule of Responsibilities for the Management Board. The Supervisory Board has established special committees from amongst its members to fulfil its duties. The Risk Committee addresses the risk management, including the Risk Appetite Statement and the resulting risk strategies in accordance with the MaRisk; the Audit Committee's monitoring duties include, in particular, the accounting and financial reporting process, the effectiveness of the risk management system (in particular of the internal controlling systems and the internal audit), the audit of the financial statements, as well as the independence of the external auditors; the Nomination Committee supports the Supervisory Board; its tasks include identifying candidates for appointment to the Management Board or Supervisory Board, assessing the structure, size, composition and performance of the Management Board and the Supervisory Board; the Remuneration Control Committee monitors the appropriate structure of the remuneration systems for the members of the Management Board and employees.

b) Functions

A three lines of defence model has been established for the structural organisation of the risk management framework. This model clearly differentiates responsibilities between the various units, and addresses potential conflicts of interest.

The first line of defence is the operative management in the front-office units (Markt). The units involved are responsible for recognising risks at an early stage, assessing them, consciously assuming them, and implementing suitable risk management measures, taking the existing framework conditions into account.

The second line of defence is responsible for establishing and developing risk management standards. It also monitors compliance with these standards by the first line of defence, and submits corresponding reports to the Management Board and the Supervisory Board. The second line of defence largely assumes the function of monitoring the first line of defence, as required by MaRisk, through the second vote of the back office (Marktfolge).

Risk Controlling takes on a special role in the second line of defence, whereby it assumes the risk control function in accordance with MaRisk, and therefore the overarching responsibility for identifying, measuring, assessing, managing and limiting risks, as well as for risk monitoring and communication.

The Compliance Office assumes additional functions of the second line of defence. This division combines the compliance functions in accordance with MaRisk and MaComp/WpHG, as well as the Central Unit including the functions of the Compliance Officer (MaRisk), Compliance Officer (WpHG) and the Anti-Money Laundering Officer, Data Protection Officer, Information Security Officer, Business Continuity Manager, as well as the Central Outsourcing Officer from 2022 onwards.

As the third line of defence, and independent of individual processes, Internal Audit examines and assesses risk management processes employed by the first and second lines of defence. In this capacity, it reports directly to the Management Board, the Supervisory Board and external controllers.

c) Requirements pursuant to section 27 of the German Pfandbrief Act (PfandBG)

DZ HYP's risk management framework fulfils all requirements under section 27 of the PfandBG. The TXS-Pfandbrief application is used to determine the market risk exposure of cover assets pools, based on a coverage concept using present values, as set out in the Present Value Cover Regulation (PfandBarwertV) promulgated by BaFin. Stress scenarios simulating the impact of standardised interest rate shocks on the present value of cover assets pools are used to quantify the market risk exposure.

BaFin has prescribed some structural parameters for these interest rate shock scenarios, as well as for the maximum impact these scenarios may have on the present value of the cover assets pools. A report on the present values and DZ HYP's liquidity status is prepared on a daily basis and submitted to Treasury.

In addition, a quarterly report, which covers the more extensive PfandBG requirements regarding historical and future performance and credit risk exposure of the cover assets pools, is submitted to the Management Board.

Internal rules regarding the commencement of business in new products or markets comply with the requirements of MaRisk as well as with those under section 27 of the PfandBG.

d) Internal control and risk management system related to the financial reporting process

DZ HYP's accounting and financial reporting system is predominantly assigned to the Finance division (which is independent from the business divisions); it comprises financial accounting and asset accounting. Securities accounting as well as loan accounting are assigned to the various back-office units within DZ HYP. Payroll administration has been outsourced to ZALARIS Deutschland AG, Henstedt-Ulzburg.

The internal control and risk management system implemented for the accounting process consists of accounting-related and other control objectives. Accounting-related control objectives are designed to ensure the proper functioning and reliability of internal and external accounting and financial reporting systems. Key objectives in this context are the completeness and accuracy of documentation, timely recording, the reconciliation of balances across the IT systems used, and compliance with accounting rules. Other control objectives relate to ensuring the efficiency of business activities as well as to compliance with applicable laws and regulatory requirements related to accounting and financial reporting.

Integrated business process control mechanisms have been installed, such as checks in the principle of dual control, in order to fulfil the strategy outlined above. Errors are also mitigated through the separation of functions, access restrictions, work instructions, and plausibility checks. The Bank regularly draws upon support by external experts for implementing new legal regulations. New product processes always require evidence, prior to the launch of a new product, that the new product can be implemented in the accounting and financial reporting system, in an orderly manner that is in line with applicable rules. Internal Audit regularly carries out process-independent checks concerning accounting and financial reporting.

Overall, the Bank has implemented a control and risk management system with regard to the financial reporting process. This system comprises measures to identify and assess material risks (and related risk mitigation measures) to ensure the proper preparation of the financial statements.

e) Risk monitoring and reporting

An Overall Risk Report is prepared on a monthly basis; in accordance with MaRisk requirements, this report comprises a presentation of the Bank's aggregate risk situation, the material types of risk, as well as the regulatory and economic capital adequacy. The Overall Risk Report is discussed by the Management Board on a monthly basis, and three times a year by the Risk Committee and the Supervisory Board. In addition, the market risks and existing liquidity risks to which DZ HYP is exposed are reported daily to the Management Board; the key figures are also provided to the Supervisory Board and its Risk Committee on a regular basis.

II) Credit risk

Credit risk is defined as the risk of losses incurred as a result of the default of counterparties (borrowers, issuers, other counterparties) or guarantors as well as from impairment due to a decline in creditworthiness of borrowers or by market turbulence. Both traditional lending business (real estate finance or local authority lending, including financial guarantees and loan commitments) as well as capital markets activities may be exposed to credit risk. In the context of credit risk, capital markets activities relate to products such as securities, promissory note loans (Schuldscheindarlehen), derivative and money market transactions.

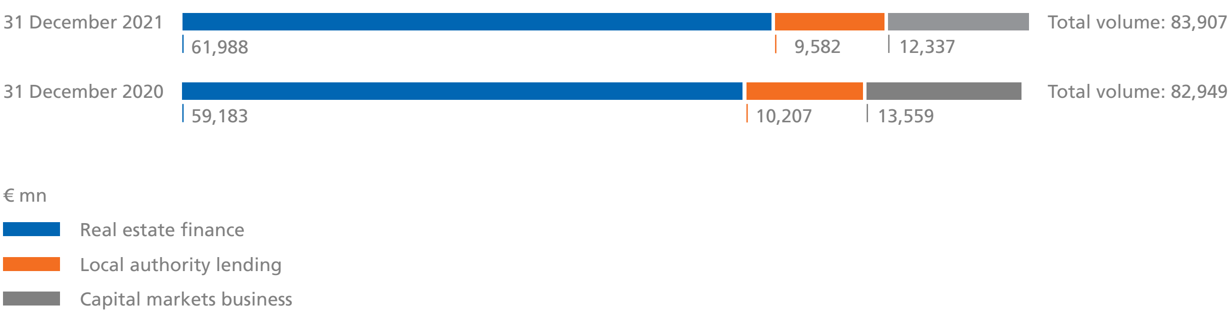
Credit risk in real estate finance and local authority lending is defined as the risk that a client is unable to settle claims arising from loans taken out by him or other due claims for payments or the risk of losses from contingent liabilities and committed credit lines.

Credit risk from capital markets activities is further distinguished into replacement risk and issuer risk. Replacement risk from derivatives is defined as the risk of a counterparty defaulting during the term of a transaction (with a positive market value), in which case DZ HYP would have to incur only additional expenditure (equivalent to this market value, at the time of default) in order to enter into an equivalent transaction with another counterparty. Issuer risk denotes the threat of losses from the default of issuers of bonds.

Credit Risk Controlling is responsible for quantifying the risk capital requirement, using a credit portfolio model to determine Expected Loss (EL) and Credit Value-at-Risk (CVaR) on a monthly basis. For this purpose, default probabilities required are mapped using CRR-compliant ratings to the extent possible. In principle, Expected Loss is determined by mapping probability of default and expected loss severity, after the realisation of collateral. Expected losses on the level of individual transactions are incorporated into the calculation parameters for new business, in order to prevent a creeping erosion of equity. Key factors used to determine credit risk, employing the credit portfolio model, are lending volume, concentration effects (relative to sectors, countries, or counterparties), eligible collateral, intra- and inter-sector correlations, and the credit quality structure of the portfolio. Measurement captures default risk from the lending business as well as from trading activities. The risk capital requirement determined in this way (plus any capital buffer required) is compared to the limit for credit risk, and is being monitored.

Lending volume viewed from a risk perspective (i.e. including disbursement commitments) increased by 1.2 per cent to € 83.9 billion in the 2021 financial year. Real estate lending is predominantly collateralised by land charges and mortgages. The following chart breaks down lending volume by DZ HYP's three types of business:

LENDING VOLUME BY BUSINESS DIVISION



a) Limit system

DZ HYP has limit systems in place for the internal management and monitoring of country and counterparty credit risks, thus ensuring compliance with the strategic requirements of DZ HYP and the DZ BANK Group. Treasury has access to the respective limits and their utilisation at any time, for the purposes of intraday monitoring. Back office units monitor the utilisation of individual business partner and country limits on a daily basis, as part of their monitoring processes, and initiate escalation procedures in the event of any limit transgressions. These procedures are designed to restore limit compliance, or to approve transgressions, in line with delegated authority, taking the strategy adopted by DZ HYP/DZ BANK Group into account.

b) Credit rating

The ECB has approved the majority of DZ HYP's rating systems for the purpose of calculating equity requirements under the IRB approach; they safeguard an adequate assessment of counterparty credit risk and support internal management. Models are developed and validated in line with DZ BANK's requirements. Rating procedures are validated at least once a year.

Given its extensive real estate expertise, DZ HYP has assumed the lead – within the Cooperative Financial Network– for the conception, regular maintenance and development of rating procedures for commercial real estate finance in Germany. These are also employed by numerous cooperative banks. Based on the Bank's function as a centre of competence for public-sector clients, the public-sector entity rating within DZ BANK Group is bundled in DZ HYP.

DZ BANK is responsible for methodological development regarding for other client segments, such as banks, sovereigns, or large SMEs, whereby the National Association of German Cooperative Banks (BVR) is also involved. DZ HYP regularly validates the adequacy of these procedures for its own portfolios, by way of internal validation processes.

Due to cost/benefit considerations, for a low number of special cases, DZ HYP applies a simplified rating procedure where no IRBA approval has been applied for.

A breakdown of DZ HYP's total lending volume by type of business and by rating class is provided below:

LENDING VOLUME*) BY RATING CLASS

€ mn	Total 31 Dec 2021	Total 31 Dec 2020	Real estate lending as at 31 Dec 2021	Local authority lending as at 31 Dec 2021	Capital markets business as at 31 Dec 2021
Investment grade (rating class 2A or better)	**80,810**	79,692	59,260	9,578	11,972
Non-investment-grade (rating classes 2B–3E)	**2,948**	3,105	2,612	4	332
Defaulted rating classes (4A or worse)	**144**	151	111	–	33
Unrated	**5**	0	5	–	–

*) Including disbursement commitments

A new rating is prepared for each client at least once a year, or on an event-driven basis.

c) Intensified handling and management of problem loans

DZ HYP uses an individual risk management system (ERM) for the purposes of early warning, in a similar way as employed by the parent company DZ BANK. Cases with early warning indicators are assigned to a so-called "yellow list". Loans with regard to which a subsequent loss cannot be excluded are kept on a "watch list". Where there is a clear negative trend, coupled with an existing requirement for recognising specific impairments, the cases are included on the "default list", which also includes all exposures subject to recovery without specific impairments required. The processing rules and requirements on the transfer from one ERM list to another are subject to defined criteria. A detailed report on ERM exposures is submitted to the Management Board on a monthly basis.

Non-performing loans are managed using the following indicators in particular:

- the NPL ratio (defined as the share of non-performing loans in total lending volume);
- the provisioning ratio (defined as the share of aggregate provisions for loan losses and loss allowance in total lending volume); and
- the risk coverage ratio (defined as the share of aggregate provisions for loan losses and loss allowance in aggregate non-performing loans).

Selected indicators used for internal management of credit risk developed as follows during the year under review:

CREDIT RISK INDICATORS

€ mn	Total 31 Dec 2021	Total 31 Dec 2020	Change in %
Lending volume*) (LV)	**83,907**	82,949	1.2
NPL volume	**144**	151	-4.6
NPL ratio (%)	**0.17%**	0.18%	-5.6
Risk provisioning)**	**299**	271	10.3
Provisioning ratio (%)	**0.36%**	0.33%	9.1
Risk coverage ratio (%)	**208%**	179%	16.2

*) Including disbursement commitments
**) Specific and portfolio-based loss allowance, general risk provisions (section 340f of the HGB) and other provisions

d) Provisions for loan losses / loss allowance

The Bank has accounted for all identifiable credit risks, in accordance with prudent commercial judgement, by recognising provisions in the amount of expected losses. Provisions for loan losses comprise write-downs and provisions for evident and inherent default risks, for all receivables carried on the balance sheet as well as for off-balance sheet transactions. The inventory of specific loss allowance is regularly monitored and reported to the Management Board as part of the monthly loss allowance projection and the Overall Risk Report.

In the course of the COVID-19 pandemic, the exposures in the hotel and department store asset classes were already assigned in 2020 to stage 2 of the stage concept pursuant to IFRS 9, in order to sufficiently address the increased default risk resulting from the infection rates, and the protective measures taken in response to them. Due to growing uncertainty about a generally accelerating structural change in the retail sector, this allocation to stage 2 of the IFRS 9 stage concept was extended in 2021 to include the shopping centre asset class.

e) Concentration risks

Key factors used to determine credit risk are concentration effects (relative to counterparties, sectors, countries, or maturities), as well as the credit quality structure of the portfolio. Elevated concentrations of lending volume regarding counterparties, sectors or countries increase the risk of credit risks materialising cumulatively – for example, when in the event of a default of counterparties subject to higher concentrations, or in case of economic crises affecting sectors or countries with higher concentrations.

Real Estate Finance

The share of domestic loans in DZ HYP's total real estate financing portfolio currently stands at 96.8 per cent (2020: 96.8 per cent). The volume of international financings rose by 2.6 per cent in 2021, whereby the target markets of Austria, France, the United Kingdom and the Netherlands accounted for 93.5 per cent of international lending volume.

DZ HYP's business model-related focus on real estate lending is balanced by a broad diversification within the real estate loan portfolio – for example, across different types of property. A breakdown of real estate lending volumes by property type is provided below:

REAL ESTATE LENDING VOLUME BY TYPE OF PROPERTY (INCLUDING DISBURSEMENT COMMITMENTS)

€ mn	Total 31 Dec 2021	Total 31 Dec 2020	Change in %
Residential	**13,062**	11,836	10.4
Multi-storey apartment buildings (multi-family homes)	**19,353**	18,472	4.8
Office	**13,507**	12,273	10.1
Retail	**8,987**	10,051	-10.6
Hotels	**2,786**	2,777	0.3
Logistics	**1,525**	1,278	19.3
Other	**950**	1,461	-35.0
Plots	**669**	–	–
Not allocated to any property type	**1,149**	1,035	11.0
Total	**61,988**	**59,183**	**4.7**

DZ HYP regularly identifies and reviews stress scenarios for asset classes affected by the COVID-19 pandemic, confirming the solidity of DZ HYP's portfolio to date. Due to the government-initiated protective measures and potentially sustainable, structural changes, heightened levels of uncertainty were identified for the hotel, department store and shopping centre asset classes in 2021. Overall, the portfolio quality of DZ HYP's financings of hotels, department stores and shopping centres remains stable. Looking at the office property asset class, the increased trend towards working from home is considered to have a more moderate impact on the short to medium term demand for attractive and well-located office property. However, the traditional office will continue to be in demand as the place for teamwork and communication.

Most of the measures implemented at individual exposure level since the beginning of the COVID-19 pandemic, especially in 2020 (including suspension of loan repayments for a limited period of time), have come to an end as planned and routine debt service coverage has resumed. Overall, there is no evidence of systematic differences compared with credit quality and payment behaviour before the COVID-19 pandemic, and it is expected that debt service coverage will continue in accordance with the terms of the contract. So far, no significant risks or effects have materialised. However, if the COVID-19 pandemic continues for some time, these cannot be ruled out for subsequent financial years.

DZ HYP's credit collateral and customers were not greatly affected on the whole by the floods that hit parts of Germany in July 2021. Most of the properties serving as collateral with material flooding-related damage or significantly reduced usability are covered by elemental damage insurance. Furthermore, public assistance measures contribute to the restoration of the affected properties. No material effects on the cover assets pool are anticipated.

However, there is a danger that future physical climate and environmental risks could impair the collateral value of credit exposures. Furthermore, transitory effects, such as the change to a climate-neutral economy, can reduce the borrower's profitability for property loans. Current international (trade) conflicts also pose a threat to the global economy, which can lead to a significant rise in credit risks in the future.

Originated loans to local authorities

Risk monitoring in the area of public-sector clients focuses on regional concentration risks in particular. The broad portfolio diversification was maintained in the 2021 financial year.

Capital markets business

The regional breakdown of DZ HYP's securities portfolio is as follows:

CAPITAL MARKETS BUSINESS (EXCLUDING MBS): REGIONAL DISTRIBUTION OF SECURITIES HOLDINGS

€ mn	Total 31 Dec 2021	Total 31 Dec 2020	Change in %
Germany	7,052	7,534	-6.4
EU peripheral countries*)	3,150	3,714	-15.2
Other EU member states	665	786	-15.4
Other third countries	782	751	4.1
Supranationals	380	396	-4.0
Total	**12,029**	**13,181**	**-8.7**

*) Italy, Portugal and Spain

The capital markets portfolio is continuously monitored and examined for risks. In 2021, the portfolio continued to be affected by the COVID-19 pandemic, especially with regard to economic and fiscal spill-over effects concerning those countries particularly affected by the pandemic. So far, a widening of risk premiums, especially for the PIS countries (Portugal, Italy and Spain), has so far been prevented by extensive government support programmes and the ECB's expansive monetary policy.

In 2021, by taking advantage of market opportunities, DZ HYP was able to reduce its concentration risks in the public finance portfolio for securities of borrowers from PIS countries. The current duration of the PIS portfolio (excluding MBS) is 8.4 years. In the event of any material loan defaults or bail-ins affecting these holdings, DZ HYP might be forced to draw upon DZ BANK's obligation to equalise losses, as provided for in the control and profit transfer agreement. Assuming that markets will remain volatile, the Bank nevertheless continues not to anticipate any defaults in its capital market portfolio.

III) Market price risk

Market price risk is the impact of interest rate fluctuations on the money and capital markets, and changes in exchange rates. DZ HYP is largely exposed to market price risk in the form of interest rate risk, currency risk, as well as spread and migration risk. These risks are measured, and limits applied, at Group level, using data provided by DZ HYP on a daily basis. Market price risk is quantified via the risk contributions for interest rate risk and currency risk as well as for spread and migration risk.

DZ HYP uses various hedging tools in its dynamic management of interest rate risk and currency risk for the bank as a whole. This consists mainly of interest-rate swaps, cross-currency swaps and caps. Each derivative hedge forms part of the overall management of the entire banking book.

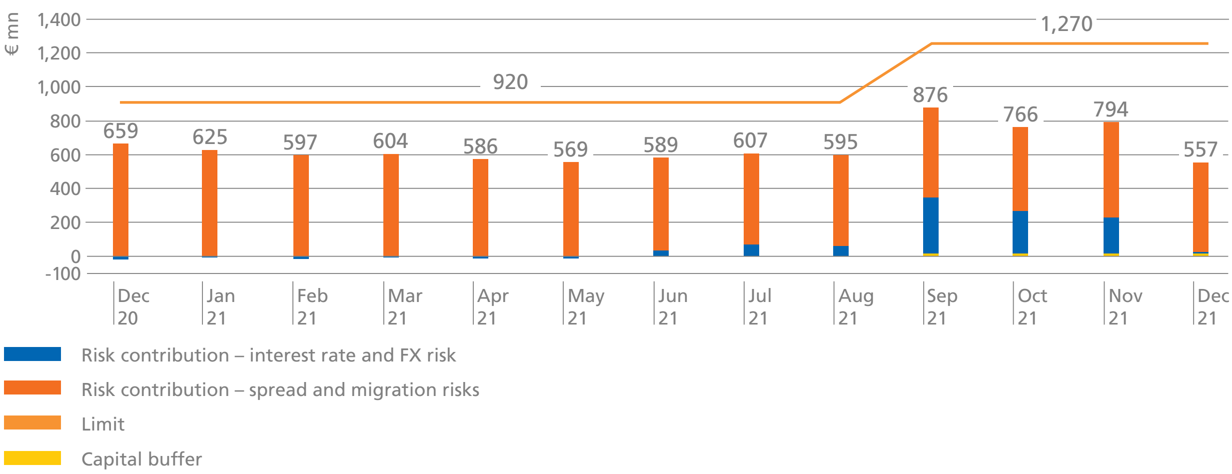
Market Risk Controlling informs the Management Board (as well as Treasury) on the limit utilisation in terms of the risk capital requirement using the Group model on a monthly basis; the utilisation of sensitivity limits implemented is reported daily. A multi-level escalation plan, comprising escalation paths and measures to be taken, has been implemented to deal with the breach of defined thresholds. No escalation was required in the financial year under review.

To quantify market price risk, the Bank calculates interest rate sensitivity parameters (id est theoretical present value changes given simulated changes in interest rates) on a daily basis. Interest rate sensitivity during the 2021 year under review was characterised by low fluctuations at a low level. Aggregate interest rate sensitivity limits were always complied with. In line with the procedures applied to other types of risk, the risk classification procedure is examined for appropriateness on an annual basis, and adjusted if necessary. The bank regularly calculates scenarios using DZ BANK's Group model. These also include scenarios defined by BaFin (in Circular 06/2019) for the purposes of monitoring interest rate risk exposures of investments.

The COVID-19 pandemic had no material impact on market price risks during the 2021 financial year.

DZ HYP's Treasury management is in line with the bank's business model. In particular, the primary focus of Treasury management is on managing profit and loss for the period, in order to protect margins from client business. Treasury's business activities are not regarded as a profit centre.

RISK CONTRIBUTION FOR INTEREST RATE, FX, SPREAD AND MIGRATION RISKS TO GROUP RISK EXPOSURE



Real estate loans with terms exceeding ten years are subject to statutory termination rights pursuant to section 489 of the German Civil Code (BGB). The effect of these optional risks is reflected in the risk model.

Contractual early redemption rights are taken into account via notional lifetimes which are validated statistically.

IV) Liquidity risk

Liquidity risk comprises the threat that DZ HYP is actually unable to borrow the funds required to maintain payments. Liquidity risk can thus be understood as the risk of insolvency. In this regard, liquidity risk arises from a mismatch in the timing and amount of cash inflows and outflows and is affected to a significant degree by other types of risk, such as market price risk or reputational risk. The Bank's liquidity situation is determined daily, in line with the regulatory and business requirements and in coordination with DZ BANK.

Thanks to DZ HYP's substantial liquidity reserves, no separate measures had to be taken to mitigate the impact of the COVID-19 pandemic.

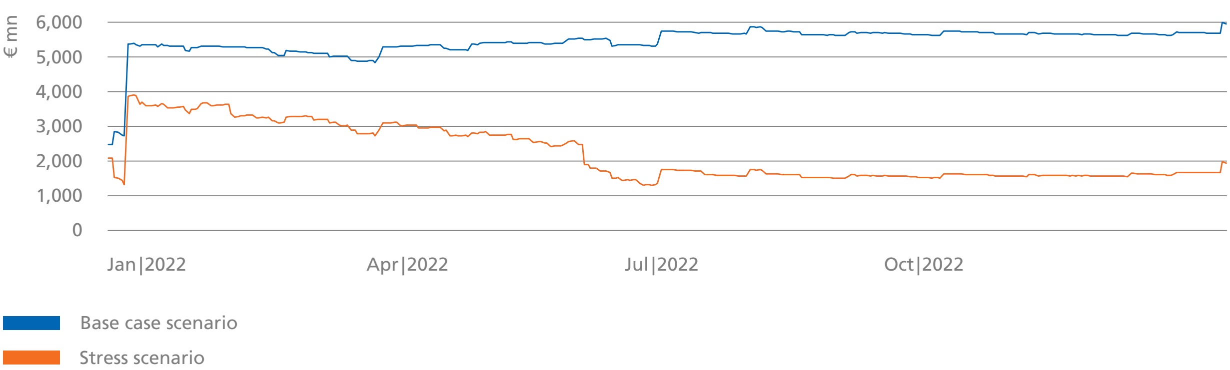
Based on the management of economic liquidity, Market Price Risk and Liquidity Risk Controlling provides Treasury with a differentiated overview on each business day, indicating future liquidity flows (comprising cash flows as well as a gap analysis of principal repayments and fixed interest mismatches) resulting from the individual positions in the portfolio. Where a comparison of liquidity data against defined limits gives rise to escalation, this follows a pre-defined process flow which may invoke emergency liquidity planning. No escalation was required in 2021.

In order to determine Group liquidity risk exposure and DZ HYP's contribution thereto, DZ HYP's liquidity data is transmitted to DZ BANK's Risk Control Unit daily, where this is used to determine limit utilisation.

The Management Board is also provided with an overview of excess liquidity post-stress scenarios in the Overall Risk Report. A limit system is implemented on a daily basis and integrated into the risk monitoring process. The results from the scenario analyses – which comply with the requirements set out in the relevant sections of MaRisk – are fed into the risk analysis process.

The first step in determining risk indicators is to calculate a liquidity run-off profile, based on the contractually-agreed terms of all financial instruments with an impact on liquidity. The base case scenario maps the development of current and future liquidity reserves, in

EXPECTED LIQUIDITY AS AT DECEMBER 2021



connection with expected business activities. Potential changes to the liquidity run-off profile, and to liquidity reserves, in the event of a crisis affecting markets or the Bank are simulated for four stress scenarios:

- a serious crisis threatening DZ BANK Group,
- a one-notch rating downgrade of DZ BANK Group,
- a global economic crisis, and
- a combination of a crisis affecting the market as well as the Company.

Expected liquidity is indicated by the liquidity run-off profile in the base case scenario. In the stress scenario, liquidity is defined by the worst daily value among the four scenarios. Using expected liquidity for each record date, the minimum excess liquidity indicator is determined, which expresses the adequacy of economic liquidity. Throughout 2021, this indicator remained above the limit of zero. The set of scenarios is complemented by inverse stress tests carried out on a quarterly basis.

The liquidity risk model and the emergency concept are reviewed annually, within the framework of an adequacy check, and adjusted if necessary.

Refinancing risk denotes the risk of a loss which may be incurred as a result of a decline of DZ HYP's liquidity spread (which forms part of the spread on DZ HYP's own issues): with a wider liquidity spread, covering any future liquidity requirements would incur additional cost. DZ HYP minimises funding risk through the management of the liquidity run-off profile.

During 2021, DZ HYP's funding activities comprised the use of unsecured liquidity facilities (largely provided by DZ BANK), as well as the issuance of Mortgage Pfandbriefe and Public-Sector Pfandbriefe (which were predominantly purchased by counterparties outside the Cooperative Financial Network).

DZ HYP defines market liquidity risk as the threat of losses which may be incurred due to unfavourable changes in market liquidity – for example, due to a deterioration in market depth, or in the event of market disruptions, in which case the bank may only be able to sell assets held at a discount, and active risk management may be restricted. Since the impact of market liquidity risk is evident in changed spreads and volatility levels, this is implicitly reflected in risk calculations.

For the purposes of regulatory monitoring of the Bank's liquidity situation, the Liquidity Coverage Ratio (LCR) and the long-term Net Stable Funding Ratio (NSFR) are determined monthly on a single-entity level. In the year under review, both ratios were consistently above 100 per cent (respective regulatory minimum ratio).

in %	December 2021	September 2021	June 2021	March 2021
LCR (month-end)	205	217	174	236
NSFR (month-end)	113	115	113	114

The ECB approved the liquidity waiver requested for DZ BANK and DZ HYP on 16 December 2021, with effect from 31 December 2021. The LCR and NSFR regulatory liquidity ratios must therefore only be complied with at the level of the newly formed liquidity subgroup consisting of DZ BANK and DZ HYP. However, in order to meet internal and external reporting requirements, the LCR and NSFR ratios relevant for management purposes will continue to be limited, managed and reported at individual institution level.

V) Operational risk

DZ BANK Group defines operational risk as the risk of losses resulting from human behaviour, technical faults, weakness in processes or project management procedures, or from external events. This definition includes legal risk.

Capital requirements for operational risks are determined at Group level, as part of the process to determine regulatory capital requirements, applying the standardised approach as set out in the CRR. Due to the capital waiver, DZ HYP does not carry out its own determination; instead, DZ HYP's data is incorporated into DZ BANK Group's calculations. Moreover, economic capital for operational risk is determined at Group level, using a portfolio model, and incorporated into internal management, both on a Group and single-entity level.

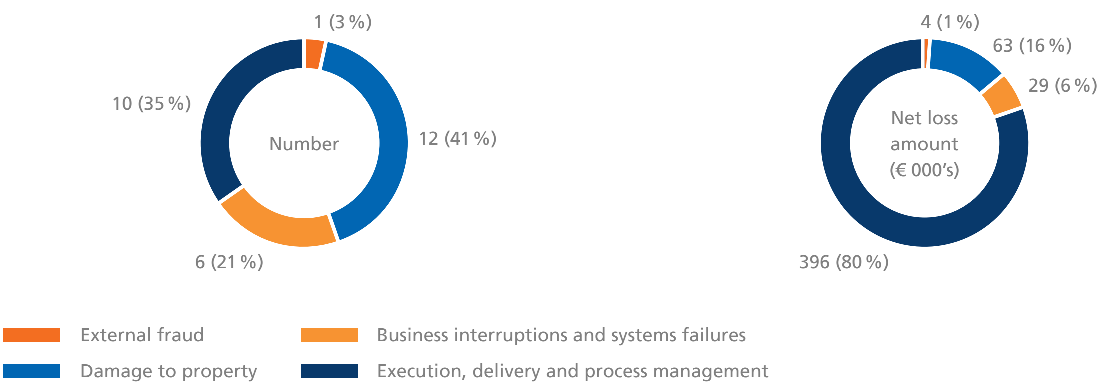
Compiling loss data in a central database allows to identify, analyse and assess loss events, thus allowing to recognise patterns, trends and concentrations of operational risks. Losses incurred by DZ HYP are incorporated into DZ BANK's economic model, enhancing the database.

Losses incurred from operational risks do not follow a steady trend: instead, the overall loss profile is derived from losses incurred over many years, and characterised by a small number of large losses. Comparing net losses for the period under review with the previous year's levels is therefore not meaningful, which is why no such comparative figures are provided. During the reporting year, 29 loss events occurred, resulting in cash damages of € 492,000 burdening income. A collective loss comprising the direct losses resulting from the COVID-19 pandemic was already included in the OpRisk database (ORC) in 2020. This was continued in 2021. This loss largely relates to cancellation costs for events that could no longer take place.

In order to be able to identify operational risks in good time, an early warning system used by DZ HYP regularly records a total of 155 indicators (aligned with the CRR event categories, including system failures, fraud, damage to property) and analyses results by way of a traffic light system. Monitoring the risk indicators did not result in significantly higher operational risks in 2021 either. However, staff fluctuation sometimes led to higher operational risk. This was absorbed through external support, extensive hiring of new employees and adapting task management to resources available within the segments, without impacting on the business operations. No risks arose from the vast majority of the risk indicators during the course of 2021.

As a rule, the scenario-based risk self-assessment is conducted every year. Using risk scenarios, material potential risks are determined, in accordance with the CRR, for all first-level risk categories and mapped in the form of scenarios. The results of DZ HYP's assessments are incorporated into the economic risk model developed by DZ BANK at Group business strategy, and the remuneration strategy at Bank and Group level. In consultation with DZ BANK, a risk self-assessment was not conducted at DZ HYP in 2021; the previous year's scenarios were used instead. The selected scenarios are also reviewed on a quarterly basis with regard to their relevance; there were no indications of material changes in the risk assessments.

OPRISK LOSSES 2021



The COVID-19 pandemic triggered an almost complete shift of operations to working from home at times. The anticipated associated operational risks (for example, concerning performance and stability of the technical infrastructure) have not yet materialised; the requisite operational capacity continues to exist without interruption compared to normal operations.

IT risk

Information and IT risks can arise in the course of digital and analogue processing of information; these are allocated to operational risks. DZ HYP has created an information and IT inventory in order to recognise these at an early stage, respond to them appropriately, and manage and monitor them over the long term. This inventory comprises all information and IT risk areas that are relevant to DZ HYP, the identified information and IT risk scenarios and all the individual information and IT risks assigned to the scenarios. The information and IT risk scenarios are assessed annually and on an event-driven basis, and appropriate risk management measures are determined. They are reported to the Management Board, among others, on a quarterly basis in the information and IT risk report. DZ HYP's underlying assessment methodology for IT risks is provided centrally by IT risk management in agreement with Information Security Management.

The information security risks for which Information Security Management is responsible form part of the information and IT risk inventory, and are reported separately to the Security Advisory Board and to DZ BANK. This concept ensures collaboration between information security management and information risk management.

In terms of cyber risk management, risk exposure is assessed based on the likelihood of an underlying threat occurring and the extent to which an existing vulnerability can be exploited by a threat to an asset. The underlying threat catalogue incorporates findings from the DZ BANK Group's Cyber Risk Radar and contains threats arising from cyber attacks.

Outsourcing

DZ HYP has outsourced certain activities and processes to external service providers. The outsourcing business unit, with the support of the outsourcing managers, is responsible for determining, as part of the outsourcing risk analysis, whether an outsourced activity or process is material, and for assessing the risk involved. Other relevant organisational units (such as the Legal department) are involved in this process. This risk analysis is event-driven. However, it is reviewed at least once a year for essential and critical outsourcings, and reviewed and updated every three years for other outsourcings. The annual corresponding materiality analysis is carried out for all outsourcings.

VI) Equity investment risk

Equity investment risk is defined as the risk of losses due to negative changes in value affecting the part of the investment portfolio that is not taken into account for other types of risk. Investments are held for strategic considerations; they are of minor importance to DZ HYP.

Equity investment risk also includes real estate risk, which represents the risk of losses due to negative changes in the value of DZ HYP's real estate portfolio caused by a deterioration in the overall real estate situation or specific characteristics of individual properties (for example, vacancy rates, loss of tenants, loss of use).

The risk contribution for DZ HYP's equity investment risk is calculated by DZ BANK, in line with the measurement of equity investment risk by DZ BANK. For this purpose, risk capital requirements are measured using a value-at-risk concept based on a variance/covariance approach, with a one-year holding period. Risk drivers are the market values of investments, volatility of such market values and correlation among them. Market value fluctuations are predominantly derived from exchange-listed reference assets.

VII) Reputational risk

Reputational risk is defined as the risk of losses caused by events which damage the confidence of, in particular, clients, shareholders, labour market participants, the general public or regulatory authorities in the Bank, or the products and services it offers. Reputational risk may be caused by other risk having materialised, but also by other publicly available information concerning DZ BANK Group or DZ HYP.

Reputational risk is implied for risk measurement and capital backing purposes through business risk. Moreover, liquidity risk management explicitly covers the threat of funding problems as a result of potential reputational damage.

VIII) Business risk

Business risk refers to the risk of an unexpected development in earnings that is not covered by other types of risk. In particular, this includes the risk that losses cannot be counteracted due to changes in key overall conditions (for example, economic and product environment, customer behaviour, competitive situation) and/or due to inappropriate strategic positioning.

The risk contribution for DZ HYP's business risk is calculated by DZ BANK, whereby the risk capital requirement is determined as earnings at risk (EaR) within a one-year period at the pre-defined confidence level, taking into account the definition of the economic risk cover pool.

IX) Longevity risk

In the area of actuarial risk, the longevity risk is relevant in DZ HYP for risks from pension obligations created by DZ HYP for its employees. Hence, the longevity risk does not result from one of DZ HYP's core business segments but represents a material type of risk for DZ HYP in accordance with the risk inventory. It denotes the risk of a loss or adverse change in the value of the insurance liabilities, arising from changes in the amount, trend or volatility in mortality rates, if the decline in the mortality rate leads to a rise in the value of the insurance liabilities.

For the insurance contracts exposed to longevity risk, the risk is mapped through a 20 per cent increase in longevity. The risk is reflected by a central capital buffer requirement at DZ BANK Group level.

X) Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

The introduction of MREL created the requirements at European and national level for a uniform settlement process for banks. BaFin informed DZ HYP that the minimum requirements for the internal MREL ratios, which were determined by the Single Resolution Board, are mandatory as of 1 January 2022. As a member of DZ BANK Group, DZ HYP itself is not a settlement unit and is therefore subject to the requirements of the internal MREL. The internal MREL ratios are the aggregate of DZ HYP's own funds and the eligible liabilities relative to risk-weighted assets, or to the total exposure measure as defined for the purposes of the leverage ratio.

DZ HYP successfully issued € 700 million in internal MREL-eligible liabilities in the second half of 2021; these were bought exclusively by DZ BANK in order to ensure that the minimum requirements of the internal MREL will be met at all times from 1 January 2022 onwards.

XI) ESG risk factors

ESG risks (sustainability risks) are events or conditions relating to environmental ("E"), social ("S") or governance ("G") issues that, should they occur, could have an actual or potential negative impact on the net assets, financial position and financial performance, as well as the reputation of the Bank.

Within the DZ BANK Group, ESG risks are not included as a separate risk type, but rather as drivers of material risk types that are managed within the framework of the ICAAP and adequately capitalised. ESG risk factors were identified as a focal point of the Group-wide risk inventory carried out during the 2021 financial year.

XII) Summary

Managing DZ HYP's opportunities and risks is an integral part of the strategic planning process at DZ BANK Group. In the opinion of the Management Board, appropriate management and control tools are deployed across all risk areas; these tools are continuously fine-tuned and developed. The challenges that arose in the reporting year due to the impact of the COVID-19 pandemic were minimised by adopting an effective and sustainable risk management approach. DZ HYP's expected performance is appropriate in terms of the risks assumed. Hence, there are no indications to suggest a threat to DZ HYP's continued existence.

REPORT ON EXPECTED DEVELOPMENTS

Cautionary forward-looking statement

The report on expected developments and other parts of the Annual Report include expectations and forecasts that relate to the future. These forward-looking statements, in particular those regarding DZ HYP's business and earnings growth, are based on forecasts and assumptions, and are subject to risks and uncertainties. As a result, the actual results may differ from those currently forecast. There are many factors that impact on DZ HYP's business, and that are beyond the Bank's control. The specific impact of the COVID-19 pandemic and geopolitical risks are currently particularly good examples. These factors primarily include changes to the general economic situation and the competitive arena, and developments on the national and international real estate and capital markets to name. In addition, results can be impacted by borrowers defaulting or by other risks, some of which are discussed in detail in the risk report. In this context, DZ HYP would like to point out that no solution has been found as yet for the global issue of high sovereign debt, particularly in conjunction with the COVID-19 pandemic, and that ongoing reforms are needed. In this respect, the G20 member states, among others, intend to actively counter the issue by adopting a global minimum tax rate.

Quality of forecasts

DZ HYP's financial performance in the 2021 financial year exceeded projections, particularly with regard to the increase in the real estate loan portfolio, while maintaining adequate lending margins. The net commission result exceeded expectations by far. The aggregate of net interest income and the net commission result was 18.9 per cent above forecast levels, with a key factor being interest rates, premiums and the net commission result for an open market transaction with the Bundesbank. Thanks to the macroeconomic environment in Germany, which remains positive for real estate overall, total specific valuation allowances and general valuation allowances were lower than the projected figure, which was determined on the basis of standard risk costs. Even taking into account risk premiums for potential risks resulting from the COVID-19 pandemic, risk provisioning was lower than expected. Overall, the quality of DZ HYP's forecasts for the year under review proved to be robust. The fact that results once again exceeded forecasts overall also underlines the conservative stance on which the Bank's projections are based.

Forecast period

Based on the strategic business orientation as part of a five-year plan, DZ HYP derives its operative planning on an annual basis, focusing on the subsequent financial year. As a rule, the Bank's forecast is based on the one-year operative planning horizon; in certain cases it also refers to the results of the five-year plan.

Business environment and assumptions underlying the forecast

In a challenging international environment with global risks, Germany's economic power grew in 2021 after a year that was defined by the COVID-19 pandemic. Looking ahead to the following year, it is expected that besides state support measures, catch-up effects from shelved investments and consumer spending will have positive economic effects and further fuel growth.

The resulting macroeconomic effects and the impact on the real estate market are subject to persistent uncertainty. There is a risk of falling real estate prices. It is still currently impossible to come up with a full and reliable forecast. In view of the sustained strong investment pressure from investors, DZ HYP expects transaction volumes to remain stable for the most part. All in all, it is fair to state that the German residential and commercial real estate markets have been robust to date.

Despite economic uncertainty, demand for private residential real estate has remained strong. Purchase prices climbed further in 2021. This means that the residential asset class has proven stable in the course of the COVID-19 pandemic so far. Based on current assessments and subject to further economic development, it is likely to continue – albeit with less intense growth rates.

Subsidies for energy-efficient buildings were frozen at the beginning of 2022, which was to some extent unexpected. At present, DZ HYP does not expect this to have a subsequent negative impact on new business. A further assessment of the impact will only be possible once the relevant new subsidy programmes are in place. Commercial real estate shows a differentiated picture: in the retail sector, given the growing importance of online commerce and adjustments of excess capacity in non-food branch networks, demand for space is expected to decline. This will manifest itself in the near future in falling rents and lower demand for retail space, or to a greater concentration of demand for prime locations. In the hotel sector, capacity utilisation in 2021 remained noticeably lower than before the outbreak of the COVID-19 pandemic. Whilst it is fair to assume that demand for overnight accommodation will recover over the medium term as tourism starts to bounce back and the number of business travellers increases, travel activity in the business segment in particular will probably be influenced by a lower number of face-to-face meetings and an increase in video conferencing.

Office markets are unlikely to come under pressure in the short term, and are expected to remain stable. DZ HYP assumes that, in the medium to long term, working from home will evolve and complement the scenario of office workstations. Nonetheless, this is considered to have a more moderate impact on the future market development for attractive and well-located office space, against the background of their significance for communication in the companies. Demand is proving strong for the logistics asset class, as online trading booms. The high demand for space in this segment is expected to continue, alongside rising prices and rents.

Looking at the value of collateral held in the form of real property liens, no systematic, material deterioration in collateral values has been observed to date. Any haircuts on properties held as collateral are monitored on an ongoing basis, taken the progress of the COVID-19 pandemic into consideration. For example, any declines in property collateral values as a consequence of the pandemic may be mitigated by low interest rates, low vacancy rates and conservative financing structures.

The economic consequences of the COVID-19 pandemic also impacted on the municipalities in 2021. Nonetheless, preliminary calculations for the financial year show that the local authorities concluded the year with a small financing surplus. Despite the current planned cessation of the compensation for trade tax losses, the federal government and the states are expected to remain very willing to provide support, also due to the high level of systemic support in Germany – which has been demonstrated yet again. As things stand at the moment, the pandemic will have no significant effects on the portfolio of loans to local authorities. Competition for local authority loans remains strong.

The German economy is faced with challenges, in particular due to the COVID-19 pandemic and political risks. These challenges include, in particular, developments in the sovereign finances of the countries on Europe's periphery, the risks resulting from Brexit, which is now complete, and the associated potential trade restrictions/legal uncertainties, as well as geopolitical risks. Against this background, the ECB will adhere to its accommodative monetary policy and take measures as required at any time.

DZ HYP's business model, which is focused on the German real estate market, shows different degrees of sensitivity to these potential threats. Implications are thus possible – at least indirectly, e.g. due to falling demand, financial market volatility, or price bubbles.

Expected development of DZ HYP

Based on these framework conditions, and adhering to its unchanged conservative risk strategy, DZ HYP plans to avoid cyclical peaks in the long-term business it pursues, to the extent possible. Moreover, the Bank does not calculate any performance contributions from unhedged interest rate or foreign exchange positions in its projections. Therefore, any changes to the relevant market parameters do not materially influence the Bank's results planning. Key value drivers for DZ HYP's future financial performance are thus the Bank's planned business volume, net credit margins, commissions earned and risk costs incurred in new business, as well as any write-downs which may be necessary in the non-strategic portfolios. Given DZ HYP's strengthened market position, the Bank has conservatively accounted for these value drivers in its planning calculations.

The Basel Committee on Banking Supervision (BCBS) finalised its revised "Basel III: Finalising post-crisis reforms" framework for the calculation of risk-weighted assets and capital floors on 7 December 2017. On 27 October 2021, the European Commission presented the proposals for implementing this framework in the European Union; these proposals are currently in the consultation process. Simulations show that the amended regulations will only have a minor direct impact upon DZ HYP's calculation of risk-weighted assets under the IRB approach. However, the increased capital requirements for commercial real estate finance under the revised Credit Risk Standard Approach are expected to lead to higher capital requirements because of the capital floor for DZ HYP. Under the current draft legislation, these capital floor regulations will take effect starting in 2025, with a phase-in period until 2030. However, the output floor must only be complied with at the highest consolidated level. The new regulatory requirements will be continually analysed together with the Group's parent entity.

The German Federal Financial Supervisory Authority (BaFin) intends to apply a countercyclical capital buffer on risk-weighted assets for risk exposures located in Germany and to introduce a sector-specific systemic risk buffer for risk-weighted assets on loans collateralised by residential properties. The effects of this are currently being examined in conjunction with DZ BANK, whilst taking into account the existing own funds waiver.

Assuming that the effects of the COVID-19 pandemic are contained in the short term, it is expected that DZ HYP will be able to originate new real estate finance business of almost € 12 billion in 2022 with adequate margins. The aim is to strike a good balance between profitability targets and equity requirements, whilst closely adhering to the relevant regulatory requirements.

Net interest income is expected to be slightly lower than the € 668 million figure reported for the year under review.

Depending on the relevant new business and the product mix, the net commission result is expected to be significantly below the current figures.

The future development of administrative expenses will be driven not least by increasing regulatory requirements, whose implementation continues to exert additional pressure on staff and IT costs. Overall, DZ HYP expects administrative expenses to increase slightly in 2022.

Provisions for loan losses are calculated using individual standard risk costs which are commensurate with the Bank's business model; in general, the forecast projects an upper-double-digit million euro amount over the planning horizon. Due to the uncertainty created by the COVID-19 pandemic, provisions for loan losses in 2022 are expected to almost double the current year's value. Overall, the expected acute default risks are conservatively accounted for.

The MBS portfolio is intensively monitored by means of a detailed risk management system, regular analyses of individual exposures, and comprehensive stress testing. The development of material risk factors indicates stabilisation at the current levels. The persistent default risks this portfolio is exposed to were identified within the scope of a five-year forecast, and adequately incorporated in the Bank's projections.

Based on the expected development of the individual performance indicators – particularly due to the conservative forecast for loss allowances – DZ HYP expects the key performance indicators to fall short of the levels achieved in the year under review. DZ HYP expects a sharp decline in distributable earnings for 2022, although the forecast remains above € 100 million. The conservative nature of our planning is also reflected in the key CIR and RoE figures, both of which are expected to deteriorate significantly over the year under review.

In the Management Board's view, DZ HYP is on a successful path in terms of profitability and new business origination. New business is aligned toward our clients' requirements. The Bank is consistently reducing capital markets transactions which are not related to client business.

DZ HYP is a leading real estate finance house and Pfandbriefbank in Germany, with products and services and a distribution approach aligned to client segments, alongside customised offers, catering to the segments of Corporate Clients, Retail Customers and Public Sector. The Bank's central business policy role is to anchor real estate financing and public-sector lending in the Cooperative Financial Network, and to realise financing solutions together. To this end, DZ HYP offers the German cooperative banks an extensive range of products and services, working hand-in-hand with them to cover the regional markets. In this context, both sides benefit from the partnership – DZ HYP from the direct contact with regional clients, and the German cooperative banks from the business relationships arising from developing the market throughout Germany.

EMPLOYEES

Human Resources work in unusual times

With top-performing employees being key to business success, DZ HYP aims to create the right working environment to inspire motivation and satisfaction in employees.

"Pulse Check" online employee survey

At the end of 2020, the Bank launched the "Pulse Check" online employee survey to consult with its staff about their satisfaction. The results were presented to the Management Board in March 2021. A differentiated evaluation was subsequently provided to the individual areas of the Bank to be discussed in the respective teams, who drew their conclusions and derived measures from it.

The results confirmed that DZ HYP continues to be a good employer. The Bank offers an environment that people enjoy working in and that encourages a high level of commitment. Its employees reported high levels of satisfaction, in particular with regard to the daily experience, their own duties, cooperation with colleagues and with managers. The employees also considered handing of the COVID-19 pandemic and short-term transition to working from home very successful. Amidst changing working practices, a desire for orientation was clear; this was reflected in questions about the strategic orientation and digitalisation, combined with questions about the Bank's future orientation and competitiveness.

Culture project launched

DZ HYP initiated a culture project at the end of 2021, prompted by the results of the Pulse Check. The employees' answers revolved around, among other things, the questions as to who DZ HYP is and what it stands for. The survey also showed that it is important for employees to create a feeling of unity. They would also like to know how the new forms of working will influence their future and what is necessary for the Bank's holistic orientation. In this respect, the culture project aims to find answers to the questions about DZ HYP's future strategic orientation, in order to remain attractive for clients and employees alike. A first "Culture Workshop" was held in December involving interested employees. The project will continue in 2022.

Hybrid working at DZ HYP

The COVID-19 pandemic led to an almost complete transition to remote working from home in the first lockdown in 2020. The employees rated this step as a great success in the Pulse Check. This raises the question as to what the working environment at DZ HYP will look like going forward. The Bank regulated this with a works council agreement on hybrid working in the 2021 financial year, initiating a change. In addition to working in the office, opportunities for a better work-life balance will be made increasingly available. This change is a first step towards a new normal, in a new corporate culture.

Further developing the employer branding activities

Besides retaining employees, it is important for the Bank to have good access to qualified specialists and managers, as well as young talent. Progressing digitalisation and demographic development have intensified competition for personnel. A strong employer brand with convincing messages helps establish a good position on the market. The process of further developing the employer brand was launched in 2020 and an additional, important element has been added since: the question about the Bank's strategic orientation. In addition to excellent city centre locations and numerous benefits, this is another opportunity for DZ HYP to set itself apart from competitors.

In order to find suitable profile topics, three branding workshops were held with employees in 2021. On the basis of the results, three strong profile subjects were identified:

- Social interaction: a sense of well-being promotes our performance.
- Inner strength: there is no such thing as bad weather.
- Aspiration: we realise ambitions together.

Together, all three profile subjects form the "performance-oriented group". As of 2022, these will be the subject of communicating the employer brand, with which the Bank will continue to position itself as an attractive employer.

Vocational training and empowering the next generation

In order to have a supply of qualified young professionals on hand to allow the Bank to rise to the challenges of the future and respond to changes in the skills required, DZ HYP relies on offering targeted vocational training to talented employees. As a result, the Bank is strengthening its vocational training activities as part of its demographic concept. In the 2021 financial year, two trainees and two "dual" students – combining academic studies with practical work experience – were recruited for the Münster office, which is primarily responsible for the Retail Customers business. The dual study programme, which includes a programme leading to a Bachelor of Arts in Banking & Finance, has been offered there since 2012 in addition to the vocational training programme for bank officers. DZ HYP has been working with a new educational partner, the Hanover-based University of Cooperative Education in Banking (Berufsakademie für Bankwirtschaft) since 2021. In the year under review, the Bank engaged three trainees at the Münster office and awarded a permanent contract to one trainee in Hamburg.

The Bank also extended its activities in the area of professional training for qualified graduates. Besides the trainee programme for commercial real estate finance established since 2010, a further programme was introduced for IT. This training aims to qualify up-and-coming generations for a permanent position in different specialist IT departments as a way of forging talent for DZ HYP. The trainee programme that was started in October 2020 in the Commercial Real Estate Finance business segment continued successfully in the year under review, with deployments to specialist departments, work shadowing and participating in the DZ HYP Real Estate Academy. In addition to the IT trainee programme, the Bank is planning additional programmes to develop fresh talent in regulation. "Trendence und Absolventa", the leading online jobs portal for young academics, once again awarded DZ HYP its seal of quality in 2021 for its "fair trainee programme".

Occupational health management

DZ HYP continued with its existing operational health management offering in the reporting year, although some services could only be offered to a limited extent due to the COVID-19 pandemic. Employees continued to be able to consult with company physicians by telephone at fixed consultation hours. Similarly, the Bank offered the annual flu vaccination as planned at the premises of the Hamburg and Münster offices. Employees in the Bank's real estate centres had the opportunity to be vaccinated at the local B.A.D. GmbH health centres. Overall, demand was higher than in previous years. DZ HYP also continued with its occupational re-integration management programme. In cooperation with DZ BANK, COVID-19 vaccinations were offered in the summer of 2021 in collaboration with the Helios clinics.

Since the first lockdown in the spring of 2020, DZ HYP's employees have also had the opportunity to use the online services offered by the Bank's cooperation partner "Fitness First" to help them include exercise in their daily routine, even when working from home. Since the start of the reporting year, "Bäderland Hamburg" – a municipal swimming pool operator – has been added as another cooperation partner of DZ HYP, offering employees discounted entry to all Bäderland locations in Hamburg with corporate benefits tickets. Employees can also avail of different offers aimed at maintaining or improving their mental health. These include subsidising selected meditation and mindfulness apps, among other things. The offer is complemented by various live and online seminars that are planned for the first half of 2022.

Promoting women: Statutory quotas and corporate initiative

In accordance with statutory requirements, the Supervisory Board and Management Board of DZ HYP are obliged to set targets for the proportion of women on the Supervisory Board, the Management Board, and the two management levels below the Management Board – as well as deadlines for achieving such targets. Against this background, in accordance with section 111 (5) of the AktG, DZ HYP's Supervisory Board on 3 July 2020 set a target quota of 22 per cent for the share of women on the Supervisory Board, and a target quota of 0 per cent for the share of women on the Management Board, to be achieved by 31 July 2021. Both targets were reached by the end of the deadline. In accordance with section 111 (5) of the AktG, DZ HYP's Supervisory Board on 25 June 2021 set a target quota of 22 per cent for the share of women on the Supervisory Board, to be reached by 31 July 2023. This quota was not met as at 31 December 2021, due to an unforeseen resignation. The corresponding replacement is scheduled for the next Annual General Meeting. The target quota set by the Supervisory Board on 25 June 2021 of 33 per cent for the share of women on the Management Board to be achieved by 31 July 2023 was reached on the reporting date of 31 December 2021.

Due to the far-reaching restructuring measures as part of the "Focus 2020" project, the Management Board re-evaluated and redefined the targets for the proportion of women on the first two management levels below the Management Board at DZ HYP on 3 November 2020, in accordance with the statutory requirements for the equal participation of women and men in management positions. The aim is to achieve a share of 25 per cent women at both levels by 31 October 2025. As at 31 December 2021, the share of women at the first management level below the Management Board was 6 per cent and the share at the second level was 18 per cent.

Cooperation with the Works Council

The constructive cooperation between DZ HYP and the Works Council members in Hamburg and Münster continued unchanged during the year under review. The negotiations on the implementation of reorganisation measures to secure the Bank's future viability, as well as the positive and constructive support provided for the necessary measures to allow a greater degree of flexibility with regard to employees' place of work and working hours in order to cope with the COVID-19 pandemic, are particularly worthy of mention. DZ HYP would like to thank the Works Council members for the good and constructive cooperation.

STAFFING INDICATORS

	2021	2020
Total*)	**831**	819
Fluctuation rate (in %)	**6.0**	13.3
Share of voluntary resignations (in %)	**5.2**	6.8
Years of service	**13.2**	13.8
Number of training days per employee	**3.1**	0.8
Employment basis (in %))**		
Full-time employees	**77.0**	74.9
Part-time employees	**23.0**	25.1
Share of women (in %)	**44.4**	46.3
Average age	**46.0**	46.0

*) Annual average
**) Average values

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 DECEMBER 2021
ASSETS

	€ 000's	Note	€ 000's	31 Dec 2021 € 000's	31 Dec 2020 € 000's
CASH FUNDS				24	30
a) Cash on hand			1		3
b) Balances with central banks			23		27
of which: with Deutsche Bundesbank	(23)				(27)
LOANS AND ADVANCES TO BANKS		(4)		3,931,146	4,783,953
a) Mortgage loans			15,771		18,647
b) Loans to local authorities			103,886		207,371
c) Other loans and advances			3,811,489		4,557,935
of which: payable on demand	1,035,456				(799,157)
LOANS AND ADVANCES TO CUSTOMERS		(4)		67,352,437	66,123,645
a) Mortgage loans			52,824,684		50,608,680
b) Loans to local authorities			11,803,601		12,755,182
c) Other loans and advances			2,724,152		2,759,783
BONDS AND OTHER FIXED-INCOME SECURITIES		(6)		9,834,203	10,517,699
a) Bonds and debt securities			(8,301,440)		(8,963,846)
aa) Public-sector issuers			5,981,490		6,272,680
of which: securities eligible as collateral with Deutsche Bundesbank	5,213,598				(5,510,898)
ab) Other issuers			2,319,950		2,691,166
of which: securities eligible as collateral with Deutsche Bundesbank	1,882,810				(2,205,886)
b) Own bonds issued			1,532,763		1,553,853
Nominal amount	1,527,445				(1,549,783)
PARTICIPATIONS		(6)		911	911
INVESTMENTS IN AFFILIATED COMPANIES		(6)		1,566	1,566
TRUST ASSETS		(7)		26,333	28,369
of which: trustee loans	8,233				(10,270)
INTANGIBLE FIXED ASSETS		(6)		2,556	3,913
a) Concessions, industrial property rights and similar rights and assets, as well as licences in such rights and assets			2,556		3,703
b) Advance payments made			–		210
TANGIBLE FIXED ASSETS		(6)		209,275	199,605
OTHER ASSETS		(8)		63,373	38,141
PREPAID EXPENSES		(10)		208,915	222,142
a) From new issues and lending			207,410		221,286
b) Other			1,505		856
TOTAL ASSETS				81,630,739	81,919,974

BALANCE SHEET AS AT 31 DECEMBER 2021
LIABILITIES AND EQUITY

	€ 000's	Note	€ 000's	31 Dec 2021 € 000's	31 Dec 2020 € 000's
LIABILITIES TO BANKS		(13)		31,834,208	31,172,353
a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)			1,591,199		1,719,298
b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe)			1,056,017		916,010
c) Other liabilities			29,186,992		28,537,045
of which: payable on demand	122,273				(25,325)
LIABILITIES TO CUSTOMERS		(13)		13,813,942	15,770,415
a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)			5,009,005		5,437,745
b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe)			7,217,711		8,404,249
c) Other liabilities			1,587,226		1,928,421
of which: payable on demand	450,463				(477,788)
SECURITISED LIABILITIES BONDS ISSUED		(13)		32,510,068	31,655,495
a) Mortgage Pfandbriefe (Hypothekenpfandbriefe)			26,803,519		26,040,201
b) Public Pfandbriefe (öffentliche Pfandbriefe)			4,146,547		3,818,873
c) Other debt securities			1,560,002		1,796,421
TRUST LIABILITIES		(7)		26,333	28,369
of which: trustee loans	8,233				(10,270)
OTHER LIABILITIES		(14)		315,772	281,202
DEFERRED INCOME		(10)		272,762	290,116
a) From new issues and lending			272,762		290,116
PROVISIONS				268,323	260,443
a) Provisions for pensions and similar obligations			215,056		198,083
b) Provisions for taxes			4,776		4,839
c) Other provisions			48,491		57,521
SUBORDINATED LIABILITIES		(15)		35,000	54,250
FUND FOR GENERAL BANKING RISKS				792,000	645,000
EQUITY				1,762,331	1,762,331
a) Subscribed capital		(16)	(784,990)		(784,990)
aa) Share capital			149,990		149,990
ab) Silent partnership contributions			635,000		635,000
b) Capital reserves			884,196		884,196
c) Retained earnings			(93,145)		(93,145)
ca) Legal reserves			945		945
cb) Other retained earnings			92,200		92,200
TOTAL EQUITY AND LIABILITIES				81,630,739	81,919,974
CONTINGENT LIABILITIES		(17)			
Liabilities from guarantees and indemnity agreements				402,250	537,762
OTHER COMMITMENTS		(18)			
Irrevocable loan commitments				7,330,748	5,353,019

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2021

	€ 000's	Note	€ 000's	2021 € 000's	2020 € 000's
INTEREST INCOME FROM					
a) Lending and money market transactions			1,500,282		1,504,112
b) Fixed-income securities and debt register claims			248,024		264,518
				1,748,306	1,768,630
INTEREST EXPENSES				1,083,397	1,166,477
				664,909	602,153
CURRENT INCOME FROM PARTICIPATIONS				9	132
INCOME FROM PROFIT-POOLING, PROFIT TRANSFER OR PARTIAL PROFIT TRANSFER AGREEMENTS				3,732	3,116
COMMISSION INCOME			55,508		38,571
COMMISSION EXPENSES			93,841		76,627
NET COMMISSION RESULT				-38,333	-38,056
OTHER OPERATING INCOME		(27)		22,554	28,957
GENERAL ADMINISTRATIVE EXPENSES					
a) Staff expenses					
aa) Wages and salaries			74,957		71,806
ab) Compulsory social security contributions and expenses for pensions and other employee benefits			18,635		14,963
			93,592		86,769
of which: pension expenses	7,510				(4,691)
b) Other administrative expenses			151,164		158,446
				244,756	245,215
AMORTISATION/DEPRECIATION AND WRITE-DOWNS OF INTANGIBLE AND TANGIBLE FIXED ASSETS				6,550	6,013
OTHER OPERATING EXPENSES		(28)		22,297	20,272
WRITE-DOWNS AND VALUATION ALLOWANCES OF LOANS AND ADVANCES AND SPECIFIC SECURITIES, AS WELL AS ADDITIONS TO LOAN LOSS PROVISIONS				34,973	54,504
AMORTISATION AND WRITE-DOWNS ON PARTICIPATIONS INTERESTS, SHARES IN AFFILIATED COMPANIES, AND INVESTMENT SECURITIES				4,937	-6,544
ADDITIONS TO THE FUND FOR GENERAL BANKING RISKS				147,000	78,000
RESULT FROM ORDINARY ACTIVITIES				**192,358**	**198,842**
INCOME TAXES		(29)	125,195		125,348
OTHER TAXES NOT DISCLOSED UNDER "OTHER OPERATING EXPENSES"			261		703
				125,456	126,051
PROFITS TRANSFERRED UNDER PROFIT TRANSFER AGREEMENTS				52,200	57,000
PROFITS TRANSFERRED UNDER PARTIAL PROFIT TRANSFER AGREEMENTS				14,702	15,791
NET INCOME				–	–

STATEMENT OF CHANGES IN EQUITY

	31 Dec 2020	Issue of shares	Dividends paid	Net income/ loss	Transfers to/ from retained earnings	Other changes	31 Dec 2021
	€ 000's	€ 000's	€ 000's	€ 000's	€ 000's	€ 000's	€ 000's
SUBSCRIBED CAPITAL	(784,990)	–	–	–	–	–	(784,990)
- Share capital	149,990	–	–	–	–	–	149,990
- Silent partnership contributions	635,000	–	–	–	–	–	635,000
CAPITAL RESERVES	(884,196)	–	–	–	–	–	(884,196)
- Premium at issuance	408,590	–	–	–	–	–	408,590
- Other payments	475,606	–	–	–	–	–	475,606
RETAINED EARNINGS	(93,145)	–	–	–	–	–	(93,145)
- Legal reserves	945	–	–	–	–	–	945
- Other retained earnings	92,200	–	–	–	–	–	92,200
- Net retained profit	–	–	–	–	–	–	–
EQUITY	1,762,331	–	–	–	–	–	1,762,331

CASH FLOW STATEMENT

	€ mn	2021	2020
-	**RESULT FROM ORDINARY ACTIVITIES**	**192**	**199**
	OTHER TAXES NOT DISCLOSED UNDER 'OTHER OPERATING EXPENSES'	**0*)**	**-1**
	PROFIT OR LOSS FOR THE PERIOD (NET INCOME/LOSS BEFORE TAXES AND PROFIT TRANSFER)	**192**	**198**
+/-	Amortisation/depreciation, write-downs and write-ups on loans and advances, and non-current assets	33	57
+/-	Increase/decrease in provisions	12	10
+/-	Other non-cash expenses/income	237	-1
-/+	Profit/loss from the disposal of non-current assets	-4	0*)
-/+	Other adjustments (net balance)	-3	-5
-/+	Increase/decrease in loans and advances to banks	852	544
-/+	Increase/decrease in loans and advances to customers	-1,261	-2,398
-/+	Increase/decrease in securities (excluding financial assets)	12	-1,448
-/+	Increase/decrease in other assets from operating activities	-10	-35
+/-	Increase/decrease in liabilities to banks	699	682
+/-	Increase/decrease in liabilities to customers	-1,924	-1,863
+/-	Increase/decrease in securitised liabilities	868	3,460
+/-	Increase/decrease in other liabilities from operating activities	-103	136
+/-	Interest expenses/income	-669	-605
+	Interest and dividend payments received	1,773	1,863
-	Interest paid	-1,167	-1,276
-	Extraordinary cash payments	-4	-3
-/+	Net cash inflow/outflow from income taxes (including Group tax overheads)	-81	-16
=	**CASH FLOW FROM OPERATING ACTIVITIES**	**-548**	**-700**
+	Receipts from the disposal of financial assets	655	804
+	Cash proceeds from the disposal of property and equipment	0*)	0*)
-	Payments for investments in tangible fixed assets	-14	-24
-	Payments for investments in intangible fixed assets	-1	-4
=	**CASH FLOW FROM INVESTING ACTIVITIES**	**640**	**776**
-	Cash outflow from profit transfer to DZ BANK (as holder of the share capital)	-57	-50
-	Cash outflow from partial profit transfer to DZ BANK (as holder of the silent partnership contributions)	-16	-16
+/-	(Net) cash inflow/outflow from issuance/repayment of subordinated liabilities	-19	-10
=	**CASH FLOW FROM FINANCING ACTIVITIES**	**-92**	**-76**
	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	0*)	**0*)**
+/-	Cash flow from operating activities	-548	-700
+/-	Cash flow from investing activities	640	776
+/-	Cash flow from financing activities	-92	-76
=	**CASH FUNDS AT THE END OF THE PERIOD**	0*)	0*)

*) Values less than € 0.5 million

The cash funds correspond to the balance sheet item "Cash funds" and include cash on hand and balances with central banks.

NOTES TO THE FINANCIAL STATEMENTS

GENERAL NOTES

DZ HYP AG ("DZ HYP") has dual registered offices in Hamburg and Münster, Westphalia. DZ HYP is registered with the Commercial Register of the Hamburg Local Court (Amtsgericht Hamburg) under HRB 5604, and with the Commercial Register of the Münster Local Court (Amtsgericht Münster) under HRB 17424.

(1) General information on the preparation of financial statements

The financial statements of DZ HYP for the financial year 2021 have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – "HGB"). Furthermore, the financial statements are prepared in accordance with the Regulation on the Accounting of Credit Institutions and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV") and the German Banking Act (Kreditwesengesetz – "KWG"); they fulfil the requirements of the German Stock Corporation Act (Aktiengesetz – "AktG") and the German Pfandbrief Act (Pfandbriefgesetz – "PfandBG").

Given the non-materiality of all subsidiaries, even if considered in aggregate, in accordance with section 290 (5) in conjunction with section 296 (2) of the HGB, the company has not prepared consolidated financial statements.

All amounts have been quoted in euros, in accordance with section 244 of the HGB.

(2) Accounting policies

These annual financial statements of DZ HYP as at 31 December 2021 are generally based on the same accounting policies as were applied in the annual financial statements as at 31 December 2020; accordingly, there were no material changes to accounting methods since then.

There was one change of presentation concerning earnings contributions from syndicated financings, according to which interest and commission income for the equity share of syndicated financings is disclosed to improve the presentation of the product-related earnings contributions. The previous year's figures were adjusted accordingly.

Loans and advances to banks/to customers

Loans and advances to banks and customers are recognised at nominal value, in accordance with section 340e (2) of the HGB. Where their stated value differs from the amount disbursed, or cost, the amount of the difference is reported under prepaid expenses or deferred income, and amortised in interest income over the term of the transaction.

Loans and advances which are fully classified as current assets are valued strictly at the lower of cost or market. All existing individual lending risks are covered by specific loss allowance and provisions.

Specific allowance is recognised when the Bank has reason to doubt the performance of a receivable, due to the difficult financial circumstances of a borrower, or in the event of insufficient collateralisation; or if there are indications that the borrower will be unable to pay interest on a sustainable basis. The same applies to contingent receivables.

When determining specific loss allowance, existing receivables as at the valuation date (including any pro-rata interest and pending items) are compared to discounted and scenario-weighted cash flows from collateral – including realisation of collateral. The uncovered portion determined in this way is written down in full. Looking at the value of collateral, no systematic, material deterioration in collateral values due to the COVID-19 pandemic has been observed to date. Inherent default risks and country risks are covered by portfolio-based loss allowances, which are derived using a model similar to the IFRS 9 impairment loss model. In connection with the COVID-19 pandemic, these risks have been analysed extensively. As a result, the exposures in the hotel and department store asset classes were already assigned in 2020 to stage 2 of the stage concept pursuant to IFRS 9, in order to sufficiently address the increased default risk resulting from the infection rates, and the protective measures taken in response to them. Due to growing uncertainty about a generally accelerating structural change in the retail sector, this allocation to stage 2 of the IFRS 9 stage concept was extended in 2021 to include the shopping centre asset class. The macroeconomic scenarios – which are also taken into account in the calculation of loss allowance – have been adjusted as well with view to the COVID-19 pandemic. Additional loss allowances were set aside in accordance with section 340f of the HGB.

When recognising loss allowances, DZ HYP applies the option to cross-compensate all income and expense items in line with section 340f (3) as well as section 340c (2) of the HGB.

Bonds and other fixed-income securities

Bonds and debt securities held as fixed assets are measured at amortised cost; if impairments are expected to be permanent, DZ HYP recognises a write-down to the lower observable closing rate ("gemildertes Niederstwertprinzip"). Other bonds and debt securities are allocated to the liquidity reserve. These items are measured at the lower of cost and fair value ("strenges Niederstwertprinzip").

The vast majority of bonds and debt securities held as fixed assets are used in coverage calculations as ordinary or extended cover. The difference between cost and redemption amount is disclosed in net interest income during the remaining term.

The fair value of liquid debt securities and other fixed-income securities is generally determined on the basis of external market prices. If a valid market price for securities already held cannot be determined as at the reporting date, due to a lack of transaction volume, spread curves are used to determine the relevant price on the basis of the discounted cash flow method. Future cash flows from interest and principal were discounted to their present value as at the reporting date, using market interest rates in line with the risks and maturities concerned. If specific parameters needed for valuation purposes cannot be observed on the market, and cannot be derived from market data, DZ HYP applies parameters estimated within the DZ BANK Group.

The valuation of securities held as fixed assets, or included in the liquidity reserve, is generally based on an individual approach.

Participations and interests in affiliated companies

Investments and shares in affiliated companies are measured at amortised cost, or at the lower fair values in case of permanent impairments.

Intangible and tangible fixed assets

According to section 253 (1) and (3) of the HGB, intangible and tangible fixed assets are measured at cost less depreciation, amortisation and impairment losses. Depreciation and amortisation are recognised monthly on a straight-line basis, taking the expected useful life into account. Low-value assets disclosed under intangible and tangible fixed assets with cost of between € 250 and € 800 (after deducting any pre-tax amounts) are recognised in the balance sheet in the year of acquisition, and amortised/depreciated immediately. Assets with cost of less than € 250 are recognised through profit or loss in the year of acquisition.

Liabilities

Liabilities are recognised at their settlement amount in accordance with section 253 (1) sentence 2 of the HGB. The difference between the nominal value and the initial carrying amount of liabilities is recognised under prepaid expenses or deferred income, and amortised over the term of the transaction.

Zero bonds are shown at their issue value, plus pro-rata interest in line with the yield at the time of issue.

Liabilities classified as structured products (as defined in Statement IDW RS HFA 22 issued by the Institute of Public Auditors in Germany – "IDW") are accounted for as uniform liabilities, since such products at DZ HYP exclusively contain interest rate derivative components, which do not have to be accounted for separately.

DZ HYP takes part in the Deutsche Bundesbank's targeted longer-term refinancing operations (TLTRO III) in the amount of € 3 billion.

Provisions

Provisions for pensions are recognised in accordance with actuarial principles and determined on the basis of the projected unit credit method, using Dr Klaus Heubeck's 2018 G actuarial tables (revised version from 2 October 2018). The calculation of the provisions takes into account annual future salary increases of 2.5 per cent as well as annual pension increases of 1.8 per cent. DZ HYP uses the average market interest rate for the last 10 years and a notional remaining term of 15 years as established by Deutsche Bundesbank in accordance with section 253 (2) of the HGB (1.87 per cent).

Due to amended legal requirements, the calculation of pension provisions was adapted in 2016. The assessment period of the applied average interest rate was extended from 7 to 10 years. The positive difference according to section 253 (6) sentence 1 of the HGB (i.e. the shortfall in pension provisions due to the change in the period used to determine average values to the last 10 years) stood at € 17.2 million as at year-end 2021.

A part of pension provisions refers to pension commitments which are accessory to reinsurance. The amount of pension commitments is determined exclusively using the fair value of reinsurance cover.

Since the fair value of the reinsurance claim (capitalised value) exceeds the present value of the settlement amount of the guaranteed minimum benefits, the pension obligation has to be recognised at capitalised value of the reinsurance cover in analogous application of section 254 (1) sentence 3 HGB and amounted to € 4.2 million as at 31 December 2021 (31 December 2020: € 3.9 million).

In accordance with section 246 (2) sentence 1 of the HGB, netting the obligation against the capitalised value of the reinsurance cover is not permissible. This applies analogously to the netting of interest expenses against interest income.

The projected unit credit method was used as the valuation method. The valuation is based on the accrual-based allocation of pension benefits during the employment relationship and the actuarial assumptions used to calculate the present value of these benefits. The addition to provisions for pensions due to interest rate effects is recognised in other operating expenses.

DZ HYP recognises tax provisions for current taxes in accordance with tax regulations.

Other provisions are recognised for contingent liabilities or for impending losses from executory contracts in the amount of the expected settlement amounts, exercising prudent commercial judgement.

In accordance with section 253 (2) of the HGB, provisions with a remaining term of more than one year are discounted using the average market interest rate of the last seven years, in line with maturities. Income or expenses from discounting or accumulating provision items are recognised in other operating income/expenses.

Derivative financial instruments and fair value measurement of banking book

Financial derivatives are accounted for separately in auxiliary ledgers. These instruments are used to hedge against the interest rate and currency risk exposure of on-balance sheet transactions. All derivative transactions thus form part of the overall management of the banking book. Segregated sub-portfolios (valuation units) are not managed on an individual basis. Accordingly, section 254 of the HGB is not applicable.

Current interest payments are amortised and recorded in net interest income.

In connection with the early redemption of hedged items recognised on the balance sheet, the Bank also generally terminates derivative financial instruments early. Any resulting gains are usually recognised in net interest income. Only where interest rate swaps can be allocated to individual securities, income realised upon closing out swaps is recognised in line with the recognition of income of the underlying transaction, in the net financial result, or in the net risk provisioning balance, respectively.

In accordance with Statement IDW RS BFA 3, the fair value measurement (verlustfreie Bewertung) of the interest-related banking book (the "interest rate book") is based on the present value. The interest rate book comprises both the interest-related underlying transaction as well as the interest-related derivative.

As at 31 December 2021, the provision test resolved that no provisions pursuant to section 249 (1) sentence

1 alternative 2 of the HGB have to be recognised for the interest rate book, since the present value of the interest rate book was higher than the carrying amount of the interest rate book, less general administrative and risk costs.

Profit and loss account

Interest rate option premiums paid and received are disclosed under other liabilities, or other assets, and recognised through profit or loss in net interest income at maturity. Damages charged for loan repayments or extensions during the fixed-interest term of a loan are fully recognised in interest income.

Income and expenses from the valuation of the lending business and securities held in the liquidity reserve are recognised on an offset basis in accordance with section 32 of the RechKredV in conjunction with section 340f (3) of the HGB. Expenses from financial investments are offset against the corresponding income items in accordance with section 33 of the RechKredV in conjunction with section 340c (2) of the HGB.

(3) Currency translation

Assets and liabilities from foreign exchange transactions are translated in line with section 340h in conjunction with section 256a of the HGB and the Statement IDW RS BFA 4 issued by the Banking Committee of the Institute of Public Auditors in Germany (IDW). Book receivables, securities, liabilities and unsettled spot transactions as well as foreign exchange forwards and cross-currency swaps denominated in foreign currencies entered into for FX hedging purposes are translated into euro, using the ECB reference rate on the reporting date. Regarding foreign exchange forwards entered into in order to hedge interest-bearing balance sheet items, currency translations are made by splitting the forward rate into the spot rate and the swap rate in line with IDW RS BFA 4. Due to the specific coverage of all existing foreign currency items, all currency translation effects have been recognised in income. Currency translation effects (as well as any realised FX effects) are recognised in other operating income.

NOTES TO THE BALANCE SHEET

(4) Lending business

MORTGAGE LOANS	Principal € mn	Carrying amount € mn
to banks	16	16
to customers	52,964	52,825
Total	52,980	52,841

PORTFOLIO DEVELOPMENT (PRINCIPAL)	€ mn	€ mn
Balance at 31 Dec 2020		50,633
ADDITIONS DURING THE FINANCIAL YEAR 2021		8,491
through Disbursements	8,214	
Transfers	–	
Other additions	277	
DISPOSALS DURING THE FINANCIAL YEAR 2021		6,144
through Scheduled and unscheduled redemptions / repayments	5,370	
Transfers	742	
Other disposals	32	
BALANCE AT 31 DEC 2021		52,980

LOANS TO LOCAL AUTHORITIES	Principal € mn	Carrying amount € mn
to banks	100	104
to customers	11,738	11,804
Total	11,838	11,908

PORTFOLIO DEVELOPMENT (PRINCIPAL)	€ mn	€ mn
Balance at 31 Dec 2020		12,894
ADDITIONS DURING THE FINANCIAL YEAR 2021		558
through Disbursements	550	
Transfers	–	
Other additions	8	
DISPOSALS DURING THE FINANCIAL YEAR 2021		1,614
through Scheduled and unscheduled redemptions / repayments	1,319	
Transfers	–	
Other disposals	295	
BALANCE AT 31 DEC 2021		11,838

(5) Negotiable securities

	Listed		Unlisted		Carrying amount of negotiable securities not valued at the lower of cost or market	
Balance sheet item	**31 Dec 2021 € 000's**	31 Dec 2020 € 000's	**31 Dec 2021 € 000's**	31 Dec 2020 € 000's	**31 Dec 2021 € 000's**	31 Dec 2020 € 000's
Bonds and other fixed-income securities	9,395,295	10,088,621	438,908	429,078	407,545	535,872

As at 31 December 2021, the Bank did not recognise an extraordinary write-down in the aggregate amount of € 407.5 million (31 December 2020: € 535.9 million) for negotiable securities held as fixed assets with a carrying amount of € 379.7 million (31 December 2020: € 488.1 million) and a fair value of € 27.9 million (31 December 2020: € 47.8 million) not measured at the lower of cost or market, due to the expected temporary nature of the impairment. This assessment is based on the observation that the euro area has become more stress-resistant due to the crisis mechanisms established in the recent past, and that the effects of individual stabilisation measures are becoming (or have become) increasingly evident (such as bond acquisition programmes or low-interest rate policies).

As at 31 December 2021, the hidden burdens and reserves in the Bank's portfolio of negotiable securities amounted to a total of € 1,449.5 million (31 December 2020: € 1,960.5 million). The aggregate hidden reserves were affected by changes in the swap curve (decline in overall market interest rate levels over recent years) in the amount of € 1,796.7 million (31 December 2020: € 2,459.4 million) and by the poorer credit rating for some securities compared to the date of acquisition, affecting hidden reserves with € -347.2 million (31 December 2020: € -498.9 million). While DZ HYP enters into opposing primary and derivative interest rate transactions to neutralise swap curve developments and the resulting positive valuation effects for securities as part of the interest rate risk management (overall bank management) (i.e. DZ HYP does not profit from such valuation changes), the Bank fully carries the negative credit risk-related valuation changes for securities. According to its current assumptions, DZ HYP does not expect any disruptions of interest or principal payments; after an isolated consideration, the Bank did not recognise any impairments in connection with credit risk-related valuation losses. Please refer to the Bank's management report (chapter "net assets") for further information on the securities portfolio.

(6) Breakdown of, and statement of changes in fixed assets

PURCHASE COST	1 Jan 2021 € 000's	Additions € 000's	Transfers € 000's	Disposals € 000's	31 Dec 2021 € 000's
I. INTANGIBLE ASSETS					
1. Software	27,557	711	210	49	28,429
2. Advance payments made on intangible assets	210	–	-210	–	–
	27,767	**711**	**–**	**49**	**28,429**
II. TANGIBLE FIXED ASSETS					
1. Land and buildings	251,209	13,395	–	***)22,385	242,219
2. Office furniture and equipment)**	10,714	764	–	126	11,352
	261,923	**14,159**	**–**	**22,511**	**253,571**
			Additions		
III. FINANCIAL ASSETS					
1. Participations	911		–		911
2. Investments in affiliated companies	1,566		–		1,566
3. Investment securities	8,959,297		57,746		9,017,043
	8,961,774		**57,746**		**9,019,520**

DEVELOPMENT OF CARRYING AMOUNTS	Depreciation and amortisation in the financial year € 000's	Transfers € 000's	Disposals € 000's	Total € 000's	31 Dec 2021 € 000's	1 Jan 2021 € 000's
I. INTANGIBLE ASSETS						
1. Software	2,068	–	49	25,873	2,556	3,703
2. Advance payments made on intangible assets	–	–	–	–	0	210
	2,068	**–**	**49**	**25,873**	**2,556**	**3,913**
II. TANGIBLE FIXED ASSETS						
1. Land and buildings	3,760	–	***)22,385	35,359	206,860*)	197,225
2. Office furniture and equipment)**	722	–	119	8,937	2,415	2,380
	4,482	**–**	**22,504**	**44,296**	**209,275**	**199,605**
		Disposals				
III. FINANCIAL ASSETS						
1. Participations		–			911	911
2. Investments in affiliated companies		–			1,566	1,566
3. Investment securities		811,035			8,206,008	8,858,405
		811,035			**8,208,485**	**8,860,882**

*) Of which: owner-occupied properties: € 104.3 million; used by third parties: € 102.6 million
**) Fully used for the Bank's own operations
***) Cost as well as depreciation and amortisation were adjusted for unscheduled write-downs recognised at the time of purchase

(7) Trust business

	31 Dec 2021 € 000's	31 Dec 2020 € 000's
Assets held in trust comprise:		
- Loans and advances to customers	8,233	10,269
- Participations	18,100	18,100
	26,333	**28,369**
Trust liabilities are carried vis-à-vis:		
- Banks	8,233	10,269
- Customers	18,100	18,100
	26,333	**28,369**

(8) Other assets

Other assets of € 63.4 million (31 December 2020: € 38.1 million) mainly include the cash collateral for the restructuring fund of € 36.1 million (31 December 2020: € 29.2 million), commission claims against DZ BANK of € 18.1 million (31 December 2020: € 0 million), reinsurance coverage claims of € 4.3 million (31 December 2020: € 3.9 million), as well as claims against VR WERT Gesellschaft für Immobilienbewertungen mbH, Hamburg (profit transfer 2021) of € 3.7 million (31 December 2020: € 3.1 million).

(9) List of investments pursuant to sections 285 no. 11 and 340a of the HGB

Minimum stake of 20% Name/registered office	Equity interest %	Equity € 000's	Result 2021 € 000's
VR WERT Gesellschaft für Immobilienbewertungen mbH, Hamburg	100.0	50	3,732*)
VR HYP GmbH, Hamburg	100.0	25	–**)
VR REAL ESTATE GmbH, Hamburg	100.0	25	–**)
TXS GmbH, Hamburg	24.5	200	59**)

*) Control and profit and loss transfer agreement with DZ HYP
**) Result for the financial year 2020

(10) Prepaid expenses and deferred income

	31 Dec 2021 € 000's	31 Dec 2020 € 000's
ASSETS		
Sub-item a) From new issues and lending comprises:		
Difference between the nominal amount and the higher disbursement amount of receivables	38,872	48,611
Difference between the nominal amount and the lower issuing amount of liabilities	57,572	71,129
LIABILITIES AND EQUITY		
Sub-item a) From new issues and lending comprises:		
Difference between the nominal amount and the lower disbursement amount of receivables	10,567	14,727

(11) Open-market transactions

	31 Dec 2021 € 000's	31 Dec 2020 € 000's
Open-market transactions entered into with the Bundesbank	2,953,750	2,992,083

(12) Securities repurchase agreements

	31 Dec 2021 € 000's	31 Dec 2020 € 000's
Carrying amount of securities pledged under repo agreements Securities	1,907,395	2,007,295
Repurchase amount	1,904,266	2,004,934

(13) Breakdown of, and statement of changes in debt securities and borrowed funds

	Principal € mn	Carrying amount € mn
REGISTERED MORTGAGE PFANDBRIEFE		
to banks	1,571	1,591
to customers	4,952	5,009
MORTGAGE PFANDBRIEFE	26,732	26,804
	33,255	**33,404**
REGISTERED PUBLIC PFANDBRIEFE		
to banks	1,036	1,056
to customers	7,051	7,218
PUBLIC-SECTOR PFANDBRIEFE	4,136	4,146
	12,223	**12,420**
OTHER DEBT SECURITIES	**1,554**	**1,560**
BORROWED FUNDS		
from banks	21,141	17,492
from customers	1,079	511
	22,220	**18,003**
TOTAL	**69,252**	**65,387**

DEVELOPMENT (PRINCIPAL)

	Balance on 31 Dec 2020	Additions	Derecognitions	Reclassifications and other adjustments	Balance on 31 Dec 2021
	€ mn	€ mn	€ mn	€ mn	€ mn
Mortgage Pfandbriefe and Registered Mortgage Pfandbriefe	33,033	3,765	3,544	1	33,255
Public Pfandbriefe and Registered Public Pfandbriefe	12,920	2,500	3,206	9	12,223
Other debt securities	1,787	60	293	–	1,554
Borrowed funds	22,526	3,851	4,178	21	22,220
Total	**70,266**	**10,176**	**11,221**	**31**	**69,252**

(14) Other liabilities

This item amounts to € 315.8 million (31 December 2020: € 281.2 million) and mainly comprises liabilities from tax allocations of € 235.4 million (31 December 2020: € 191.4 million), liabilities from profit transfers of € 52.2 million (31 December 2020: € 57.0 million), as well as € 14.8 million (31 December 2020: € 15.8 million) in profits to be transferred under partial profit transfer agreements in connection with silent capital contributions.

(15) Subordinated liabilities

	31 Dec 2021 € 000's	31 Dec 2020 € 000's
SUBORDINATED		
other debt securities	25,000	25,000
borrowed funds	10,000	29,250
	35,000	54,250
INTEREST EXPENSE	2,801	3,593

Pursuant to the CRR, subordinated liabilities in the amount of € 4.5 million qualify as tier 2 capital in the determination of own funds for regulatory purposes. Early repayment obligations are not provided for in all cases. There are no provisions or plans for a conversion of such funds into equity, or into another form of debt.

Subordinated liabilities carry an average interest of 6.48 per cent, and have original maturities of between 10 and 20 years.

Disclosures on subordinated liabilities amounting to 10.0 per cent or more of the aggregate amount of subordinated liabilities:

Amount € mn	Currency	Coupon*) %	Maturity
25.0	€	6.61	21 Mar 2022
10.0	€	6.14	5 Sep 2023

*) Reporting date: 31 Dec 2021

(16) Equity

DZ HYP reported equity of € 1,762.3 million as at 31 December 2021 (31 December 2020: € 1,762.3 million).

The share capital amounts to € 149,989,937.14 and is divided into 5,832,942 notional no-par value shares ("unit shares"). The notional interest in the share capital therefore amounts to approximately € 25.71 per share.

By virtue of a resolution adopted at the General Meeting on 28 May 2018, the Management Board is authorised to increase, on one or more occasions, the Company's share capital by issuance of up to 1,300,000 new registered no-par value shares for contribution in cash, not exceeding a maximum aggregate amount of € 33,428,571.43, subject to the approval of the Supervisory Board. In the financial year, the Management Board did not make use of these authorisations with view to the authorised capital.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, has given notice pursuant to section 20 (4) of the German Stock Corporation Act (Aktiengesetz – "AktG") that it holds a majority shareholding.

With effect from 31 December 2012, DZ BANK issued an unrestricted letter of comfort for DG HYP (DZ HYP after change of company name). According to the still-valid unrestricted letter of comfort, except in the event of political risk, DZ BANK has undertaken to ensure (in total for the consolidated entity DZ HYP) that DZ HYP is able to meet its contractual obligations.

Silent partnership contributions in the amount of € 635.0 million are open-ended and comply with the provisions of section 10 (4) of the KWG on the reporting date. The silent partnership contributions are partial profit transfer agreements within the meaning of section 292 (1) no. 2 of the AktG. Pursuant to the transitional regulations of the CRR, € 63.5 million of the silent capital contributions is eligible as tier 1 capital. The remaining € 571.5 million is included in tier 2 capital.

(17) Contingent liabilities

Contingent liabilities of € 402.3 million (31 December 2020: € 537.8 million) comprise mainly guarantees for commercial real estate loans, € 163.1 million (31 December 2020: € 269.0 million) of which are extended to DZ BANK. DZ HYP's credit risk management is responsible for monitoring contingent liabilities.

(18) Other commitments

Irrevocable loan commitments of € 7,337.8 million (31 December 2020: € 5,361.8 million) are related primarily to mortgage financing, and were decreased by € 7.0 million (31 December 2020: € 8.8 million) in provisions for contingent losses.

Regarding contributions to the restructuring fund (the so-called "bank levy"), DZ HYP has in recent years made use of the option to make a part of the annual contributions in form of irrevocable payment obligations. These obligations amount to € 36.1 million and correspond to the deposited cash collateral.

(19) Obligations

DZ HYP is a member of the BVR Institutssicherung GmbH (BVR-ISG) and the deposit insurance scheme of the National Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – "BVR"). According to the articles of association of the deposit insurance scheme of the BVR, DZ HYP has issued a letter of indemnity to BVR. As a result, DZ HYP is liable to contingent liabilities in the amount of € 57.3 million.

According to BVR-ISG's articles of association, DZ HYP has undertaken to make special contributions and payments to BVR-ISG in proportion to the volume of the covered deposits. Pursuant to section 27 (4) of the German Deposit Guarantee Act (Einlagensicherungsgesetz), BVR-ISG may generally raise, as a statutory deposit guarantee scheme, special contributions and payments of a maximum amount of up to 0.5 per cent of the covered deposits of the credit institutions allocated to it within a given settlement year.

(20) Relationships with affiliated enterprises and subsidiaries

AFFILIATED COMPANIES

	31 Dec 2021 € 000's	31 Dec 2020 € 000's
Loans and advances to		
- banks	1,911,499	2,048,804
- customers	34,426	37,581
Other assets	26,978	7,975
Liabilities to		
- banks	25,228,471	24,575,773
- customers	503,819	548,432
Other liabilities	303,180	265,303
Other provisions	631	839
Subordinated liabilities	–	10,000

Subsidiaries

As at the reporting date, liabilities to subsidiaries amounted to € 8,000 (31 December 2020: € 12,000); besides provisions of € 75,000 (31 December 2020: € 165,000), loans and advances to subsidiaries amounted to € 2,000 (31 December 2020: € 1,000).

(21) Related-party transactions

There were no related-party transactions entered into – at terms not in line with prevailing market terms – which would give rise to a disclosure duty pursuant to section 285 no. 21 of the HGB.

(22) Breakdown of maturities for loans and advances, and liabilities

		31 Dec 2021 € 000's	31 Dec 2020 € 000's
ASSETS			
Loans and advances to banks			
Remaining term	**- payable on demand**	1,035,456	799,157
	- up to three months	2,483,901	3,262,337
	- between three months and one year	40,489	327,807
	- between one year and five years	358,866	383,144
	- more than five years	12,434	11,508
		3,931,146	**4,783,953**
Loans and advances to customers			
Remaining term	**- payable on demand**	245,991	283,678
	- up to three months	1,394,265	1,228,611
	- between three months and one year	5,322,809	5,150,441
	- between one year and five years	22,901,639	21,133,424
	- more than five years	37,487,733	38,327,491
		67,352,437	**66,123,645**
Bonds and other fixed-income securities maturing in the following year		2,086,410	1,965,374
LIABILITIES AND EQUITY			
Liabilities to banks			
Remaining term	**- payable on demand**	122,273	25,325
	- up to three months	7,500,637	4,427,502
	- between three months and one year	3,053,358	6,220,560
	- between one year and five years	9,449,269	9,405,979
	- more than five years	11,708,671	11,092,987
		31,834,208	**31,172,353**
Liabilities to customers			
Remaining term	**- payable on demand**	450,463	477,788
	- up to three months	330,262	641,942
	- between three months and one year	628,888	760,442
	- between one year and five years	3,451,065	3,478,071
	- more than five years	8,953,264	10,412,172
		13,813,942	**15,770,415**
Certificated liabilities maturing in the following year		4,333,191	4,399,038

(23) Assets and liabilities in foreign currencies

	31 Dec 2021 € 000's	31 Dec 2020 € 000's
Assets include foreign-currency receivables in the total amount of	2,188,820	2,181,134
Liabilities and equity include foreign-currency liabilities in the total amount of	479,247	573,555

(24) Forward contracts not reflected in the balance sheet

The following types of forward transactions based on foreign currencies, interest rates or other underlying instruments were outstanding as at the reporting date:

	Nominal amounts by residual term			Total		Fair value			
						31 Dec 2021		31 Dec 2020	
€ mn	≤ 1 year	> 1 – 5 yrs	> 5 yrs	31 Dec 2021	31 Dec 2020	positive	negative	positive	negative
Interest rate instruments *)	9,358	45,922	78,008	133,288	133,243	4,201	5,999	6,138	8,625
Currency-related instruments	340	1,194	533	2,067	1,942	23	176	65	126
Credit-related transactions	11	24	7	42	38	–	–	–	3
Total	**9,709**	**47,140**	**78,548**	**135,397**	135,223	**4,224**	**6,175**	6,203	8,754

*) Including interest rate swaps with identical foreign currency

The breakdown of the carrying amounts of forward contracts not reflected on the balance sheet by balance sheet items pursuant to section 285 no. 19 of the HGB is as follows:

	Carrying amount 31 Dec 2021 € mn	Carrying amount 31 Dec 2020 € mn	Balance sheet item Assets	Carrying amount 31 Dec 2021 € mn	Carrying amount 31 Dec 2020 € mn	Balance sheet item Liabilities
Interest-based instruments	448	526	Loans and advances to banks, loans and advances to customers, prepaid expenses, other assets	367	463	Liabilities to banks, liabilities to customers, deferred income, other liabilities
Currency-based instruments	67	47	Loans and advances to banks, loans and advances to customers, prepaid expenses, other assets	164	50	Liabilities to banks, liabilities to customers, deferred income, other liabilities
Rating-based instruments	2	2	Loans and advances to banks, prepaid expenses	0	3	Provisions

The forward transactions identified above are used to manage interest rate, currency and counterparty credit risk exposure. As a rule, counterparties are OECD banks, OECD financial services institutions or OECD central governments. In addition, borrowers as well as a public-sector institution formerly licensed as a bank also appear as counterparties (market value of € 38.9 million) in connection with loan agreements.

Interest rate and currency swaps are valued using present values, determined by discounting cash flows to their present value as at the reporting date using interest rates in line with the credit risk and maturities concerned, as indicated by individual yield curves prevailing on the reporting date. Furthermore, credit adjustments are applied in the valuation of such trades, to reflect default risks and closing costs. Structured products are divided into components for valuation purposes.

Options are valued using option pricing models. These are applied on the basis of generally recognised assumptions regarding valuation parameters; in particular, the value and volatility of the underlying instrument, the agreed exercise price (interest rate), the remaining lifetime of the contract, as well as the risk-free interest rate for that lifetime. Regarding the valuation of foreign exchange forwards, the respective cash flows are translated into euro using the corresponding foreign currency rate, and discounted using the market interest rate appropriate to the risk level and maturity.

Credit derivatives are valued on an individual basis, predominantly on the basis of the default probability of the reference obligations concerned. Provisions have been recognised in the amount of € 0.4 million (31 December 2020: € 2.6 million) for three total return swaps held since 2006 and 2007, respectively, in order to hedge immediate counterparty risk exposure.

Market values are determined without consideration of netting agreements. The market values of derivatives are offset by compensating market values of the related hedged balance sheet items at overall bank level.

Cash collateral was provided for derivatives, as part of the Bank's collateral management, in the amount of € 2,063.7 million (31 December 2020: € 2,918.6 million).

NOTES TO THE PROFIT AND LOSS ACCOUNT

(25) Breakdown of income by geographic markets within the meaning of section 34 (2) no. 1 of the RechKredV

The breakdown of interest income, current income from equities and other non-fixed income securities, commission income and other operating income is as follows:

in %	2021	2020
GERMANY	86.0	84.2
INTERNATIONAL	14.0	15.8

(26) Interest expenses and income

Interest payments made and received in connection with derivative transactions, which are used to manage the overall interest rate risk, are recognised on a net basis in interest income or expenses. In individual exceptional cases, derivative transactions may be terminated early; the resulting compensation payments are recognised in net interest income.

Negative interest rates on financial assets and financial liabilities, due to the prevailing low interest rate environment, are offset in income against the corresponding interest expenses and interest income. Overall, interest income as disclosed in the profit and loss account comprised negative interest rates in the amount of € 2.1 million, which was considered insignificant (previous year: € 2.9 million). Interest expenses comprised positive interest of € 59.9 million (previous year: € 26.7 million).

Due to the replacement of all critical reference interest rates (such as EURIBOR or LIBOR) pursuant to the EU Benchmark Regulation (BMR) – the so-called "IBOR reform" –, interest rates on cash collateral of derivatives collateralised in euro have been switched from EONIA to € STR (Euro Short-Term Rate). This process, referred to as a "discounting switch", was performed by all clearing houses on 27 July 2020. For derivatives entered into on a bilateral basis, the changeover was completed by 31 December 2021.

The impact of the discounting switch on the present value of the derivative will be offset by a compensation payment between the two counterparties.

As DZ HYP – a Pfandbrief bank – holds derivatives exclusively in the non-trading portfolio, it makes use of the election to record the compensation payments made or received immediately through profit or loss in the net interest income.

In the period under review, the Bank received a compensation payment in the amount of € 8.0 million net (previous year: € 2.6 million), recognised in net interest income.

Another changeover in the course of the IBOR reform is the replacement of reference rates for derivatives, which started in 2021.

Due to the discontinuation of the GBP LIBOR and CHF LIBOR fixings effective from 1 January 2022 (with fixings continued in the form of synthetic interest rates from 1 January 2022), the variable interest coupon was changed to the so-called SONIA interest accrual for affected existing derivative transactions.

The necessary value transfer between the counterparties due to the difference between the two reference interest rates was taken into account with a compensating spread adjustment.

(27) Other operating income

Other operating income of € 22.6 million (previous year: € 29.0 million) primarily comprises rental income of € 9.1 million (previous year: € 9.3 million), service income of € 6.6 million (previous year: € 7.2 million) as well as € 5.5 million (previous year: € 9.8 million) in income from the reversal of provisions.

(28) Other operating expenses

Other operating expenses totalling € 22.3 million (previous year: € 20.3 million) largely include expenses of € 17.2 million (previous year: € 15.8 million) for the discounting of provisions for pensions and similar obligations, and expenses for buildings not directly used for Bank business of € 2.9 million (previous year: € 2.1 million).

(29) Income taxes

Income taxes predominantly comprise a tax levy in the amount of € 124.9 million (previous year: € 108.6 million) by the controlling company, DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, in the year under review. There were no one-off effects in the year under review (previous year: € 13.9 million).

COVERAGE

(30) Coverage by balance sheet item

	Mortgage Pfandbriefe 31 Dec 2021 € mn	Mortgage Pfandbriefe 31 Dec 2020 € mn	Public Pfandbriefe 31 Dec 2021 € mn	Public Pfandbriefe 31 Dec 2020 € mn
ORDINARY COVER	37,815	36,849	14,031	15,262
LOANS AND ADVANCES TO CUSTOMERS	37,689	36,734	11,485	12,732
Loans secured by property mortgages	37,689	36,734	34*)	37*)
Loans to local authorities	–	–	11,451	12,695
LOANS AND ADVANCES TO BANKS	32	21	295	116
Loans secured by property mortgages	32	21	–	–
Loans to local authorities	–	–	295	116
BONDS	–	–	2,251	2,414
BANK BUILDINGS	94	94	–	–
EXTENDED COVER	931	901	–	62
LOANS AND ADVANCES TO BANKS	–	–	–	62
Monetary claims	–	–	–	62
BONDS	931	901	–	–
Total	38,746	37,750	14,031	15,324

*) Under a municipal guarantee

(31) Details pursuant to section 28 of the German Pfandbrief Act

Outstanding Pfandbriefe and related cover assets

	Nominal amount		Present value		Risk-adjusted present value*)	
a) Total amount of outstanding	31 Dec 2021 € mn	31 Dec 2020 € mn	31 Dec 2021 € mn	31 Dec 2020 € mn	31 Dec 2021 € mn	31 Dec 2020 € mn
Mortgage Pfandbriefe	33,245	33,013	34,504	35,430	32,575	33,581
Cover assets pool	38,746	37,750	42,942	43,625	40,113	40,891
of which: derivatives	–	–	–	–	–	–
Excess cover	5,501	4,737	8,438	8,195	7,538	7,310
Excess cover in %	16.5	14.3	24.5	23.1	23.1	21.8

*) When calculating the risk-adjusted present value, the dynamic method pursuant to section 5 (1) no. 2 of the Present Value Cover Regulation (PfandBarwertV) was used.

	Mortgage Pfandbriefe		Cover assets pool	
Ref. a) Maturity structure	31 Dec 2021 € mn	31 Dec 2020 € mn	31 Dec 2021 € mn	31 Dec 2020 € mn
<= 6 months	1,549	1,368	1,690	1,750
> 6 months and <= 12 months	1,459	2,122	2,081	1,836
> 12 months and <= 18 months	1,739	1,550	1,497	1,285
> 18 months and <= 2 years	1,246	1,479	1,780	1,785
> 2 years and <= 3 years	3,590	2,995	3,385	3,041
> 3 years and <= 4 years	3,850	3,590	3,871	3,216
> 4 years and <= 5 years	4,330	3,850	3,847	3,414
> 5 years and <= 10 years	12,814	13,129	13,300	13,825
> 10 years	2,668	2,930	7,295	7,598
Total	**33,245**	**33,013**	**38,746**	**37,750**

Ref. a) Disclosure pursuant to section 6 of the German Pfandbrief Present Value Regulation (Pfandbrief-Barwertverordnung – "PfandBarwertV")	Net present value in €	
Currency	31 Dec 2021 mn	31 Dec 2020 mn
GBP	268.6	253.8
SEK	47.3	57.1
USD	–	44.9

Ref. a) additional indicators on Mortgage Pfandbriefe outstanding		31 Dec 2021	31 Dec 2020
Share of fixed-interest assets in total cover assets pool	%	88.9	88.8
Share of fixed-interest Pfandbriefe in liabilities to be covered	%	99.4	98.4
Total amount of assets breaching the limits as set in section 13 (1) of the PfandBG	€ mn	–	–
Average volume-weighted age of assets	in years	5.0	4.7
Average weighted loan-to-value ratio	%	54.2	54.2
Total amount of assets breaching the limits as set in section 19 (1) no. 2 of the PfandBG	€ mn	–	–
Total amount of assets breaching the limits as set in section 19 (1) no. 3 of the PfandBG	€ mn	–	–

b) Total amount of outstanding	Nominal amount 31 Dec 2021 € mn	Nominal amount 31 Dec 2020 € mn	Present value 31 Dec 2021 € mn	Present value 31 Dec 2020 € mn	Risk-adjusted present value*) 31 Dec 2021 € mn	Risk-adjusted present value*) 31 Dec 2020 € mn
Public Pfandbriefe	12,223	12,921	14,727	16,392	13,590	15,204
Cover assets pool	14,031	15,324	17,287	19,768	15,699	18,168
of which: derivatives	–	–	–	–	–	–
Excess cover	**1,808**	2,403	**2,560**	3,376	**2,109**	2,964
Excess cover in %	**14.8**	18.6	**17.4**	20.6	**15.5**	19.5

*) When calculating stress scenarios, the static method is used for currencies and the dynamic method for interest rates.

Ref. b) Maturity structure	Public-Sector Pfandbriefe 31 Dec 2021 € mn	Public-Sector Pfandbriefe 31 Dec 2020 € mn	Cover assets pool 31 Dec 2021 € mn	Cover assets pool 31 Dec 2020 € mn
<= 6 months	856	1,481	563	706
> 6 months and <= 12 months	1,561	613	665	636
> 12 months and <= 18 months	478	626	573	530
> 18 months and <= 2 years	340	292	621	624
> 2 years and <= 3 years	902	861	1,176	1,150
> 3 years and <= 4 years	1,244	902	1,091	1,369
> 4 years and <= 5 years	795	1,218	963	1,063
> 5 years and <= 10 years	2,171	2,882	3,333	3,908
> 10 years	3,876	4,046	5,046	5,338
Total	**12,223**	12,921	**14,031**	15,324

Ref. b) Disclosure pursuant to section 6 of the German Pfandbrief Present Value Ordinance (“Pfandbrief-Barwertverordnung“) Currency	Net present value in € 31 Dec 2021 mn	Net present value in € 31 Dec 2020 mn
CAD	**33.5**	34.8
CHF	**86.9**	12.4
GBP	**29.1**	24.4
JPY	**32.2**	33.6
USD	**87.9**	139.9

Ref. b) Additional indicators on Public Pfandbriefe outstanding		31 Dec 2021	31 Dec 2020
Share of fixed-interest assets in total cover assets pool	%	97.9	96.2
Share of fixed-interest Pfandbriefe in liabilities to be covered	%	95.1	95.5
Total amount of assets breaching the limits as set out in section 20 (2) no. 2 of the PfandBG	€ mn	–	–

Assets included in cover for Mortgage Pfandbriefe

by loan amount	31 Dec 2021 € mn	31 Dec 2020 € mn
<= € 300,000 €	8,905	8,867
> € 300,000 / <= € 1 mn	2,587	2,485
> € 1 mn / <= € 10 mn	10,749	11,035
> € 10 mn	15,574	14,462
Total	**37,815**	**36,849**

by type of property	31 Dec 2021 € mn	31 Dec 2020 € mn
Housing properties	21,632	21,246
Commercial properties	16,183	15,603
Total	**37,815**	**36,849**

Assets included in cover for Mortgage Pfandbriefe, by country where real property collateral is located, and by type of property

€ mn	Fiscal Year	Federal Republic of Germany	Belgium	France	United Kingdom	Netherlands	Austria	Poland	Sweden	Total
RESIDENTIAL PROPERTIES	31 Dec 2021	**1,825**	–	*) –	–	–	–	–	–	**1,825**
	31 Dec 2020	1,756	–	*) –	–	–	–	–	–	1,756
SINGLE AND DOUBLE FAMILY HOMES	31 Dec 2021	**6,564**	*) –	*) –	–	*) –	–	–	–	**6,564**
	31 Dec 2020	6,512	*) –	1	–	*) –	–	–	–	6,513
MULTI-FAMILY HOMES	31 Dec 2021	**12,953**	–	–	–	–	–	–	–	**12,953**
	31 Dec 2020	12,761	–	–	–	–	–	–	–	12,761
OFFICE BUILDINGS	31 Dec 2021	**6,016**	–	**107**	**259**	449	4	–	–	**6,835**
	31 Dec 2020	5,475	–	189	224	380	4	–	–	6,272
COMMERCIAL BUILDINGS	31 Dec 2021	**4,427**	–	**149**	**10**	112	–	49	47	**4,794**
	31 Dec 2020	4,537	–	72	9	133	–	50	55	4,856
INDUSTRIAL BUILDINGS	31 Dec 2021	**224**	–	–	–	–	–	–	–	**224**
	31 Dec 2020	143	–	–	–	–	–	–	–	143
OTHER COMMERCIAL PROPERTIES	31 Dec 2021	**3,999**	–	–	–	93	–	–	1	**4,093**
	31 Dec 2020	4,066	–	–	–	84	–	–	1	4,151
UNFINISHED NEW BUILDINGS NOT YET YIELDING RETURNS	31 Dec 2021	**508**	–	–	–	–	–	–	–	**508**
	31 Dec 2020	378	–	–	–	–	–	–	–	378
BUILDING PLOTS	31 Dec 2021	**19**	–	–	–	–	–	–	–	**19**
	31 Dec 2020	19	–	–	–	–	–	–	–	19
Total	**31 Dec 2021**	**36,535**	***) –**	**256**	**269**	**654**	**4**	**49**	**48**	**37,815**
	31 Dec 2020	35,647	*) –	262	233	597	4	50	56	36,849

*) Values < € 0.5 million

Assets included in cover for Mortgage Pfandbriefe
Total amount of registered cover assets

			Assets pursuant to section 19 (1) no. 2 of the PfandBG							
	Equalisation claims pursuant to section 19 (1) no. 1 of the PfandBG		Total		of which: covered debt securities pursuant to art. 129 of the EU Regulation no. 575/2013		Assets pursuant to section 19 (1) no. 3 of the PfandBG		Total	
Sovereign borrowers	31 Dec 2021 €mn	31 Dec 2020 € mn	31 Dec 2021 €mn	31 Dec 2020 € mn	31 Dec 2021 €mn	31 Dec 2020 € mn	31 Dec 2021 €mn	31 Dec 2020 € mn	31 Dec 2021 €mn	31 Dec 2020 € mn
Federal Republic of Germany	–	–	–	–	–	–	931	901	931	901
Total	**–**	–	**–**	–	**–**	–	**931**	901	**931**	901

In the financial year and in the previous year, there were no payments in arrears by at least 90 days on cover assets for Mortgage Pfandbriefe.

As at the current reporting date and as at the reporting date of the previous year, there were no pending or executed forced sales or forced sales proceedings on cover assets for Mortgage Pfandbriefe.

There were no purchases of plots to prevent losses on mortgages (previous year: € nil).

Total amount of interest arrears

	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
No. 4c	**€ mn**	€ mn	**€ mn**	€ mn
Total amount of interest arrears	–	0.64	–	0.09

Assets included in cover for Public Pfandbriefe
Share in total amount of Pfandbriefe outstanding (nominal)

	31 Dec 2021 € mn	31 Dec 2020 € mn	31 Dec 2021 %	31 Dec 2020 %
Total cover assets pool	14,031	15,324	114,79	118,60
of which: ordinary cover	14,031	15,262	114,79	118,12
of which: additional cover	–	62	–	0,48

Assets included in cover for Public Pfandbriefe

by loan amount	31 Dec 2021 € mn	31 Dec 2020 € mn
<= € 10 mn	5,874	5,914
> € 10 mn and <= € 100 mn	4,653	5,443
> € 100 mn	3,504	3,905
Total	**14,031**	**15,262**

Assets included in cover for Public Pfandbriefe, by country of domicile of the borrower and, in the case of full guarantee, of the guarantor

a) of which: due from	Sovereign states		Regional public-sector entities		Local public-sector entities		Other		Total a)	
€ mn	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Belgium	30	30	23	23	–	–	–	–	**53**	53
Federal Republic of Germany	26	275	1,560	1,615	8,826	9,414	478	595	**10,890**	11,899
France	40	40	–	–	–	5	–	–	**40**	45
Italy	170	170	104	116	77	78	–	–	**351**	364
Canada	–	–	253	239	4	4	–	–	**257**	243
Luxembourg	7	7	–	–	–	–	–	–	**7**	7
Austria	418	416	25	25	–	–	–	–	**443**	441
Portugal	280	280	–	–	–	–	–	–	**280**	280
Switzerland	–	–	179	171	–	–	–	–	**179**	171
Spain	50	50	699	864	30	30	–	–	**779**	944
EU institutions	–	–	–	–	–	–	85	101	**85**	101
Total	**1,021**	1,268	**2,843**	3,053	**8,937**	9,531	**563**	696	**13,364**	14,548

b) of which: guaranteed by	Sovereign states		Regional public-sector entities		Local public-sector entities		Other		Total b)		Total a) and b)	
€ mn	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Belgium	–	–	–	–	–	–	–	–	–	–	**53**	53
Federal Republic of Germany	177	51	206	130	120	241	4	5	**507**	427	**11,397**	12,326
France	–	–	–	–	–	–	–	–	–	–	**40**	45
Italy	–	–	–	–	–	–	–	–	–	–	**351**	364
Canada	–	–	136	125	–	–	–	–	**136**	125	**393**	368
Luxembourg	–	–	–	–	–	–	–	–	–	–	**7**	7
Austria	–	–	–	–	–	–	–	–	–	–	**443**	441
Portugal	–	200	–	–	–	–	–	–	–	200	**280**	480
Switzerland	–	–	–	–	–	–	–	–	–	–	**179**	171
Spain	–	–	24	24	–	–	–	–	**24**	24	**803**	968
EU institutions	–	–	–	–	–	–	–	–	–	–	**85**	101
Total	**177**	251	**366**	279	**120**	241	**4**	5	**667*)**	776*)	**14,031**	15,324

*) Totals do not include any guarantees due to promotion of export activities.

Assets included in cover for Public Pfandbriefe
Total amount of registered cover assets

	Assets pursuant to section 20 (2) no. 2 of the PfandBG							
	Equalisation claims pursuant to section 20 (2) no. 1 of the PfandBG		Total		of which: covered debt securities pursuant to art. 129 of the EU Regulation no. 575/2013		Total	
Sovereign borrowers	31 Dec 21 € mn	31 Dec 20 € mn	31 Dec 21 € mn	31 Dec 20 € mn	31 Dec 21 € mn	31 Dec 20 € mn	31 Dec 21 € mn	31 Dec 20 € mn
Federal Republic of Germany	–	–	–	62	–	–	–	62
Total	–	–	–	62	–	–	–	62

In the financial year and in the previous year, there were no payments in arrears by at least 90 days on cover assets for Public Pfandbriefe.

OTHER INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

(32) Audit and consulting fees within the meaning of Section 285 no. 17 of the HGB

Auditors' fees are recognised in the consolidated financial statements of DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main. They mainly relate to fees for auditing and certification services. Moreover, the fees contain other services for support in a Group-wide sustainability project to a small extent.

(33) Executive bodies of DZ HYP

Supervisory Board

Uwe Fröhlich
Co-Chief Executive Officer
of the Board of
Managing Directors,
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main
– Chairman –

Dagmar Mines
Bank employee,
DZ HYP AG
– Deputy Chairwoman –

Thomas Müller
Spokesman of the
Management Board,
Volksbank Dresden-Bautzen eG
– Deputy Chairman –

Brigitte Baur
Bank Director (retd.)
until 7 May 2021

Uwe Berghaus
Member of the Board
of Managing Directors,
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main

Dr Michael Düpmann
Member of the
Management Board,
VR Bank Rhein-Neckar eG
since 7 May 2021

Ralph Gruber
Bank employee,
DZ HYP AG

Harald Herkströter
Chairman of the
Management Board,
Volksbank Halle/Westf. eG

Olaf Johnert
Bank employee,
DZ HYP AG

Carsten Jung
Chairman of the
Management Board,
Berliner Volksbank eG

Petra Kalbhenn
Member of the
Management Board,
VR Bank Main-Kinzig-
Büdingen eG
since 7 May 2021

Michael Kuehn
Bank employee,
DZ HYP AG

Anja Niehues
Bank employee,
DZ HYP AG

Johannes Röring
Chairman of the
Management Board,
Stiftung Westfälische Landschaft

Martin Schmitt
Bank Director (retd.)
until 7 May 2021

Michael Speth
Member of the Board of
Managing Directors,
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main

Heinrich Stumpf
Deputy Spokesman of the
Management Board,
VR Bank Augsburg-Ostallgäu eG
since 7 May 2021

Frank Thurau
Bank employee,
DZ HYP AG

Hans-Peter Ulepić
Spokesman of the
Management Board,
Gladbacher Bank
Aktiengesellschaft von 1922

Monika van Beek
Director of association,
Member of the
Management Board,
Baden-Württembergischer
Genossenschaftsverband e.V.
until 30 June 2021

Management Board

Dr Georg Reutter
– Chief Executive Officer –

Sabine Barthauer
since 1 January 2021

Jörg Hermes

(34) Remuneration of the executive bodies

	2021 € 000's	2020 € 000's
Supervisory Board	245	245
Management Board	2,018	1,942
Advisory Council	134	120
Former members of the Management Board or their surviving dependants	3,137	3,056
Provisions for current pensions and pension commitments for former members of the Management Board or their surviving dependants	40,383	37,119

(35) Offices held by members of the Management Board or members of staff in supervisory bodies of large limited companies

As at 31 December 2021, neither the members of the Management Board nor members of staff held any offices in supervisory bodies of large limited companies.

(36) Average number of employees

	Male	Female	2021 Total	Male	Female	2020 Total
TOTAL NUMBER OF EMPLOYEES	457	374	831	440	379	819
of which: full-time employees	433	218	651	414	200	614
part-time employees						
number	24	156	180	26	179	205
weighted	(19)	(102)	(121)	(20)	(117)	(137)

(37) Information about the parent company pursuant to section 285 no. 14 of the HGB

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, prepares consolidated financial statements which incorporate the financial statements of DZ HYP. The consolidated financial statements of DZ BANK are published in the German Federal Gazette (Bundesanzeiger).

Report on material events after the reporting date

No events of particular importance materialised during the period from 1 January to 24 February 2022 which would have required a materially different presentation of DZ HYP's net assets, financial position and financial performance, had they occurred earlier.

Hamburg and Münster, 24 February 2022

DZ HYP AG

Dr Georg Reutter
– Chief Executive Officer –

Sabine Barthauer

Jörg Hermes

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Hamburg, 24 February 2022

DZ HYP AG

Dr Georg Reutter
– Chief Executive Officer –

Sabine Barthauer

Jörg Hermes

REPETITION OF INDEPENDENT AUDITOR'S REPORT

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB" ("Separate report on ESEF conformity"). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the "Federal Gazette".

To DZ HYP AG, Hamburg and Münster

Report on the audit of the annual financial statements and of the management report

Audit Opinions

We have audited the annual financial statements of DZ HYP AG, Hamburg and Münster, which comprise the balance sheet as at 31 December 2021, the statement of profit and loss, the cash flow statement and the statement of changes in equity for the business year from 1 January to 31 December 2021, and the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of DZ HYP AG for the financial year from 1 January to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).
In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying annual financial statements comply in all material respects with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the financial year from 1 January to 31 December 2021 in compliance with German Legally Required Accounting Principles and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 of HGB and the EU Audit Regulation on

Auditors (No. 537/2014; referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for the Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibility under those requirements and principles are further described in the "Auditor's Responsibility for the Audit of the Annual Financial Statements and Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 Januar to 31 December 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significant in our audit was as follows:

Allowance for credit losses in lending business

Our presentation of this key audit matter has been structured in each case as follows:

- Matter and issue
- Audit approach and findings
- Reference to further information

Hereinafter we present the key audit matter:

Allowance for credit losses in lending business

- In DZ HYP AG's annual financial statements loan receivables amounting to EUR 67.4 billion (82.5 % of total assets) are reported under the "Loans to customers" balance sheet item and amounting to EUR 3.9 billion (4,8 % of total assets) under the "Loans to banks" balance sheet item. In addition, there are contingent liabilities and other commitments in the amount of EUR 7.7 billion. As of December 31, 2021, there is an allowance for credit losses in the statement of financial position consisting specific and general valuation allowances and provisions for the lending business. The measurement of the allowance for credit in lending business is determined in particular by the structure and quality of the loan portfolios, macroeconomic factors and executive director's estimates with regard to future credit defaults, among other things also against the background of the expected effects of the ongoing Corona crisis on the lending business. The amount of the specific valuation allowances on loans to customers reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. General valuation allowances are recognized for foreseeable counterparty risks in the lending business of banks that have not yet been specifically identified for individual borrowers. For this purpose, a general valuation allowance is recognized for loans for which no specific allowance has been recognized in the amount of the expected loss for an observation period of twelve months, unless the credit default risk has increased significantly since the date of addition. In the event of a significant increase in the credit default risk since addition, a general valuation allowance is recognized for the losses expected over the remaining term of the loans concerned for loans for which no specific allowance has been recognized. The amount of the valuation allowances and provisions for credit losses are highly significant for the assets, liability and financial performance of the Company and, on the other hand, they involve considerable judgement on the part of executive director's with regard to the cash flows still expected from a loan and the macroeconomic forecasts in the model used to calculate the general valuation allowances. Furthermore, the measurement parameters applied, which are subject to material uncertainties also due to Corona crisis, have a significant impact on the recognition and the amount of any valuation allowances required. Against this background, this matter was of particular significance during our audit.

» As part of our audit, we initially assessed the design of the relevant internal control system of the Company. Thereby, we considered the business organization, the IT systems and the relevant measurement models. In addition, we evaluated the assessment of the loans, including the appropriateness of estimated values, on the basis of sample testing of loan engagements. For this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the corresponding collaterals. For real estate as collateral, we obtained an understanding of and critically assessed the source data, measurement parameters applied, and assumptions made on which the expert valuations provided to us by the Company were based and evaluated whether they lay within an acceptable range. In addition, for the purpose of assessing the specific and general valuation allowances applied, we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters. In this context we especially evaluated the assessment of the executive director's regarding the expected effects of the Corona crisis on the economic situation of the borrowers and the valuation of the corresponding collateral and examined their consideration in the valuation of the customer loans. With the assistance of our specialists in the mathematical finance, we have assessed the calculation of counterparty risks not yet specified for individual borrowers in the model for determining general valuation allowances. Based on our audit procedures performed, we were able to satisfy ourselves that the assumptions made by the executive director's for the purpose of testing the recoverability of the loan portfolio are justifiable overall, and that the controls implemented by the Company are appropriate and effective.

» The Company's disclosures regarding the allowance for lending business are contained in the notes of the financial statements in section 2 "Accounting and measurement principles" and in the Management Report in the "Results of Operations" section of the economic report.

Other information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards) as a component of the management report that has not been audited.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of conclusion thereon. In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

» is materially inconsistent with the annual financial statements, with the management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
» otherwise appears to be materially misstated.

Responsibility of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting

Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and the management report.

Auditor's Responsibility for the Audit of the Annual Financial Statements and the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

» Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
» Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
» Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
» Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material un-

certainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the electronic file DZHYP_AG_JA+LB_ESEF-2021-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Annual Financial Statements and on the Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibility of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 of the HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered as necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 of the HGB for the electronic reporting format, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work.
We also:

» Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
» Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
» Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the annual financial statements on the technical specification for this electronic file.
» Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and to the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditors by the Annual General Meeting on May 26, 2021. We were engaged by the Supervisory Board on May 26, 2021. We have been the auditor of the DZ HYP AG, Hamburg and Münster, without interruption since the 2021 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Reference to another matter – use of the auditor's report

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Gero Martens.

Hamburg, 24 February 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Gero Martens	ppa. Uwe Gollum
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

Uwe Fröhlich
Chairman of the Supervisory Board

In the second year of the COVID-19 pandemic, DZ HYP once again managed to perform well in the market, with a volume of new business exceeding the previous year's figure. Despite dealing with persisting burdens – including regulatory-driven projects, internal restructuring measures (completed during the year under review) aimed at an efficient and future-proof positioning, and uncertainty surrounding COVID-19 – DZ HYP successfully concluded the 2021 financial year. Thus, the Bank not only proved itself once again to be a leading real estate finance provider in Germany, but also made a positive contribution to DZ BANK Group's results.

DZ HYP's strong new business development in the year under review was accompanied by lively transaction activity on the real estate markets. At the same time, the ongoing COVID-19 pandemic continued to weigh on individual asset classes, as was already the case in the previous year, with varying effects in each segment. For example, the Retail Customers business remained almost unaffected by the pandemic: amidst rising prices and high demand for residential real estate, the new business development materially exceeded the Bank's expectations. Development of the Corporate Clients business was solid and ahead of planning. Hotels and parts of the retail sector were significantly affected by the pandemic. Finally, the Corporate Clients and Retail Customers segments once again benefited from rising average margins.

In the 2021 financial year, the Bank continued to respond prudently and cautiously to ongoing uncertainty concerning COVID-19 within the framework of its existing risk strategy. Taking a multi-year view, the business performance forms part of a series of good financial years.

The business with cooperative banks was further expanded in 2021. This not only reflects the sustained high interest of cooperative banks in collaborating with DZ HYP in the real estate business, but also confirms the Bank's successful strategy with its focus on joint lending. DZ HYP has positioned itself as a product provider in this business, supporting its local partners with on demand and competitive products.

During the year under review, the Supervisory Board dealt regularly and in detail with business developments in the Corporate Clients, Retail Customers, and Public Sector segments, as well as with the development of the Bank's Southern European portfolio. It also gave considerable attention to the Bank's risk situation and risk management system. In this context, the Supervisory Board also continuously addressed the possible impacts of the COVID-19 pandemic on the Bank's business development and the risk situation, especially regarding the varying effects on individual asset classes – most importantly, the office, retail and hotel segments.

Furthermore, the activities of the Supervisory Board focused on assessing the work and qualifications of the Supervisory Board and Management Board at annual intervals. The Supervisory Board also looked at the Bank's remuneration systems and the report of the Remuneration Officer, as well as the target achievement levels of, and remuneration paid to, members of the Management Board. The review of the diversity targets and the report on compliance with the Bank's lending standards were further points of discussion. In addition, the Supervisory

Board also dealt with the replacement of vacant Supervisory Board and committee mandates as well as the suitability of new shareholder representatives to be elected to the Supervisory Board or the Audit Committee. It also addressed the digitalisation of the Bank, the transfer of registered shares to DZ BANK AG, as well as the finalisation of the change of the external auditor due to take place in the financial year under review.

The Supervisory Board and its Committees

During the year under review, the Supervisory Board of DZ HYP and its committees monitored the Management Board's management of the Bank in accordance with statutory regulations and those set out in the Bank's Articles of Incorporation, and also took decisions on those transactions required to be presented to the Supervisory Board for approval. To fulfil its tasks, the Supervisory Board established a Nomination Committee, a Remuneration Oversight Committee, an Audit Committee, and a Risk Committee during the 2021 financial year.

The self-evaluation of the Supervisory Board and evaluation of the Management Board of DZ HYP performed between April and May 2021 concluded that the structure, size, composition and performance of the Supervisory Board and Management Board, as well as the knowledge, abilities and experience of the individual members of both the Supervisory Board and Management Board (as well as both Boards as a whole) were wholly in accordance, both with the statutory requirements and with those requirements set out in the Bank's Articles of Incorporation. The Supervisory Board also has adequate human and financial resources at its disposal to assist members in taking up office, and ensure they receive in-house training to help them maintain the required expertise. The next regular evaluation of DZ HYP's Supervisory Board and Management Board is scheduled for the first half of 2022. Under the coordination of the newly-elected external auditor, an internal training on banking-specific issues was held for the Supervisory Board members in 2021.

Cooperation with the Management Board

The Management Board reported to the Supervisory Board on DZ HYP's situation and performance, general business developments, profitability and risk exposure, regularly, in good time and comprehensively, both in writing and in verbal reports. In this context, it also reported on current impacts of the COVID-19 pandemic. Furthermore, the Supervisory Board was informed by the Management Board concerning the Bank's operative and strategic planning, and about material lending exposures and investments. The Management Board regularly informed the Supervisory Board about DZ HYP's future organisational and strategic focus.

The Supervisory Board discussed these issues, current developments and matters relating to the Bank's strategic focus with the Management Board; it advised the Management Board, and supervised the management of the Company. The Supervisory Board was involved in all decisions that were of fundamental importance to the Bank.

Meetings of the Supervisory Board

The Supervisory Board convened three times during the 2021 financial year. In addition, the committees established by the Supervisory Board – the Nomination Committee, the Remuneration Oversight Committee, the Audit Committee and the Risk Committee – convened on numerous occasions during 2021. The Chairmen of the various committees regularly gave accounts of their work to the plenary meeting.

Between the Supervisory Board meetings, the Management Board informed it in writing about the Bank's business and risk development. During discussions with the Management Board outside the meetings, the Chairman of the Supervisory Board and the Chairmen of the Committees also discussed key decisions – especially transactions and the development of the Bank's business and risk exposure – on a regular basis as well as when required. Overall, the members of the Supervisory Board and its Committees participated regularly in the written resolutions and meetings of the respective bodies during the 2021 financial year. To avoid any conflicts of interest in the Risk Committee, committee members affected by such conflicts of interest did not participate in the respective resolutions. There were no other potential conflicts of interest during the year under review.

Cooperation with the external auditors

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which presented a declaration of independence to the Supervisory Board, audited the annual financial statements of DZ HYP, including the accounting records and management report of DZ HYP for the 2021 financial year presented to it by the Management Board, and found these to be in line with statutory requirements. It issued an unqualified audit opinion. The audit report was submitted to members of the Supervisory Board, and was discussed in detail during Supervisory Board meetings. The Supervisory Board agreed to the results of the audit by the auditors, in line with a recommendation by the Audit Committee.

Approval and confirmation of the financial statements

The Supervisory Board and the Audit Committee reviewed the annual financial statements and the management report of DZ HYP in detail at their meetings. The Chairman of the Audit Committee notified the Supervisory Board about the detailed discussions of the Committee regarding the financial statements and the management report of the Bank. The auditor's representatives participated in the Supervisory Board meeting to adopt the annual financial statements, and in the preparatory meetings of the Audit Committee and the Risk Committee, and reported in detail on the key findings of their audit. They were also available to answer questions put by Supervisory Board members. The Supervisory Board raised no objections with regard to the accounts. In its meeting on 31 March 2022, the Supervisory Board approved the financial statements of DZ HYP as at 31 December 2021, prepared by the Management Board. The annual financial statements are thus confirmed.

Personnel changes within the Supervisory Board and the Management Board

Ms Brigitte Baur and Mr Martin Schmitt left the Supervisory Board, effective at the end of the General Meeting on 7 May 2021. With effect from the same date, Ms Petra Kalbhenn, Dr Michael Düpmann and Mr Heinrich Stumpf were newly elected to the Supervisory Board by the General Meeting. With effect from 7 May 2021, the Supervisory Board elected Mr Harald Herkströter to the Audit Committee. With effect from 30 June 2021, Ms Monika van Beek resigned from the Supervisory Board.

Mr Manfred Salber, a long-standing member of DZ HYP's Management Board, retired as at 31 December 2020. Ms Sabine Barthauer succeeded him, with effect from 1 January 2021.

Otherwise, there were no changes to the members of the Supervisory Board and the Management Board during the 2021 financial year.

The Supervisory Board would like to thank the Management Board, and all of DZ HYP's staff, for their commitment and successful contribution during the financial year 2021.

Hamburg and Münster, 31 March 2022

DZ HYP AG
The Supervisory Board

Uwe Fröhlich
Chairman of the Supervisory Board

SERVICE

CORPORATE BODIES AND COMMITTEES, EXECUTIVES

Supervisory Board

Uwe Fröhlich
Co-Chief Executive Officer
of the Board of
Managing Directors,
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main
– Chairman –

Dagmar Mines
DZ HYP AG,
Hamburg
– Deputy Chairwoman –

Thomas Müller
Spokesman of the
Management Board
Volksbank Dresden-Bautzen eG,
Dresden
– Deputy Chairman –

Uwe Berghaus
Member of the Board of
Managing Directors
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main

Dr Michael Düpmann
Chairman of the
Management Board,
VR Bank Rhein-Neckar eG
Mannheim

Ralph Gruber
DZ HYP AG,
Hamburg

Harald Herkströter
Chairman of the
Management Board,
Volksbank Halle/Westf. eG,
Halle (Westphalia)

Olaf Johnert
DZ HYP AG,
Hamburg

Carsten Jung
Chairman of the
Management Board
Berliner Volksbank eG,
Berlin

Petra Kalbhenn
Member of the
Management Board,
VR Bank Main-Kinzig-
Büdingen eG,
Linsengericht

Michael Kuehn
DZ HYP AG,
Münster

Anja Niehues
DZ HYP AG,
Münster

Johannes Röring
Chairman of the
Management Board,
Stiftung Westfälische
Landschaft,
Vreden

Michael Speth
Member of the Management
Board of Managing Directors
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main

Heinrich Stumpf
Deputy Spokesman of the
Management Board,
VR Bank Augsburg-Ostallgäu eG,
Augsburg

Frank Thurau
DZ HYP AG,
Münster

Hans-Peter Ulepić
Spokesman of the
Management Board,
Gladbacher Bank
Aktiengesellschaft von 1922,
Mönchengladbach

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Advisory Board – Banks

Stefan Baumann
Member of the Management Board,
Heidelberger Volksbank eG,
Heidelberg

Ralf Baumbusch
Member of the Management Board,
VR-Bank Ostalb eG,
Aalen

Thomas Büscher
Deputy Chairman of the Management Board,
VR Bank eG Bergisch Gladbach-Leverkusen,
Bergisch Gladbach

Joachim Erhard
Deputy Speaker of the Management Board,
Volksbank Raiffeisenbank Würzburg eG,
Würzburg

Klaus Hatzel
Director and member of the Management Board,
meine Volksbank Raiffeisenbank eG,
Rosenheim

Karl-Heinz Hempel
Member of the Management Board,
Volksbank Raiffeisenbank Dachau eG,
Dachau

Rita Herbers
Member of the Management Board,
Hamburger Volksbank eG,
Hamburg

Michael Hietkamp
Speaker of the Management Board,
Volksbank Vorpommern eG,
Greifswald

Wolfgang Hillemeier
Chairman of the Management Board,
Volksbank Rietberg eG,
Rietberg

Wolfgang Hirmer
Speaker of the Management Board,
VR-Bank Langenau-Ulmer Alb eG,
Langenau

Johannes Hofmann
Deputy Chairman of the Management Board,
VR-Bank Metropolregion Nürnberg eG,
Nuremberg

Herbert Kohlberg
Member of the Management Board,
Mainzer Volksbank eG,
Mainz

Christoph Kothe
Member of the Management Board,
Leipziger Volksbank eG,
Leipzig

Ina Kreimer
Member of the Management Board,
VerbundVolksbank OWL eG,
Paderborn

Thomas Ludwig
Deputy Speaker of the Management Board,
Volksbank Raiffeisenbank Nordoberpfalz eG,
Weiden

Florian Mann
Chairman of the Management Board,
Raiffeisenbank Regensburg-Wenzenbach eG,
Regensburg

Sabine Meister
Member of the Management Board,
Volksbank Konstanz eG,
Konstanz

Gregor Mersemann
Member of the Management Board,
Dortmunder Volksbank eG,
Dortmund

Christoph Ochs
Chairman of the Management Board,
VRBank Südpfalz eG,
Landau

Frank Overkamp
Chairman of the Management Board,
Volksbank Gronau-Ahaus eG,
Gronau

Ralf Pakosch
Member of the Management Board,
Frankfurter Volksbank eG,
Frankfurt/Main

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Andreas Walter Ritzenhofen
Member of the
Management Board,
Volksbank Rhein-Erft-Köln eG,
Hürth

Volker Schmelzle
Member of the
Management Board,
Volksbank Plochingen eG,
Plochingen

Norbert Schmitz
Speaker of the
Management Board,
VR-Bank Fläming eG,
Luckenwalde

Tobias Schmitz
Member of the
Management Board,
Volksbank Alzey-Worms eG,
Worms

Reiner Schomacker
Member of the
Management Board,
Volksbank Raiffeisenbank eG,
Itzehoe

Ralf Schomburg
Member of the
Management Board,
VR Bank Westthüringen eG,
Mühlhausen

Volker Spietenborg
Member of the
Management Board
Volksbank Freiburg eG,
Freiburg

Thomas Stolper
Speaker of the
Management Board,
Volksbank eG,
Wolfenbüttel

Stefan Terveer
Member of the
Management Board,
Volksbank Westerstede eG,
Westerstede

Advisory Board – Public Sector

Christian Schuchardt
Lord Mayor of
City of Würzburg,
Würzburg
– Chairman –

Konrad Beugel
Finance and Economics Officer
of the City of Erlangen,
Erlangen

Heinrich Böckelühr
President, Municipal Audit
Authority of North Rhine-
Westphalia,
Herne

Dr Birgit Frischmuth
Senior Policy Advisor,
Association of German Cities –
Finance Department,
Berlin

Dr Stefan Funke
Treasurer/Director of the
District of Warendorf,
Warendorf

Claus Hamacher
Councillor for Finance
and Municipal Economy,
Association of Cities and
Municipalities in North-Rhine
Westphalia,
Dusseldorf

Markus Kreuz
Treasurer of the
City of Hamm,
Hamm

Dr Georg Lunemann
First Councillor and Treasurer,
Landschaftsverband
Westphalia-Lippe,
Münster

Andreas Merkel
Treasurer of the
City of Gaggenau,
Gaggenau

Dr Frank Nagel
Head of the Credit Department,
Ministry of Finance of the State
of Rhineland-Palatinate,
Mainz

Kay Uffelmann
First District Councillor,
Harburg disctrict,
Winsen/Luhe

Christine Zeller
Finance, Investments and
Migration Department,
City of Münster,
Münster

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Advisory Board – Housing Sector

Uwe Flotho
Member of the Management Board of Vereinigte Wohnstätten 1889 eG, Kassel
– Chairman –

Franz-Bernd Große-Wilde
Chairman of the Management Board of Spar- und Bauverein eG, Dortmund

Christian Amlong
Speaker of the Management Board GWG Städtische Wohnungsgesellschaft München GmbH, Munich

Peter Kay
Member of the Management Board of BGFG – Baugenossenschaft freier Gewerkschafter eG, Hamburg

Steffan Liebscher
Member of the Management Board of GEWOBA Nord Baugenossenschaft eG, Schleswig

Matthias Lüdecke
Chairman of the Management Board of Wohnungsverein Hagen eG, Hagen

Andreas Otto
Chairman of the Management Board of GWG Gifhorner Wohnungsbau-Genossenschaft eG, Gifhorn

Peter Stammer
Executive Board member of Baugenossenschaft Familienheim Heidelberg eG, Heidelberg

Sybille Wegerich
Member of the Management Board of bauverein AG, Darmstadt

Jörn-M. Westphal
Managing Director of ProPotsdam GmbH, Potsdam

Jörg Wollenberg
Commercial Director, bbg Berliner Baugenossenschaft eG, Berlin

Management Board and distribution of responsibilities

Dr Georg Reutter
– Chief Executive Officer –

- Segment Corporate Clients
- Segment Retail Customers
- Segment Public Sector
- Treasury
- Communications, Marketing & Events

Sabine Barthauer

- Back Office Corporate Clients
- Back Office Treasury & Public Sector
- Risk Controlling
- Legal, Management Board Office, Restructuring, Recovery

Jörg Hermes

- Compliance
- Finance
- Internal audit
- IT and Organisation & Operations
- Human Resources

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Department Heads

Patrick Ernst
Treasury

Norbert Grahl
Back Office Corporate Clients

Steffen Günther
Segment Corporate Clients,
– Institutional & International Clients

Axel Jordan
Segment Corporate Clients
– SMEs & Cooperative Banks

Markus Krampe
Segment Public Sector
Segment Retail Customers

Dr Stefan Krohnsnest
Risk Controlling

Maik Michaelis
Finance

Peter Ringbeck
IT, Organisation & Operations

Arne Schneider
Human Resources

Frank Schneider
Compliance

Siegfried Schneider
Back Office – Treasury & Public Sector

Jürg Schönherr
Segment Corporate Clients
– Housing Sector

Peter Vögelein
Internal Audit

Carsten Hendrik Vollnberg
Legal, Management Board Office, Restructuring, Recovery

Anke Wolff
Communications, Marketing & Events

Trustees

Dr Michael Labe
Judge at the Hamburg Higher Regional Court (Hanseatisches Oberlandesgericht Hamburg),
Hamburg

Michael Führer
Deputy Trustee,
Public Auditor and tax advisor,
Münster

Björn Reher
Deputy Trustee,
Public Auditor and tax advisor,
Hamburg

Updated: 1 April 2022

DZ HYP ADDRESSES

Hamburg Head Office
Rosenstrasse 2
20095 Hamburg, Germany
PO Box 10 14 46
20009 Hamburg, Germany
Phone: +49 40 3334-0

Münster Head Office
Sentmaringer Weg 1
48151 Münster, Germany
Mailing address:
48136 Münster, Germany
Phone: +49 251 4905-0

Commercial Real Estate Investors

Real Estate Centre Berlin
Pariser Platz 3
10117 Berlin, Germany
Phone: +49 30 31993-5101

Real Estate Centre Düsseldorf
Ludwig-Erhard-Allee 20
40227 Düsseldorf, Germany
Phone: +49 211 220499-30

Real Estate Centre Frankfurt
CITY-HAUS I, Platz der Republik 6
60325 Frankfurt/Main, Germany
Phone: +49 69 750676-21

Real Estate Centre Hamburg
Rosenstrasse 2
20095 Hamburg, Germany
Phone: +49 40 3334-3778

Hanover Regional Office
Berliner Allee 5
30175 Hanover, Germany
Phone: +49 511 866438-08

Kassel Regional Office
CITY-HAUS I, Platz der Republik 6
60325 Frankfurt/Main, Germany
Phone: +49 69 750676-51

Leipzig Regional Office
Schillerstrasse 3
04109 Leipzig, Germany
Phone: +49 341 962822-92

Mannheim Regional Office
Augustaanlage 61
68165 Mannheim, Germany
Phone: +49 621 728727-20

Real Estate Centre Munich
Türkenstrasse 16
80333 Munich, Germany
Phone: +49 89 512676-10

Münster Regional Office
Sentmaringer Weg 1
48151 Münster, Germany
Phone: +49 251 4905-7314

Nuremberg Regional Office
Am Tullnaupark 4
90402 Nuremberg, Germany
Phone: +49 911 940098-16

Real Estate Centre Stuttgart
Heilbronner Strasse 41
70191 Stuttgart, Germany
Phone: +49 711 120938-0

Institutional Clients
Rosenstrasse 2
20095 Hamburg, Germany
Phone: +49 40 3334-2159

Housing Sector

DZ HYP Berlin
Pariser Platz 3
10117 Berlin, Germany
Phone: +49 30 31993-5080

DZ HYP Frankfurt
CITY-HAUS I, Platz der Republik 6
60325 Frankfurt/Main, Germany
Phone: +49 69 750676-32

DZ HYP Munich
Türkenstrasse 16
80333 Munich, Germany
Phone: +49 89 512676-55

DZ HYP Düsseldorf
Ludwig-Erhard-Allee 20
40227 Düsseldorf, Germany
Phone: +49 211 220499-5808

DZ HYP Hamburg
Rosenstrasse 2
20095 Hamburg, Germany
Phone: +49 40 3334-4705

DZ HYP Stuttgart
Heilbronner Strasse 41
70191 Stuttgart, Germany
Phone: +49 711 120938-40

Retail Customers

DZ HYP Berlin
Pariser Platz 3
10117 Berlin, Germany
Phone: +49 40 31993-5086

DZ HYP Frankfurt
CITY-HAUS I, Platz der Republik 6
60325 Frankfurt/Main, Germany
Phone: +49 69 750676-12

DZ HYP Munich
Türkenstrasse 16
80333 Munich, Germany
Phone: +49 89 512676-40

DZ HYP Düsseldorf
Ludwig-Erhard-Allee 20
40227 Düsseldorf, Germany
Phone: +49 211 220499-5835

DZ HYP Hamburg
Rosenstrasse 2
20095 Hamburg, Germany
Phone: +49 40 3334-4706

DZ HYP Stuttgart
Heilbronner Strasse 41
70191 Stuttgart, Germany
Phone: +49 711 120938-39

Public Sector Clients

Sentmaringer Weg 1
48151 Münster, Germany
Phone: +49 251 4905-3333

DZ HYP AG

Rosenstraße 2
20095 Hamburg
Tel.: +49 40 3334-0

Sentmaringer Weg 1
48151 Münster
Tel.: +49 251 4905-0

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