Volksbanken Raiffeisenbanken
cooperative financial network

HALF-YEARLY FINANCIAL REPORT 2023

30 June 2023

DZ HYP

DEVELOPMENT OF NEW BUSINESS

€ mn	1 Jan to 30 Jun 2023	1 Jan to 30 Jun 2022
Corporate Clients	3,058	3,964
Retail Customers	349	1,050
Public Sector Clients	219	160

PORTFOLIO DEVELOPMENT

€ mn	30 Jun 2023	31 Dec 2022
Total assets	76,848	77,224
Mortgage loans	56,771	56,686
Originated loans to local authorities	9,044	9,283
Securities business	8,278	8,411
Pfandbriefe and other debt securities	48,810	48,672
Own funds	1,938	1,895
Total capital ratio (%)	12.4	12.6
Tier 1 ratio (%)	11.9	12.1
Common equity tier 1 ratio (%)	11.9	12.1

PROFIT AND LOSS ACCOUNT

€ mn	1 Jan to 30 Jun 2023	1 Jan to 30 Jun 2022
Net interest income	366.9	335.4
Net commission result	-6.2	-9.9
Administrative expenses	155.8	176.7
Net other operating income/expenses	7.4	2.5
Risk provisioning	-21.9	-39.4
Net financial result	0.2	1.8
Operating profit	190.6	113.7
Allocation to the fund for general banking risks	44.0	37.0
Taxes	102.2	31.8
Partial profit transfer	0.4	7.9
Profits to be transferred under a profit and loss transfer agreement	44.0	37.0

NUMBER OF EMPLOYEES

	30 Jun 2023	31 Dec 2022
Average	862	855

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LETTER FROM THE MANAGEMENT BOARD

Ladies and Gentlemen,

The previous year's turnaround of the macroeconomic environment made a clear impact upon the German economy in the first six months of 2023. Key drivers for the decline in gross domestic product include an inflation easing at a snail's pace, energy prices remaining persistently high, and further monetary policy tightening. Despite multiple increases, the European Central Bank has not yet completed its cycle of interest rate hikes to combat inflation; as a consequence, the macroeconomic development is expected to remain subdued. Much depends upon how the monetary measures will dampen the economy.

Given this environment, activity on the real estate markets has slowed. Higher construction costs, increased lending rates, and uncertainty about future requirements for new heating technology and energy-efficient refurbishments have led to buyers and sellers remaining on the sidelines, thus dampening financing demand: the transaction volume for commercial real estate and residential portfolios was markedly lower than in the same period of the previous year. Private residential real estate markets saw some early signs of turning from their upward path in the period under review: whilst prices recently started to fall, rents kept rising.

These developments impacted our new business, which – at €3.6 billion – fell short of the previous year's result. Nonetheless, we financed attractive projects – and we are pleased to say that business relations with our clients have remained trusting and strong during these challenging times. Our partnership with the German cooperative banks is particular noteworthy. As usual, we worked together closely during the period under review, and were able to uphold the previous year's solid level for our joint lending business.

Rigorous pursuit of our business and risk strategy led to a stable financial situation and robust financial performance in the period under review. A viable business model, existing general risk provisions and an absence of any obvious risks to date provided the basis for a sound financial position and performance.

Sustainability remains a key element of our business. After issuing our first green Pfandbrief at the beginning of last year, we successfully placed another green dual-tranche issue in January 2023 that met with very strong demand. Our success on the capital markets demonstrates that investors appreciate our efforts and entrust us with their money to promote sustainable transformation within the real estate sector. The positive response to our green Pfandbrief products has encouraged us to continue this journey, and establish DZ HYP as a regular issuer in this segment.

Following a 15-year tenure on DZ HYP's Management Board, including 14 years as its Spokesman and Chief Executive Officer, Dr Georg Reutter left DZ HYP with effect from 31 July 2023. We would like to thank Dr Reutter once again for his many years of dedication, commitment and contributions to the Bank's success. Under his tenure, DZ HYP established itself not only as one of the leading real estate finance providers in Germany but also became a key earnings driver within the DZ BANK Group. Stefan Schrader will join the Management Board as a new member on 1 November 2023. Together, we will maintain DZ HYP's strategic focus and ensure the Bank's continuity.

The second half of the year will remain challenging. We can only speculate to what extent the real estate markets will recover. What we do know, however, is that we are in the midst of a fundamental transformation that will continue well beyond the current financial year, with demographic shifts and climate change playing decisive roles. In this context, we lay particular emphasis on maintaining the trustful dialogue we enjoy with clients and partners alike, on being their reliable financing partner, and – together – seizing the opportunities that may arise.

Yours sincerely,
Management Board of DZ HYP

Sabine Barthauer
Chief Executive Officer

Jörg Hermes

Hamburg and Münster, August 2023

ECONOMIC ENVIRONMENT

The German economy slowed further during the first six months of 2023. After adjustment for price, seasonal and calendar effects, German gross domestic product (GDP) had shrunk 0.4 per cent during the fourth quarter of 2022 and contracted another 0.1 per cent in the first three months of the current year. A second consecutive quarterly decline in GDP meant that the German economy slid into a technical recession. In the second quarter of 2023, German output stagnated compared to the first quarter at 0.0 per cent, again adjusted for price, seasonal and calendar effects. Looking at the first six months of 2023, GDP declined by 0.6 per cent year-on-year. The European Central Bank (ECB) increased interest rates four times between January and June 2023 in an effort to curb high inflation. By the end of June, its main refinancing rate stood at 4 per cent, having risen by 1.5 percentage points since the start of the year. This compares to a main refinancing rate of 0 per cent in mid-2022.

Inflation continued to weigh on consumer prices. Based on the Harmonised Index of Consumer Prices, the rate of inflation was 6.8 per cent at the mid-point of 2023. Government action taken in the previous year, such as the temporary flat-fee public transport card ("€9 ticket") and an equally temporary reduction in mineral oil tax ("fuel rebate"), resulted in a statistical base effect, and subsequently in a higher inflation rate in the first six months of 2023. The main driver of inflation during the reporting period was the increase in food prices, which were up by 13.7 per cent year-on-year as per end of June 2023. Energy prices have soared since Russia's attack on Ukraine in February 2022, rising by 26.6 per cent for solid fuels and by 20.8 per cent for natural gas between June 2022 and June 2023. Prices for electricity and district heating also registered above-average increases of 10.5 per cent and 9.3 per cent, respectively. Even core inflation, which excludes energy and food prices due to their volatility, remained high, increasing by 5.8 per cent versus June 2022.

These broad price increases caused private households to cut consumer spending. Following a weak six winter months, private consumption stabilised in the second quarter of 2023 according to the Federal Statistical Office. Retail revenues slowed by 4.5 per cent versus June 2022 (adjusted for price variations). Public-sector (-4.9 per cent) consumption dropped a little more than private consumption during the first quarter of 2023.

The number of people out of work increased by 192,000 vis-à-vis June 2022, to reach 2.6 million in June 2023, resulting in an unemployment rate of 5.5 per cent and a year-on-year increase of 0.3 percentage points. The number of people with a job increased by 365,000 to 45.9 million during the first six months of 2023. As at the end of the reporting period, 769,000 vacancies had been reported to the Federal Employment Agency, representing a decrease of 108,000 vis-à-vis the previous year.

German exports climbed by 3.5 per cent year-on-year during the first six months of 2023, to €791.5 billion. Exports to euro area countries increased by 3.0 per cent, while exports to third countries rose by 4.6 per cent. At the same time, import prices were down by 11.4 per cent year-on-year, thanks to lower prices for energy imports in particular.

The euro area's GDP in the first quarter of 2023 was stable at a growth rate of 0.0 per cent quarter-on-quarter and returned to positive growth with an increase of 0.3 per cent in the subsequent quarter, both figures adjusted for price, seasonal and calendar effects. Inflation slowed to 5.5 per cent during the reporting period, down from 8.6 per cent as at year-end 2022.

Germany's benchmark equity index DAX added 15.4 per cent during the first six months of 2023. The euro gained 2.1 per cent against the US dollar in the first six months of the year and was trading at 1.0913 US dollars at the end of the first half of 2023. The current yield for listed public-sector bonds rose from 2.50 per cent as at year-end 2022 to 2.53 per cent as at the end of June 2023.

Interest rates for construction finance in Germany have been rising steadily for the past year. Housing loans with fixed interest rates of ten years carried an average interest rate of 2.8 per cent back in June 2022, and loans with fixed interest rates of 15 years came at an average of 3.0 per cent. In June 2023, borrowers paid 3.9 per cent or 4.0 per cent, respectively. One reason for housing loans becoming more expensive has been the increase in the ECB's key interest rate.

DEVELOPMENT OF THE REAL ESTATE MARKETS

Commercial real estate market

The real estate markets calmed down considerably in the first half of 2023, due to developments that had started in 2022 and significantly changed the macroeconomic environment. Rising interest rates, cost increases and new sustainability requirements made themselves felt, leading to a certain amount of reticence amongst market players in the period under review. Real estate worth €14.9 billion (including residential investments) changed hands in the first six months of 2023, contracting by around 59 per cent compared to the previous year's figure of €36.1 billion. And as yet there are no signs of recovery: at €7.1 billion, the second-quarter transaction volume fell below the €7.8 billion recorded in the first three months. Larger deals in particular – especially in the office sector and concerning portfolios – failed to materialise.

Market activity in Germany's top seven markets – where the majority of transactions for office buildings takes place – proves the point. At €7 billion, the half-year result for Berlin, Düsseldorf, Frankfurt/Main, Hamburg, Cologne, Munich and Stuttgart plummeted by 62 per cent compared to the previous year's figure, hitting (in a similar fashion to the total transaction volume) more or less the levels of 2012. The year-on-year comparison is especially disappointing for Frankfurt/Main with its plunge of 84 per cent, followed by Hamburg (minus 80 per cent) and Düsseldorf (minus 63 per cent). Berlin recorded a decline in transaction volumes of 53 per cent and ranked first among the seven top locations in absolute terms with a turnover of €2.8 billion. The only other city to exceed the one billion euro mark, albeit only slightly, was Munich. Stuttgart ranked third, and was the only city among the top seven markets to achieve an increase vis-à-vis the previous year (transaction volume: +19 per cent to €810 million).

Office properties, which had held the first place as most actively traded asset class at the end of the first half-year and at year-end 2022, were replaced by the commercial residential asset class in the period under review. Offices accounted for €3.1 billion or 21 per cent of the entire transaction volume in the first half of 2023. This compares to €14.4 billion or 40 per cent in the first six months of 2022. Average prime yields for office properties in the country's seven top locations increased from 2.7 per cent at the end of the first half of 2022 to 3.8 per cent at the midpoint of this year. Meanwhile, the tide of weaker momentum also reached the office rental market, a segment which to date had shown robust development. In light of rising interest rates, weakening economic momentum, and lower demand for space amid a shift to working from home, office space take-up fell to 1.2 million square metre by the mid-point of the year. This marks a 40 per cent drop year-on-year, ranging between 15 per cent in Frankfurt/Main and 70 per cent in Stuttgart.

Logistics and industrial properties saw investments of approx. €2.2 billion in the first half of 2023; at 14 per cent, their share in the total transaction volume hardly changed compared to the previous year given the overall low trading volume. Yet absolute investments declined in this segment, too: in the first half of 2022, turnover still amounted to €5.6 billion. Prime yields also continued their upward trend in this segment – reaching 4.0 per cent, i.e. an increase of ten basis points compared to the first quarter.

Retail properties saw their share in the total transaction volume increase: after 9 per cent in the first half of 2022 (€3.4 billion) and 14 per cent in the full 2022 financial year (€9.4 billion), 18 per cent of all investments (€2.6 billion in absolute terms) could be attributed to this segment in the period under review. One reason for this high demand is the favourable relationship between financing terms and prime yields; most recently, prime yields for retail properties clearly exceeded financing costs in some locations. Specialist retail parks, shopping centres, and individual specialist retail stores saw prime yields of 4.4 per cent, 5 per cent and 5.5 per cent, respectively.

At €384 million, transaction volumes on the **hotel investment market** were subdued in the period under review; the last time lower levels were seen was back in 2009, in the wake of the financial markets crisis. Compared to the first half of 2022, with 32 transactions and a volume of €755 million, the decline amounted to 49 per cent. Just 23 deals were recorded, all of them single transactions. The five- and ten-year averages for the first six months of a year were clearly missed by 70 and 72 per cent, respectively. Main drivers are ongoing pricing processes and a distinctly selective approach by institutional investors. Nonetheless, they remain the most active buyers (€174 million or 45 per cent), followed by hotel operators (€96 million or 25 per cent) and retail investors (€41 million or 11 per cent). Only six transactions (20 per cent of the volume) involved foreign capital.

Activity on the **commercial residential investment market** picked up slightly in the second quarter of 2023, generating turnover of €4.5 billion for the first half of the year. Compared to the previous year's figure, this marks a decline of around 37 per cent. Apart from two large transactions, small deals averaging €14 million dominated the scene. Investors adopted a cautious stance in this segment too, mainly due to interest rate developments and price adjustments. At the same time, residential investments have become more attractive due to the rise in rents amid the mismatch between high demand and low supply. What is more: there are no signs of relief on the horizon for the supply side, since new construction activity is not materialising. As a result, real estate developments hit a low, and only seven deals were counted in this segment during the first six months of 2023.

Private residential real estate markets

The changed interest rate environment and ongoing political debates in Germany on energy efficiency and heating technology also affected private residential real estate markets in the period under review, and triggered a turnaround on the housing market: whilst prices for residential real estate recently started to fall, rents kept rising. Despite declining purchase prices, buying residential real estate has recently cost around 8 percentage points more than renting on a national average, reversing what had been the status quo in most locations for many years. This has put further pressure on rental markets. Especially in conurbations, the situation on the residential housing markets remains strained, since high demand is meeting very little supply. One of the reasons is the lack of construction activity during the past few years.

Indices for owner-occupied apartments and single and double family homes across the average of all construction years continued to fall during the period under review. After several years of steady price increases, the trend has now been reversing for a year. In the first quarter of 2023, prices for owner-occupied apartments and single and double family homes declined by 1.3 per cent and 2.5 per cent, respectively, compared to the previous quarter. In the second quarter of 2023, the indices contracted by another 1.6 percent and 1.5 per cent, respectively. The decline is even sharper in a year-on-year comparison: prices for single and double family homes contracted by 7.2 per cent compared to the second quarter of 2022, prices for owner-occupied apartments by 5.5 per cent. The decrease for newly built real estate is less pronounced: -0.4 per cent between the first and second quarter and -0.2 per cent compared to the same quarter of the previous year for owner-occupied apartments, and -1.2 per cent and -4.1 per cent for single and double family homes.

In contrast, rental price indices for apartments across all construction years continued to rise in the first half of 2023 (+1.9 per cent between January and March 2023 compared to the fourth quarter of 2022, and +1.1 per cent between April and June 2023), marking an increase of 5.5 per cent compared to the same period of the previous year. Rents for newly built rental apartments rose by 1.2 per cent in the second quarter of 2023 and by 5.2 per cent year-on-year.

Quoted rents in Germany's eight major cities (Berlin, Düsseldorf, Frankfurt/Main, Hamburg, Cologne, Leipzig, Munich, and Stuttgart) grew at an even faster pace in the first six months of 2023 compared to the previous year. Whilst back then the increase amounted to 3.7 per cent on average, the median in the period under review was 6.7 per cent. Quoted rents grew particularly fast in Berlin: +16.7 per cent compared to the previous year. Leipzig also saw a double-digit increase in rents, at 11.1 per cent. Stuttgart was placed at the other end of the spectrum, with the median rent declining by 1.3 per cent. Munich remains the most expensive rental market, with quoted rents for newly let properties averaging €22.25 per square metre, followed by Berlin with €17.50, Frankfurt/Main with €16.20, Stuttgart with €15.35, Hamburg with €14.90, Cologne with €14.80, Düsseldorf with €13.00, and Leipzig with €9.00 per square metre.

CREDIT BUSINESS

DZ HYP generated total new business in all segments of €3,626 million during the period under review (H1 2022: €5,174 million), of which €3,407 million (H1 2022: €5,014 million) related to real estate finance and €219 million (H1 2022: €160 million) to business with public-sector clients.

Real Estate Finance

In its **Corporate Clients** business, DZ HYP is a leading provider in Germany, and a partner of the German cooperative banks. DZ HYP originated new business of €3,058 million in the first six months of 2023 (H1 2022: €3,964 million). The German core market accounted for the bulk of this volume, at €2,729 million (H1 2022: €3,764 million), in line with the Bank's strategic focus. DZ HYP also originated new business of €329 million in selective international markets – that is, in France, the United Kingdom, the Netherlands, and Austria – during the period under review (H1 2022: €200 million). The Bank's focus is on the core segments of office, residential and retail properties. DZ HYP is also involved in the specialist segments of hotels, logistic properties 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. In addition, the Bank works with companies providing affordable housing for a substantial share of the population, including cooperative, municipal, church-owned and other housing enterprises across Germany.

DZ HYP successfully continued its cooperation with corporate clients within the Cooperative Financial Network during the period under review. Joint lending business with the cooperative banks totalled €1,501 million in the first half of 2023 (H1 2022: €1,531 million).

Within the Cooperative Financial Network, the Bank's credit business with **retail customers** is dominated by real estate financing. Business is intermediated primarily via the agree21 core banking system of the Cooperative Financial Network, and the Genopace and Baufinex network portals. The volume of new commitments entered by DZ HYP in the period under review was down in a year-on-year comparison to €349 million (H1 2022: €1,050 million).

Business with public-sector clients

In its business with public-sector clients, DZ HYP supports cooperative banks in developing business with domestic local authorities as well as their legally dependent own operations, which are serviced across Germany. DZ HYP originated new business volume of €219 million during the period under review (H1 2022: €160 million), of which €132 million (H1 2022: €115 million) was intermediated by cooperative banks and €87 million (H1 2022: €45 million) was direct business.

Reduction of non-strategic portfolios

The non-strategic portfolio includes securities and derivatives that are no longer part of DZ HYP's investment focus. In the first half of 2023, the non-strategic portfolio was wound down further (as a result of repayments and maturities) from around €1.8 billion as at 31 December 2022 to around €1.7 billion as at 30 June 2023.

REFINANCING

As an important Pfandbrief issuer, DZ HYP mainly refinances its credit business by issuing Pfandbriefe on the capital markets. The covered bonds market saw a record aggregate issuance of euro-denominated benchmark bonds in the amount of around €140 billion in the first half of 2023, exceeding the full-year issuance volumes seen in each of 2019, 2020, and 2021.

In this active market environment, DZ HYP successfully placed two green Mortgage Pfandbrief issues on the capital market at the beginning of the year, via a dual tranche. The Pfandbrief instruments – with a volume of €500 million each – have a term of three and ten years, respectively. In line with DZ HYP's Green Bond Framework published in 2022, issuance proceeds are only used to finance and refinance energy-efficient buildings.

In April, DZ HYP used a favourable market phase to issue a €500 million Public Pfandbrief with a term of four years and six months, followed by a ten-year, €500 million Mortgage Pfandbrief at the end of May. Another €644 million in Pfandbriefe was issued in the form of private placements during the period under review. In aggregate, DZ HYP issued €2.6 billion in Pfandbriefe in the first half of 2023 (30 June 2022: €2.1 billion) and raised €1.5 billion of unsecured liquidity (30 June 2022: €2.3 billion). These instruments are sold within the Cooperative Financial Network.

Total Pfandbriefe outstanding as at 30 June 2023 amounted to €43.5 billion (30 June 2022: €45.3 billion). This comprised €33.8 billion in Mortgage Pfandbriefe (30 June 2022: €33.9 billion) and €9.7 billion in Public Pfandbriefe (30 June 2022: €11.4 billion). Total unsecured funding amounted to €20.9 billion as at the reporting date (30 June 2022: €20.3 billion).

NET ASSETS, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Net assets

In the first half of 2023, DZ HYP's total assets fell by €0.4 billion to €76.8 billion. The Real Estate Finance portfolio increased by €0.1 billion to €56.8 billion (31 December 2022: €56.7 billion), whilst originated local authority lending exposures declined to €9.0 billion in the first half of 2023 (31 December 2022: €9.3 billion), and the securities portfolio decreased to €8.3 billion in the period under review (31 December 2022: €8.4 billion).

DEVELOPMENT OF LENDING VOLUME

			Change from the previous year	
€ mn	30 Jun 2023	31 Dec 2022	€ mn	%
Mortgage loans*	**56,771**	**56,686**	85	0.1
Originated loans to local authorities**	**9,044**	**9,283**	-239	-2.6
Securities business***	**8,278**	**8,411**	-133	-1.6
Total	**74,093**	**74,380**	-287	-0.4

* Mortgage loans including short-term loans collateralised by real property liens

** Credit business with direct liability of German local authorities or their legally dependent own operations

*** Lending transactions with national governments and sub-sovereign entities, Landesbanken and development and promotional banks, as well as state-guaranteed corporate bonds, bank bonds, and mortgage-backed securities

DZ HYP's financial position is sound.

Equity

DZ HYP has used what is known as the waiver option provided under section 2a of the German Banking Act (*Kreditwesengesetz* – "KWG"; old version) with effect from the reporting date of 31 December 2012. This means DZ HYP is no longer required to apply hardly any of the relevant provisions of the Capital Requirements Regulation (CRR) at a single-entity level, since they are covered at the level of the DZ BANK Group. The minimum 2023 requirements for the internal MREL ratios at single-entity level, as determined for DZ HYP by the Single Resolution Board, were consistently complied with during the first half of the year. In light of the currently existing control and profit transfer agreement, DZ BANK allocates equity to DZ HYP as required within the framework of Group management. Tier 1 capital is also regularly strengthened by allocations 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 ongoing liquidity management and structural funding. 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 liquidity 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, i.e. 31 December 2021. The Bank's liquidity was ascertained at all times.

Financial performance

DZ HYP's financial performance during the first half of 2023 once again reflects the Bank's successful operating performance in real estate finance over recent years. Despite the unrest caused by the war in Ukraine, the repercussions of the interest hikes by the European Central Bank, and elevated inflation in the euro area, specific valuation allowances have been manageable so far. Significant amounts of the Bank's distributable half-year results 2023 can be allocated to general risk provisioning, whilst preserving the forecast profit or loss transfer.

DZ HYP uses economic performance indicators to measure the Bank's profitability[1] as part of its economic management, and operative as well as strategic corporate planning. Key performance indicators are developing in line with the forecast or above.

The main profit and loss account line items showed the following development as at 30 June 2023:

NET INTEREST INCOME IN DETAIL

€ mn	**30 Jun 2023**	30 Jun 2022
Interest income	**904.7**	827.5
Interest expenses	**537.9**	492.2
Current income from participations	**0.1**	0.1
Net interest income	**366.9**	335.4

[1] Alternative performance indicators as defined in the APM Guidelines issued by the European Securities and Markets Authority (ESMA); a description can be found in the 2022 financial statements.

At €366.9 million, DZ HYP's net interest income for the first six months of 2023 was €31.5 million higher than the figure achieved during the same period of the previous year (H1 2022: €335.4 million). In particular, the expansion of the real estate loan portfolio compared to the first half of 2022 is supported by higher average margins in the credit business. Moreover, higher interest rates led to higher interest income from the investment of own funds and from liquidity management.

The net commission result of €-6.2 million was up €3.7 million on the comparable figure for the previous year (€-9.9 million). Specifically, €11.6 million (H1 2022: €14.9 million) in commission income was generated from the credit business, which depends both on the respective product mix and disbursement timing. Commission income from an open market transaction with Deutsche Bundesbank was no longer generated (H1 2022: €10.9 million). Moreover, €15.7 million (H1 2022: €33.1 million) was paid on brokerage services to cooperative banks within the Cooperative Financial Network.

Administrative expenses of €155.8 million in the first half of 2023, being the total of general administrative expenses and amortisation of intangible fixed assets including depreciation of tangible fixed assets, were lower than in the same period of the previous year (H1 2022: €176.7 million). A key driver for the lower administrative expenses was the reduced annual contribution for the bank levy, which was €14.9 million lower than in the previous year, at €33.2 million (H1 2022: €48.1 million). As in previous years, DZ HYP made use of the option to make part of the annual contributions for the 2023 payment in form of irrevocable payment obligations, so that a further €9.6 million of the total contribution of €42.8 million was deposited with Deutsche Bundesbank as cash collateral, in addition to the aforementioned €33.2 million.

Given unchanged parameters for the pension and salary trends (30 June 2022: increase to 2.7 per cent and 3.0 per cent, respectively), the allocation to pension provisions requires a €10.6 million lower amount compared to the previous year. Furthermore, expenses for the Deposit Guarantee Scheme of the National Association of German Cooperative Banks (BVR) in the amount of €11.5 million were incurred (H1 2022: €11.6 million).

Net other operating income/expenses of €7.4 million was up €4.9 million on the previous year (H1 2022: €2.5 million), the main reason for this increase being the €3.9 million decrease in the allocation to pension provisions compared to the first half of the previous year, due to interest rates.

Reported loan loss provisions[2] of €21.9 million (H1 2022: €39.4 million) mainly include specific valuation allowances for loans of €23.2 million (H1 2022: €-0.2 million). Substantial additions to reserves pursuant to section 340f of the HGB were not made. The valuation result for securities held as liquidity reserve was €0.1 million (H1 2022: €-4.7 million).

Due to macroeconomic risks, especially related to higher inflation, strained supply chains and general uncertainty, risk provisioning was increased for certain asset classes in the previous year, via general valuation allowances. After thorough examination of the underlying assets, the relevant measurement parameters for the first half of 2023 were confirmed, and the increased general loan loss provisions maintained.

The net financial result[3] largely comprises €0.3 million (H1 2022: €-0.6 million) in income from credit derivatives due to reduced material credit risks. In the previous year, this line item included one-off income of €3.2 million from the sale of a debtor warrant in connection with a security that had been written down in the past and was then sold.

DZ HYP's forecast long-term profitability continues to be affected by uncertainty as a result of credit risks and increasing government debt, given what remains a difficult political and macroeconomic situation. For this reason, amongst other factors (and exercising prudent commercial judgement), €44.0 million (H1 2022: €37.0 million) was allocated to the fund for general banking risks pursuant to section 340g of the HGB, to take account of particular risks facing the business area.

Tax expense on income in the amount of €102.0 million (H1 2022: €31.6 million) mainly comprises a tax allocation amounting to €101.9 million (H1 2022: €37.8 million), resulting from the tax compensation agreement in place between DZ BANK and DZ HYP.

DZ HYP reported profit after tax of €44.0 million (H1 2022: €37.0 million), which would have to be transferred to DZ BANK under the control and profit transfer agreement. However, reported profit is not in fact transferred, since section 301 of the German Public Limited Companies Act (*Aktiengesetz* – "AktG") stipulates that net income is the relevant factor for any transfer.

[2] Equates to the profit and loss account line item "Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions"

[3] Equates to the profit and loss account line item "Income from write-ups to participating interests, shares in affiliated companies, and investment securities"

REPORT ON OPPORTUNITIES, RISKS AND EXPECTED DEVELOPMENTS

Opportunities and risks are defined as unexpected deviations from the financial performance that DZ HYP is expected to achieve in the second half of 2023. As a subsidiary of DZ BANK, DZ HYP is a member of the Cooperative Financial Network (Genossenschaftliche FinanzGruppe) – a network characterised by a high degree of solidity, strong credit quality, and a sustainable business model. The broadly diversified market positioning of the Cooperative Financial Network, in combination with Pfandbrief issuance, forms a strong basis for DZ HYP to conduct real estate and local authority lending business from a risk and earnings perspective. DZ HYP uses this ability to act, jointly with the German cooperative banks, as a reliable financing partner to its clients. The risks and opportunities for the second half of 2023 are directly related, in particular, to macroeconomic developments and their impact on the real estate market, which is characterised by uncertainty due to the manifold international crises.

The portfolio's risk profile is analysed regularly and remains robust.

DZ HYP's risk-bearing capacity remains unaffected, with a utilisation of 65 per cent as at 30 June 2023. The Bank was included in the EBA stress test conducted at DZ BANK. The results showed compliance with regulatory capital ratios even in stress scenarios.

As put in evidence especially by the credit risk indicators below, there were no noteworthy irregularities in risk parameters during the first half of the year.

LENDING VOLUME* BY RATING CLASS

€ mn	Total 30 Jun 2023	Total 31 Dec 2022	Real estate lending 30 Jun 2023	Local authority lending 30 Jun 2023	Capital markets business 30 Jun 2023
Investment grade (rating class 2A or better)	**76,578**	77,851	**58,119**	**9,059**	**9,400**
Non-investment grade (rating classes 2B-3E)	**3,088**	2,776	**2,816**	**–**	**272**
Defaulted rating classes (4A or worse)	**203**	113	**172**	**–**	**31**
Unrated	**2**	3	**2**	**–**	**–**

* Including disbursement commitments

CREDIT RISK INDICATORS

€ mn	Total 30 Jun 2023	Total 31 Dec 2022	Change in %
Lending volume* (LV)	**79,871**	80,743	–1.0
NPL volume	**203**	114	78.1
NPL ratio (%)	**0.25%**	0.14%	78.6
Risk provisioning**	**388**	368	5.4
Provisioning ratio (%)	**0.49%**	0.46%	6.5

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

The portfolio quality of the hotel, office property, department store, and shopping centre asset classes, of the sub-portfolio of project development and developer financings, and of financings for commercial buildings that are located in city centres and predominantly used for commercial purposes outside of daily needs for which a heightened degree of uncertainty has been identified in 2022, remained stable overall during the reporting period. The development of these loan portfolios is closely monitored; notable (potential) risks have only been identified in isolated cases. Whilst the situation for residential and commercial real estate developers has calmed down, uncertainty continues to shape this sub-market, leading to very subdued transaction volumes. The fact that most of the projects have already entered their initial phase, with costs largely calculated, has a risk-mitigating effect on the portfolio; this is supported by high sales and letting rates. The trend towards working from home and hybrid working models is being countered by investments in well-located, modern and digital office space that serves as a place for teamwork and communication. According to assessments by DZ HYP and various market participants, tenant and investor interest in such high-quality and sustainable office properties remains high. In the hotel sector, capacity utilisation has been on the levels seen before the outbreak of the COVID-19 pandemic since 2022. Large hotel chains continue to pursue business development plans, especially through retrofitting of existing buildings and the acquisition of real estate. Yet uncertainties remain, given persistent inflation and the subdued economy.

DZ HYP has no direct exposure to Russia, Belarus, or Ukraine in its capital markets business. Nonetheless, yield spreads have become more volatile since the start of the year in light of the ongoing geopolitical and economic uncertainty, persistently high inflation, the phasing-out of the ECB's asset purchase programmes, and the banking sector turmoil in March 2023. Despite the high level of uncertainty and gloomy economic outlook, the Bank still does not expect default events in its capital markets portfolio – not least due to the stabilising measures of the ECB and the EU. The capital markets portfolio remains decently diversified across geographies and maturity structures.

Within the scope of overall bank management, DZ HYP is aiming for structurally-matched funding. To protect margins from the client business, the Bank uses derivative hedging instruments to manage interest rate and currency risks.

Since construction and operation of properties produce a high level of greenhouse gas emissions, the real estate sector has the potential to play a key role in combating climate change. DZ HYP sees itself as a partner for sustainable transformation – with a mission to direct financial flows towards a more sustainable economy, for example, by financing energy-efficient properties. Yet, the Bank is well aware of the threat that physical climate-related and environmental risks may impair the collateral value of credit exposures. Furthermore, transition effects, such as the transition towards a climate-neutral economy, can reduce the profitability of borrowers on the real estate finance markets.

In this context, a scorecard was created to measure physical and transition risks; in addition, a calculation method for financed emissions (carbon accounting) was developed, and sustainability risks were integrated into the governance and instructions systems. Physical environmental risks are included in lending decisions, and energy efficiency characteristics considered in building assessments. Sustainability risks are measured and managed in line with the regulatory requirements.

With regard to the threat associated with cyber risks in connection with the war in Ukraine, DZ HYP's information security situation is being assessed on an ongoing basis, with any necessary countermeasures being agreed. To date, there have been no cyber attacks on DZ HYP or its service providers.

Forecast

Volatile material and energy prices, with steep hikes seen since 2022, and significantly higher interest rates, along with the overall political and economic uncertainties (also in terms of monetary policy) have left their mark on the real estate market, too. Conditions remain sluggish, with slow business and the price discovery process still ongoing. The number of transactions is not expected to pick up until the economy – and in particular interest rates – show signs of stabilisation, which would give buyers and sellers more certainty for their calculations.

The outlook for Germany's gross domestic product (GDP) over the next months remains muted, and a strong rebound seems unlikely. The economy will likely face around zero growth this year. A slight increase is not expected until 2024.

As soon as the ECB signals an end to its interest rate hikes, the investment market should experience a boost. The market currently expects the ECB's rate increase in late July 2023 to have marked the peak of the central bank's hiking cycle. Interest rates should now move sideways and record a slight decrease year-on-year, so that the hope for clarity regarding future interest rate developments could come as early as during the remainder of 2023. A major factor in this context will be inflation, which declined only slightly in Germany and the euro area as of late.

Property prices and valuations are expected to continue to fall. While different property types are bound to behave differently, the overall decline will probably be moderate. Prices are not expected to collapse. Non-food retail properties outside of prime locations will probably (continue to) face particular challenges, as will older office properties in less favourable locations and with low energy efficiency.

Given the risks and opportunities presented, DZ HYP expects the volume of new business to be down markedly in a year-on-year comparison. Financial planning for 2023 includes write-downs in Real Estate Finance running into the low triple-digit millions. As to the remaining key performance indicators, the forecasts made in the Management Report 2022 continue to apply.

Therefore, opportunities for – and risks to – profitability in the current year concern the forecast risk provisioning in particular, whilst the material income components largely show a linear development. The Bank forecasts that net income from ordinary business available for profit transfer and unallocated reserves will be €110 million in 2023; the forecast for subsequent years is higher.

CONDENSED BALANCE SHEET

ASSETS

€ mn	30 Jun 2023	31 Dec 2022
Loans and advances to banks	**1,912**	**1,997**
a) Mortgage loans	4	15
b) Loans to local authorities	76	77
c) Other loans and advances	1,832	1,905
Loans and advances to customers	**67,799**	**68,104**
a) Mortgage loans	54,152	53,870
b) Loans to local authorities	10,975	11,369
c) Other loans and advances	2,672	2,865
Bonds and other fixed-income securities	**6,314**	**6,292**
a) Bonds and debt securities	6,288	6,265
aa) Public-sector issuers	4,092	4,279
ab) Other issuers	2,196	1,986
b) Own bonds issued	26	27
Participations	**1**	**1**
Investments in affiliated companies	**2**	**2**
Trust assets	**7**	**7**
Intangible fixed assets	**0**	**1**
Tangible fixed assets	**220**	**221**
Other assets	**62**	**53**
Prepaid expenses	**531**	**546**
Total assets	**76,848**	**77,224**

LIABILITIES AND EQUITY

€ mn	30 Jun 2023	31 Dec 2022
Liabilities to banks	**29,474**	**29,925**
a) Outstanding registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	1,032	1,190
b) Outstanding registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	959	1,101
c) Other liabilities	27,483	27,634
Liabilities to customers	**12,152**	**12,425**
a) Outstanding registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	4,584	4,737
b) Outstanding registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	6,169	6,483
c) Other liabilities	1,399	1,205
Securitised liabilities	**32,131**	**31,253**
a) Mortgage Pfandbriefe (Hypothekenpfandbriefe)	28,231	27,641
b) Public Pfandbriefe (öffentliche Pfandbriefe)	2,612	2,211
c) Other debt securities	1,288	1,401
Trust liabilities	**7**	**7**
Other liabilities	**148**	**155**
Deferred income	**533**	**574**
Provisions	**399**	**291**
Subordinated liabilities	**10**	**10**
Fund for general banking risks	**867**	**823**
Equity	**1,127**	**1,762**
Total equity and liabilities	**76,848**	**77,224**
Contingent liabilities	**227**	**260**
Other commitments	**6,115**	**6,625**

CONDENSED PROFIT AND LOSS ACCOUNT

€ mn	1 Jan to 30 Jun 2023	1 Jan to 30 Jun 2022
Interest income	904.8	827.6
Interest expenses	537.9	492.2
Net interest income	**366.9**	**335.4**
Commission income	16.2	29.8
Commission expenses	22.4	39.7
Net commission result	**-6.2**	**-9.9**
Gross profit	**360.7**	**325.5**
Administrative expenses	**155.8**	**176.7**
General administrative expenses	153.0	173.3
Staff expenses	55.3	63.5
Other administrative expenses	97.7	109.8
Amortisation/depreciation and write-downs of intangible and tangible fixed assets	2.8	3.4
Net other operating income/expenses	**7.4**	**2.5**
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions	**21.9**	**39.5**
Income from write-ups to participating interests, shares in affiliated companies, and investment securities	**0.2**	**1.8**
Result from ordinary activities	**190.6**	**113.6**
Additions to the fund for general banking risks	44.0	37.0
Income taxes	102.0	31.6
Other taxes	0.2	0.2
Profits transferred under partial profit transfer agreements	0.4	7.8
Profits to be transferred under profit and loss transfer agreements	**44.0**	**37.0**

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

General information on the preparation of the half-yearly financial report

DZ HYP's half-yearly financial report as at 30 June 2023 has been prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch* – "HGB"). Furthermore, the financial statements have been 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 Public Limited Companies Act (*Aktiengesetz* – "AktG") and the German Pfandbrief Act (*Pfandbriefgesetz* – "PfandBG"). The scope of reporting is in line with requirements laid out in section 115 (2) to (4) of the German Securities Trading Act (*Wertpapierhandelsgesetz* – "WpHG"). Regarding the scope of the condensed notes to the financial statements, DZ HYP voluntarily applies GAS 16 – Half-yearly Financial Reporting, which implies

- that changes made to the accounting policies compared to the annual financial statements for 2022 have to be disclosed and clarified, and
- that, regarding the items disclosed in the condensed balance sheet and the condensed profit and loss account, all material changes compared to the disclosed comparative figures as well as the respective developments during the reporting period have to be clarified.

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 half-yearly financial statements.

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

Material changes in accounting policies

These half-yearly financial statements of DZ HYP as at 30 June 2023 are based on the same accounting policies as were applied in the annual financial statements as at 31 December 2022, meaning that there were no changes to accounting policies since then.

Disclosures on determining risk provisions in accordance with the German Commercial Code

Models and processes aligned with the requirements stipulated in IFRS 9 are used to determine risk provisions as reported under the German Commercial Code (*Handelsgesetzbuch* – "HGB").

DZ HYP's loan portfolios have already been analysed over the past years to pinpoint any potential material effects resulting from the infection trend, the protective measures taken in response to the COVID-19 pandemic, and the macroeconomic development, including elevated inflation levels. As a result, DZ HYP has identified a higher risk of default for some asset classes and considered this in its risk provisioning.

In addition, DZ BANK adjusted its macroeconomic scenarios last year to take account of the negative macroeconomic effects resulting from the uncertainty factors outlined above; these scenarios are used throughout the Group and are also taken into account in DZ HYP's risk provisioning calculations.

Disclosures on securities recognised above their fair value

As at 30 June 2023, the Bank did not recognise an extraordinary write-down in the aggregate amount of €317.2 million (31 December 2022: €347.3 million) for negotiable securities held as fixed assets with a carrying amount of €4,297.1 million (31 December 2022: €4,424.0 million) and a fair value of €3,979.9 million (31 December 2022: €4,076.7 million) not strictly measured at the lower of cost or market, due to the expected temporary nature of the impairment. This assessment is based on the fact that the euro area has become more resilient to stress due to the crisis mechanisms established. The Bank has also entered into hedges which secure a large part of non-recognised write-downs.

These hedges are used to manage interest rate, currency, and counterparty credit risk exposure; as at the reporting date they were allocated to currency-related, interest rate, credit-related, and other derivative financial instruments as shown below:

	Nominal amounts by residual term			Total		Fair value			
						30 Jun 2023		31 Dec 2022	
€ mn	<= 1 year	> 1-5 yrs	> 5 yrs	30 Jun 2023	31 Dec 2022	positive	negative	positive	negative
Interest rate instruments*	11,115	54,577	80,602	146,294	141,762	8,214	8,313	8,702	8,795
Currency-related instruments	150	1,040	620	1,810	2,037	106	107	99	129
Credit-related transactions	5	20	7	32	33	0	1	–	1
Total	**11,270**	**55,637**	**81,229**	**148,136**	143,832	**8,320**	**8,421**	8,801	8,925

* Including interest rate swaps with identical foreign currency

Report on material events after the reporting date

No events of particular importance materialised during the adjusting period from 1 July to 15 August 2023 which would have required a materially different presentation of DZ HYP's net assets, financial position and financial performance, had they occurred earlier.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for half-yearly financial reporting, the interim condensed financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the interim 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 for the remaining months of the financial year.

Hamburg and Münster, 15 August 2023

DZ HYP AG

Sabine Barthauer
Chief Executive Officer

Jörg Hermes

REVIEW REPORT

To DZ HYP AG, Hamburg and Münster

We have reviewed the condensed interim financial statements – comprising the condensed balance sheet, condensed profit and loss account and selected explanatory notes – and the interim management report of DZ HYP AG, Hamburg and Münster, for the period from 1 January to 30 June 2023 which are part of the half-yearly financial report pursuant to § (Article) 115 WpHG (*"Wertpapierhandelsgesetz"*: German Securities Trading Act). The preparation of the condensed interim financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed interim financial statements and on the interim management report based on our review.

We conducted our review of the condensed interim financial statements and the interim management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed interim financial statements have not been prepared, in all material respects, in accordance with German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim financial statements have not been prepared, in all material respects, in accordance with German commercial law nor that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports.

Hamburg, 15 August 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Anne Witt	ppa. Uwe Gollum
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

This is a translation of the review report issued in German.
The latter is the sole authoritative version.

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