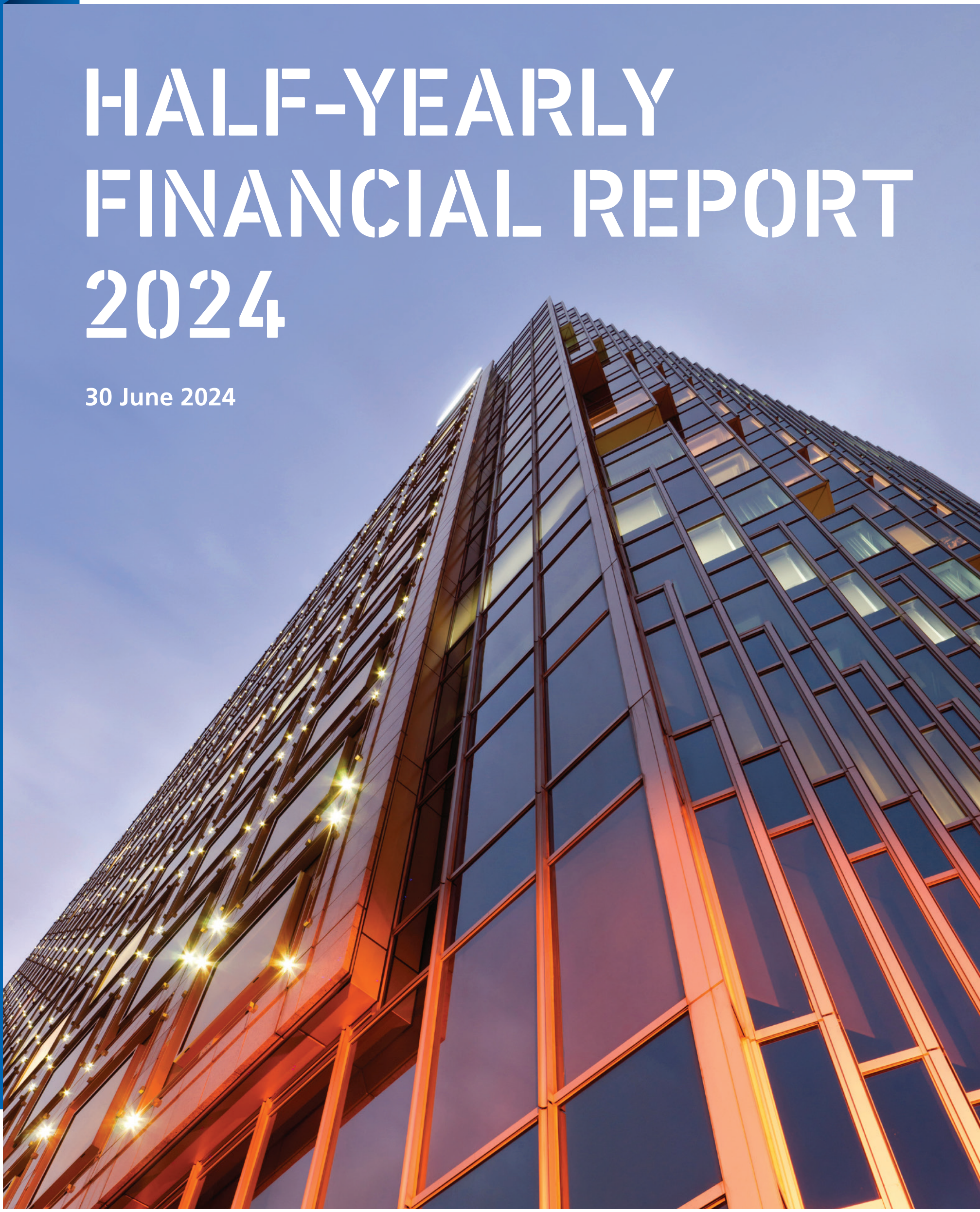
Volksbanken Raiffeisenbanken
cooperative financial network

HALF-YEARLY FINANCIAL REPORT 2024

30 June 2024



DZ HYP

DEVELOPMENT OF NEW BUSINESS

€ mn	1 Jan to 30 Jun 2024	1 Jan to 30 Jun 2023
Corporate Clients	3,206	3,058
Retail Customers	452	349
Public Sector Clients	231	219

PORTFOLIO DEVELOPMENT

€ mn	30 Jun 2024	31 Dec 2023
Total assets	76,537	77,477
Mortgage loans	57,156	56,902
Originated loans to local authorities	8,487	8,785
Securities business	8,538	9,007
Pfandbriefe and other debt securities	49,187	49,880
Own funds	2,066	1,896
Total capital ratio (%)	12.9	12.4
Common equity tier 1 ratio (%)	12.4	11.9

PROFIT AND LOSS ACCOUNT

€ mn	1 Jan to 30 Jun 2024	1 Jan to 30 Jun 2023
Net interest income	358.7	366.9
Net commission result	-2.5	-6.2
Administrative expenses	130.3	155.8
Net other operating income/expenses	7.5	7.4
Risk provisioning	-41.3	-21.9
Net financial result	0.0	0.2
Operating profit	192.1	190.6
Allocation to the fund for general banking risks	55.0	44.0
Taxes	82.1	102.2
Partial profit transfer	0.0	0.4
Profits to be transferred under a profit and loss transfer agreement	55.0	44.0

NUMBER OF EMPLOYEES

	30 Jun 2024	31 Dec 2023
Average	892	862

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LETTER FROM THE MANAGEMENT BOARD

Dear readers,

Emerging from the doldrums of 2023, Germany's economy followed a tentative upward trend in the first half of 2024. While GDP returned to positive territory, key business sentiment indicators improved, particularly in the industrial, construction and service sectors. Nonetheless, the second quarter showed how fragile this rebound was, with construction momentum slowing again after having benefited from the mild winter. Together with other factors, the challenges in the construction sector were responsible for a slight decrease in gross domestic product between April and June. With both business and consumer sentiment muted, the economy is not expected to improve significantly in the second half of the year. The ECB lowered interest rates cautiously for the first time in June, sending an important stabilising message to the markets. Predictably, however, this rate cut had no discernible impact on the economy.

At the same time, the upward trajectory of the real estate markets has manifested itself very clearly. Optimism in the sector has been growing steadily since the start of the year, a fact that is now also reflected in its figures. Investment transactions were up around ten per cent on the same period in the previous year. Price adjustments are expected to have been completed and real estate values to have bottomed out. The price decline in private residential real estate markets has slowed down recently, while rents continue to increase strongly. In light of this, 2024 seems to be the "transition year" that some observers had been anticipating – a year in which markets are recovering while the challenges of the past years continue to make themselves felt.

In these circumstances, we are pleased to report a slight increase in our new business volume to around €3.9 billion. Intermediation income from private home loan finance also rose, as did the joint lending business with the German cooperative banks in our segment Corporate Clients. We are proud to have such a close and trusting working relationship with our partner banks.

While our financial performance remains strong, our moderate risk situation confirms the effectiveness of our credit risk strategy and the viability of our business model.

Sustainability remains as high a priority as ever for our Bank. In our segment Retail Customers, we launched the Eco product feature, which offers an attractive interest rate discount for privately-used real estate consuming no more than 50 kWh/m^2 of energy per year. And in the segment Corporate Clients, we thoroughly analyse climate-related and environmental risks before setting terms and conditions with a view to reducing our portfolio's emissions. On the refinancing front, we have established ourselves as a leading issuer of Green Pfandbriefe, most recently placing a Green Mortgage Pfandbrief this July.

In addition, we are continuing to implement suitable processes on the digital transformation front. A prime example of this is the FK Digital project, an innovative digital loan processing solution for the segment Corporate Clients, which is progressing according to plan. The segment Retail Customers has seen the launch of VR-BaufiComfort, a private home loan finance product that will be instrumental in expanding our range of services. This new product allows cooperative banks to focus on advising customers while we review the loan application, leading to a quick and reliable financing process and efficient loan processing. We have also introduced numerous resources to help modernise downstream processes across business divisions and lead our Bank into a smart digital future.

There is a palpable sense of motivation in real estate right now, with players eager to seize the opportunities that present themselves. We too are ready to play our part as a reliable financing partner, while still keeping a close eye on risks and structural challenges. We also feel that our employees are highly motivated to help shape our Bank's future path. In view of these two factors, we are looking ahead to the second half of 2024 with the greatest confidence.

Yours sincerely,

Sabine Barthauer
Chief Executive Officer

Jörg Hermes

Stefan Schrader

Hamburg and Münster, August 2024

ECONOMIC ENVIRONMENT

Germany's economy posted a slight recovery in the first quarter of 2024, with the country's gross domestic product (GDP) increasing by 0.2 per cent between January and March on a quarter-on-quarter basis, narrowly avoiding a technical recession after a 0.4 per cent decrease in the fourth quarter of 2023. This encouraging first-quarter result was driven by exports and construction investments, as the latter profited significantly from the mild weather in January and February.

However, the strong dynamic in construction did not last. In the second quarter, the construction sector continued to be hampered by high interest rates, increased construction costs and a steady decline in demand for non-commercial construction. The manufacturing industry also struggled to free itself of the problems it had experienced in the previous year. While the weak order development left little room for industrial production to recover on a wider scale, private consumption also remained muted. Even though inflation was significantly lower than in the previous year and despite a strong rise in tariff salaries, private households held back on consumer spending and retail revenues climbed only moderately between January and April. The service sector has established itself as a cornerstone of the economy with a significant increase in revenues year-to-date. Preliminary data indicates that GDP fell by 0.1 per cent quarter-on-quarter in the second quarter of 2024.

This means that macroeconomic performance stagnated on average in the first half of 2024 on a price-adjusted basis compared with the second half of 2023. On a year-on-year basis, performance shrank by 0.1 per cent.

Looking at the euro area as a whole, the economy started 2024 on a positive note. GDP in the European Economic Area (EEA) grew by 0.3 per cent quarter-on-quarter in the first three months, avoiding a third consecutive quarter of sluggish growth after the third and fourth quarters of 2023. Key sentiment indicators for the euro area improved in the first half of 2024 in spite of various setbacks. While far from being a widespread upturn, the economy began its recovery in the first quarter and continued this positive development in the second. GDP increased by 0.3 per cent on a quarter-on-quarter basis, meaning that economic performance was 0.5 per cent higher in the first half of 2024 than in the same period in 2023.

Having increased steadily in 2023, interest rates for construction finance were down as at the beginning of 2024. Housing loans with fixed interest rates for ten years carried an average interest rate of 3.4 per cent in January, while loans with fixed interest rates for 15 years averaged at 3.5 per cent. During the reporting period, these interest rates registered a slight uptick to 3.7 per cent and 3.8 per cent by June 2024. In the same month, the European Central Bank

(ECB) cut its key interest rates for the first time since mid-2022, in this case by 0.25 percentage points. (Please refer to the Refinancing chapter on page 14 of this report for more information on capital market developments.)

Primary source: DZ BANK

DEVELOPMENT OF THE REAL ESTATE MARKETS

Commercial real estate market

Real estate investment markets followed an upward trend in the first half of 2024. Having been subdued for the most part in 2023, transaction activity picked up between April and June 2024 to reach a quarterly turnover of €9.4 billion. Turnover generated with commercial real estate between January and June amounted to €15.7 billion and was up ten per cent on the previous year, following a meagre first-quarter result of €6.3 billion, down 19 per cent year-on-year. Performance continues to be greatly influenced by the difficult market conditions, which is evident above all in restructurings, and inflation, construction costs and interest rates all remain high. The ECB's first rate cut in June was met with relief in the markets but, having been expected and priced in, failed to cause any ripples.

The increase in transaction volume in the first half of 2024 can be attributed primarily to individual transactions generating €11.5 billion in turnover, up 26 per cent on the previous year. While the share of portfolio deals decreased again – by 19 per cent to a total of €4.2 billion – deal sizes increased, with 31 transactions exceeding €100 million (H1 2023: 23 deals).

A look at Germany's seven top locations (Hamburg, Berlin, Dusseldorf, Cologne, Frankfurt, Stuttgart and Munich) reveals a year-on-year increase in turnover of 29 per cent to €8.4 billion. This translates into a 53 per cent share in Germany's transaction volume (H1 2023: 45 per cent). Berlin led the field with a 67 per cent increase in turnover to around €3.5 billion, followed by Munich (+63 per cent to €1.8 billion), Dusseldorf (+27 per cent to €750 million), Frankfurt (+14 per cent to €730 million), Hamburg (-14 per cent to €710 million), Cologne (+36 per cent to €600 million) and Stuttgart (-62 per cent to €310 million).

The commercial residential asset class ("Living") proved to be the most popular property type, with €3.7 billion in total turnover, composed of €3.4 billion generated in residential and around €300 million in healthcare properties. After this came logistics with turnover of €3.4 billion and office properties with just above €3.0 billion.

Logistics and industrial properties accounted for 22 per cent of the transaction volume in the first half of 2024 after both their share and their turnover had been significantly lower in the first half of 2023, at 15 per cent and approximately €2.2 billion respectively. At the end of the first-half year, the aggregate net initial yield (prime yield) for logistics and industrial properties in first-class locations was around 4.4 per cent across all seven major German cities. This was unchanged from the beginning of the year, but up from around 4.0 per cent in the second quarter of 2023.

Office properties are now third in the ranking of asset classes by transaction volume, one place lower than in the corresponding prior-year period. Even though their volume nudged up from almost €3 billion in the first half of 2023 to just over €3 billion in the first half of 2024, this now accounted for only 19 per cent of the transaction volume compared with 21 per cent one year ago. Average prime yields across the seven major German cities fell slightly short of 4.4 per cent in the second quarter but was up from around 3.8 per cent in mid-2023.

Registering 1.27 million square metres in space take-up, the office rental market picked up by 9 per cent year-on-year. A more nuanced picture emerges when examining the performance of the top cities, with Hamburg losing 17 per cent to 197,000 square metres and Stuttgart gaining 45 per cent to 93,700 square metres. Market experts attribute this positive overall trend to the robust labour market. As businesses have started to give preference to quality over quantity when letting office space, vacancies in the seven major cities increased to 6.1 million square metres in the reporting period. This corresponds to a 6.2 per cent vacancy rate, up 0.9 percentage points on the previous year. Dusseldorf registered a double-digit vacancy rate at 10.0 per cent, while in Frankfurt 8.7 per cent of available space was vacant at the end of the first six months of 2024. In the other real estate strongholds, vacancy rates ranged from 3.5 per cent (Cologne) to 6.2 per cent (Munich region) as at 30 June 2024.

Transaction volumes connected to **retail properties** amounted to just under €2.6 billion. With a 16 per cent share of the total transaction volume, this asset class remains in fourth place this year. This result was heavily influenced by the biggest transaction of the first half of the year: the sale of the famous KaDeWe department store in Berlin. By way of comparison, retail properties had accounted for 13 per cent of turnover in the first half of 2023, when related transaction volumes amounted to just above €1.9 billion. In this year's reporting period, prime yields ranged from

3.5 per cent for commercial buildings to 5.9 per cent for specialist retail stores.

The **hotel investment market** also followed a positive trajectory, booking €432 million in turnover between January and July 2024 (H1 2023: €384 million), with momentum especially high in the second quarter. €130 million of the total transaction volume of €257 million generated in the period stemmed from two traded portfolios. There were also seven individual transactions. Interest in value-add products was particularly high and these assets accounted for 72 per cent of total trading volume. The remaining share was generated with core properties. The largest buyer groups were private equity investors (almost 40 per cent) and hotel operators (26.5 per cent).

Transaction activity on the **commercial residential investment market** became brisker toward the end of the first half of the year. Residential properties and portfolios worth €3.4 billion changed hands in the reporting period, €2.6 billion of this in the second quarter. Year-on-year, this is a decrease of almost 25 per cent (H1 2023: €4.5 billion). The growing transaction dynamic in the second quarter is clearly reflected in the number of deals: while just 45 deals were concluded in the first three months of the year, this number rose to 80 between April and June. With an average deal size of around €33 million, most transactions were relatively small, although two large transactions were recorded in Berlin. Investors continued to focus on metropolitan areas. Yields varied somewhat in the reporting period, with top-notch products registering a slight decrease in prime yields and properties in good locations a slight increase.

Private residential real estate markets

Owners and potential buyers had been reluctant to act in light of the new interest rate paradigm, increasing construction costs and uncertainty following political debate. However, private residential real estate markets started to gain momentum in the reporting period as evidenced by a higher demand for properties to buy and a slight increase in demand for private mortgage loans.

Prices for condominiums and single- and double-family homes decreased further in the reporting period. Compared with the previous quarter, indices across the average of all construction years fell by 0.8 per cent for condominiums and 0.5 per cent for single- and double-family homes in the first quarter, then by 0.4 per cent and 0.5 per cent respectively in the second quarter. In a year-on-year comparison, prices for condominiums dropped by 3.6 per cent and for single- and double-family homes by 4.6 per cent in the first half of 2024.

Driven by the constant rise in rents, indices covering rental apartments continued to increase in the first quarter, climbing 1.5 per cent quarter-on-quarter and 5.3 per cent year-on-year, followed by a 1.4 per cent and 5.6 per cent hike in the second quarter. Rents advertised for newly constructed units rose by 1.9 per cent in municipal districts and 1.5 per cent in counties on a quarter-on-quarter basis in the first three months of 2024. Compared with the same period in 2023, new-build rents were up by 5.6 per cent across Germany. A similar picture emerges in the second quarter, with increases of 1.6 per cent, 1.2 per cent and 5.8 per cent. Munich led the field (Q1: €21.38 per square metre, Q2: €21.81 per square metre), followed by Berlin (€18.31 and €18.69), Frankfurt/Main (€18.14 and €18.31), Stuttgart (€16.33 and €16.77), Hamburg (€15.55 and €16.00) and Cologne (€15.09 and €15.28).

Sources include: Jones Lang LaSalle (JLL), Empirica

CREDIT BUSINESS

DZ HYP generated total new business of €3,889 million across all segments during the period under review (H1 2023: €3,626 million). Of this figure, €3,658 million (H1 2023: €3,407 million) related to real estate finance and €231 million (H1 2023: €219 million) to business with public-sector clients.

Real estate finance

DZ HYP is a leading provider in Germany in its segment **Corporate Clients**, and a partner to the German cooperative banks. DZ HYP generated new business of €3,206 million in the first six months of 2024 (H1 2023: €3,058 million). The German core market accounted for the bulk of this, i.e. €2,933 million (H1 2023: €2,729 million), which was in line with the Bank's strategic focus. The Bank originated new business of €273 million in the UK and Dutch markets during the period under review (H1 2023: €329 million). Its main focus is on the core segments of office, housing 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. The Bank also works with companies that provide affordable housing for wide swathes of the population, including cooperative, municipal, church-owned and other housing enterprises across Germany.

DZ HYP successfully continued its work with corporate clients within the Cooperative Financial Network during the period under review. Joint lending business with the cooperative banks totalled €1,600 million in the first half of 2024 (H1 2023: €1,501 million).

The real estate lending business in DZ HYP's segment **Retail Customers** increased vis-à-vis the previous year. The volume of new commitments entered into by DZ HYP in the period under review was €452 million (H1 2023: €349 million), with a significant share being brokered by the GENOPACE, BAUFINEX and Europace sales platforms. This development underscores the steady growth of the platform business. As well as this, business continues to be generated through the established core banking procedure, agree21.

Business with public-sector clients

In its work with public-sector clients, DZ HYP helps cooperative banks to develop business with domestic local authorities as well as their legally dependent operations, which are serviced across Germany. DZ HYP originated €231 million in new business during the period under review (H1 2023: €219 million), of which €130 million (H1 2023: €132 million) was intermediated by cooperative banks and €101 million (H1 2023: €87 million) was direct business.

REFINANCING

Developments on the capital markets

In the first half of 2024, money-market and geopolitical events dominated the capital markets, leading to increased volatility. In the first quarter, persistently above-target inflation gradually priced out expectations on both sides of the Atlantic that interest rates would be cut, which in turn meant that the second quarter was characterized with uncertainty regarding the central banks' next moves. In June, the ECB decided to lower its key interest rate for deposit facilities by 25 basis points to 3.75 per cent.

Seemingly unaffected by these developments, the covered bonds market once again proved its stability and reliability as €107.5 billion in euro-denominated benchmark bonds were placed in the first six months of 2024 (30 June 2023: €140 billion).

Issuance activity at DZ HYP

DZ HYP continues to monitor the market closely. Using three issue windows, the Bank placed Mortgage Pfandbriefe as benchmark bonds in the first half of 2024 with a total volume of €1.75 billion. All three of these issues were well received by investors, starting with a seven-year bond with a volume of €750 million placed on the market in January 2024. This bond was followed by a €500 million Mortgage Pfandbrief with a term of around ten years in February and an eight-year issue in the same volume in April.

In the benchmark segment, DZ HYP also increased the volume of two issues by €250 million in total.

The Bank issued another €214.5 million in Pfandbriefe in the form of private placements, including €43 million in Public Pfandbrief instruments. This brings the total of covered bonds issued by DZ HYP in the first half of 2024 to just over €2.2 billion (30 June 2023: €2.6 billion).

During the period under review, the Bank issued unsecured funding totalling €2.2 billion (30 June 2023: €1.5 billion), mostly within the Cooperative Financial Network.

Total Pfandbriefe outstanding as at 30 June 2024 amounted to €44.2 billion (30 June 2023: €43.5 billion). This comprised €35.2 billion in Mortgage Pfandbriefe (30 June 2023: €33.8 billion) and €9.1 billion in Public Pfandbriefe (30 June 2023: €9.7 billion). Total unsecured funding amounted to €22.7 billion as at 30 June 2024 (30 June 2023: €20.9 billion).

NET ASSETS, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Net assets

DZ HYP's total assets decreased by €1.0 billion to €76.5 billion during the first half of 2024. The Real Estate Finance portfolio increased by €0.3 billion to €57.2 billion (31 December 2023: €56.9 billion), while originated local authority lending exposures declined to €8.5 billion in the first half of 2024 (31 December 2023: €8.8 billion) and the securities portfolio decreased to €8.5 billion in the period under review (31 December 2023: €9.0 billion).

DEVELOPMENT OF LENDING VOLUME

€ mn	30 Jun 2024	31 Dec 2023	Change from the previous year € mn	%
Mortgage loans*)	**57,156**	**56,902**	254	0.4
Originated loans to local authorities)**	**8,487**	**8,785**	-298	-3.4
Securities business*)**	**8,538**	**9,007**	-469	-5.2
Total	**74,181**	**74,694**	-513	-0.7

*) 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 that, in almost all cases, DZ HYP is no longer required to apply any of the relevant provisions of the Capital Requirements Regulation (CRR) at a single-entity level, since these are covered at the level of the DZ BANK Group. The minimum requirements for the internal MREL ratios at single-entity level in 2024, 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 current 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 German Commercial Code (Handelsgesetzbuch – "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 has been 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

Thanks to DZ HYP's strong operational performance, the positive earnings development of recent years continued in the first half of 2024. Despite the increase in interest rates, operating profit generated in the period under review matched the previous year's respectable level. Significant amounts of the distributable half-year results for 2024 can be allocated to general risk provisioning while preserving the forecast profit and loss transfer.

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

The main profit and loss account line items showed the following development as at 30 June 2024:

NET INTEREST INCOME IN DETAIL

€ mn	30 Jun 2024	30 Jun 2023
Interest income	**1,017.5**	904.7
Interest expenses	**659.0**	537.9
Current income from participations	**0.2**	0.1
Net interest income	**358.7**	366.9

[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 2023 financial statements.

Net interest income of €358.7 million generated during the first six months of the year was €8.2 million below the previous year's figure of €366.9 million. This can be attributed to the issuance of subordinated bonds carrying higher coupons and to lower interest income within the scope of liquidity management.

The net commission result of €-2.5 million was up €3.7 million on the comparable figure for the previous year (€-6.2 million), with €14.0 million (previous year: €11.6 million) in commission income generated from the lending business, which depends on both the respective product mix and disbursement timing. In addition, €14.5 million (H1 2023: €15.7 million) was paid on brokerage services to cooperative banks within the Cooperative Financial Network.

Administrative expenses of €130.3 million in the first half of 2024 – i.e. the sum 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 2023: €155.8 million). The main reason for the decrease in administrative expenses was that DZ HYP no longer needed to pay the banking levy (H1 2023: €33.2 million) after reaching the European target volume in the previous year. Project expenses, on the other hand, increased mainly as a result of digitalisation measures and the implementation of regulatory requirements.

Net other operating income/expenses of €7.5 million was up €0.1 million on the previous year (H1 2023: €7.4 million).

Reported loan loss provisions[2] of €41.3 million (H1 2023: €21.9 million) include specific valuation allowances for loans of €26.5 million (H1 2023: €23.2 million). Portfolio-based valuation allowance amounted to €11.3 million, compared with €0.2 million in the first six months of 2023. Substantial additions to reserves pursuant to section 340f of the HGB were not made. DZ HYP generated no valuation result for securities held as liquidity reserve, following a result of €0.1 million in the previous-year period.

There were no facts to be reported in the net financial result[3]. For the most part, this comprised €0.3 million in income from credit derivatives due to reduced material credit risks in the first six months of 2024.

Given that the political and macroeconomic situation remains difficult, DZ HYP's forecast long-term profitability continues to be affected by uncertainty as a result of credit risks and increasing government debt. For this and other reasons (and exercising prudent commercial judgement), €55.0 million (H1 2023: €44.0 million) was allocated to the fund for general banking risks pursuant to section 340g of the HGB, in order to take account of particular risks facing the business area.

[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 participations, shares in affiliated companies, and investment securities"

The tax levy reported under the existing tax compensation agreement between DZ BANK and DZ HYP amounted to €81.8 million in the first half of the year 2024 (H1 2023: €101.9 million). This is a major component of tax expense on income, which was €81.9 million (H1 2023: €102.0 million).

DZ HYP reported profit after tax of €55.0 million (H1 2023: €44.0 million), which would have to be transferred to DZ BANK under the profit and loss transfer agreement. However, since section 301 of the German Stock Corporation Act (Aktiengesetz – "AktG") stipulates that net income is the relevant factor for any transfer, this reported profit will not be transferred.

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 2024. 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 2024 are directly related, in particular, to macroeconomic developments and their impact on the real estate market, which continues to be characterised by uncertainty due to the manifold international crises.

DZ HYP's risk-bearing capacity remains unaffected, with a utilisation of 67 per cent as at 30 June 2024.

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 2024	Total 31 Dec 2023	Real estate lending 30 Jun 2024	Local authority lending 30 Jun 2024	Capital markets business 30 Jun 2024
Investment grade (rating class 2A or better)	**75,665**	77,269	**57,131**	**9,131**	**9,403**
Non-investment grade (rating classes 2B–3E)	**3,327**	3,175	**3,293**	**–**	**34**
Defaulted rating classes (4A or worse)	**620**	527	**591**	**–**	**29**
Unrated	**1**	1	**1**	**–**	**–**

*) including disbursement commitments

CREDIT RISK INDICATORS

€ mn	Total 30 Jun 2024	Total 31 Dec 2023	Change in %
Lending volume*) (LV)	**79,613**	80,972	-1.7
NPL volume	**620**	527	17.6
NPL ratio (in %)	**0.78**	0.65	20.0
Risk provisioning pursuant to the HGB)**	**519**	477	8.8
Provisioning ratio (in %)	**0.65**	0.59	10.2

*) including disbursement commitments
**) specific and general valuation allowance, general risk provisions (section 340f of the HGB) and other provisions

The development of the credit portfolio is closely monitored and notable (potential) risks have only been identified in isolated cases. To date, this portfolio has only slightly been impacted by the insolvency proceedings against commercial or residential real estate developers. The transaction market for residential and commercial real estate developments remains tense. While it is true that prices for plots, construction services and construction material in general have gone down again following a marked increase, so have purchasing prices for finished properties. This makes it hard for most projects to turn a profit. However, some transactions are coming back, mainly those backed by tax or support programmes. A substantial proportion of the loan portfolio contains properties that have already entered the development phase, meaning that many contracts have already been awarded and visibility on costs is good. The office investment market is fraught with uncertainty about the kind of offices that property users will want in the future and what space requirements this will entail. Demand for space is expected to decrease and to focus on ESG-compliant, state-of-the-art and high-quality spaces in the city centres or locations that are easy to reach and offer superior service infrastructure. Notwithstanding these uncertainties, it appears likely that completion figures for 2024 will be above average, increasing vacancies in the short term. In the medium term, new units are expected to see a noticeable decline, which in turn would have a stabilising effect on vacancies. Since 2023, capacity utilisation in the hotel sector has been mostly stable, on a par with pre-pandemic levels. With tourism demand in Germany continuing to increase, a slightly positive development can be expected for 2024. Major risk factors for hotel properties include a shortage of skilled labour, combined with guests becoming increasingly price-sensitive in the current inflation environment. Against a complex economic and geopolitical background, the transaction market is expected to see a slight increase in volumes in 2024.

In the capital markets business, the rise of right-wing populism in Germany and other European countries, ongoing geopolitical conflicts and limited transparency regarding the future course of ECB monetary policy have caused yield spreads become more volatile. Despite those uncertainties and the muted economic outlook, the Bank does not expect any default events to occur in its capital market portfolio, which remains 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. Transition risks that occur in connection with the transition to a climate-neutral economy (driven, for example, by legislative changes or changes in consumer behaviour) must also be kept in mind.

DZ HYP has introduced a scorecard for measuring physical and transition risks together with a method for calculating financed emissions (carbon accounting) and a method for evaluating its real estate portfolio that takes into account the financed greenhouse gas emissions based on benchmark paths established on the market (climate alignment). Sustainability risks are included in lending decisions and energy efficiency characteristics are considered in building assessments. Sustainability risk measurement and management is optimised in line with the regulatory requirements.

There have been no material changes to the assessments regarding the occurrence probability or impacts of other material risks since 31 December 2023. Please refer to DZ HYP's Management Report as per 31 December 2023.

Forecast

The economy has been sluggish in the 2024 financial year so far. The number of businesses declaring bankruptcy has increased, inflation has gone down but remains high, and business and consumer confidence is still low. The political developments and crises around the world also add to the mounting pressure. Relatively high interest rates have pushed up financing costs, which in turn has a negative impact on real estate markets. A return to normalcy would necessitate not only further stabilisation or reduction in interest rates but above all a significant and sustained economic recovery. The outlook for Germany's gross domestic product over the coming months remains very muted, and a strong rebound in 2024 seems improbable. Economic growth this year is likely to be only slightly above zero, with no stronger increase expected until 2025. The interest rate curves relevant for DZ HYP are projected to normalise and reach a lower level in the medium term.

DZ HYP expects yields in the real estate market to come down significantly in 2024 as necessary price adjustments are mostly completed and the decrease in real estate values will slow down to a moderate and easily tolerable level. With market parameters stabilising, it is likely that investment markets will recover gradually. All DZ HYP asset classes continue to be in demand and are expected to keep yielding returns. Based on the risks and opportunities outlined above, DZ HYP projects a year-on-year increase in the volume of new business.
As to the key performance indicators, the forecasts made in the Management Report 2023 continue to apply.

CONDENSED BALANCE SHEET

ASSETS

€ mn	30 Jun 2024	31 Dec 2023
Loans and advances to banks	**2,680**	3,012
a) Mortgage loans	6	4
b) Loans to local authorities	258	193
c) Other loans and advances	2,416	2,815
Loans and advances to customers	**67,581**	67,659
a) Mortgage loans	54,407	54,293
b) Loans to local authorities	10,423	10,727
c) Other loans and advances	2,751	2,639
Bonds and other fixed-income securities	**5,507**	6,006
a) Bonds and debt securities	5,503	5,998
aa) Public-sector issuers	3,341	3,939
ab) Other issuers	2,162	2,059
b) Own bonds issued	4	8
Participations	**1**	1
Shares in affiliated companies	**2**	2
Trust assets	**6**	6
Intangible fixed assets	**0*)**	0*)
Tangible fixed assets	**218**	220
Other assets	**62**	65
Prepaid expenses	**480**	506
Total assets	**76,537**	77,477

*) values less than € 0.5 million

LIABILITIES AND EQUITY

€ mn	30 Jun 2024	31 Dec 2023
Liabilities to banks	**27,683**	**28,861**
a) Outstanding registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	815	940
b) Outstanding registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	858	1,046
c) Other liabilities	26,010	26,875
Liabilities to customers	**11,512**	**11,523**
a) Outstanding registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	4,508	4,556
b) Outstanding registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	5,322	5,662
c) Other liabilities	1,682	1,305
Securitised liabilities	**34,114**	**33,979**
a) Mortgage Pfandbriefe (Hypothekenpfandbriefe)	30,040	29,801
b) Public Pfandbriefe (öffentliche Pfandbriefe)	2,937	2,938
c) Other debt securities	1,137	1,240
Trust liabilities	**6**	**6**
Other liabilities	**213**	**214**
Deferred income	**471**	**503**
Provisions	**378**	**286**
Fund for general banking risks	**1,033**	**978**
Equity	**1,127**	**1,127**
Total assets	**76,537**	**77,477**
Contingent liabilities	**176**	**190**
Other commitments	**5,835**	**7,535**

CONDENSED PROFIT AND LOSS ACCOUNT

€ mn	01 Jan to 30 Jun 2024	01 Jan to 30 Jun 2023
Interest income	1,017.7	904.8
Interest expenses	659.0	537.9
Net interest income	**358.7**	**366.9**
Commission income	18.1	16.2
Commission expenses	20.6	22.4
Net commission result	**-2.5**	**-6.2**
Gross profit	**356.2**	**360.7**
Administrative expenses	**130.3**	**155.8**
General administrative expenses	128.1	153.0
Staff expenses	54.4	55.3
Other administrative expenses	73.7	97.7
Amortisation/depreciation and write-downs of intangible and tangible fixed assets	2.2	2.8
Net other operating income/expenses	**7.5**	**7.4**
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions	**41.3**	**21.9**
Amortisation and write-downs on participations, shares in affiliated companies, and investment securities	**0.0**	**-0.2**
Result from ordinary activities	**192.1**	**190.6**
Allocation to the fund for general banking risks	55.0	44.0
Income taxes	81.9	102.0
Other taxes	0.2	0.2
Profits transferred under partial profit transfer agreements	0.0	0.4
Profits to be transferred under profit transfer agreements	**55.0**	**44.0**

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 2024 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 Stock Corporation 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 2023 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 2024 are based on the same accounting policies as were applied in the annual financial statements as at 31 December 2023, 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 HGB.

DZ HYP's credit portfolios have already been analysed over the past years to pinpoint any potential material effects resulting from the COVID-19 pandemic or 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. As uncertainty continues to reign on real estate markets, DZ HYP maintains an increased portfolio-based allowance.

Disclosures on securities recognised above their fair value

As at 30 June 2024, the Bank did not recognise an extraordinary write-down in the aggregate amount of €237.3 million (31 December 2023: €206.2 million) for negotiable securities held as fixed assets with a carrying amount of €3,722.9 million (31 December 2023: €3,501.5 million) and a fair value of €3,485.6 million (31 December 2023: €3,295.3 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.

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 2024		31 Dec 2023	
€ mn	<= 1 year	> 1–5 yrs	> 5 yrs	30 Jun 2024	31 Dec 2023	positive	negative	positive	negative
Interest rate instruments*)	11,495	62,374	73,443	147,312	148,223	6,705	6,688	6,543	6,614
Currency-related instruments	381	822	502	1,705	1,767	60	108	73	99
Credit-related transactions	10	11	7	28	27	0	1	0	1
Total	**11,886**	**63,207**	**73,952**	**149,045**	150,017	**6,765**	**6,797**	6,616	6,714

*) 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 13 August 2024 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, 13 August 2024

DZ HYP AG

Sabine Barthauer
Chief Executive Officer

Jörg Hermes

Stefan Schrader

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 2024 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, 13 August 2024

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Anne Witt Wirtschaftsprüferin (German Public Auditor)	ppa. Uwe Gollum Wirtschaftsprüfer (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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