MANAGEMENT REPORT

BUSINESS MODEL

The commercial real estate bank for the Cooperative Financial Network

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

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

Joint market coverage with the German cooperative banks

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

Customised financing solutions for corporate clients

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

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

Collaboration with the German Cooperative Financial Network for corporate clients

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

Managing real estate risks

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

Solutions for retail customers

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

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

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

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

Centre of competence for public-sector clients

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

Real estate valuation by the subsidiary VR WERT

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

ECONOMIC REPORT

ECONOMIC ENVIRONMENT

Recovery of the German economy

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

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

Inflation climbs to more than 5 per cent

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

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

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

Government consumption expenditure

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

Labour market continues recovery

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

Euro area economy growing again

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

Markets continue to be bolstered by low interest rates

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

MARKET DEVELOPMENTS

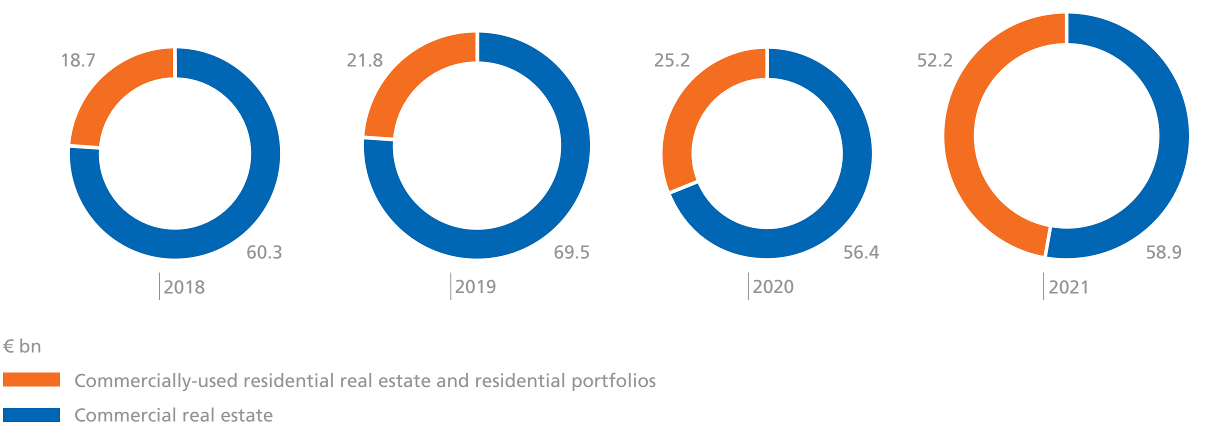
Highest turnover to date on the German real estate investment market

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

Berlin records highest transaction volume nationwide

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

TRANSACTION VOLUME IN GERMANY



Source: Jones Lang LaSalle

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

Residential investments lead the way

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

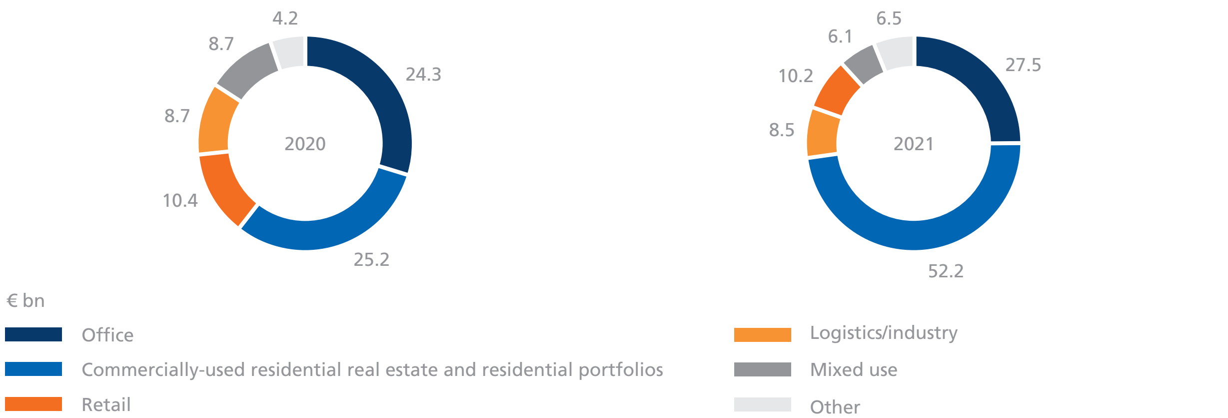
Downward trend in yields continues

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

Residential investment market affected by price increases

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

TRANSACTION VOLUME BY MAIN TYPE OF USE



Source: Jones Lang LaSalle

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

Stronger demand for office properties than in the previous year

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

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

Retail properties: Specialist retail products dominate demand

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

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

Logistics real estate: Demand continues to rise

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

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

Signs of recovery in the hotel investment market

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

Residential rents rise more slowly

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

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

Sustained demand for private home loan financing

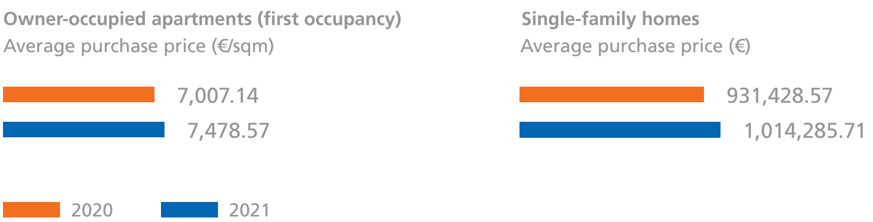
Owner-occupied residential property was affordable for quite some time, even though average purchase prices have almost doubled compared to 2009. In the first half of 2021, the average purchase price was € 422,000. Disposable monthly income rose by only a third in the same period, thus lagging behind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

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

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

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

PURCHASE PRICE DEVELOPMENT IN GERMANY'S TOP LOCATIONS



Sources: bulwiengesa, RIWS

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

Rental yields drive up prices of multi-family homes

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

BUSINESS DEVELOPMENT

Credit Business

New business volume above the previous year's level

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

Corporate Clients segment

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

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

Retail Customers segment

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

Public Sector segment

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

Reduction of non-strategic portfolios

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

Refinancing

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

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

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

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

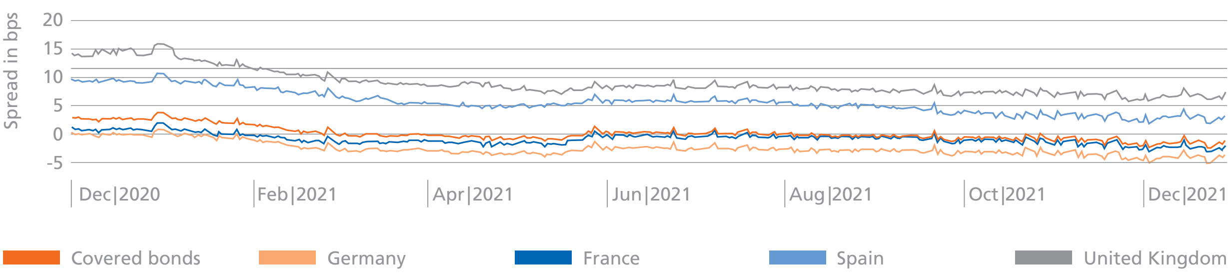
In the 2021 financial year, DZ HYP issued covered bonds with a total volume of € 3.8 billion*) (2020: € 4.4 billion). Publicly placed benchmark bonds accounted for the largest share with € 3.8 billion Mortgage Pfandbriefe (2020: € 3.8 billion) in maturities of five to nine years. No Public Pfandbriefe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

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

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

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

REFINANCING PREMIUMS OF COVERED FIVE-YEAR BONDS



Source: DZ BANK Research

NET ASSETS, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Net assets

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

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

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

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

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

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

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

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

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

DEVELOPMENT OF LENDING VOLUME

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

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

DZ HYP's financial position is sound.

CALCULATION OF AVERAGE INVESTED ROE-RELEVANT EQUITY

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

Regulatory capital

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

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

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

Financial position

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

- Ongoing liquidity management aims to guarantee a reliable and continuous provision of liquidity at all times. Given DZ HYP's integration in the Cooperative Financial Network and its affiliation with DZ BANK, DZ HYP consciously refrains from maintaining an independent market presence for the purposes of short-term liquidity management, which is carried out in close coordination with DZ BANK. Due to its central bank function within the Cooperative Financial Network, DZ BANK raises cash and cash equivalents of various maturities, and applies the funds raised within its Group.

  Within this Group liquidity management framework, subsidiaries such as DZ HYP may call upon funding from DZ BANK. This is based on closely coordinated, regular risk reporting about future changes to the liquidity position.

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

DZ HYP's liquidity situation is adequate.

Financial performance

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

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

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

OVERVIEW OF THE PROFIT AND LOSS ACCOUNT

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

*) Equates to the income statement line items 'write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions'

**) Equates to the income statement line item 'income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets'

Net interest income

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

NET INTEREST INCOME IN DETAIL

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

Net fee and commission income

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

Administrative expenses

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

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

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

Net other operating income/expenses

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

Risk provisioning

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

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

Net financial result

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

Operating profit

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

Change in the fund for general banking risks

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

Taxes

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

Profit transfer

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

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

Distributable earnings

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

COMPOSITION OF DISTRIBUTABLE EARNINGS

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

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

Cost/income ratio

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

STRUCTURE OF CIR COMPONENTS

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

Return on equity

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

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

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

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

REPORT ON OPPORTUNITIES, RISKS AND EXPECTED DEVELOPMENTS

REPORT ON OPPORTUNITIES

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

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

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

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

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

Managing opportunities

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

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

Non-financial reporting

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

RISK REPORT

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

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

I) Fundamental principles of risk management

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

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

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

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

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

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

a) Responsibilities

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

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

b) Functions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

e) Risk monitoring and reporting

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

II) Credit risk

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

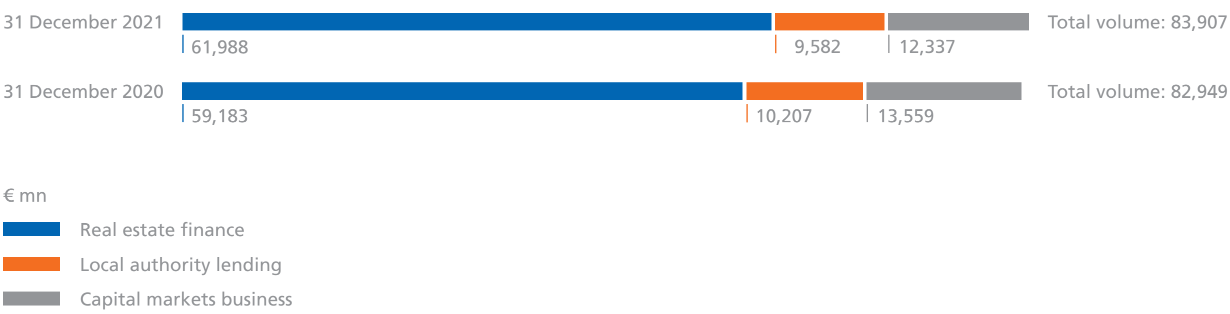
Credit risk in real estate finance and local authority lending is defined as the risk that a client is unable to settle claims arising from loans taken out by him or other due claims for payments or the risk of losses from contingent liabilities and committed credit lines.

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

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

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

LENDING VOLUME BY BUSINESS DIVISION



a) Limit system

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

b) Credit rating

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

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

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

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

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

LENDING VOLUME*) BY RATING CLASS

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

*) Including disbursement commitments

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

c) Intensified handling and management of problem loans

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

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

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

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

CREDIT RISK INDICATORS

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

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

d) Provisions for loan losses / loss allowance

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

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

e) Concentration risks

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

Real Estate Finance

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

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

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

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

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

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

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

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

Originated loans to local authorities

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

Capital markets business

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

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

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

*) Italy, Portugal and Spain

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

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

III) Market price risk

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

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

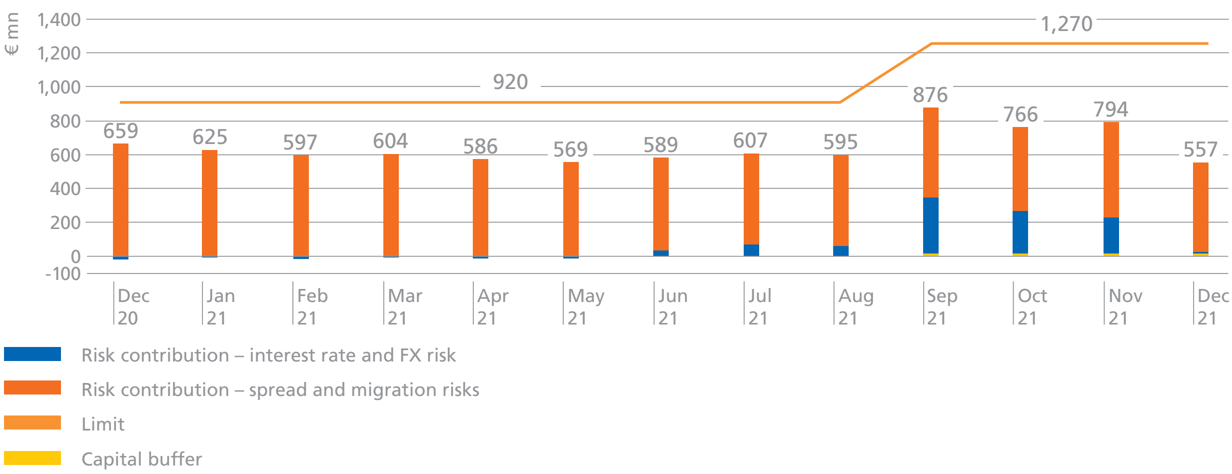
Market Risk Controlling informs the Management Board (as well as Treasury) on the limit utilisation in terms of the risk capital requirement using the Group model on a monthly basis; the utilisation of sensitivity limits implemented is reported daily. A multi-level escalation plan, comprising escalation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

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

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

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

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



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

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

IV) Liquidity risk

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

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

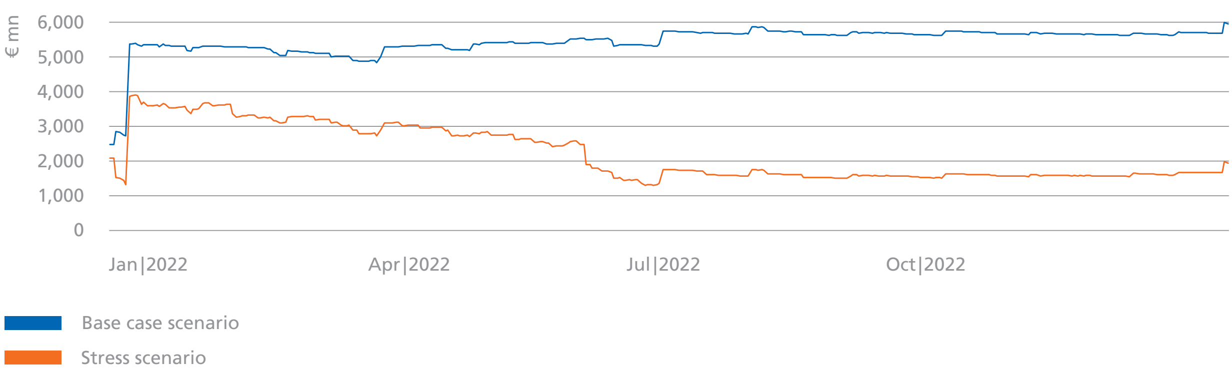
Based on the management of economic liquidity, Market Price Risk and Liquidity Risk Controlling provides Treasury with a differentiated overview on each business day, indicating future liquidity flows (comprising cash flows as well as a gap analysis of principal repayments and fixed interest mismatches)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

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

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

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

EXPECTED LIQUIDITY AS AT DECEMBER 2021



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

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

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

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

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

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

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

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

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

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

V) Operational risk

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

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

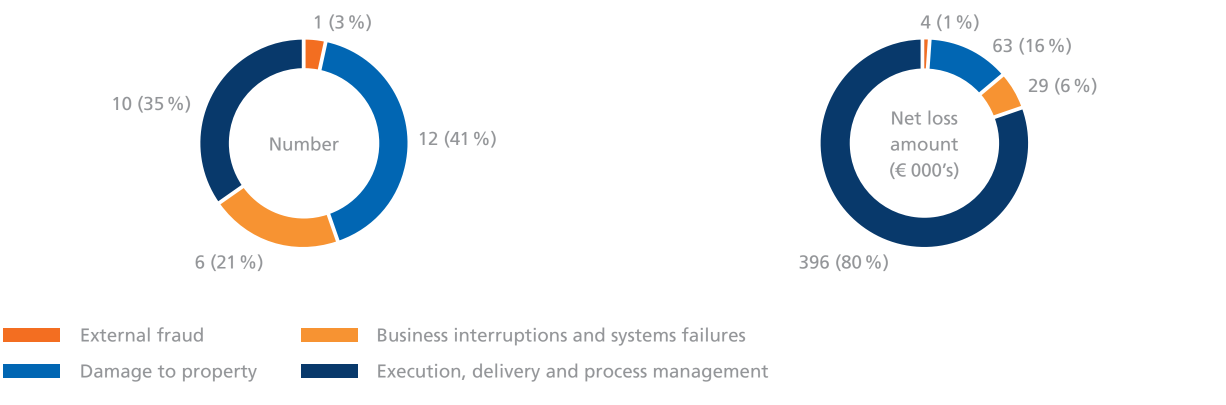
Compiling loss data in a central database allows to identify, analyse and assess loss events, thus allowing to recognise patterns, trends and concentrations of operational risks. Losses incurred by DZ HYP are incorporated into DZ BANK's economic model, enhancing the database.

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

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

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

OPRISK LOSSES 2021



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

IT risk

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

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

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

Outsourcing

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

VI) Equity investment risk

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

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

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

VII) Reputational risk

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

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

VIII) Business risk

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

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

IX) Longevity risk

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

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

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

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

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

XI) ESG risk factors

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

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

XII) Summary

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

REPORT ON EXPECTED DEVELOPMENTS

Cautionary forward-looking statement

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

Quality of forecasts

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

Forecast period

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

Business environment and assumptions underlying the forecast

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

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

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

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

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

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

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

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

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

Expected development of DZ HYP

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

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

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

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

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

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

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

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

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

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

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

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

EMPLOYEES

Human Resources work in unusual times

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

"Pulse Check" online employee survey

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

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

Culture project launched

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

Hybrid working at DZ HYP

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

Further developing the employer branding activities

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

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

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

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

Vocational training and empowering the next generation

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

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

Occupational health management

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

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

Promoting women: Statutory quotas and corporate initiative

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

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

Cooperation with the Works Council

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

STAFFING INDICATORS

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

*) Annual average
**) Average values