# Press release



# Cooperative banks generate a remarkable pre-tax profit of €10.7 billion / Kolak warns Brussels against weakening the institutional protection scheme

**Frankfurt/Main, 6. März 2024 –** Based on preliminary figures, the 697 German cooperative banks increased their pre-tax profit by €6.2 billion to €10.7 billion in the financial year 2023. Their financial performance improved significantly due to the year-on-year rise in net interest income and net fee and commission income, as well as the reversal of temporary loss allowances on the banks' own securities investments. In addition, reported equity rose by 3.2 percent to €64 billion. "These impressive figures show that the cooperative banks have established a very good basis for further growth, which will allow them to continue working successfully for their customers and members in the future," says Marija Kolak, President of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks]. At the same time, these figures indicate that the 17.8 million members and 30 million customers have confidence in the cooperative banks when it comes to financial matters.

"We have built this trust over many years," the BVR President adds. The major cornerstone for this trusting relationship is the cooperative protection system, which has been in place for 90 years. Kolak says: "I would like to clearly state to EU policymakers that in the interests of our members and customers, we will firmly reject any attempt to weaken our private-sector institutional protection scheme, which relies on solidarity." The European Commission and the European Parliament are currently discussing ideas to reform crisis management in the banking sector – known as the CMDI review – that accept a deliberate weakening

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of deposit protection schemes. This would also contradict the European Parliament's most recent initiative to revive the discussion (ongoing since 2015) of an EU-wide deposit protection system. "You cannot simply weaken the existing protection systems, while at the same time arguing that they are in need of some additional protection. That makes no sense," says Kolak.

**Satisfactory customer business**

Customer business has experienced satisfactory growth even against the backdrop of several adverse factors, such as the strong decline in new housing construction and weak demand for corporate lending as a result of economic stagnation. The total loan book rose by 2.6 percent to €777 billion, with market share growth of 0.3 percentage points to 18.1 percent. Corporate lending volume was up 3.8 percent and reached €414 billion, with a rise in market share of 0.5 percentage points to 22.4 percent. Retail lending volume increased by 1.3 percent to €363 billion, with market share growth of 0.2 percentage points to 24.1 percent.

In terms of deposits, rising interest rates opened up attractive opportunities for customers to invest in traditional term deposits or savings certificates. Many customers shifted their high current account balances, accumulated during the coronavirus pandemic, into higher-yielding products. On the other hand, the higher cost of living due to inflation weighed down customers' ability to save. Overall, customer deposits held at cooperative banks remained nearly unchanged at €860 billion (minus 0.2 percent). This reflects our stable and trusting business relationships with our customers. Term deposits increased by 166.3 percent or €93 billion, while savings certificates were up by 260.1 percent, corresponding to an increase of €15 billion. By contrast, on-demand deposits fell by €77 billion or 12.3 percent, which was in line with expectations.

**Financial performance improves significantly**

Net interest income rose by €15.4 percent to €20.6 billion during the reporting period. In this context, interest expenses quadrupled to €7.2 billion, mainly because customers shifted their funds into higher-yielding deposits.
Interest income was up 41.5 percent to €27.8 billion.
Net fee and commission income increased by 4.3 percent to €6.5 billion, due in part to brisk agency business between cooperative network partners. General and administrative expenses climbed by 5.5 percent to €16.6 billion. Operating income was up 25.7 percent and reached €10.5 billion. Operating profit before gains and losses on valuation rose by 23.1 percent to €11.6 billion. Gains and losses on valuation amounted to minus €698 million. Loss allowances in the securities business amounted to €1.4 billion, characterized by initial reversals of impairment losses, following reduction of earnings in financial year 2022 by very high impairments (minus €5.7 billion) in the banks' own investments due to the turnaround in interest rates. The loss allowance in the lending business reflects the dampened economic outlook, the rise in interest rate levels, and an increase in corporate and private bankruptcies. Impairment losses in the cooperative banks' lending business are expected to amount to minus €1.5 billion in 2023. Profit before taxes increased considerably by €6.2 billion to a remarkable €10.7 billion. Additions to the fund for general banking risks are forecast at €4 billion. Net profit after taxes thus amounts to €3.5 billion.

**Favorable earnings situation helps increase equity**

The cooperative banks have utilized their strong financial performance to further strengthen their equity position. Accordingly, reported equity rose by 3.2 percent to €64 billion in the reporting period. Paid-up shares in cooperatives (subscribed capital) grew by 4.8 percent to €17 billion. Regulatory own funds in accordance with the CRR climbed by 3.9 percent to €111.5 billion. Tier 1 capital was up 3.9 percent to €103.2 billion. The Common Equity Tier 1 capital ratio grew by 0.32 percentage points to a comfortable 15.63 percent. The total capital ratio increased by 0.35 percentage points to 16.89 percent, compared to 16.54 percent a year earlier. As in previous years, this was well above the minimum requirement of 8 percent. Thanks to their solid overall capital resources, the institutions are well-positioned for further growth and well-prepared for various risk scenarios. ■