2 Economic report

2.1 Macroeconomic and industry-specific conditions

2.1.1 Macroeconomic conditions and capital market

Despite positive developments in some areas, global economic challenges remained a defining feature of 2024. According to calculations by the Federal Statistical Office, the German economy had to cope with another price-adjusted reduction in gross domestic product (GDP) of 0.2 percent following a slight decline in 2023.[2] This puts Germany well below the average growth rate in the countries of the European Union, which was approximately 0.9 percent after adjustment for price changes.[3] Growth in German economic output is forecast for 2025, but only with a slight increase in the range of 0.2 percent[4] to 0.5 percent[5].

In this difficult environment, the Deutsche Bundesbank is also forecasting only slightly positive growth in the medium term. Positive drivers include rising real wages and a gradual easing of inflation compared to the previous year. Inflation averaged 2.2 percent in 2024, down from 5.9 percent in 2023.[7]Overall, however, forecasts for the coming years have been continuously revised downward, particularly with reference to the continuing weakness of industry and the subdued outlook for exports against the backdrop of geopolitical challenges. [8]

At the global level, the International Monetary Fund (IMF) is forecasting more robust development. Following global economic growth of 3.2 percent in 2024, the IMF expects growth of 3.3 percent in both 2025 and 2026. Asia in particular remains the engine of the global economy, with growth rates of 4.6 percent (China) and 6.5 percent (India). Under the Trump administration, GDP growth of 2.7 percent is also forecast for the United States of America. From the IMF's perspective, Germany is lagging significantly behind in this regard, which underscores the ongoing economic challenges.[11]

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2 Federal Statistical Office, Gross Domestic Product 2024 for Germany, press conference on January 15, 2025
3 Federal Statistical Office, Gross domestic product 2024 for Germany, press conference on January 15, 2025
4 Deutsche Bundesbank, Monthly Report December 2024, December 13, 2024
5 KfW, press release dated November 22, 2024
6 Deutsche Bundesbank, Monthly Report December 2024, December 13, 2024
7 Federal Statistical Office, press release dated January 16, 2025
8 Deutsche Bundesbank, Monthly Report December 2024, December 13, 2024
9 International Monetary Fund, World Economic Outlook Update, January 2025
10 International Monetary Fund, World Economic Outlook Update, January 2025
11 International Monetary Fund, World Economic Outlook Update, January 2025

Despite the subdued economic outlook, the capital markets continued to perform strongly in 2024. The DAX rose from a closing price of 16,752 points at the end of 2023 to a closing price of 19,909 points at the end of the year, representing an increase of 18.9 percent. The Dow Jones gained 13.2 percent and closed the year at 42,544 points.

In 2024, the markets continued to be influenced by the monetary policy measures of the central banks. The US Federal Reserve (Fed) followed through on its announcements and lowered key interest rates for the first time since the start of the interest rate turnaround in 2022. As a result, the Fed's key interest rate was reduced to 4.50 percent by December 2024. The European Central Bank also followed this strategy, continuously lowering its main refinancing rate from 4.5 percent (September 2023) to 3.15 percent (December 2024).[13]

Despite ongoing geopolitical uncertainties, capital market participants believe that 2025 will offer a wide range of opportunities on the capital markets. Despite the risk of a market correction in the wake of the trade war, the outlook is driven in particular by positive expectations for the US stock markets. Thanks to the strong US dollar and the deregulation expected under the Trump administration, experts are forecasting a good year for equities, while high-quality bonds continue to offer attractive yields. [14][15]

2.1.2 Development of the financial sector

In line with the trend of recent years, the number of German banks declined again in 2024. As of December 2024, there were still around 1,300 banks in Germany.[(16)] [This]was particularly true in the area of credit unions and savings banks , the The trend toward consolidation continues.

Despite the tense economic situation, Germany's banks have performed well. The relatively high interest rates in particular have contributed significantly to their success in recent years. According to estimates by the consulting firm Bain & Company, banks in Germany will once again post good results in 2023 with an average return on equity of 6.1 percent.

[12] Data retrieved from finanzen.net
[13] Deutsche Bundesbank, ECB interest rates, December 18, 2024.
[14] Deutsche Bank, Outlook 2025.
[15] DZ Bank, Capital Market: Quarterly Review, January 10, 2025.
[16] Statista, 2024, Number of credit institutions in Europe as of December 2024.
[17] Bain & Company, Germany's banks in 2024: Returns are rising – ready to catch up?

However, recent studies, such as those by management consultants McKinsey, point to the challenges of maintaining or further increasing current return levels.[18] Above all, further interest rate cuts and inflation risks are putting pressure on margins. In addition to reduced interest income, an increased number of loan defaults is also to be expected.[19]

This is in line with the trend in corporate insolvencies, which reflects the difficult economic situation in Germany. According to statistics from the credit agency Creditreform, there were around
24 percent more corporate insolvencies in Germany. With 22,400 cases, this was the highest level since 2015. In this context, the Creditreform study also gives a negative forecast for the coming years. A further increase in insolvencies is expected in both the private and corporate sectors.

This negative outlook is also taken into account by the banking supervisory authority. In line with last year's statements, the ECB Banking Supervision also praises the supervised institutions for their resilience and robust capital and liquidity positions in its report on supervisory priorities for 2025-2027. The quality of European banks' assets has remained stable despite the difficult macro-financial environment. Satisfactory profitability has also been achieved. However, the ECB Banking Supervision urges caution and vigilance. In particular, prudent credit risk management and strengthening operational resilience should be addressed as a matter of priority.

In this context, ECB Banking Supervision is reinforcing the supervisory priorities from the previous year. Three priorities are explicitly listed: Strengthening resilience to immediate macro-financial threats and severe geopolitical shocks (priority 1), effectively and promptly addressing persistent material deficiencies (priority 2), and strengthening digitalization strategies, including addressing emerging technological challenges (priority 3).[22]

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[18] McKinsey, Banking sector is the industry with the highest profits but lowest valuations worldwide. October 17, 2024.
[19] Deutsche Bundesbank, Bundesbank Executive Board expects "tougher times" for banks in 2025, interview with Handelsblatt, December 20, 2024.
[20] Creditreform, Insolvencies in Germany, 2024, December 16, 2024.
[21] ECB Banking Supervision, Supervisory priorities and risk assessment for 2025-2027.
[22] ECB Banking Supervision, Supervisory priorities and risk assessment for 2025-2027.

With regard to Priority 1, ECB Banking Supervision explicitly refers to the ongoing geopolitical threats, which are growing in intensity. In particular, deficiencies in the framework for credit risk management and operational resilience with regard to IT outsourcing and IT security/cyber risks should be addressed in a timely manner. At the same time, the current situation requires a consistent tightening of risk controls. [23]

In the context of Priority 2, explicit reference is made to deficiencies in business strategies and risk management with regard to climate and environmental risks. In addition, priority should be given to addressing deficiencies in risk data aggregation and risk reporting.

Finally, priority 3 reveals another priority weakness: shortcomings in strategies for digital transformation. These should be addressed through targeted measures to analyze the opportunities and risks associated with new technologies.

2.1.3 Wealth in Germany

After a slight decline in the previous year, the number of millionaires in Germany has risen again slightly. According to the World Wealth Report 2024 published by Capgemini, approximately 1.65 million so-called "high net worth individuals" (HNWIs), i.e., individuals with investable net assets of more than US$1 million, lived in Germany in the period 2022-2023. This corresponds to a slight increase of approximately 30,000. At the same time, the total assets of HNWIs rose by approximately 2.2 percent, in line with the previous period. However, this growth rate is below the global average of 4.7 percent. Global HNWI wealth has thus recovered compared to the 2021-2022 period and most recently amounted to just under US$87 trillion.

Private households in Germany also saw an increase in financial assets across the board. According to statistics from the Bundesbank, financial assets rose by €197 billion in the third quarter of 2024. This is a significant recovery compared to the same period last year, when a reduction of €35 billion was recorded. Accordingly, the financial assets of private households amounted to €9,004 billion, reaching a new record level. Within the 12-month period, financial assets thus increased by more than 20 percent.

[23] ECB Banking Supervision, Supervisory priorities and risk assessment for the years 2025-2027.
[24] ECB Banking Supervision, Supervisory priorities and risk assessment for 2025-2027.
[25] ECB Banking Supervision, Supervisory priorities and risk assessment for 2025-2027.
[26] Capgemini World Wealth Report 2024.
[27] Deutsche Bundesbank, Financial Asset Formation and External Financing in Germany in the Third Quarter of 2024

A trend toward securities can be observed in the investment behavior of private households. For example, deposits were reduced in favor of investment fund shares and stocks. At the same time, the real, i.e., inflation-adjusted, total return on financial assets rose to just under three percent.

Private household liabilities remained at a similar level to the same period last year. According to the Bundesbank, liabilities increased by around eight billion euros in the third quarter of 2024 to a total of around 2,154 billion euros (2,150 billion euros in the third quarter of 2023).[29]

2.1.4 Development of the asset management market in Germany

As illustrated under "Macroeconomic conditions and capital markets," the economic outlook in Germany remains subdued. In addition to ongoing geopolitical crises and the weakening German economy, independent asset managers continue to face a number of industry-specific challenges and fundamental transformation processes.

The results of the 11th asset manager survey conducted by the Institute for Asset Management (InVV)[30,31]at the Technical University of Aschaffenburg show that the current environment offers numerous growth opportunities for independent asset managers in Germany. According to the survey, customer acquisition remains the greatest opportunity for the business development of independent asset managers, but it is also one of the biggest challenges, especially for smaller providers. In 2023, the analysis period of the study, an average of 63 percent of the companies surveyed were able to increase their customer base, while only a few recorded declines.

The importance of the market for independent asset managers in Germany is also underlined by data collected by the Association of Independent Asset Managers in Germany (VuV), according to which the assets under management of entire asset management industry amounted to €411 billion at the end of 2023, thus accounting for a significant share of the securities assets and total financial assets of private households.[32]

[28] Deutsche Bundesbank, Financial Asset Formation and External Financing in Germany in the Third Quarter of 2024
[29] Deutsche Bundesbank, Financial Asset Formation and External Financing in Germany in the Third Quarter of 2024
[30] InVV, Aschaffenburg University of Applied Sciences, eleventh survey, 2024a.
[31] InVV, Aschaffenburg University of Applied Sciences, Results of the 11th Asset Manager Survey, 2024b.
[32] Association of Independent Asset Managers Germany (VuV), press release dated November 18, 2024

The InVV survey confirms the trend of recent years in the capital market environment. Here, the majority of respondents see the interest rate environment and volatility as significant opportunities, while regulation remained the biggest challenge. In terms of investment strategy, many asset managers are focusing on a higher weighting of bonds and equities, while reducing the proportion of liquid assets.

The InVV survey also reflects the growing importance of digital services. Depending on the size of the assets under management, up to 40 percent of asset managers already offer their clients digital solutions. Even more comprehensive, however, is the existing range of asset succession planning services, which is represented in the service spectrum of around two-thirds of those surveyed and thus represents an important service component for the ongoing transfer of assets to the next generation, which, according to current estimates by the German Institute for Economic Research (DIW)[33], amounts to up to €400 billion annually in Germany.

Overall, almost all asset managers are optimistic about current and future developments. As in previous years, client acquisition from traditional banking segments continues. Asset managers were able to attract clients from savings banks, cooperative banks, and major banks, primarily through personal recommendations. Some clients from private banks also switched to independent asset management, albeit to a lesser extent. Overall, however, young investors remain difficult to reach.

Recruitment also remains a key challenge in the asset management sector. For the current period, up to 85 percent of managers plan to expand their teams in order to meet growing demand and increased regulatory requirements. The industry attaches great importance to highly qualified personnel, supported by continuing education opportunities such as part-time studies with a focus on asset management[34].

2.2 Business performance

In 2024, we succeeded in convincing a further 17 asset managers to enter into a partnership with us for the first time (previous year: 24). At the end of 2024, we had partnerships with a total of 499 asset managers (previous year: 482). One of the reasons for the expansion of these partnerships is the consolidation of the custodian bank market.

[33] German Institute for Economic Research (DIW), DIW Weekly Report No. 5/2021, 2021.
[34] InVV, Aschaffenburg University of Applied Sciences, Results of the 11th Asset Manager Survey, 2024b.

The number of customer accounts and securities accounts rose to a total of 64,647 as of December 31, 2024 (previous year: 56,367). At 8,280 (previous year: 5,500), the net number of new accounts and securities accounts opened was higher than in the previous year. The influx of customers continues to result from the increase in partnerships with rapidly growing asset managers and an increase in customer referrals from existing partnerships, which enabled the planned target to be achieved in this segment.

Assets under custody increased to €57.2 billion by the end of the year (previous year: €45.2 billion). According to the 2023 management report, we had anticipated further growth in assets under custody of around €4.5 billion in the past fiscal year. The growing number of customers and the positive market development are the reasons for the significant increase in volumes under custody.

Over the course of the year, 1,636,025 securities transactions (previous year: 1,840,761) were executed, representing a decline of 11.1 percent compared with the previous year. The transaction volume amounted to around €31.5 billion (previous year: €27.3 billion). 69 percent of transactions were conducted with asset managers (previous year: 52 percent). Digital asset managers accounted for 28 percent. On average, we recorded 25.5 securities transactions per securities account per year (previous year: 32.8). In the 2023 management report, we had assumed 26.9 securities transactions per securities account per year on an annual basis for 2024. The share of revenue from securities transactions amounted to 71.6 percent in 2024, exceeding the forecast figure of 65.6 percent. This is the result of a positive transaction deviation in the traditional asset management client segment.

Total assets amounted to €4,371 million at the end of 2024 (previous year: €3,886 million). This represents an increase of 12.5 percent compared with the previous year. On the liabilities side, the balance sheet total is largely determined by liabilities to customers, which account for 91 percent of the balance sheet total. This refers to liquidity that our customers hold in their accounts as part of their respective investment strategies (cash ratio, ratio of customer deposits to assets under management). The cash ratio was 6.9 percent on the balance sheet date (previous year: 7.8 percent), 1.5 percentage points below the forecast value. The relative decline in the cash ratio is due to the increase in deposit volumes. The focused lending policy of recent years was maintained. At the end of the year, customer credit utilization from Lombard loans amounted to EUR 337.3 million (previous year: EUR 315.7 million). Other receivables from customers amounted to EUR 17.6 million and are mainly attributable to commission settlements for the fourth quarter, which can only be settled and charged in the following fiscal year.

2.3 Location

2.3.1 Earnings

In 2024, net commission income amounted to €55.4 million (previous year: €44.0 million). The main reason for this development was the increase in transactions processed in the asset management segment. Net income from the trading portfolio amounted to €0.1 million (previous year: €0.1 million).

Net interest income of €38.6 million (previous year: €26.0 million) was generated. The increase in 2024 is also due in particular to the European Central Bank's interest rate turnaround, which began in the fourth quarter of 2022. Current income from equities and other non-fixed-income securities as well as income from affiliated companies amounted to EUR 7,451 thousand (previous year: EUR 5,431 thousand). The contribution to earnings from the subsidiary V-Fonds GmbH improved in 2024 compared with the previous year by EUR 22 thousand to EUR 651 thousand.

Personnel expenses rose to €16.9 million (previous year: €13.8 million). The increase is mainly due to the addition of an average of 21 employees over the course of the year. Other administrative expenses were higher than in the previous year at €27.9 million (previous year: €23.5 million). This is attributable to increased variable costs in line with the positive development of business volumes and increased consulting expenses in connection with the digital and organizational development of V-BANK. At the same time, the cost-income ratio improved by 4.0 percentage points to 48.3 percent (previous year: 52.3 percent).

The securities portfolio is divided into trading portfolio, investment portfolio, and liquidity reserve. The trading portfolio was valued at fair value less a risk discount. The liquidity reserve was valued according to the strict lower of cost or market principle, and fixed assets were valued according to the modified lower of cost or market principle. This year, the valuation result from securities amounted to €1.4 million (previous year: €1.2 million). As of the balance sheet date, the securities portfolio contained hidden liabilities of €14.4 million (previous year: €16.9 million) and hidden reserves of €11.3 million (previous year: €10.6 million) due to the interest rate reversal.

In the lending business, individual and general loan loss provisions were made on customer exposures. The valuation result in the lending business amounted to EUR -241 thousand (previous year: EUR 60 thousand).

In fiscal year 2024, we generated earnings before taxes and before allocation to the special item for general banking risks in accordance with Section 340g of the German Commercial Code (HGB) in the amount of €54,400,322.85 (previous year: €38,245,877.26), thereby increasing earnings by 42 percent. In the 2023 management report, we had set a target of €45,300,000.00. The deviation is mainly due to net commission income. Net income for the year amounted to €31,118,555.92 as of the balance sheet date (previous year: €24,495,139.25). In order to strengthen the equity base, the Management Board and Supervisory Board have allocated €15,559,276.96 (previous year: €12,247,568.62) from the net income for the financial year to other revenue reserves in advance in accordance with Section 58 (2) of the German Stock Corporation Act (AktG).

For the remaining net retained earnings of €15,559,278.96 (previous year: €12,247,570.63), the Management Board and Supervisory Board will propose to the Annual General Meeting that a dividend of €7,814,403.33 (previous year: €6,123,784.81) be distributed for the 2024 financial year. This corresponds to a dividend of €1.01 per share (previous year: €0.81). The remaining net retained earnings are to be allocated to other revenue reserves to further strengthen equity capital.

V-Fonds GmbH

V-Fonds GmbH was founded in April 2013. The company holds an 80 percent stake in this company with a share capital of EUR 100 thousand. V-Fonds GmbH generated a net income of EUR 814 thousand in the 2024 financial year (previous year: EUR 787 thousand). Stable earnings development is also expected for the following year, 2025.

2.3.2 Financial position

Liabilities to customers of around €3,957 million (previous year: €3,515 million) and liabilities to banks of around €40 million (previous year: €83 million) represent the main sources of financing as of the balance sheet date. These are offset by cash reserves of around €36 million (previous year: €1,190 million) and financial instruments of €2,803 million (previous year: €2,133 million).

As of December 31, 2024, equity amounted to €148.4 million (previous year: €123.3 million). As of the balance sheet date, short-term financing due within three months amounted to €3,996.8 million (previous year: €3,597.7 million), medium-term financing between three months and five years amounted to €0.0 million (previous year: €0.0 million), and long-term financing amounted to €270.2 million (previous year: €239.6 million).

Solvency was maintained at all times during the reporting year. Both the minimum reserve requirements and the liquidity regulation established by the Federal Ministry of Finance in consultation with the Deutsche Bundesbank were complied with at all times and provided sufficient scope for the expansion of banking business within the framework of strategic planning.

At the time of preparing this management report, there were no circumstances that could adversely affect the Bank's liquidity position.

2.3.3 Financial position

The equity ratio (equity in relation to total assets) amounted to 3.4 percent as of the balance sheet date (previous year: 3.2 percent).

We meet the capital requirements under Basel III. As of the balance sheet date, the total capital ratio under CRR was 32.9 percent (previous year: 36.3 percent), clearly exceeding the regulatory requirements (OCR) of 13.8 percent. At 16.4 percent (previous year: 16.5 percent), the core capital ratio also remained virtually unchanged and was well above the regulatory requirements (OCR) of 9.2 percent.
At the end of 2024, the return on equity pursuant to Section 26a (1) sentence 4 KWG was 0.7 percent (previous year: 0.6 percent) with total assets of EUR 4,370,714 thousand (previous year: €3,886,232 thousand) and net income of €31,119 thousand (previous year: €24,495 thousand).

As of December 31, 2024, 22.8 percent of the Bank's balance sheet assets consisted of balances with the Deutsche Bundesbank amounting to EUR 997,736 thousand (previous year: EUR 1,189,772 thousand). Of this amount,
EUR 962,080 thousand is reported as a demand deposit with credit institutions, as this amount was invested as overnight deposits within the framework of the Deutsche Bundesbank's deposit facility.

In addition, there are mainly investments in fixed-income and non-fixed-income securities amounting to EUR 2,499,497 thousand (previous year: €1,856,048 thousand) and €303,247 thousand (previous year: €277,250 thousand), respectively, which were invested to generate interest income and current income in the form of distributions.

Fixed assets consisting of intangible assets and property, plant, and equipment rose to EUR 14.4 million (previous year: EUR 13.2 million), mainly due to the further development of the IT infrastructure.

Liabilities exist in particular towards customers. These are divided into customer deposits payable on demand amounting to EUR 3,745,049 thousand (previous year: EUR 3,385,522 thousand) and liabilities with agreed terms or notice periods amounting to EUR 212,119 thousand (previous year: EUR 129,070 thousand). The increase in customer deposits payable on demand is attributable to customer growth, the interest rate turnaround, and a related adjustment to the investment strategy of asset managers.
Other liabilities amount to EUR 59,198 thousand (previous year: EUR 28,318 thousand). The increase is mainly due to capital gains taxes of EUR 57,163 thousand (previous year: EUR 27,326 thousand) payable for the December 2024 filing period.

In fiscal year 2024, provisions of EUR 13,531 thousand (previous year: EUR 8,685 thousand) were recognized for income tax, solidarity surcharge, and trade tax for the 2024 tax year. The increase of EUR 9,915 thousand in other provisions to
18,226 thousand euros (previous year: 8,311 thousand euros) is primarily due to the provision for outstanding invoices for IT services.

Taking into account the overall economic development in the past fiscal year, we consider the earnings, financial, and asset situation to be very good.