

Investor Relations Release

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Preliminary results for 2019: DZ BANK Group reports a profit before taxes of €2.7 billion

DZ BANK AG
Deutsche Zentral-
Genossenschaftsbank
Investor Relations

- Healthy operating performance in all group entities
- Results boosted by developments in the capital markets
- Increase in loss allowances, but still lower than normal
- Firm focus on defined areas of business; other areas successfully sold
- Growth objectives underpinned by strategic capital expenditure on customer business
- Common equity Tier 1 capital ratio rises to 14.4 percent (December 31, 2018: 13.7 percent)

In 2019, the DZ BANK Group generated a profit before taxes of €2.7 billion (2018: €1.4 billion). This figure is attributable to the healthy operating performance of all group entities. Customer business increased in many areas. Although loss allowances went up, following high reversals in the previous year, they were still below normal levels.

The results received a significant boost from positive one-off items. At R+V Versicherung, gains and losses on investments held by insurance companies amounted to a very high net gain thanks to favorable interest rates and price rises in the markets. DZ HYP's government bond portfolio also benefited from positive valuation effects. Moreover, extraordinary income was generated by transactions aimed at sharpening the focus of business activities, in particular the disposal of parts of DVB Bank and the sale of non-German companies of Bausparkasse Schwäbisch Hall and Union Investment.

At the same time, the DZ BANK Group carried out strategic capital investment in its growth. Targeted acquisitions strengthened both Union Investment and the depositary business at DZ BANK AG. Major structural transformation projects were also completed. In 2019, for example, DZ BANK leveraged the remaining synergies resulting from its merger with WGZ BANK. Furthermore, the merger of DG HYP and WL BANK to form DZ HYP was completed from a technical perspective following the migration of the IT systems.

“We made good progress in 2019. We achieved a very good profit before taxes, honed our banking group's strategic profile, and streamlined our structures. Moreover, we embarked on significant capital expenditure in order to safeguard the DZ BANK Group's innovative strength and resilience for the future,” says Cornelius Riese, Co-Chief Executive Officer of DZ BANK.

“The DZ BANK Group maintained its upward growth trajectory. We are seeing a great deal of confidence in our abilities and are attracting new customers. Our owners, with whom we work

closely, are providing us with huge support. This enabled us to deliver a very satisfying business performance, especially in the central institution and corporate bank," explains Uwe Fröhlich, Co-Chief Executive Officer of DZ BANK.

The DZ BANK Group's capital situation remains very stable. The common equity Tier 1 capital ratio rose to 14.4 percent¹ as of December 31, 2019 (December 31, 2018: 13.7 percent) as a result of careful management of risk-weighted assets and profit retention. The leverage ratio increased to 4.9 percent (December 31, 2018: 4.3 percent). This was due, in particular, to the successful placement of an AT1 bond with a volume of €1.4 billion. Subscription requests from cooperative banks were received in an amount of €2.5 billion.

Income statement line items in detail

Net interest income came to €2.74 billion (2018: €2.86 billion). Whereas the DZ BANK central institution and corporate bank, DZ HYP, and TeamBank saw sharp rises in net interest income owing to a larger volume of business, Bausparkasse Schwäbisch Hall had to recognize further extensive provisions for interest-rate bonuses as a consequence of the interest-rate situation.

Net fee and commission income was up slightly at €1.98 billion (2018: €1.96 billion), with Union Investment, in particular, again delivering a very strong business performance.

Gains and losses on trading activities advanced from a net gain of €285 million in 2018 to a net gain of €472 million in the year under review thanks to brisk capital markets business at DZ BANK AG.

Gains and losses on investments amounted to a net gain of €182 million (2018: €24 million), reflecting the sale of parts of the business.

Other gains and losses on valuation of financial instruments improved from a net loss of €186 million to a net gain of €255 million owing to substantial positive valuation effects in DZ HYP's government bond portfolio.

Loss allowances rose to €329 million (2018: €21 million) but were still below normal levels. In 2018, loss allowances had been influenced by high reversals at DZ BANK.

Despite capital expenditure aimed at growth, **administrative expenses** were almost unchanged at €4.07 billion (2018: €4.06 billion) as a result of the leveraging of synergies from the merger and disciplined management of costs.

Other net operating income amounted to €250 million (2018: net expense of €109 million) and predominantly consisted of income from the disposal of parts of the business.

The **cost/income ratio** stood at 57.3 percent (2018: 74.5 percent).

Profit before taxes came to €2.71 billion (2018: €1.37 billion).

Net profit was €1.87 billion (2018: €918 million).

¹All of the reported capital ratios are based on full application of the CRR.

Results of the DZ BANK Group

To increase transparency, the results of the central institution and corporate bank (CICB) will be reported separately from those of the holding function within DZ BANK AG from now on. The CICB encompasses the bank's customer operating business, including all of the necessary support functions. The holding function acts simply as a cost center for the management of the holding company activities.

DZ BANK AG – central institution and corporate bank (CICB) posted a profit before taxes of €293 million (2018: €362 million). This decrease is primarily attributable to the growth of loss allowances following reversals in the previous year. The bank's customer business was very successful. In the **Capital Markets business line**, the DZ BANK further strengthened its position in the primary market for bonds and established itself as one of Germany's leading banks when it comes to supporting sustainable bond issues. The bank also registered growth in its capital markets business with corporate customers, for example in relation to hedging products. In the market for structured retail products, DZ BANK remained the number two in terms of outstanding volume and recorded very strong sales of €5.8 billion (2018: €6.0 billion).

In the **Corporate Banking business line**, the bank generated further growth while continuing to apply its conservative risk policy. The lending volume rose by 10 percent to €58.5 billion, again driven in large part by close collaboration with the cooperative banks. The lending volume in the joint credit business also increased significantly. At the same time, the bank formed new customer relationships and strengthened existing ones, with the number of customers using DZ BANK as their principal bank advancing by around 10 percent. Export finance also performed very well, and the total lending volume in this business increased by 13 percent.

The bank generated robust growth in the **Transaction Banking business line** in 2019 and attracted many major new customers. The number of payments processed rose by 10 percent to 7.4 billion, while the number of credit cards issued was up by 8 percent to 5.3 million. In the depositary business, assets under custody jumped by 18 percent to €254.2 billion as a result of organic growth and an acquisition.

Bausparkasse Schwäbisch Hall (BSH) achieved a profit before taxes of €189 million (2018: €295 million). The building society had to recognize extensive provisions for interest-rate bonuses as a consequence of the sustained low level of interest rates, which impacted on its profit. However, the sale of its Czech company had a positive impact. The operating business performed well. BSH's new home savings business amounted to €28.5 billion (2018: €29.7 billion) and its market share was 30 percent, enabling it to comfortably maintain its leading market position. New home finance business rose from €15.2 billion to €16.7 billion.

R+V Versicherung increased its profit before taxes to €1.12 billion (2018: €413 million). This sharp rise was driven, above all, by the high net gain under gains and losses on investments held by insurance companies. The fall in interest rates provided a short-term boost, but will have an adverse effect in the long term. R+V Versicherung's operating business performed very well, with premium income rising in all divisions. Gross premiums written totaled €17.4 billion, which was up from €16.1 billion in 2018.

Union Investment posted a profit before taxes of €648 million (2018: €502 million). This increase was due to the sale of its company in Poland and, in particular, a very healthy operating business. Assets under management stood at a record €368 billion at the end of the year (December 31, 2018: €323 billion). Net inflows from institutional clients surged from €7.8 billion to €11.3 billion,

while the already high level of net inflows from retail clients increased moderately year on year to reach €8.1 billion (2018: €7.5 billion). Rising prices in the markets helped to push up the volume of assets under management.

TeamBank generated a profit before taxes of €152 million (2018: €145 million). The bank is maintaining a stable growth course. Its loans and advances to customers rose to €9.06 billion (December 31, 2018: €8.39 billion). In a fiercely competitive market, new business swelled from €2.98 billion to €3.45 billion and the number of customers increased from around 878,000 to around 944,000.

DZ HYP achieved a profit before taxes of €687 million (2018: €232 million). This substantial increase was largely due to valuation effects in its portfolio of government bonds. The core business performed well despite additional work in connection with the merger. DZ HYP's new business in its Commercial Real Estate Investors division grew from €7.7 billion to €9.0 billion. The overall volume of real estate finance rose to €50.2 billion (2018: €45.3 billion).

DZ PRIVATBANK returned to a profit, having been weighed down by impairment on goodwill and customer relationships in 2018. On the back of a solid operating performance, the bank posted a profit before taxes of €36 million (2018: loss of €151 million). The volume of assets under management in the private banking business increased to €18.8 billion (December 31, 2018: €16.7 billion) and the volume of assets under custody in the custodian bank business to €120.1 billion (December 31, 2018: €101.6 billion). These trends were underpinned by price rises in the markets. The volume of foreign currency loans at DZ PRIVATBANK went up from €5.0 billion to €5.3 billion.

VR Smart Finanz made further progress with its transformation into a digital provider of finance for the self-employed and small businesses. The transformation resulted in negative one-off items, leading to a loss before taxes of €10 million (2018: profit of €1 million). The customer business did well, with the volume of new business at VR Smart Finanz advancing from €1.17 billion to €1.34 billion.

DVB Bank made significant progress, successfully disposing of its aviation finance business, its land transport business, and LogPay. The income generated by these transactions was invested in provisions for scaling back the remaining business and for protecting against future risks. The loss before taxes of €108 million represented an improvement on the previous year's loss of €130 million, although this figure was still adversely affected by one-off items in connection with the restructuring. The scaling back of the business is going to plan, with the volume of customer loans falling to €7.4 billion (December 31, 2018: €16.6 billion).

DZ BANK AG – holding function recorded a loss before taxes of €258 million (2018: €281 million). The main factors contributing to this improvement were the reduction in the interest expense for subordinated capital and the effective management of administrative expenses.

Outlook

Future business performance will be strongly influenced by the German economy, which is picking up only slowly. According to DZ BANK's economists, the rate of expansion in 2020 will be on a par with the weak economic growth seen in 2019. The outlook is clouded by geopolitical risks. These

include the global trade disputes, which have not yet been fully resolved, and the risks surrounding the implementation of Brexit. The capital markets are likely to remain volatile.

Cornelius Riese: "DZ BANK is a major institutional investor, so its results are heavily dependent on what happens in the capital markets. In the customer business, we continue to receive a tailwind from ever higher demand for our products and services. The start of the year has been positive. Against this backdrop, we anticipate that our profit before taxes in 2020 will be within our long-term target range of €1.5 billion to €2 billion, although probably at the lower end of this range."

"We have everything we need for further growth, even in challenging conditions. At the same time, it will be more important than ever to intensify our collaboration within the cooperative financial network – including in the customer business – and to better integrate the range of products and services," says Uwe Fröhlich.

DZ BANK is forging ahead with its 'Verbund First 4.0' strategic program in order to optimize its operating business. The aim is to increase income in all business lines (Capital Markets, Corporate Banking, and Transaction Banking), particularly in joint marketing activities with the cooperative banks. At the same time, processes are constantly being made more efficient, for example by digitalizing the entire lending process. The DZ BANK Group is also investing heavily in new technologies. It is making greater use of blockchain solutions in the Capital Markets business line, implementing robotic process automation and cloud solutions in internal processes, and deploying artificial intelligence to help with the smart management of large data volumes.

The DZ BANK Group is not only seizing business opportunities but also fulfilling its responsibilities as a corporate citizen by strengthening its sustainability credentials. DZ BANK is already one of the leading market players among the German syndicate banks when it comes to issuing sustainable bonds, while Union Investment is a pioneer in the sustainable fund sector. The group will further expand its range of products and services in this area and continually optimize the sustainability of its processes.

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DZ BANK Group preliminary income statement (IFRS)

€ million	2019	2018	Change (%)
Net interest income	2,738	2,858	-4.2
Net fee and commission income	1,975	1,955	+1.0
Gains and losses on trading activities	472	285	+65.6
Gains and losses on investments	182	24	>100.0
Other gains and losses on valuation of financial instruments	255	-186	>100.0
Gains and losses from the derecognition of financial instruments measured at amortized cost	15	133	-88.7
Net income from insurance business	1,228	490	>100.0
Loss allowances	-329	-21	>100.0
Administrative expenses	-4,074	-4,059	+0.4
Other net operating income	250	-109	>100.0
Profit before taxes	2,712	1,370	+98.0
Income taxes	-839	-452	+85.6
Net profit	1,873	918	>100.0
Cost/income ratio [%]	57.3	74.5	-17.2 percentage points
Total assets [€ billion]	559	519	7.8

Further information can be found using the following link:

www.dzbank.com/content/dzbank_com/en/home/DZ_BANK/investor_relations/presentationen.html

The annual report of the DZ BANK Group (German version) will be available on March 31, 2020 under: www.geschaeftsbericht.dzbank.de

The English version of the report will be available on May 6, 2020 under: www.annualreport.dzbank.com