Investor Relations Release

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H1 2016: DZ BANK Group reports profit before taxes of EUR 1.57 billion

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Investor Relations

- Financial reporting as at 30 June 2016 already takes account of the merger with WGZ BANK that was completed on 1 August 2016
- Good operating performance in the group companies
- Merger has positive valuation and consolidation effects
- Core tier 1 capital ratio increases from 13.0 to 13.9 per cent (pro forma after merger) on a fully-loaded CRR basis
- Wolfgang Kirsch: "A gratifying performance achieved in a demanding environment – aiming for a full-year earnings of more than two billion euros"

In H1 2016 the DZ BANK Group achieved a profit before taxes of EUR 1.57 billion (H1 2015: EUR 1.28 billion). Essentially, this result was based on what was predominantly a good operating performance in the group companies. This is reflected in the fact that net interest income declined only slightly while net fee and commission income remained high. This result also reflects for the first time the effects of the merger between DZ BANK and WGZ BANK. Overall, merger-related effects contributed EUR 363 million to earnings.

The main merger-related effects are reported in the income statement under "Net income from merger with WGZ BANK." The other positions in H1 2016 still reflect the DZ BANK Group before the merger and are thus comparable with H1 2015.

"We completed the merger between DZ BANK and WGZ BANK smoothly and in a very short time. At the same time, we were able to continue our good operating performance. Accordingly, we can look back on the first half year with satisfaction," says Wolfgang Kirsch, Chief Executive Officer of DZ BANK.

DZ BANK made use of the profits earned to further strengthen its capital base. The core tier 1 capital ratio as at 30 June 2016 on a pro-forma basis after the merger was 13.9 per cent on a fully-loaded Capital Requirements Regulation (CRR) basis (31.12.2015: 13.0 per cent).

Income statement items in detail

The DZ BANK Group's **net interest income** remained almost stable at EUR 1.36 billion (H1 2015: EUR 1.38 billion). This was mainly due to a stable performance at DZ BANK AG, where Corporate Banking developed well. In addition, the dividend of EUR 62 million paid by EURO Kartensysteme GmbH had a positive impact. However, Bausparkasse Schwäbisch Hall clearly felt the impact of low interest rates.

Allowances for losses on loans and advances increased to minus EUR 219 million compared to an exceptionally low year-earlier figure of minus EUR 41 million, but thus remained at a moderate level.

At EUR 822 million **net fee and commission income** matched the high year-earlier level of EUR 826 million. The good business performance that was reported again at Union Investment and the higher net fee and commission income generated in DZ BANK AG's Capital Markets business played a substantial part in this.

Gains and losses on trading activities increased from EUR 226 million to EUR 501 million. This was mainly driven by the good performance in the Capital Markets business and the effects of the valuation of own issues of DZ BANK AG.

Gains and losses on investments increased to EUR 90 million primarily because of the sale of shares in VISA Europe (H1 2015: EUR 21 million).

Other gains and losses on valuation of financial instruments amounted to minus EUR 154 million (H1 2015: EUR 127 million). The decline is primarily attributable to negative valuation effects in DG HYP's sovereign bond portfolio.

Net income from insurance activities increased by 13.8 per cent or EUR 13.8 million, up from EUR 405 million to EUR 461 million because of the strong premium growth and net gains on investments reported by R+V Versicherung.

At EUR 1.70 billion **administrative expenses** were unchanged on the year-earlier period. Increased regulatory expenses and project costs were offset here by strict cost management and a lower banking levy than in the previous year.

Net income from the merger with WGZ BANK was EUR 363 million. This includes income of EUR 343 million from the elimination of business relationships existing before the merger and a positive IFRS-induced valuation effect of EUR 159 million. The position also contains restructuring, transaction and migration expenses of minus EUR 139 million.

The **cost-income ratio** improved from 56.2 per cent to 54.4 per cent.

The DZ BANK Group's **profit before taxes** was EUR 1.57 billion compared to EUR 1.28 billion in H1 2015.

The DZ BANK Group's **profit after taxes** was EUR 1.16 billion (H1 2015: EUR 913 million).

DZ BANK Group's results

DZ BANK AG's profit before taxes increased from EUR 266 million to EUR 463 million. This was driven by a positive operating performance. The bank was able to expand its business with corporate customers thanks to good collaboration with the cooperative banks and the SME segment's increased propensity to invest. DZ BANK AG was able to report new business growth especially in its lending business with the farming industry and in the funding of renewable energy projects. In the Capital Markets business with institutional clients the bank expanded its new bonds issue business and defended its leading market position in trading interest-rate derivatives and structured products. In the Capital Markets business with retail customers DZ BANK strengthened its market leadership in terms of the outstanding volume and now has a market share of 16.5 per cent. But it was not left fully unscathed by the generally challenging market environment, especially for fixed-income products. In Transaction Banking DZ BANK AG increased its volume of business in the securities custody and payments business.

Bausparkasse Schwäbisch Hall reported a profit before taxes of EUR 151 million in H1 2016 after EUR 211 million in H1 2015. This decline was mainly due to lower net interest income as a result of the low interest rate level. The volume of home savings deposits increased by EUR 1.5 billion to EUR 52.5 billion. New home savings business grew dynamically again with 333,000 newly-signed contracts and a total home savings volume of EUR 15.1 billion, but it was not able to match the record level of the first half of 2015 (EUR 17.4 billion).

Union Investment reported a profit before taxes of EUR 257 million compared to the record result of EUR 340 million in the first half of 2015. This was mainly due to net fee and commission income, which declined as a result of lower performance-related fees to what was still a high level, as well as increased administrative expenses. New business developed positively again with net inflows of EUR 10.7 billion. Assets under management increased compared to the first half of 2015 by 9.3 per cent to EUR 275.3 billion.

R+V Versicherung increased its profit by 20.8 per cent to EUR 430 million (H1 2015: EUR 356 million). Premiums earned from the insurance business increased by 2.4 per cent overall to EUR 7.1 billion above all because of growth in the property and casualty insurance segment. In addition, R+V again reported good gains on investments.

TeamBank improved its profit before taxes compared to the first half of 2015 from EUR 68 million to EUR 80 million. In the teeth of intense competition TeamBank was able to further expand its market position and increase the easyCredit volume to EUR 7.2 billion (H1 2015: EUR 7.0 billion).

DZ PRIVATBANK reported a loss before taxes of EUR 10 million in H1 2016 (H1 2015: EUR 37 million). Earnings were marked by lower net interest income and increased provisions. By contrast, DZ PRIVATBANK reported a gratifying performance in the private banking business and increased the volume of assets under management to EUR 16.4 billion (H2 2015: EUR 15.6 billion).

DG HYP reported a loss before taxes of EUR 76 million compared to a profit of EUR 156 million in the first half of the previous year. This was primarily due to the negative valuation effects with respect to sovereign bonds portfolio. The operating performance continued to develop positively. The volume of new loans in the commercial real-estate finance business increased significantly from EUR 2.2 billion in the first half of 2015 to EUR 3.4 billion.

The profit before taxes at **VR LEASING** amounted to EUR 16 million and was thus 23.1 per cent above its level in the year-earlier half year (EUR 13 million). Positive effects from the disposal of activities from the non-core business made a substantial contribution here. The positive performance in the operating business is documented by an increase of 10.7 per cent in new online business.

DVB reported a profit before taxes of EUR 15 million compared to EUR 74 million in the first half of 2015. The main reasons for this were the end of a positive one-off effect in the previous year of EUR 47 million and an increase in allowances for losses on loans and advances. Nevertheless, DVB's business model with its continued conservative risk policy proved resilient in a challenging environment with a good volume of new business of EUR 2.8 billion (H1 2015: EUR 3.6 billion). However, because of increased impairments in the shipping finance business it assumes it will report a negative result in the double-digit millions in 2016.

Outlook

The conditions for the future business performance will remain demanding in the foreseeable future. DZ BANK's economists expect the German economy still showing robust growth of 1.6 per cent in 2016. "The second half of the year got off to a satisfactory start for the DZ BANK Group. Including the merger effects, we are aiming for a full-year profit before taxes of more than two billion euros," says Kirsch.

Looking forward, three issues are currently to the fore for the DZ BANK Group. First of all, these include the structural and cultural integration of the merged bank. Second, in the light of low interest rates and the ongoing tightening of regulation, effective capital and cost management remains a permanent challenge. The rapid realisation of merger synergies will make a contribution here. Third, the DZ BANK Group is continuously working to extend its revenue base with the completed range of products and services created by the merger and with new digital approaches from innovation management.

"The foundations for our high inherent profitability and our functioning business model have been strengthened yet further by the merger. Our solid capital and liquidity situation is reflected in one of the best bank ratings in Europe. Starting from here our goal must be to strengthen the market position of the cooperative financial network and to expand it yet further," says Kirsch.

The DZ BANK Group's semi-annual results as at 30.06.2016 compared to 30.06.2015 (IFRS)

in EUR m	01.01.-30.06.2016	01.01.-30.06.2015	Change in %
Net interest income	1,363	1,383	-1.4
Allowances for losses on loans and advances	-219	-41	>100
Net fee and commission income	822	826	-0.5
Gains and losses on trading activities	501	226	>100
Gains and losses on investments	90	21	>100
Other gains and losses on valuation of financial instruments	-154	127	>100
Net income from insurance activities	461	405	13.8
Administrative expenses	-1,703	-1,702	0.1
Other net operating income	50	39	28.2
Net income from merger with WGZ BANK	363	-	-
Profit before taxes	1.574	1.284	22.6
Tax expense	-416	-371	12.1
Net profit	1.158	913	26.8
Cost-income ratio (in %)	54.4	56.2	-1.8 % points

The English language version of the interim report will be available starting from 28 October 2016 at **http://www.halfyearreport.dzbank.com/.**

Contacts:

Dr. Kirsten Siersleben Phone: +49-69-7447-1005
Kirsten.Siersleben@dzbank.de

Daniela Pauly Phone: +49-69-7447-42373
Daniela.Pauly@dzbank.de