

Investor Relations Release

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H1 2017: DZ BANK Group reports profit before taxes of EUR 939 million

DZ BANK AG
Deutsche Zentral-
Genossenschaftsbank

Investor Relations

- Positive operating performance thanks to strong customer business
- Integration work has made rapid progress since the merger
- Additional provisioning for DVB Bank's ship financing business
- Wolfgang Kirsch: "The result reflects the DZ BANK Group's strength and high inherent profitability"
- At 13.0 per cent on a fully-loaded CRR basis the core tier 1 capital ratio remains at the appropriate level of the previous quarter

DZ BANK Group brought H1 2017 to a successful conclusion thanks to good customer business. Profit before taxes came in at EUR 939 million. The positive operating performance was achieved in a demanding market environment and parallel to the integration work following the merger of DZ BANK and WGZ BANK, which has made rapid progress. At the same time, the semi-annual result included extensive additional provisioning for DVB's ship financing business.

"The result achieved by the bank reflects all the more the strength and high inherent profitability of the DZ BANK Group as a whole. The clear stability of our broad-based financial services group and the high level of trust our customers continue to invest in us are evidence of the coherence of our strategic orientation," says Wolfgang Kirsch, CEO of DZ BANK.

The DZ BANK Group's capital situation is very solid. The prudent management of risk assets was a significant factor here. The core tier 1 capital ratio on a fully-loaded Capital Requirements Regulation (CRR) basis was 13.0 per cent as of 30 June 2017 and thus at the same level as in the first quarter. The decline of 1.5 percentage points compared to 31.12.2016 is the result of changes in the regulatory treatment of shareholdings in insurance companies, which affected our stake in R+V Versicherung accordingly in the first quarter.

Income statement items in detail

For the first time the performance of the merged bank is included completely in all regular items of the income statement in the half-year financial report for 2017. To this extent, these figures are not comparable with the previous year's figures. The merger-related effects continue to be aggregated under the item "net income from merger with WGZ BANK."

Net interest income of 1.43 billion was reported, reflecting a good performance in the DZ BANK Group's private and corporate banking business. Bausparkasse Schwäbisch Hall (BSH) held its net interest income steady in a demanding interest-rate environment.

Allowances for losses on loans and advances amounted to minus EUR 396 million and were materially influenced by the high additions to allowances for losses on loans and advances at DVB Bank. This was the result of a further deterioration in the market situation due to overcapacity in some areas of the maritime sector. At all other group companies risk provisioning remained unobtrusive.

Net fee and commission income reached EUR 977 million and benefited especially from another good business performance at Union Investment. In addition, commission income in DZ BANK AG's securities custody and payments business developed gratifyingly.

Gains and losses on trading activities of EUR 304 million primarily reflect a satisfactory performance in DZ BANK AG's capital markets business. In the previous year this item also included substantial positive one-off effects.

Gains and losses on investments amounted to EUR 88 million.

Other gains and losses on valuation of financial instruments amounted to EUR 34 million.

Net income from insurance activities reached EUR 451 million, with R+V Versicherung achieving a further increase in premiums earned in the insurance business while gains on investments declined on a high level.

Administrative expenses in the DZ BANK Group totalled EUR 1.94 billion. Besides merger effects, this was also due to continued investment in the customer business and substantial IT and project expenditure resulting from regulatory requirements.

Net income from merger with WGZ BANK was reported at minus EUR 58 million and comprised integration and migration expenses in the past half-year. In the first half-year of 2016 a plus of EUR 363 million was still reported on account of substantial positive valuation effects.

The DZ BANK Group's **profit before taxes** amounted to EUR 939 million.

The DZ BANK Group's net profit was EUR 488 million.

The **cost-income ratio** was 58.2 per cent.

DZ BANK Group's results

DZ BANK AG reported a profit before taxes of EUR 405 million with the corporate banking business continuing to report a positive performance thanks to the sustained high level of investment by small and medium-sized companies. Support for corporate customers abroad was an important growth area here. The establishment of a representative office in Jakarta has recently strengthened this business. DZ BANK AG was also able to expand the volume of business in the funding of renewable energy projects despite the highly competitive environment. In the capital markets business with institutional customers the corporate debt capital markets business developed especially positively. With respect to currency hedging transactions small and medium-sized companies as well as large companies showed lively demand for the bank's offering. In the capital markets business with retail customers sales of structured products increased to EUR 3.6 billion (H1 2016: EUR 2.4 billion). DZ BANK thus further extended its leading market position and – measured in terms of outstanding volumes – the bank now has a market share of 17.4 per cent. In

the Transaction Banking business segment DZ BANK underpinned its strong market position as a depositary and was able to further increase its revenue here. The same applies to the payments business.

Bausparkasse Schwäbisch Hall increased its profit before taxes to EUR 203 million (H1 2016: EUR 151 million). This increase, which was achieved in a challenging interest-rate environment, is marked by continued strong new business. While the new business in the home savings sector matched the good previous year's figure of EUR 15.1 billion, new business in the home loan sector increased 14.7 per cent to EUR 6.4 billion. BSH defended its market leadership masterfully with a market share of 30.6 per cent.

R+V Versicherung reported a profit before taxes of EUR 389 million compared to EUR 430 million in the first half of the previous year. R+V increased premiums earned in the insurance business to EUR 7.4 billion, up 3.6 per cent on the good level achieved in the previous year. This increase was driven by a strong performance in the property and casualty insurance business as well as in the reinsurance business. By contrast, gains on investments were down 8.1 per cent, but at EUR 1.88 billion remained at a high level.

Union Investment's profit before taxes increased 40.9 per cent to EUR 362 million. This increase resulted primarily from significantly higher net fee and commission income of EUR 750 million (H1 2016: EUR 602 million) due to higher average assets under management as well as increased performance-related management fees. The volume of assets under management increased due to renewed strong net sales in all customer segments and reached a new record level of EUR 309.6 billion (31.12.2016: EUR 292.3 billion).

DG HYP improved its profit before taxes to EUR 246 million (H1 2016: minus EUR 76 million). The size of this improvement in earnings was due mainly to positive valuation effects caused by the tightening of credit spreads with respect to government bonds in the wind-down portfolio. DG HYP's business was stable at the operating level. In the joint credit business with the cooperative banks the volume of new loans grew by EUR 415 million to EUR 1.54 billion. In the commercial real-estate finance business new business in Germany recorded a satisfactory level of EUR 2.57 billion (H1 2016: EUR 3.3 billion).

Profit before taxes at **WL BANK**, which was consolidated in the DZ BANK Group's half-yearly report for the first time, amounted to EUR 90 million. New business developed positively in the real estate finance business and in the local authority funding business. Valuation effects also had a supportive effect on earnings.

TeamBank kept its profit before taxes stable at a good level of EUR 78 million (H1 2016: EUR 80 million). The bank was able to further increase its new business in a difficult environment that remained characterized by predatory competition. Loans and advances to non-bank customers increased compared to the end of the previous year by 7.3 per cent to EUR 7.81 billion.

DZ PRIVATBANK increased its result to EUR 12 million from minus EUR 10 million. Besides the end of negative one-off effects in the first half of the previous year a good operating performance in the fund services business also had a particularly positive effect. The volume of assets under custody increased significantly. In the highly competitive environment in the private banking business the volume of assets under management remained steady at EUR 16.8 billion (31 December 2016: EUR 16.9 billion).

VR LEASING achieved a profit before taxes of EUR 13 million (H1 2016: EUR 16 million). The company continues to work on focusing its business and – in particular – is expanding digital solutions in the corporate banking business.

DVB Bank reported a loss before taxes of minus EUR 532 million (H1 2016: EUR 15 million). This was a result of the increased risk provisioning due to the further deterioration of the market situation resulting from ongoing overcapacity in the maritime shipping business segment. The Aviation Finance and Land Transport Finance segments, by contrast, reported a sound business performance.

Outlook

DZ BANK is currently working towards the imminent completion of the IT migration and thus the conclusion of the technical aspects of the merger. This will allow it to concentrate even more sharply on reaping synergies. In addition, preparations are underway for the merger of DG HYP and WL BANK to create the merged real-estate bank DZ HYP. This merger will allow the DZ BANK Group to underpin its market position in the real estate business.

For the second half of 2017 DZ BANK Research's economists forecast a positive economic trend. In Germany they expect economic growth of 2.0 per cent for the full year. "We see business developing gratifyingly at the start of the second half of the year. Against this background, our target of a full-year result at the lower end of the sustainable profit range of between EUR 1.5 billion and EUR 2 billion before taxes still looks feasible in the current economic environment, but it has become more ambitious," says Wolfgang Kirsch.

The DZ BANK's semi-annual results as at 30.06.2017 (IFRS)

in EUR m	01.01.-30.06.2017	01.01.-30.06.2016	Change in %*
Net interest income	1,427	1,363	4.7
Allowances for losses on loans and advances	-396	-219	80.8
Net fee and commission income	977	822	18.9
Gains and losses on trading activities	304	501	-39.3
Gains and losses on investments	88	90	-2.2
Other gains and losses on valuation of financial instruments	34	-154	>100.0
Net income from insurance activities	451	461	-2.2
Administrative expenses	-1,942	-1,703	14.0
Other net operating income	54	50	8.0
Net income from merger with WGZ BANK	-58	363	>100.0
Profit before taxes	939	1,574	-40.3
Tax expense	-451	-416	8.4
Net profit	488	1,158	-57.9
Cost-income ratio (in %)	58.2	54.5	3.8 % points

* Limited comparability due to merger

The complete interim report is available (in German) on DZ BANK's website under

www.halbjahresfinanzbericht.dzbank.de.

The English language version is to follow soon.

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