Investor Relations Release

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Investor Relations

Preliminary figures for the financial year 2016: DZ BANK reports profit before taxes of € 2.2 billion

- Full-year target for € 2 billion profit before taxes achieved
- Good development in the customer business
- Merger has positive effect on valuation and capital
- On a fully-loaded CRR basis the common equity Tier 1 ratio increased to 14.5 per cent (previous year: 13.0 per cent)
- Wolfgang Kirsch: "We have proven our high inherent profitability, which we also intend to use again for a dividend increase."

The DZ BANK Group reported a profit before taxes of € 2.2 billion in the financial year 2016, thus securely achieving the targeted profit before taxes of over € 2 billion. This result was driven mainly by a good development in the customer business. It also reflects the successful merger with WGZ BANK. The overall merger effects included in the result amounted to € 256 million.

Post-merger earnings and expenses are shown in the income statement under the item "net income from merger with WGZ BANK." All other items reflect the business performance of DZ BANK before the merger in the first half of the year and the development of the merged bank in the second half of 2016. The profit before taxes of the DZ BANK Group and DZ BANK AG are not, therefore, comparable with the figures of previous years.

"Now that we have brought this strategically important year to a successful conclusion we may be more than satisfied. Since completing the merger process rapidly and smoothly we have made good progress with the integration of the bank. At the same time, with our good performance in the customer business we have proven our high inherent profitability, which we also intend to use again for a dividend increase," explains Wolfgang Kirsch, Chief Executive Officer of DZ BANK AG.

The DZ BANK Group again availed of its good earnings performance in order to retain profits. In conjunction with positive effects from the merger it increased its common equity Tier 1 ratio as at 31.12.2016 to 14.5 per cent on a fully-loaded CRR basis. At the end of the previous year the common equity Tier 1 ratio for the DZ BANK Group before the merger was 13.0 per cent. Compared to the previous year the leverage ratio improved on a fully-loaded CRR basis from 4.0 (before the merger) to 4.1 per cent.

Income statement positions in detail

Net interest income reached € 2.66 billion, with DZ BANK AG's corporate banking business developing particularly positively. By contrast, at Bausparkasse Schwäbisch Hall additional provisions of € 175 million for bonus interest payments to customers had a negative impact.

Allowances for losses on loans and advances amounted to € 569 million and were mainly influenced by negative effects in DVB Bank's shipping finance portfolio. In all other segments allowances for losses on loans and advances remained insignificant.

Net fee and commission income again reached a high level of € 1.7 billion. Major contributory factors here were the good business performance that Union Investment achieved again as well as the growth reported at DZ BANK AG.

Gains and losses on trading activities amounted to € 780 million, benefiting from a good performance in DZ BANK AG's capital markets business.

Gains and losses on investments reached € 127 million. This item includes proceeds of € 98 million from the sale of shares in VISA Europe.

Other gains and losses on valuation of financial instruments amounted to € 51 million.

Administrative expenses in the DZ BANK Group amounted to € 3.6 billion. Their development reflects in particular the extensive project portfolio resulting from regulatory requirements and the merger as well as the payment of the banking levy of € 57 million and continued investments in the expansion of the customer business.

Net income from the merger with WGZ BANK amounted to € 256 million Euro. This includes proceeds of € 344 million from the consolidation of business relationships existing before the merger and a positive IFRS valuation effect of € 159 million. The position also includes expenses for restructuring as well as transaction and migration expenses of € 247 million.

The **cost-income ratio** reached 58.9 per cent.

Profit before taxes amounted to € 2.2 billion.

Net profit was € 1.6 billion.

The DZ BANK Group's results

DZ BANK AG returned a profit before taxes of € 702 million. This good result is mainly attributable to a positive operating performance. In the corporate banking business the volume of lending continued to grow despite a challenging competitive environment and increased to € 52.6 billion. The joint credit business with the cooperative banks also increased notably, reaching € 9.2 billion. At the same time, it was possible to hold margins steady. In addition, the bank increased its customer count as well as the depth of its business relationships. This confidence shown in DZ BANK by its corporate customers is also reflected in the increased number of principal bank relationships.

In the institutional capital markets business the bank increased its business volume in the primary and secondary bond markets as well as in derivatives, for example for interest rate and currency hedges. In addition, the bank was again able to increase the volume of securitizations, for example of corporate customers' trade and lease receivables. In the capital markets business with private clients the bank increased its sales to € 4.4 billion (previous year: € 4.3 billion). In terms of the outstanding volume DZ BANK reinforced its position as market leader. In the business with products issued on an ongoing basis it took third place in terms of exchange turnover with an average market share of 11.0 per cent (previous year: 9.2 per cent). In Transaction Banking DZ BANK underpinned its strong market position as a depository, increasing assets under depository to € 184 billion. The "Cards Growth Initiative" also had a positive impact, leading to a significant increase in the number of credit cards that were issued.

Bausparkasse Schwäbisch Hall reported a profit before taxes of € 158 million (previous year: € 341 million). The decline is mainly due to additional provisions for bonus interest payments to customers of € 175 million. The customer business continued to develop gratifyingly with new home savings business of € 29.2 billion (previous year: € 35 billion) and a new home-finance business volume of € 13.9 billion (previous year: € 14.4 billion) after the previous year had benefited from generally above-average market growth.

R+V Versicherung increased its profit before taxes from € 625 million to € 681 million. Premiums earned in the insurance business grew to € 14.7 billion (previous year: € 14.4 billion). An increased number of non-life and re-insurance policies more than offset the decline in life insurance policies. The investment result increased significantly compared to the previous year.

Union Investment's profit before taxes again reached a very good level of € 468 million (previous year: € 556 million Euro). This is mainly due to net fee and commission income, which remained high and at € 1.21 billion almost matched the very good figure reported in 2015. The volume of assets under management increased to a new all-time high of € 292.3 billion (previous year: € 260.8 billion), driven primarily by high net sales in all customer segments.

DG HYP reported a profit before taxes of € 237 million after € 447 million in the previous year. This was primarily attributable to negative valuation effects from the wind-down portfolio as a result of the widening of credit spreads after the substantial reversals of impairment losses reported in previous years. DG HYP continued to position itself successfully, increasing its new commercial real-estate finance business strongly from € 5.7 billion to € 7.4 billion and its joint business with the cooperative banks from € 2.8 billion to € 3.2 billion.

WL BANK, which was included in the reporting of the DZ BANK Group for the first time, reported a profit before taxes of € 118 million for the second half of 2016. WL BANK is growing in its core business sectors, namely the housing industry, local authority funding and private home finance, and despite a conservative risk policy it was able to increase its total real estate finance business from € 17.9 to € 20.1 billion and benefited from valuation effects in its securities portfolio.

TeamBank improved its profit before taxes to € 143 million (previous year: € 132 million). Despite intense predatory competition in the market, TeamBank increased its customer count from 622,000 to 638,000 and expanded its new easyCredit business to € 2.41 billion (previous year: € 2.23 billion).

DZ PRIVATBANK reported a profit before taxes of € 3 million compared to € 38 million in 2015. The reasons for the decline included lower gains on trading activities after the high volume reported in the previous year, which was influenced by currency-induced exceptional effects, increased provisions and the ongoing pressure on margins in Private Banking. The operating performance, however, was influenced by a gratifying increase in assets under management to € 16.9 billion (previous year: € 15.6 billion) and a further rise in the value of funds under management in the custody business.

VR LEASING made further good progress in focusing its business and achieved a profit before taxes of € 7 million (previous year: € 19 million). New business remained almost unchanged at a solid level.

DVB Bank reported a result before taxes of minus € 285 million (previous year: plus € 46 million). This is due to significantly higher allowances for losses on existing loans and advances in the Shipping and Offshore Finance segments. With growth in the Transport Finance business simultaneously continuing to post stable and value-adding growth, DVB Bank attracted new business of € 6.5 billion (previous year: € 7.2 billion).

Outlook

The economic and political environment remains challenging. This includes grown political risks, above all the changes in transatlantic relationships that have come clearly to the fore and Europe’s as yet unresolved identity crisis. Worthy of positive note here is the fact that the economic sentiment indicators in the euro area have improved notably. The momentum of economic growth in Germany remains moderately positive. DZ BANK Research’s economists forecast growth of 1.2 per cent for 2017.

“The financial year 2017 got off to a promising start. At the same time, the current year will continue to be defined by further structural work in the wake of the merger while its synergies will only take full effect in the years to come. We, therefore, expect a profit before taxes in excess of € 1.5 billion. In the subsequent years we then aim to increase this again within the framework of our sustainable profit range of € 1.5 to € 2 billion,” says Wolfgang Kirsch.

The next step for the DZ BANK Group’s positioning is to move closer towards a holding structure. The foundations for this are being laid in the current year. In addition, the DZ BANK Group is seeking to realign its real estate activities. The shared goal of these measures is to achieve a high level of management effectiveness and at the same time the best possible concentration of the individual units on the further development of their corresponding product and service offerings.

Wolfgang Kirsch: “The successful merger and the current structural work we are doing secure the long-term competitiveness of our strong financial services group. At the same time, our work continues to concentrate on promoting our success in the market. Our solid capital and liquidity resources, our good reputation, one of the best bank ratings in Europe and our range of products and services, which has been rounded off by the merger, are all convincing arguments in our favor. The positive response from our customers, especially in corporate banking, strengthens our conviction that we are on the right road."

Preliminary (IFRS) Income Statement DZ BANK Group

in € million	**2016**	**2015 DZ BANK Group before merger**
Net interest income	2,660	2,870
Allowances for losses on loans and advances	-569	-153
Net fee and commission income	1,698	1,632
Gains and losses on trading activities	780	369
Gains and losses on investments	127	59
Other gains and losses on valuation of financial instruments	51	300
Net income from insurance activities	760	676
Administrative expenses	-3,600	-3,252
Other net operating income	34	-48
Net income from merger with WGZ BANK	256	-
Profit before taxes	2,197	2,453
Income taxes	-591	-657
Net profit	1,606	1,796
Cost/income ratio [in %]	58.9	55.5
Total assets [in € bn]	509.4	408.3

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