Investor Relations Release

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DZ BANK AG
Deutsche Zentral-
Genossenschaftsbank

Investor Relations

H1 2019:
DZ BANK Group reports a profit before taxes of €1.46 billion

- Strong operating performance across all entities
- Positive valuation effects due to performance of the capital markets and corporate transactions; inconspicuous level of loss allowances
- Tailwind for the 'Verbund First 4.0' strategic program
- Common equity Tier 1 capital ratio reaches 14.3 percent

In the first half of 2019, the DZ BANK Group generated a profit before taxes of €1.46 billion (H1 2018: €1.03 billion). This significant improvement on the prior-year period was attributable to the strong operating performance across all entities coupled with an inconspicuous risk situation. One-off items were also a contributing factor, including reporting-date-related valuation effects at R+V Versicherung and DZ HYP as a result of the situation in the capital markets. The disposal of foreign companies of Bausparkasse Schwäbisch Hall and Union Investment also had a positive impact, as did sales transactions at DVB Bank.

"The first half of the year affirms DZ BANK's strategy of positioning itself as a financial services group. We are translating this strategy – together with our customers, owners, and employees – into entrepreneurial action" says Dr. Cornelius Riese, Co-CEO of DZ BANK.
"This encouraging result highlights the huge amount of potential that is created by our Group's network-oriented approach and proximity to local markets. As the partner of choice for the local cooperative banks, we are creating sustainable value for the cooperative financial network" added Uwe Fröhlich, his fellow Co-CEO.

The DZ BANK Group's capital adequacy continued to strengthen thanks to disciplined management of risk-weighted assets. The common equity Tier 1 capital ratio of the DZ BANK Group as at June 30, 2019 was 14.3 percent (December 31, 2018: 13.7 percent). Total assets rose from €519 billion at the end of 2018 to €561 billion as a result of the expansion in the volume of business.

Income statement line items in detail

The DZ BANK Group reported **net interest income** of €1.28 billion for the first half of 2019. This decline compared with the first half of 2018 (H1 2018: €1.42 billion) was predominantly due to the higher additions to provisions for building-society operations at Bausparkasse Schwäbisch Hall.

At €958 million, **net fee and commission income** matched the high level achieved in the first half of 2018 (H1 2018: €958 million) and was mainly attributable to the stable volume of business and stable fees and commissions at Union Investment.

Gains and losses on trading activities amounted to €141 million. The figure for the prior-year period (H1 2018: €206 million) had been influenced by effects arising from the valuation of own issues. Income from DZ BANK's customer-account trading activities held steady.

Gains and losses on investments rose from €46 million in the prior-year period to €130 million. Proceeds from the sale of Bausparkasse Schwäbisch Hall's Czech company were the main factor in this significant increase.

The rise in **other gains and losses on valuation of financial instruments** to €179 million (H1 2018: minus €48 million) mainly reflects the increased valuation of DZ HYP's government bond portfolio.

Net income from insurance activities rose from €299 million in the first half of 2018 to €761 million. The main factor in this significant increase was a marked improvement in gains and losses on investments held by R+V Versicherung as a result of the good performance in the financial, capital, and currency markets. There was also an increase in premium income in the customer business.

Loss allowances were at the inconspicuous level of €105 million in the first half of 2019, compared with a net reversal of €44 million in the prior-year period, which was characterized by a high level of reversals.

At €2.05 billion, **administrative expenses** were at virtually the same level as in the prior-year period (H1 2018: €2.02 billion). The slight increase in this figure was mainly due to the first-time consolidation of VR Payment. Additional expenses for strategic initiatives at DVB Bank, Union Investment, and Bausparkasse Schwäbisch Hall were offset by lower consultancy costs at DZ BANK and DZ HYP.

The group profit before taxes amounted to €1.46 billion.

Net profit stood at €1.03 billion.

The **cost-income ratio** reached 56.6 percent.

Results of the DZ BANK Group

In the first half of 2019, **DZ BANK AG** posted a profit before taxes of €209 million (H1 2018: €437 million). It should be noted that the figure for the prior-year period had been significantly boosted by the reversal of loss allowances and by proceeds from the sale of securities. The bank's operating performance across all business lines was very satisfactory. In Corporate Banking, the volume of lending at DZ BANK rose by 11 percent to €56.2 billion. The volume of loan commitments in the joint credit business with the cooperative banks, which is included in this figure, climbed by 7 percent to €13.9 billion. In the capital markets business with retail customers, the sale of structured products amounted to a satisfactory €2.5 billion following a particularly strong showing in the prior-year period (H1 2018: €3.2 billion).

In the capital markets business with institutional and corporate customers, the volume of securitizations grew by a very healthy 27 percent year on year to reach €2.4 billion. In Transaction Banking, the securities custody business performed well, with assets under depository rising from €218 billion to €236.6 billion.

Bausparkasse Schwäbisch Hall achieved a satisfactory profit before taxes of €149 million. The decline compared with the first half of the prior year (H1 2018: €172 million) was mainly due to additions to provisions for building-society operations and to the generally dampening effect of the low interest rates on net interest income. By contrast, the sale of the Czech company had a positive impact. In terms of operational performance, Bausparkasse Schwäbisch Hall consolidated its strong position in a growing and increasingly competitive overall market. Home savings business and market share held more or less steady, while the volume of new home finance business expanded by 3 percent to €6.9 billion.

R+V Versicherung generated a profit before taxes of €711 million, which represented an exceptional increase on the figure for the prior-year period (H1 2018: €274 million). This surge in earnings was attributable to the significant improvement in gains and losses on investments held by insurance companies, which resulted from reporting-date-related valuation effects, and to strong growth in the operating business. Gross premiums written in the life/health insurance business were down slightly from the high level achieved in the prior-year period. In the non-life insurance business line, gross premiums written rose year on year to €4 billion (H1 2018: €3.8 billion); in the inward reinsurance business line they increased to €1.4 billion (H1 2018: €1.2 billion).

Union Investment reported a 40.7 percent year-on-year increase in profit before taxes to €384 million. This figure was boosted by the recovery of the asset markets and the sale of the company in Poland. The operating business performed strongly. Assets under management rose from €323.4 billion to €349.1 billion, and net inflows remained at a good level from both institutional customers at €4.9 billion (H1 2018: €6.6 billion) and from retail customers at €4.1 billion (H1 2018: €4.7 billion).

DZ HYP generated a profit before taxes of €268 million in the first half of 2019. The operating business grew encouragingly across the four divisions of Commercial Real Estate Investors, Housing Sector, Retail Customers/Private Investors, and Public Sector, with the volume of new business totaling €5.1 billion. In an increasingly challenging environment, the joint credit business with the local cooperative banks advanced by around 47 percent to €2.28 billion, while new business in the Commercial Real Estate Investors division rose significantly from €3 billion to €3.5 billion. Valuation effects related to the government bond portfolio also had a positive impact.

TeamBank registered a profit before taxes of €63 million (H1 2018: €76 million). Despite a market environment in which fierce competition was putting pressure on lending terms, new lending business increased by 17.5 percent compared with the prior-year period to reach €1.81 billion; the customer count rose from 877,000 as at December 31, 2018 to 918,000.

Profit before taxes reported by **DZ PRIVATBANK** improved to €13 million. The increase in assets under custody in the first half of 2019 from €101.6 billion to €111 billion and in assets under management from €16.7 billion to €18.3 billion underscore the stability of the entity's operating performance and the efforts being made to secure the sustainable, long-term positioning of our private banking unit.

VR Smart Finanz forged ahead with its process of transformation into a digital provider of finance for the self-employed and small businesses. Contracts entered into online accounted for 89.9 percent of total new business, exceeding the level of the prior-year period (H1 2018: 85.2 percent). At €0.6 billion, new business in equipment leasing was on a par with the figure for the prior-year period; the factoring volume rose from €1.6 billion to €1.8 billion. Despite ongoing investment in the restructuring of its business model, VR Smart Finanz achieved a profit before taxes of €1 million and thus matched its performance in the first half of 2018.

DVB Bank reduced its loss before taxes from €71 million in the first half of 2018 to €67 million and continued to make progress in its plan to scale back business activities. The sale of the Land Transport Finance business and of LogPay were among the completed transactions that played a particularly important role.

Outlook

Given the rising geopolitical risks and the weakening economy, the prospects for business performance in the second half of the year must be viewed with caution.

"The DZ BANK Group is a major financial intermediary that is highly dependent on the capital markets and thus prone to earnings volatility. In view of the increasingly challenging economic and political environment, we anticipate that profits will rise only moderately in the second half of the year. We are aiming to achieve a profit in the middle to upper area of the long-term earnings range of €1.5 billion to €2 billion" says Dr. Cornelius Riese. "However, there is also reason to feel confident" says Uwe Fröhlich, his fellow Co-CEO at DZ BANK. "In the first half of 2019, we made important progress in the implementation of 'Verbund First 4.0', our long-term strategic initiative which is also having an immediate effect – for example in the new customer relationship management model in corporate banking. This fills us with optimism as we look to further strengthen our market position and customer focus across all business lines".

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The DZ BANK Group's half-year financial results under IFRS as at June 30 2019

€ million	Jan. 1 – Jun. 30, 2019	Jan. 1–Jun. 30, 2018	Change (%)
Net interest income	1,279	1,420	-9.9%
Net fee and commission income	958	958	0%
Gains and losses on trading activities	141	206	-31.6%
Gains and losses on investments	130	46	>100%
Other gains and losses on valuation of financial instruments	179	-48	>100%
Gains and losses from the derecognition of financial assets measured at amortized cost	15	54	-72.2%
Net income from insurance business	761	299	>100%
Loss allowances	-105	44	>100%
Administrative expenses	-2,046	-2,018	1.4%
Other net operating income	152	73	>100%
Profit before taxes	1,464	1,034	41.6%
Income taxes	-430	-303	41.9%
Net profit	1,034	731	41.5%
Cost/income ratio (%)	56.6	67.1	-10.5 percentage points

The complete report is available (in German) on DZ BANK's website under
www.halbjahresfinanzbericht.dzbank.de.

The English version of the report will be available on 23/9/2019 under
www.halfyearreport.dzbank.com.