Investor Relations Release

March 5, 2019

DZ BANK AG
Deutsche Zentral-
Genossenschaftsbank

Investor Relations

Preliminary results for 2018: DZ BANK Group reports a profit before taxes of €1.4 billion

- Good operating performance – expansion of customer business
- Capital markets environment and one-off factors take their toll on earnings
- DVB Bank makes progress on reducing risk and selling parts of the business
- Significant progress with strategic development: DZ BANK AG sets itself ambitious targets for earnings and costs; DZ HYP successfully completes merger
- Common equity Tier 1 capital ratio holds steady at 13.7 percent

In 2018, the DZ BANK Group generated a profit before taxes of €1.37 billion (2017: €1.81 billion). This was the result of its good operating performance. The DZ BANK Group increased the volume of business and gained market share in most areas. At the same time, the results reflect negative measurement effects caused by conditions in the capital markets. Other adverse one-off factors also had an impact.

In 2018, the DZ BANK Group made good progress in terms of its strategic development. Under 'Verbund First 4.0', for example, DZ BANK AG has set itself ambitious targets for earnings and costs and has already launched a comprehensive action plan. DG HYP and WL BANK successfully merged to form DZ HYP, the largest *Pfandbrief* bank in Germany. DVB Bank has made good headway with reducing risks and selling parts of its business.

"Despite headwinds from the capital markets, we achieved a respectable profit before taxes. We also refined our strategic structures and thus further strengthened our financial services group's resilience for the future," explains Cornelius Riese, Co-Chief Executive Officer of DZ BANK.

"Once again, the results are proof of our high intrinsic earnings power. The companies in the DZ BANK Group significantly expanded their customer business, particularly in collaboration with the cooperative banks. We thus continued to forge ahead with our ambitious plans for growth," says Uwe Fröhlich, Co-Chief Executive Officer of DZ BANK.

The DZ BANK Group's capital situation remains satisfactory. As at December 31, 2018, the common equity Tier 1 capital ratio was unchanged at 13.7 percent (December 31, 2017: 13.7 percent). The capital requirement defined specifically for DZ BANK by the supervisory authority (SREP ratio) is 9.75 percent. The DZ BANK Group's leverage ratio was also almost at the prior-year level at 4.3 percent (December 31, 2017: 4.4 percent). Rating agencies Standard & Poor's and Moody's recently confirmed their credit ratings for the cooperative financial network of AA- (S&P) and for the

DZ BANK Group of Aa1 (Moody's). The DZ BANK Group is thus one of the best-rated banking groups in Europe.

Income statement line positions in detail

Net interest income decreased by 4.8 percent to €2.8 billion. The entities with significant interest-earning business – such as DZ BANK AG and Bausparkasse Schwäbisch Hall – faced particular challenges as a result of the low interest rates.

At €21 million, **loss allowances** were unremarkable (2017: €786 million). The stabilization of DVB Bank and net reversals at DZ BANK AG had a positive effect.

Net fee and commission income rose to €1.96 billion (2017: €1.86 billion), once more due in no small part to Union Investment's strong performance. Brisk new business in supporting bond issues had an especially positive impact at DZ BANK AG.

As a result of conditions in the capital markets, the net gain under **gains and losses on trading activities** fell from €506 million to €285 million.

Gains and losses on investments came to a net gain of €150 million (2017: €10 million), primarily reflecting the increase in income from sales of securities at DZ BANK AG.

Other gains and losses on valuation of financial instruments declined from a net gain of €289 million to a net loss of €120 million. This was again mainly due to measurement effects arising from government bonds in DZ HYP's wind-down portfolio.

Administrative expenses increased slightly overall, climbing by 2.5 percent to €4.06 billion. Whereas there was a growth-related rise at Union Investment, DZ BANK AG made significant savings following completion of the merger.

The **cost/income ratio** reached 74.5 percent (2017: 60.4 percent).

Profit before taxes came to €1.37 billion (2017: €1.81 billion).

Net profit was €918 million (2017: €1.1 billion).

Results of the DZ BANK Group

DZ BANK AG posted a profit before taxes of €522 million (2017: €752 million). This decrease was largely attributable to lower income from long-term equity investments, a smaller net gain under gains and losses on trading activities due to capital market conditions, and the recognition of a restructuring provision of €80 million. The bank's customer business was satisfactory. In Corporate Banking, the lending volume at DZ BANK rose by 9 percent to €53.8 billion. The quality of this growth can also be seen from the increasing intensity of customer relationships. The number of principal bank relationships, for example, went up by 18 percent. Business involving the cross-selling of products such as interest-rate hedges and currency hedges continued to perform very well. In the Capital Markets business line, DZ BANK further strengthened its market position in the underwriting of bond issues, especially its support for sustainable bond issues. The securitizations business also remained buoyant, with the volume of securitizations exceeding €2 billion for the first time (a rise of 6 percent). The bank again reported strong sales of €6.0 billion (2017: €6.1 billion) in its securities business with retail customers. In the Transaction Banking business line, DZ BANK achieved significant increases in the number of SEPA transactions processed (up by 3.8 percent) and the number of credit cards issued (up by 6 percent). The volume of assets under custody in DZ BANK's securities custody business rose to a record €215 billion, making the bank the number three in the market.

Bausparkasse Schwäbisch Hall (BSH) achieved a satisfactory profit before taxes of €295 million (2017: €334 million), primarily thanks to its good operating performance. New home savings business advanced from €28 billion in 2017 to €29.7 billion, significantly bolstering BSH's market-leading position. In home finance, new business grew by 3.8 percent to €15.2 billion. The low level of interest rates took their toll on BSH's earnings.

R+V Versicherung generated a profit before taxes of €413 million (2017: €795 million). It again delivered a positive operating performance, reporting gross premiums written of €16.1 billion (2017: €15.3 billion). All segments contributed to this increase. The main reason for the fall in profit before taxes was the decline in gains and losses on investments held by insurance companies, which had been expected due to the exceptionally high net gain reported in 2017.

Union Investment again posted a good profit before taxes of €502 million in 2018, having reached a record €610 million in the previous year. Despite the difficult market conditions, assets under management were virtually unchanged at €323.4 billion (December 31, 2017: €323.9 billion). Net inflows from retail customers and institutional customers totaled a healthy €15.3 billion.

Following completion of the merger, **DZ HYP** prepared consolidated financial statements for the first time and posted a profit before taxes of €232 million (2017 on a pro forma basis: €637 million). This decrease was attributable to measurement effects in the wind-down portfolio, but the merged institution saw growth in its customer business. New business with self-employed and small-business customers, for example, was up by 9 percent to €7.7 billion. The overall volume of real estate finance rose from €42.5 billion to €44.5 billion.

TeamBank's profit before taxes of €145 million was just below the strong level of €148 million reported in 2017. Its operating performance held steady, with new business amounting to €2.98 billion (2017: €2.95 billion). The number of customers rose by 44,000 to 877,000, despite fierce competition.

DZ PRIVATBANK posted a loss before taxes of €151 million (2017: profit before taxes of €20 million). The main influence on this figure was the impairment, recognized in profit or loss, of goodwill and customer relationships in view of changed expectations regarding business prospects in the private banking market. DZ PRIVATBANK's operating performance was stable. Market conditions meant that assets under management in private banking contracted by 3.5 percent to €16.7 billion and assets under custody fell by 6.6 percent to €101.6 billion, whereas the volume of foreign currency loans held steady at €5 billion.

VR Smart Finanz achieved a profit before taxes of €1 million (2017: loss before taxes of €17 million). It included negative one-off items in connection with the company's transformation, which is going to plan. New business was satisfactory, with the figure for equipment leasing amounting to €1.2 billion and the figure for factoring volume rising to €3.4 billion (2017: €3.2 billion). Online business with cooperative banks was very buoyant, registering growth of 17.6 percent.

DVB Bank significantly reduced its loss before taxes from €774 million to €130 million, even though negative IFRS measurement effects of €105 million weighed heavily on the figure for 2018. Loss allowances decreased from €728 million to €80 million. There was a targeted reduction of the lending volume to €16.6 billion (2017: €19.4 billion), which included a marked reduction in non-performing loans (NPLs). There was also good progress on the sale of parts of the business.

Outlook

The outlook for 2019 reflects the emerging signs of a gloomier economy, even in Germany, which is the most important market to the DZ BANK Group. The economists at DZ BANK Research forecast growth of 1 percent for 2019, following 1.4 percent in 2018.

"Despite the economic slowdown, we are still seeing high demand from customers in our operating business at the start of the new year. We anticipate that our profit before taxes will rise slightly in 2019 and is therefore likely to be at the lower end of our long-term target range of €1.5 billion to €2 billion," says Cornelius Riese.

"We are duty-bound to safeguard our capabilities beyond the immediate future," explains Uwe Fröhlich. "Our objective is to generate further growth, standing shoulder to shoulder with the cooperative banks. To help us achieve this growth, we have set ourselves ambitious targets for earnings and costs under the 'Verbund First 4.0' program."

The first area of focus in the action plan that has already been initiated is substantial investment in the DZ BANK Group's market presence. One of the top priorities is customer focus and efficiency in all corporate customer processes, from the customer portal through to the back office. Secondly, steering and production will be optimized by digitalizing and automating core processes from end to end. The areas of focus are IT and the lending and control functions. To optimize its cost base, the bank will also significantly reduce expenditure on external service providers and it plans to reduce the headcount by almost 500 until 2023. This figure equates to roughly 10 percent of positions after implementation of the merger synergies. Thirdly, the targeted attraction and development of talented employees and thus the management of demographic change is high on the list of priorities. In this context, DZ BANK will strive to further strengthen its customer focus and concentrate even more on efficiency and performance.

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DZ BANK Group preliminary income statement (IFRS)

€ million	**2018**	**2017**	**Change (%)**
Net interest income	2,799	2,941	-4.8
Loss allowances	-21	-786	-97.3
Net fee and commission income	1,955	1,864	4.9
Gains and losses on trading activities	285	506	-43.7
Net income from insurance business	490	907	-46.0
Gains and losses on investments	150	10	>100.0
Other gains and losses on valuation of financial instruments	-120	289	-
Administrative expenses	-4,059	-3,959	2.5
Other net operating income	-109	38	-
Profit before taxes	1,370	1,810	-24.3
Income taxes	-452	-712	-36.5
Net profit	918	1,098	-16.4
Cost/income ratio [%]	74.5	60.4	+14.1 percentage points
Total assets [€ billion]	518.7	505.6	2.6

You can find further information using following link:
www.dzbank.com/content/dzbank_com/en/home/DZ_BANK/investor_relations/praesentationen.html

The annual report of DZ BANK Group (German version) will be available on April 2, 2019 under
www.geschaeftsbericht.dzbank.de

The English version of the report will be available on May 8, 2019 under
www.annualreport.dzbank.com