



Uwe Fröhlich (left) and Dr. Cornelius Riese, Co-Chief Executive Officers

Dear Shareholders,

The DZ BANK Group can look back on a successful 2019. At €2.7 billion, our profit before taxes comfortably exceeded our expectations. This very good figure is a reflection of the positive operating performance of all entities in our banking group. Thanks to the trust placed in us by our customers, many of our business lines were able to achieve significant growth.

Our results were also heavily influenced by one-off items. At R+V Versicherung, gains and losses on investments held by insurance companies amounted to a very high net gain thanks to favorable interest rates and price rises in the capital markets. DZ HYP's government bond portfolio benefited from significant reversals of impairment losses. Moreover, we generated extraordinary income from transactions aimed at sharpening the focus of our business activities, in particular the disposal of parts of DVB Bank and the sale of non-German companies of Bausparkasse Schwäbisch Hall and Union Investment.

At the same time, we carried out strategic capital investment in our growth. Targeted acquisitions strengthened both Union Investment and the depositary business at DZ BANK. We completed major transformation projects as scheduled in 2019, as part of our efforts to hone our strategic profile. For example, we leveraged the remaining synergies resulting from the merger of DZ BANK and WGZ BANK and, with the migration of the IT systems, completed the technical aspects of the merger of our real estate banks to form DZ HYP.

The constant evolution of our financial services group is also reflected in the financial reporting. For the first time, we are reporting the results of DZ BANK central institution and corporate bank separately from those of the holding function within DZ BANK AG, thereby increasing the transparency of our results.

The key results of the DZ BANK Group in detail: Net interest income came to €2.74 billion (2018: €2.86 billion). Whereas DZ BANK (central institution and corporate bank), DZ HYP, and TeamBank saw sharp rises in net interest income owing to a larger volume of business, Bausparkasse Schwäbisch Hall had to recognize further extensive provisions for interest-rate bonuses as a consequence of the persistently low interest rates. Net fee and commission income was up slightly at €1.98 billion (2018: €1.96 billion), with Union Investment, in particular, again delivering a very strong business performance. Gains and losses on trading activities advanced from a net gain of €285 million in 2018 to a net gain of €472 million in the year under review thanks to brisk capital markets business at DZ BANK (central institution and corporate bank). There had also been negative one-off items in the previous year. Gains and losses on investments amounted to a net gain of €182 million (2018: €24 million), reflecting the aforementioned sale of parts of the business. Other gains and losses on valuation of financial instruments improved from a net loss of €186 million to a net gain of €255 million owing to valuation effects in DZ HYP's bond portfolio. Net income from insurance business amounted to €1.23 billion, compared with €490 million in 2018. The increase was predominantly attributable to the improvement in gains and losses on investments held by insurance companies. Premiums earned in R+V Versicherung's operating business also went up. Loss allowances rose to €329 million (2018: €21 million) but were still below normal levels. Additions were primarily required in DVB Bank's maritime portfolio. Despite capital expenditure aimed at growth, administrative expenses were almost unchanged at €4.07 billion as a result of the leveraging of synergies from the merger and disciplined management of costs. Other net operating income amounted to €250 million (2018: net expense of €109 million) and included income from the disposal of parts of the business.

The dedication and hard work of our employees played a huge part in these very satisfying results. We would like to express our great appreciation and thanks to them.

DZ BANK's capital situation remains very stable. The common equity Tier 1 capital ratio increased to 14.4 percent as at December 31, 2019 (December 31, 2018: 13.7 percent) and the leverage ratio to 4.9 percent (December 31, 2018: 4.3 percent). This was due to profit retention, careful management of risk-weighted assets and, in particular, the successful placement of an AT1 bond with a volume of €1.4 billion. Cooperative banks submitted subscription requests in an amount of €2.5 billion, underlining DZ BANK's strong appeal as an issuer and the high degree of cohesion within the cooperative financial network.

Diligent capital management will remain a high priority going forward, particularly in view of our planned growth. It also means we are taking our owners' legitimate interests into consideration. This is the basis for the dividend of 18 cents that we are proposing to the Annual General Meeting, which is the same as in previous years.

The level of interest in our products and services, for example in the bond business for institutional clients, has remained strong in the first few months of 2020. This gives us cause for optimism. At the same time, the outlook is clouded by geopolitical risks. These include global trade disputes, which have still not been fully resolved, and the implementation of Brexit. In this environment, a slower rate of growth is the best that can be hoped for, even for the German economy. The capital markets are likely to remain very volatile. This particularly affects DZ BANK because it is a major institutional investor within the cooperative financial network. Against this backdrop, we anticipate that our profit before taxes will be at the lower end of our long-term target range of €1.5 billion to €2 billion.

Despite the challenging conditions, we see significant opportunities for growth in our business lines. We want to capitalize on these opportunities and increase our market share. In corporate banking, for example, we have stepped up our joint marketing with the cooperative banks aimed at small and medium-sized enterprises and in our international business.

The sustainable use of resources is not only a key part of our responsibility as a corporate citizen but also creates business opportunities. Sustainability emerges as a very important subject in many of our meetings with customers. We are already one of the leading market players among the German syndicate banks when it comes to issuing sustainable bonds, and Union Investment is a pioneer in the sustainability segment, too. Furthermore, we are systematically incorporating sustainability factors as we move our banking group forward and are strengthening our range of products and services for sustainable finance. The positive assessment by specialist sustainability rating agencies supports us in this approach.

We have made significant progress with implementing our 'Verbund First 4.0' strategic program. At DZ BANK AG, we increased our income in all business lines (Capital Markets, Corporate Banking, and Transaction Banking). At the same time, we are working constantly on making our processes more efficient, for example by digitalizing the entire lending process. We are focusing on areas of potential for the cross-functional use of services and technologies within the DZ BANK Group.

As well as continuing to develop our operating business, we are also investing heavily in new technologies. Working with market partners, we have launched a flagship project, FinLedger, for the digital, blockchain-based execution of promissory notes. We are running various AI and smart data initiatives, for example at R+V and TeamBank. In our internal processes, we are deploying robotic process automation, cloud solutions, and other innovative technologies. These give us the flexibility to increase the benefits for customers and improve quality and the use of resources. Ever shorter innovation cycles require us to adapt to new developments and, at the same time, make the right decisions about which key technologies to focus on that will benefit our customers and us in the long term.

In the future, it will be more important than ever to intensify our collaboration – including in the customer business – and to better integrate the range of products and services within the cooperative financial network, for the benefit of our customers and our organization. In any case, we have everything in place for further healthy growth: the trust of our customers, financial strength, and operational effectiveness.

Kind regards,

Uwe Fröhlich
Co-Chief Executive Officer

Dr. Cornelius Riese
Co-Chief Executive Officer