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DZ BANK AG

Annual press conference

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Ladies and gentlemen,

Welcome to our annual press conference.

Today, we are pleased to inform you about the DZ BANK Group's very satisfying performance in 2019. We achieved a very good profit before taxes, strengthened our capital base, generated robust growth in our customer business, and made great strides with our strategy. In a nutshell, we have made good progress.

Yet the industry is facing challenges, as you only know too well. But this is a source of motivation for us. On the one hand, our job is to work day after day to safeguard the future of our successful cooperative financial network and the DZ BANK Group. On the other, we operate securely knowing that we have the necessary resources to lay the foundations for our success ourselves.

We have set ourselves specific objectives: implementing a clearly formulated strategic agenda and the associated projects and transactions, growing organically alongside our customers, expanding our digital expertise, raising our profile as a sustainability-oriented financial services provider, and updating our corporate culture. We will come back to this later on.

Let us start by looking at the environment in which we achieved our financial performance in 2019.

The DZ BANK Group is, among other things, a major institutional investor. Our results are therefore heavily dependent on the capital markets. And this is reinforced by the fact that international accounting standards require assets to be measured at market prices in many cases.

Unlike the situation at the end of 2018, the capital markets were upbeat in 2019. This can be seen most clearly from the uptrend in the equity markets. Moreover, spreads on government bonds from southern European countries narrowed, which had a particularly pronounced effect on DZ HYP's results. At the same time, we can see that the further fall in interest rates had a positive short-term impact on parts of our group, particularly R+V Versicherung and its investments. Ironically, low interest rates which have an extremely damaging effect in the long term, provide a boost to earnings in the short term.

Our results may have received a tailwind from the capital markets but they are due, above all, to the success of the operating business across all entities in our group. Together with the cooperative banks, we generated further robust growth in our customer business. The combination of these factors enabled the DZ BANK Group to report a very good profit before taxes of around €2.7 billion in 2019. If these two significant one-off items were excluded, i.e. around €520 million from R+V's gains and losses on investments held by insurance companies and around €250 million from DZ HYP's sovereign portfolio, our profit before taxes would still be at the upper end of our long-term target range of €1.5 billion to €2 billion.

As part of our growth strategy, we made targeted strategic investments and achieved further organic growth. These included purchases and acquisitions at Union Investment and in our depositary business.

In other parts of the group, however, we forged ahead with sharpening the focus of our business activities in line with our strategy, first and foremost the successful completion of the two-year process of selling DVB Bank's aircraft finance portfolio. This transaction is included in the results for 2019, as is the disposal of the land transport business, which had been agreed in 2018, and the sale of LogPay. These three transactions resulted in non-recurring income of around €250 million, which we are using to scale back DVB Bank's other activities.

Other examples of our commitment to sharpening the focus of our business are the sale of two non-German companies of Bausparkasse Schwäbisch Hall and Union Investment.

We can also report that two crucial projects in our internal transformation are finished. The merger of DZ BANK and WGZ BANK is now complete as the remaining synergies have been leveraged. Furthermore, the merger of our real estate banks, DG HYP and WL BANK, to form DZ HYP has now also been completed from a technical perspective following the migration of the IT systems.

Looking at our income statement, I would like to highlight three aspects in addition to the effects already mentioned. Firstly, the decrease in net interest income was primarily due to the need for further provisions of around €300 million for interest-rate bonuses at Bausparkasse Schwäbisch Hall. This is the direct result of the fall in interest rates in 2019. Secondly, the increase in loss allowances continues from a significant level of reversals in the previous year. In 2019, loss allowances were still below normal levels. Thirdly, our administrative expenses remained stable at the group level. We thus maintained our efforts to increase efficiency and contain costs despite making strategic capital investments in the group's growth.

As part of our quest for efficiency, we implemented the idea of a virtual separation of the holding function from the operating business in our bank and in our accounting during 2019. Our aim is to make it even clearer and easier to understand where value is being generated and where costs are being incurred.

From now on, we will therefore report the DZ BANK central institution and corporate bank – with the contributions to earnings from the primary customer business – separately from the holding function, which will simply act as a cost center. This eliminates distortion caused by income from long-term equity investments.

We are thus serving the needs of our owners but avoiding the significant one-off and ongoing additional costs that would result from a legal separation of the two units. We will be discussing this further with our shareholders this year.

Mr. Fröhlich will talk in more detail about the business performance of the central institution and corporate bank later on. Ms. Brouzi will provide an overview of the main aspects of the other operating segments.

But first let us look at our capital situation. Once again, we significantly strengthened our capital base in 2019. We are in an ideal place to pursue our growth strategy thanks to the strength of our balance sheet, which has been achieved through profit retention, careful management of our risk-weighted assets, and an AT1 issue of €1.4 billion; the latter of course being relevant to our leverage ratio.

Measured in terms of our growth objectives and against our competitors, both our common equity Tier 1 capital ratio and our leverage ratio are at a very solid level. And we should remember that the leverage ratio will improve even more under CRR II because receivables within the cooperative financial network will no longer be included.

Nonetheless, the way forward is challenging. Although we are continuing to see high demand for our products and services, geopolitical risks strain our outlook These include the global trade disputes, which have not yet been fully resolved, the risks surrounding the implementation of Brexit, and the persistently low level of interest rates. And it is still too early to gauge the macroeconomic impact of the coronavirus. Given the many uncertainties, the capital markets are likely to remain very volatile. 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.

I will now hand over to Mr. Fröhlich.

Ladies and gentlemen,

I would also like to extend a cordial welcome to our annual press conference.

As a central institution and corporate bank, we maintain an intensive dialog not only with the cooperative banks but also with small and medium-sized enterprises, multinational corporates, and our global capital market partners. Many of them faced huge challenges in 2019. The UK’s departure from the EU and the trade dispute between the US and China were two geopolitical issues that unsettled companies and, in some cases, prompted them to postpone capital expenditure. As a result, global trade and the volume of exports cooled down and the global economy settled into a slower pace in 2019.

Fortunately, the German economy proved more resilient than expected. GDP growth slowed both in Germany and across the Eurozone, as have the growth rates for German exports in comparison with previous years. However, closer analysis reveals differences between the industrial and service sectors. Whereas industry is going through a very weak phase, the service sector was stable throughout the year and generated dynamic growth. Once again, consumer spending shored up the German economy.

In this environment, the performance of the central institution and corporate bank was very respectable. As Dr. Riese already mentioned, we are reporting its results separately for the first time. In 2019, the central institution and corporate bank delivered another good profit before taxes of **€293 million** on the back of the positive performance of all business lines, Transaction Banking, Capital Markets, and Corporate Banking. All of the drivers of operating income went up; the decrease in profit before taxes was primarily due to loss allowances returning to normal levels following high reversals in 2018.

The (subsidiary) companies that collaborate closely with the central institution and corporate bank in market development – DZ HYP, DZ PRIVATBANK, and VR Smart Finanz – also performed well in their operating business. Ms. Brouzi will go into further detail later on when she presents the segment results.

Looking at the individual business lines of the central institution and corporate bank, we can be very satisfied with the performance of our Capital Markets business line.

We strengthened our position in our collaboration with institutional customers and in capital market products for corporate customers, for example hedging products. We also gained additional market share.

Sustainable finance is becoming more and more of a central theme in our industry, and we are already well positioned in this regard. The volume of supported transactions exceeded €10 billion, making us one of the leading market players among the German syndicate banks when it comes to issuing sustainable bonds. Our commitment to sustainability and combatting climate change is part of our bank’s core business. However, and even as we are delighted about potential business opportunities, sustainability goals ought not to be viewed in isolation of fundamental principles of the market economy. A rigid preference for ‘green’ financial instruments in regulations or monetary policy runs the risk of misallocations. To be clear, I believe that ‘green monetary policy’ is dangerous.

In our Capital Markets business line, we are also demonstrating the quality and recognition of our work in other areas:

- In the primary market bond business, where we are held in high regard by governmental, quasi-governmental, and supranational organizations alike. For example, we were involved in bringing the first euro-denominated bond of the International Development Association, which is part of the World Bank Group, to the market.

- In the covered bond market, the journal Global Capital named us ‘best bank for distribution’ in recognition of our placing power.
- We continue to be among the leading players in the German investment certificate market and are currently the number two. We also won ‘best issuer’ at the Investment Certificates Awards. Despite the difficult market conditions, we generated very strong sales of €5.8 billion from our structured products.

We are readying our Capital Markets business line for the future by driving the use of digital platforms and investing in the expansion of our technological infrastructure. Working with other banks, for example, we launched the blockchain-based Finledger platform, on which promissory note transactions can be executed entirely digitally. This technologically sophisticated and multi-institutional platform may set a new market standard.

Let us now look at the Corporate Banking business line, which also did well.

We increased the lending volume by 10 percent, from €53.5 billion to €58.5 billion. Achieving this growth in a fiercely competitive market is a sign of the competitiveness of our products and services and of our good reputation among our customers. It is especially encouraging that we increased the overall number of customers and strengthened our relationships with existing customers. The number of companies that use us as their principal bank rose by almost 10 percent. As before, we continue to apply our conservative risk policy.

In corporate banking, the cooperative financial network's market share now stands at 22 percent. And we continue to target a share of 25 percent.

Two factors will play a key role in achieving this goal: the targeted, customer-friendly digitalization of all processes and even closer collaboration with the cooperative banks. We have already optimized most of our customer support processes, both in branches and virtually. And we have made good progress with digitalizing the lending process.

In the joint credit business with the cooperative banks, we have improved and accelerated our processes. Going forward, we want to step up the intensity and the quality of our partnerships with the local cooperative banks so that we can continue to write our shared growth story year after year.

The Transaction Banking business line also did very well overall.

The processing of instant payments is frictionless. Last year, 14 million real-time transactions were executed within the cooperative financial network.

Our wider payments processing business also grew: We attracted major new customers and increased the volume of transactions handled by 10 percent.

The situation was similar in our depositary business, where we achieved growth of 18 percent in 2019. We can operate with confidence in a competitive market, and our ability to attract high-profile new customers is proof that we are well respected in the market.

We are thus well placed to generate further growth in Transaction Banking.

When we look at the longer-term prospects, one thing that stands out is the contradictory situation in payments processing. The sector is often criticized for not having launched products to compete with PayPal and Apple Pay quickly enough. Yet the well-established debit card is the leading electronic payment type in Germany. Our job will be to combine various technical standards, and this is where the

#DK initiative comes in. It will be essential to integrate them with current accounts.

We also need European solutions. Together with the BVR, we are actively involved in the European Payment Initiative. I call on our industry to act with the necessary speed and energy.

Ladies and gentlemen,

The business performance of the central institution and corporate bank is extremely encouraging. We are operating successfully in the market, are trusted by our customers, and are generating profitable growth. Our plan is to resolutely maintain this course by constantly working on our efficiency and investing in our market success.

We also believe we can unlock significant potential by integrating the bank's products and services with those of other group companies even more effectively. After all, we are not simply a high-achieving central institution and corporate bank but also an integral part of a successful and consolidated financial services group. This is a crucial factor in our success and a unique selling proposition within the German market.

I would now like to hand over to Ms. Brouzi, who is going to talk about the other group companies in more detail.

Ladies and gentlemen,

I too would like to begin by welcoming you to today’s annual press conference. Let us now look at the individual operating segments in the DZ BANK Group, starting with **Bausparkasse Schwäbisch Hall**.

Bausparkasse Schwäbisch Hall maintained its excellent position in the market and achieved a satisfactory, albeit lower, profit before taxes of €189 million.

The construction industry is and will remain a key pillar of the German economy. And in 2019, it grew at a much faster rate than the economy as a whole. Bausparkasse Schwäbisch Hall is benefiting from the continued property boom and saw an increase of almost 10 percent in new home finance business in Germany.

Conversely, the low level of interest rates is weighing heavily on home savings, which is Bausparkasse Schwäbisch Hall’s other core business. As a direct consequence of the further fall in the market interest rate, the building society had to recognize further extensive provisions for interest-rate bonuses last year. This had a significant adverse impact on profit before taxes.

But there was also a positive one-off item as a result of the sale in April 2019 of the shares in the Czech Republic’s largest building society, CMSS, which boosted earnings by €100 million.

In 2019, **R+V Versicherung** posted a very positive profit before taxes that was much higher than the prior-year figure.

R+V's business performance is based on a good level of operational growth and is a sign that the 'Wachstum durch Wandel' (growth through change) program launched in 2018 is now bearing fruit. The steps taken regarding digitalization, efficiency improvements, and the acquisition of new customers are having an effect. Gross premiums written rose sharply across all divisions, increasing from €16.1 billion to €17.4 billion overall.

The profit before taxes was due to the healthy level of premiums and to positive one-off items.

Dr. Riese explained the significance of developments in the capital markets earlier. The further fall in interest rates and the uptrend in the equity markets were the main reasons for positive valuation effects in R+V Versicherung's gains and losses on investments held by insurance companies.

We can now turn to asset management and the consumer finance business. Our profit before taxes increased from an already high level in both of these segments.

Union Investment delivered yet another year-on-year increase in its operating income. The group reported its highest ever profit before taxes of **€648 million**. This was mainly due to two effects in 2019.

Firstly, valuations in the equity markets followed a generally positive trajectory throughout the year. This enabled Union Investment to increase the volume of assets under management to **€368.2 billion** at the end of 2019, thereby setting yet another record. And it was particularly encouraging to see that net inflows rose sharply in business both with institutional clients and with retail clients.

Secondly, the sale of the company in Poland also boosted earnings. Union Investment, which is one of the largest and most successful asset managers in Germany, also continues to invest heavily in expanding areas of business, including residential real estate and sustainable investment.

TeamBank achieved a small rise in its profit before taxes to **€152 million**. It is thus maintaining a stable course of growth.

In a competitive market, the bank is performing at a high level and was able to again increase its overall volume of business. The volume of new business went up year on year, from €3 billion in 2018 to **€3.45 billion** in the reporting year.

With almost 950 thousand customers, TeamBank now has the one million mark in its sights. This demonstrates the strength of its business model.

I will now move onto the other operating segments.

The **DZ BANK central institution and corporate bank** generated a profit before taxes of **€293 million**. Mr. Fröhlich already explained the main reasons for this figure, so I will move on to DZ HYP.

DZ HYP reported a very good profit before taxes of **€687 million**, which was higher than forecast.

First and foremost, the low level of interest rates is ensuring that economic conditions in the real estate sector remain stable. This enabled the Commercial Real Estate Investors division to deliver a particularly good performance, registering a new business volume of **€9 billion**.

New business was also at a respectable level in all the other core areas of business, causing the overall volume of real estate finance to advance from €45.3 billion to **€50.2 billion**.

As well as this strong operating performance, DZ HYP also benefited significantly from valuation effects on government bonds.

I will now talk about the operating segments involved in private banking and finance solutions for the self-employed and small businesses.

DZ PRIVATBANK generated a profit before taxes of **€36 million**. This satisfactory result was achieved in market conditions that remain challenging. The figure in 2018 had been weighed down by impairment on goodwill and customer relationships.

The bank's operating performance was stable despite extremely difficult market conditions and fierce competition. **Assets under management** climbed by around 13 percent to **€18.8 billion** owing to the favorable situation for equities. The volume of assets under custody also increased, jumping by 18 percent to **€120.1 billion**.

VR Smart Finanz reported a loss before taxes of **€10 million**. I should stress that this figure was a reflection of substantial one-off items resulting from the transformation into a digital provider of finance for the self-employed and small businesses.

Nonetheless, VR Smart Finanz made great progress in 2019 with overhauling its business model. The volume of new business was better than in the previous year.

Let us now look at the remaining operating segments.

DVB Bank's loss before taxes decreased to **€108 million**. As well as this business-related achievement, I would also like to highlight the bank's progress with its restructuring. We made significant headway last year with the transactions mentioned earlier by Dr. Riese. The sale of the aviation portfolio to Japan's largest bank was recently named global 'M&A deal of the year' at an industry conference in Dublin. The transactions brought in extraordinary income of around €250 million, which we have invested in provisions for scaling back the remaining business and for protecting against future risks. We were able to reduce the volume of ship and offshore finance to **€6.5 billion**, while the overall lending volume decreased to **€7.4 billion**. The objective for the future at DVB is to continue winding down the business while preserving as much value as possible.

Finally, we are reporting on the **DZ BANK holding function** as a stand-alone segment for the first time. The holding function acts simply as a cost center for the management of the holding company activities. The costs consist of interest expense for subordinated capital and administrative expenses. Administrative expenses are made up of four items: the bank levy and contributions to the BVR protection scheme, which affect the holding company’s total assets, the group management functions, and IT and project costs (e.g. BCBS 239) as well as other cross-group and cross-network services. Careful management enabled us to reduce the holding function’s costs despite steadily increasing regulatory requirements.

I will now hand back to Mr. Fröhlich.

Ladies and gentlemen,

As you can see from the report on the various segments, the operating performance of the DZ BANK Group continues to give us confidence.

We can look back on a successful 2019.

Against this background, we will propose a dividend of 18 cents at the Annual General Meeting. This equates to a total dividend payout of €322 million and is on a par with previous years.

What gives us confidence is not the result for a single reporting period, which is in any case influenced by one-off items. Rather it is:

- positive feedback from our customers,
- support and encouragement from our owners,
- the progress that we have made with our structural transformation and strategy, and
- the knowledge that we have the inner resources to deal with the challenges that lie ahead.

As Dr. Riese mentioned earlier, we anticipate that our profit before taxes in 2020 will be within our long-term target range of €1.5 billion to €2 billion, although probably at the lower end of this range. It should particularly be noted that geopolitical and economic conditions will not ease up.

Therefore, it is all the more important that we focus on the parameters that we can control. This includes continuing steadfastly with our ‘Verbund First 4.0’ strategic program.

In this process, the cohesion of and collaboration within the cooperative financial network will play a crucial part in our further growth.

Despite the challenging conditions, we can see significant opportunities for growth in all business lines. We want to capitalize on these opportunities and increase our market share. Stepping up our joint marketing activities with the cooperative banks will be vital, particularly in the Corporate Banking business line.

At the same time, we are working constantly to make 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.

Innovative technologies play a key role not only in increasing our efficiency but also in expanding our customer business. And we are being bold with our strategic investments here. 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, make the right decisions about which key technologies to focus on that will benefit our customers and us in the long term.

We also have to keep evolving for the sake of sustainability. This includes the ongoing optimization of our internal processes, from environmental management to lending, and the expansion of our range of products and services for sustainable finance. The positive assessment by specialist sustainability rating agencies supports us in this approach.

Ladies and gentlemen,

'Sustainability' might sometimes sound like just another buzzword, but it has always been embedded in the DNA of the cooperative banks: doing business responsibly with a focus on the benefits for the bank and its owners, for its customers, and for society as a whole. Growth alone is not enough; it has to be healthy growth.

And we have all the resources that we need for this: trust, intrinsic value, and effectiveness.

Thank you for your time.