

Investor Relations Release

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First half of 2021: DZ BANK Group reports a profit before taxes of €1.83 billion

DZ BANK AG
Deutsche Zentral-
Genossenschaftsbank
Investor Relations

- Very good financial performance in the first half of 2021
- Key factors were growth of the operating business, unremarkable risk situation, and upbeat capital market sentiment
- Capital base further strengthened; common equity Tier 1 capital ratio at 15.4 percent
- Significant strategic progress in the DZ BANK Group, including with the scaling back of DVB Bank

In the first half of 2021, the DZ BANK Group generated a profit before taxes of €1.83 billion (first half of 2020: €557 million). This very good result is attributable to a very satisfying business performance in virtually all entities and a risk situation that remained unremarkable. Another contributing factor was the uptrend in the capital markets.

Sustained volume growth and a rise in performance-related income components enabled Union Investment to deliver a strong profit before taxes. R+V Versicherung's profit before taxes increased sharply after the pandemic had taken a heavy toll on business performance in the prior-year period. The DZ BANK Group's banking business also fared very well: DZ BANK – central institution and corporate bank, DZ HYP, and TeamBank all reported a very healthy profit before taxes thanks to their strong operating performance. Good progress was made with the scaling back of DVB Bank, which saw a further substantial reduction of the portfolio and the successful completion of the two remaining disposals. Business performance was underpinned by the ongoing economic recovery, which also contributed to a net reversal of loss allowances.

"The DZ BANK Group achieved very good results for the first half of the year. We are delighted with this team effort, as are all employees. Although conditions remained challenging, we once again demonstrated the capabilities of our financial services group. These results show that we are following the right strategic approach and give us the motivation to pursue our growth strategy with confidence in all entities," says Dr. Cornelius Riese, Co-Chief Executive Officer of DZ BANK.

"Once again, collaboration with the cooperative banks has proved to be the key to success. We have strengthened our position in almost every segment thanks to the trust placed in us by our customers and by working closely with the local cooperative banks to tap into their respective markets. The central institution and corporate bank notched up strong growth, particularly in the Capital Markets business line, and broadened its market position in the Corporate Banking and Transaction Banking business lines," says Uwe Fröhlich, Co-Chief Executive Officer of DZ BANK.

The DZ BANK Group's capital adequacy continued to strengthen, partly due to proactive management of risk-weighted assets. At 15.4 percent as at June 30, 2021 (December 31, 2020: 15.3 percent), the group's common equity Tier 1 capital ratio remained well above the market average. The leverage ratio stood at 7.2 percent. Moreover, DZ BANK AG's healthy capital and liquidity position enabled it to routinely terminate and repay all outstanding Tier 1 issues in a total amount of €1.4 billion in the first half of 2021. In this year's EU-wide stress test conducted by the European Banking Authority (EBA), DZ BANK underlined the strength of its capital base and the robustness of its business model. Total assets rose from €595 billion at the end of 2020 to €638 billion as a result of the increased volume of business.

Income statement line items in detail

The DZ BANK Group's **net interest income** amounted to €1.42 billion, which was lower than the figure for the first half of 2020 of €1.51 billion. Although the net interest income of the central institution and corporate bank increased, particularly in the Corporate Banking business line, interest income declined at Bausparkasse Schwäbisch Hall due to the low level of interest rates and at DVB Bank owing to the reduction of the portfolio.

Net fee and commission income swelled to €1.60 billion (first half of 2020: €1.05 billion) thanks to very strong growth at Union Investment. The central institution and corporate bank also contributed to this increase.

Gains and losses on trading activities deteriorated to €0 million (first half of 2020: net gain of €539 million). However, gains and losses on operating trading activities in the central institution and corporate bank improved significantly year on year. The main reason for the overall decline were IFRS-related valuation effects in connection with own issues.

Gains and losses on investments improved to a net gain of €37 million (first half of 2020: net loss of €15 million). This was due to the absence of negative non-recurring items that had adversely affected the prior-year figure.

Other gains and losses on valuation of financial instruments improved markedly to a net gain of €203 million (first half of 2020: net loss of €247 million), primarily because of positive valuation effects at DVB Bank and in DZ HYP's government bond portfolio and because of positive changes in the valuation of guarantee commitments at Union Investment.

Net income from insurance business rose sharply again, reaching €522 million on the back of a healthy operating performance and the recovery of the capital markets (first half of 2020: €124 million). In the prior-year period, this line item had been severely affected by unfavorable equity market and spread movements triggered by the pandemic.

Loss allowances amounted to a net reversal of €114 million (first half of 2020: net addition of €522 million) in view of the improved economic outlook, particularly at the central institution and corporate bank and at DVB Bank.

Administrative expenses came to €2.14 billion due to a higher bank levy and contributions to the BVR protection scheme (first half of 2020: €2.02 billion). In addition, the ZBI Group was consolidated within Union Investment for the first time.

Profit before taxes amounted to €1.83 billion.

Net profit stood at €1.31 billion.

The **cost/income ratio** reached 55.5 percent.

Results of the DZ BANK Group in detail

In the first half of 2021, **DZ BANK AG – central institution and corporate bank (CICB)** posted a profit before taxes of €218 million (first half of 2020: €285 million). This slight decrease was primarily attributable to IFRS-related valuation effects in connection with own issues in gains and losses on trading activities. The bank's customer business was successful in all divisions. The volume of corporate customer lending business at CICB held steady at €65.4 billion despite fierce competition (December 31, 2020: €65.0 billion). The volume of loan commitments in the joint credit business with the cooperative banks, which is included in this figure, climbed from €14.9 billion as at December 31, 2020 to €15.3 billion as at June 30, 2021. In the capital markets business with institutional and corporate customers, the central institution and corporate bank further consolidated its strong market position in the provision of support for bond issues. For example, the bank participated three times in the European Union's SURE bonds and was one of the five lead underwriters for the placement of the first EU bond in the context of the Next Generation Europe recovery fund. The volume of supranational, government, and quasi-government bond issues supported was up by 150 percent in the first half of 2021. In the Transaction Banking business line, CICB strengthened its position as one of the leading depository banks and increased the volume of assets under custody to €299.3 billion (December 31, 2020: €273.3 billion). The number of payments processing transactions was up slightly at 4.1 billion (first half of 2020: 4.0 billion).

The profit before taxes of **Bausparkasse Schwäbisch Hall (BSH)** decreased to €54 million. This year-on-year fall (first half of 2020: €75 million) was primarily due to the persistently low level of interest rates and the related reduction in net interest income. The volume of new home savings business rose sharply to €14.7 billion (first half of 2020: €11.9 billion). New home finance business also increased, reaching a volume of €10.3 billion (first half of 2020: €9.4 billion). As a result, BSH's market share edged up by 1.6 percentage points to 31.7 percent.

Profit before taxes at **R+V Versicherung** climbed to €482 million (first half of 2020: €102 million). The increase was predominantly driven by the strong performance of the operating business and the upbeat sentiment in the capital markets. This had a positive impact on gains and losses on investments held by insurance companies, which had been severely affected by the pandemic in the prior-year period. Brisk customer business led to premium growth in almost all segments. Gross premiums written rose to a total of €10.6 billion (first half of 2020: €10.2 billion).

TeamBank registered a satisfying profit before taxes of €84 million (first half of 2020: €49 million). Loans and advances to customers amounted to €9.0 billion as at June 30, 2021, which was the same as at the end of the previous year (December 31, 2020: €9.0 billion). The number of customers increased to 972,000 (December 31, 2020: 962,000). The addition to loss allowances of €22 million was significantly smaller than in the prior-year period (first half of 2020: €71 million) thanks to the economic recovery.

Union Investment registered a profit before taxes of €825 million (first half of 2020: €264 million). The exceptionally high contribution to earnings was attributable to sustained strong demand in all customer segments and the general uptrend in the capital markets as a result of the economic recovery. Consequently, volume-related and performance-related income went up. Net inflows in the retail business amounted to €9.7 billion (first half of 2020: €3.7 billion). In its business with institutional clients, Union Investment recorded net inflows of €14.7 billion (first half of 2020: €0.6 billion). Assets under management swelled to €427.2 billion (December 31, 2020: €385.9 billion). The volume of sustainably managed funds advanced once again to reach €74 billion (December 31, 2020: €61 billion). Union Investment therefore remains one of the leading providers of mutual and special funds and is a leader in the area of sustainable investment.

DZ HYP reported a profit before taxes of €287 million in the first six months of 2021 (first half of 2020: €106 million). The healthy customer business and positive valuation effects in the government bond portfolio at DZ HYP contributed to this increase. The volume of new business with corporate customers grew to €3.7 billion (first half of 2020: €3.0 billion). In the retail customer business, the volume of new commitments almost doubled to stand at €1.4 billion (first half of 2020: €750 million).

DZ PRIVATBANK's profit before taxes fell to €19 million (first half of 2020: €27 million). This decline was primarily due to the absence of the positive non-recurring items within net interest income that had provided a boost to profit before taxes in the prior-year period. DZ PRIVATBANK delivered an encouraging operating performance in both private banking and the fund services business. Assets under custody increased to €169.5 billion as at June 30, 2021 (December 31, 2020: €139.5 billion). Assets under management at DZ PRIVATBANK also went up, amounting to €21.8 billion (December 31, 2020: €20.0 billion).

Profit before taxes at **VR Smart Finanz** improved to €0.3 million (first half of 2020: loss of €24 million). The prior year had been particularly affected by the temporary switch from the 'VR Smart flexibel' business loan to the 'VR Smart flexibel' support loan in the context of the COVID-19 pandemic. Since the reintroduction of the 'VR Smart flexibel' business loan on November 30, 2020, VR Smart Finanz has approved loans with a total volume of around €230 million. It also incurred lower expenses for loss allowances than in the prior-year period and was able to further reduce its administrative expenses due to the completion of restructuring.

DVB Bank generated a profit before taxes of €70 million in the first half of 2021 (first half of 2020: loss of €228 million). The main factors driving this improvement were reversals of loss allowances and positive IFRS-related valuation effects. Good progress was made with the scaling back of DVB Bank, which saw a further substantial reduction of the portfolio. Furthermore, the two remaining disposals were successfully completed when additional areas of the aviation and shipping transport businesses were sold. The lending volume fell to €2.5 billion as at June 30, 2021 (December 31, 2020: €3.9 billion).

Outlook

Our economists view rising corporate forecasts and the robust uptrend in the capital markets as positive indicators for the economy in the second half of the year. Moreover, the expected wave of insolvencies has not materialized so far. Business sentiment is improving noticeably. "We are confident that we can maintain our growth, albeit at a slower pace, over the course of this year. Our expectation for 2021 as a whole is a profit before taxes of comfortably above €2 billion. There

are three factors that will influence the extent to which we exceed this earnings threshold, which is an important figure for the DZ BANK Group: the speed of the economic recovery and thus the level of loss allowances, the situation in the capital markets, and the volume of potential large claims in non-life insurance," says Cornelius Riese.

"The cooperative financial network will continue to face major challenges in the years ahead, but we will tackle them together with confidence. Sustainability offers particularly significant market opportunities and we will be able to build on the success that we have achieved in this area far, whether as a lender for investments in a carbon-neutral economy or by placing green bonds in the capital markets," says Uwe Fröhlich.

The DZ BANK Group's half-year financial results under IFRS as at June 30, 2021

€ million	Jan. 1–Jun. 30, 2021	Jan. 1–Jun. 30, 2020	Change (%)
Net interest income	1,423	1,505	-5.4%
Net fee and commission income	1,596	1,052	+51.7%
Gains and losses on trading activities	0	539	-100%
Gains and losses on investments	37	-15	>100%
Other gains and losses on valuation of financial instruments	203	-247	>100%
Gains and losses from the derecognition of financial assets measured at amortized cost	6	7	-14.3%
Net income from insurance business	522	124	>100%
Loss allowances	114	-522	>100%
Administrative expenses	-2,142	-2,016	+6.3%
Other net operating income	73	130	-43.8%
Profit before taxes	1,832	557	>100%
Income taxes	-524	-185	>100%
Net profit	1,308	372	>100%
Cost/income ratio (%)	55.5	65.1	-9.6pp

The complete interim report will be available on the DZ BANK website at www.halfyearreport.dzbank.com from September 23.

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