

Investor Relations Release

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First half of 2020: DZ BANK Group reports a profit before taxes of €557 million

DZ BANK AG
Deutsche Zentral-
Genossenschaftsbank

Investor Relations

- Strong second quarter with a positive financial performance
- Diversified financial services group shows its strength and resilience during the COVID-19 pandemic
- Good operating performance in nearly all segments, especially the central institution and corporate bank
- Equity base strengthened thanks to successful issue of Tier 2 bonds with a volume of €1.2 billion
- Very stable capital position: common equity Tier 1 capital ratio at 14.0 percent

In the first half of 2020, the DZ BANK Group generated a profit before taxes of €557 million (H1 2019: €1.46 billion) and has thus far coped well with the impact of the COVID-19 pandemic.

This positive overall result was due, in large part, to a very satisfying operating performance at most entities and, in particular, a sharp rise in profit before taxes at the central institution and corporate bank. Most of the entities were able to significantly increase their customer business. Persistently strong demand for fund investments meant that inflows at Union Investment held steady. R+V Versicherung registered premium growth across all segments.

Profit before taxes, primarily in the first quarter, was squeezed by valuation effects, particularly in DZ HYP's government bond portfolio and in relation to R+V Versicherung's gains and losses on investments held by insurance companies. The capital markets' recovery in the second quarter significantly reduced these adverse effects. The fallout from the COVID-19 pandemic required an increase in loss allowances, most notably in the maritime portfolio of DVB Bank. Overall, the risk situation remains in line with expectations.

"The profit before taxes achieved in this exceptional situation gives us renewed confidence that we are pursuing the right strategy. Our position as a broadly diversified financial services group has once again proved to be a source of stability, making a substantial contribution to the turnaround in profitability in the second quarter," says Dr. Cornelius Riese, Co-Chief Executive Officer of DZ BANK. "In the first half of this year, we were able to successfully continue with our growth strategy and capture additional market share in many business areas thanks to the faith placed in us by our customers. The central institution and corporate bank experienced particularly strong demand in its function as a lender to companies, an intermediary for capital market funding, and a market leader for payments processing. We are pleased with this team effort in a very challenging environment," adds Uwe Fröhlich, Co-Chief Executive Officer of DZ BANK.

The DZ BANK Group's capital adequacy remained very stable thanks to disciplined management of risk-weighted assets. The common equity Tier 1 capital ratio of the DZ BANK Group stood at 14.0 percent as at June 30, 2020 (December 31, 2019: 14.4 percent); the leverage ratio was 4.6 percent. DZ BANK further strengthened its hybrid capital base by successfully placing a Tier 2 bond with a volume of €1.2 billion in July 2020. Total assets rose from €559 billion at the end of 2019 to €604 billion as a result of the expansion in the volume of business.

Income statement line items in detail

The DZ BANK Group's **net interest income** rose by 13 percent to €1.51 billion in the first half of 2020 (H1 2019: €1.33 billion). This increase is mainly attributable to the money markets business and capital markets business of the central institution and corporate bank and the success of the customer business of DZ HYP. Moreover, Bausparkasse Schwäbisch Hall had been impacted by negative one-off items in the prior-year period.

At €1.05 billion, **net fee and commission income** was above the high level of €958 million achieved in the first half of 2019 and was mainly attributable to the good business performance of Union Investment and of the central institution and corporate bank.

Gains and losses on trading activities amounted to a net gain of €539 million. The significant year-on-year rise (H1 2019: €141 million) was partly attributable to the much higher level of income in the customer business of the central institution and corporate bank.

Gains and losses on investments deteriorated from a net gain of €130 million in the prior-year period to a net loss of €15 million. This decline was predominantly due to the absence of the positive non-recurring items that had provided a boost in the prior-year period.

Other gains and losses on valuation of financial instruments amounted to a net loss of €247 million (H1 2019: net gain of €126 million), primarily owing to valuation effects in DZ HYP's government bond portfolio.

Net income from insurance business came to €124 million (H1 2019: €761 million). The main reason for this decrease was the net loss recorded by R+V Versicherung under gains and losses on investments held by insurance companies as a result of unfavorable equity market and spread movements triggered by the COVID-19 pandemic.

Loss allowances stood at €522 million (H1 2019: €105 million). As well as the increased allowances required at DVB Bank, there was also an addition of €165 million due to an IFRS 9-related update to the macroeconomic forecasts as a result of the COVID-19 pandemic.

At €2.02 billion, **administrative expenses** went down slightly thanks to a reduction in general and administrative expenses as a result of strict cost management (H1 2019: €2.05 billion).

Profit before taxes amounted to €557 million.

Net profit stood at €372 million.

The **cost/income ratio** reached 65.1 percent.

Results of the DZ BANK Group in detail

In the first half of 2020, **DZ BANK AG – central institution and corporate bank (CICB)** posted a profit before taxes of €285 million (H1 2019: €97 million). This sharp rise was, in part, a result of increased customer demand in the capital markets, corporate banking and payments processing businesses. In the lending business, the volume of lending of CICB rose by 9 percent to €63.7 billion (December 31, 2019: €58.5 billion). The volume of loan commitments in the joint credit business with the cooperative banks, which is included in this figure, climbed from €14.4 billion as at December 31, 2019 to €14.8 billion as at June 30, 2020. 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. The sustainable bond business did particularly well. Interest-rate hedging and currency hedging were also in demand. In transaction banking, CICB strengthened its position as one of the leading depositary banks and is currently the fourth largest in Germany with assets under custody of €254 billion. The number of transactions handled in the payments processing business rose sharply to 4.0 billion (H1 2019: 3.5 billion), primarily due to the growth of the market for contactless payments.

The profit before taxes of **Bausparkasse Schwäbisch Hall (BSH)** decreased to €75 million. The year-on-year fall (H1 2019: €149 million) was mainly attributable to the absence of the positive non-recurring items in the prior-year period resulting from the sale of Czech company ČMSS and to the negative contribution to profits from Slovakian building society PSS. In its operating business, BSH was able to build on its already strong position. New home savings business increased to €11.9 billion (H1 2019: €15.6 billion) on the back of a small increase in market share. The volume of new home finance business rose by €1.5 billion to €9.4 billion (H1 2019: €7.9 billion).

R+V Versicherung generated a profit before taxes of €102 million (H1 2019: €711 million). Gains and losses on investments held by insurance companies, which had amounted to an exceptionally high net gain in the prior-year period, had a substantial adverse impact on profit before taxes in the first half of 2020 owing to the turmoil in the financial markets created by COVID-19. However, operating performance was very satisfying. Brisk customer business led to premium growth in all divisions. Premiums earned came to a total of €9.2 billion (H1 2019: €8.3 billion).

Union Investment registered a profit before taxes of €264 million (H1 2019: €384 million). The main reason for this year-on-year fall was the positive non-recurring item in connection with the sale of its Polish subsidiary in the prior-year period. Despite bouts of turmoil in the capital markets, sustained demand for fund investments – especially in the retail business – meant that inflows held steady at a high level. Net inflows from retail customers amounted to €3.7 billion (H1 2019: €4.1 billion). In its business with institutional customers, Union Investment recorded net inflows of €0.6 billion (H1 2019: €4.9 billion). Assets under management stood at €360 billion (December 31, 2019: €368 billion).

DZ HYP posted a profit before taxes of €106 million in the first half of 2020 (H1 2019: €268 million). This decline was primarily the result of negative valuation effects in the government bond portfolio. The operating business performed satisfactorily. The volume of new business amounted to a respectable €3.9 billion (H1 2019: €5.1 billion) in challenging conditions.

TeamBank reported a satisfactory profit before taxes of €49 million (H1 2019: €63 million). The volume of lending held steady at €8.9 billion and the number of customers increased to 963,000 (December 31, 2019: 944,000). There was an addition to loss allowances of €71 million compared

with €54 million in the prior-year period. This rise was due to growing demand for changes to installment plans and the increased use of credit insurance policies.

DZ PRIVATBANK's profit before taxes improved considerably and reached €27 million (H1 2019: €13 million). The bank delivered an encouraging operating performance in both private banking and the fund services business. Assets under custody in the custodian bank business increased from €120 billion to €122 billion in the first half of 2020. In the business with high-net-worth clients, the volume of assets under management remained stable at €18.6 billion at the end of the reporting period (December 31, 2019: €18.8 billion) despite short-term difficulties in the first quarter.

VR Smart Finanz recorded a loss before taxes of €24 million in the first half of 2020 (H1 2019: profit before taxes of €1 million). This deterioration was primarily attributable to the absence of income as a result of the disposal of non-core business in line with the strategy as well as to the increase in loss allowances in connection with COVID-19. However, there was an encouraging level of new business, which advanced by 14 percent year on year to €738 million (H1 2019: €647 million). VR Smart Finanz enjoyed strong demand for the 'VR Smart flexibel Förderkredit' development loan, which can be taken out digitally under 'Sofortprogramm', a government-backed program provided by the German development bank Kreditanstalt für Wiederaufbau (KfW). This underlines the increasing importance of digitally supported funding for small-business and self-employed customers.

DVB Bank posted a loss before taxes of €228 million in the first six months of 2020 (H1 2019: loss before taxes of €67 million), predominantly because of increased loss allowances in connection with the economic collapse triggered by the COVID-19 pandemic and due to negative IFRS-related valuation effects. Following successful transactions in 2019, such as the disposal of the aviation finance division, the bank is continuing with the strategy of gradually scaling back its business activities in shipping finance this year. Consequently, the lending volume contracted to €5.7 billion as at June 30, 2020 (December 31, 2019: €7.4 billion).

Outlook

Germany's economy has proved its resilience in recent months, partly due to the firm corrective action taken by the German government. A number of leading indicators are already pointing to the start of a recovery. Nevertheless, 2020 as a whole will be marked by the deepest recession of the past 75 years. There are likely to be further challenges going forward.

"We are in very good shape to tackle the challenges that lie ahead. We are seeing strong and sustained demand in our operating business. However, an increase in the number of company insolvencies and a renewed flare-up of market volatility would take a further toll on earnings. Against this backdrop, we anticipate another increase in earnings in the second half of this year but are unlikely to achieve a profit before taxes of €1 billion in 2020 as a whole," says Cornelius Riese. "We believe that with our 'Verbund First 4.0' program, aimed at growth and efficiency, we are in a strong strategic position to achieve further profitable and sustainable growth," adds Uwe Fröhlich. "In corporate banking, we want to work closely with the cooperative banks to capture additional market share. We also plan to continue strengthening our excellent position in the capital markets business – particularly bond issuance business – and in payments processing. At the same time, we want to tap into new business opportunities that are opening up in the area of sustainability-oriented financial services."

The DZ BANK Group's half-year financial results under IFRS as at June 30, 2020

€ million	Jan. 1–Jun. 30, 2020	Jan. 1–Jun. 30, 2019	Change (%)
Net interest income	1,505	1,332	+13.0%
Net fee and commission income	1,052	958	+9.8%
Gains and losses on trading activities	539	141	>100%
Gains and losses on investments	-15	130	>100%
Other gains and losses on valuation of financial instruments	-247	126	>100%
Gains and losses from the derecognition of financial assets measured at amortized cost	7	15	-53.3%
Net income from insurance business	124	761	-83.7%
Loss allowances	-522	-105	>100%
Administrative expenses	-2,016	-2,046	-1.5%
Other net operating income	130	152	-14.5%
Profit before taxes	557	1,464	-62.0 %
Income taxes	-185	-430	-57.0%
Net profit	372	1,034	-64.0%
Cost/income ratio (%)	65.1	56.6	+8.5 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 21/9/2020 under www.halfyearreport.dzbank.com.

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