DZ BANK

Annual press conference

March 5, 2019
Frankfurt

Check against delivery

Ladies and gentlemen,

Welcome to this year's annual press conference – also on behalf of Ms. Brouzi, Mr. Speth and, of course, my colleague Uwe Fröhlich as we are appearing here today in our new roles.

Over recent months and years, there have been quite a lot of changes on DZ BANK's Board of Managing Directors. First and foremost, Wolfgang Kirsch has handed over the CEO's baton to the two of us. We are delighted that this transition was completed so smoothly and harmoniously.

Last year, we wasted no time in laying some crucial foundations, and Mr. Fröhlich will go into detail about our **strategic direction** 'Verbund First 4.0' later on. This has enabled us to concentrate on our strategic and business-related challenges – and, more importantly, on our customers and business partners – from day one.

But let us start with our financial performance. In 2018, the DZ BANK Group generated a **profit before taxes of almost €1.4 billion**. This respectable result was attributable to our good operating performance.

Our customer business is growing across the board, and we are gaining market share.

By contrast, the capital markets were a source of headwinds rather than tailwinds in 2018. This can be seen in the results of DZ BANK AG, DZ HYP, and R+V Versicherung, for example.

Nonetheless, our earnings situation enables us to absorb negative one-off items and carry out the necessary adjustments. These totaled around **€400 million** and included the impairment of goodwill at DZ PRIVATBANK, the loss generated by DVB Bank, and provisions for restructuring at DZ BANK. We will come back to those later.

Our capital situation remains stable. The common equity Tier 1 capital ratio stands at **13.7 percent**. The respect for our business model can be clearly seen from our very good credit ratings with a stable outlook.

However, 2018 was about more than just **consistency**. It was also characterized by long-term changes and the start of a new era.

The completion of the merger and migration at DZ BANK AG falls into this category. Over 80 percent of the targeted synergies have now been achieved.

The merger of DG HYP and WL BANK to form DZ HYP has created the **largest *Pfandbrief* bank in Germany**.

We also made substantial progress with the restructuring of DVB. Our approach of focusing firmly on preserving value is paying off.

The transformation of **VR Smart Finanz** into a digital provider of finance for the self-employed and small businesses is well on track.

Throughout the DZ BANK Group, we are seeing great willingness to embrace change. This is an invaluable asset given that we are faced with new competitors, digitalization, and demographic challenges.

Ladies and gentlemen,

I now come to the DZ BANK Group's income statement:

Net interest income totaled **€2.8 billion** in 2018.

The stability of the customer business enabled us to limit the interest-rate-related decrease in net interest income to 4.8 percent.

Loss allowances amounted to **€21 million**.

On the whole, the risk situation was very comfortable in 2018, with high net reversals in some cases. This was an encouraging development after 2017, which had been heavily affected by DVB. Early signs of an increasingly gloomy market environment combined with geopolitical uncertainties point to a rise in loss allowances going forward.

Net fee and commission income continued to climb, reaching **€1.96 billion**. This confirms not only our companies' concerted efforts to generate growth but also their sales strength.

Gains and losses on trading activities amounted to a **net gain of €285 million**, net income from insurance business stood at **€490 million**, and **other gains and losses on valuation of financial instruments** came to a **net loss of €120 million**.

Something that all these items had in common was that they were affected, to varying degrees, by the situation in the capital markets.

As a major financial intermediary, the DZ BANK Group is not immune to market volatility.

Nevertheless, the operational customer business of the capital-markets-related segments is performing well.

Administrative expenses rose by 2.5 percent and totaled **€4.06 billion**. Adjusted for the initial consolidation of CardProcess / VR Payment they increased by **1.3 percent**.

This was the outcome of a good balance being struck between targeted efficiency programs on the one hand and, on the other, capital expenditure on growth and transformation – for example in connection with the merger to create DZ HYP.

Overall, it can be seen that the DZ BANK Group's diversified business model is an advantage, and especially so in an increasingly harsh environment.

The DZ BANK Group's capital situation is stable. The **main capital ratios** held more or less steady compared with the end of 2017. The **common equity Tier 1 capital ratio** again stood at **13.7 percent**, the **leverage ratio** at **4.3 percent**.

As has been announced, there are plans at European level – I am referring to CRR II – to introduce appropriate treatment for pass-through loans in the development lending business and for receivables within the cooperative financial network.

This means that the leverage ratio is likely to rise by almost 1 percentage point in the future.

Ladies and gentlemen,

Before we take a closer look at the operating segments, allow me to explain the division of work and the principles for the collaboration between Mr. Fröhlich and me.

Our shared objective is clear: We will make the DZ BANK Group even more firmly focused on our customers, on growth, and on efficiency by building on our strengths and concentrating on the needs of the cooperative financial network.

We do not have just **one** single project for the future. Our challenge is to future-proof our organization for the long term in a wide variety of areas. This includes creating greater transparency about the value generated by the business activities of DZ BANK. Or to put it another way:

Appropriately separating corporate bank activities from holding company activities.

Based on this logic, Uwe Fröhlich is primarily responsible for cooperative financial network activities and corporate bank activities. And because of the close links between their business activities and those of DZ BANK AG, he also oversees DZ HYP, DZ PRIVATBANK, and VR Smart Finanz.

My attention is focused on the strategic development of the Group and, in particular, on the group companies Union

Investment, Bausparkasse Schwäbisch-Hall, R+V Versicherung, and TeamBank.

We are very happy with this division. The effort involved in separating the holding company from a company law perspective is not commensurate with the rewards that this would bring at the moment. This matter is therefore not on our list of short-term priorities, but we will be revisiting it at a later date.

As important it is to have a clear allocation of responsibilities if we are to work effectively, it is also clear to us that we view the DZ BANK Group’s future development as a team effort. Collaboration between the members of the Board of Managing Directors needs to be characterized by teamwork and respect, as does the way in which we work with employees and managers.

The benchmarks by which our actions will be measured are the benefits we deliver to customers, the efficiency of our business, and the financial advantages we offer.

We now come to the individual segments.

Despite an interest-rate-related decrease in profit before taxes, **Bausparkasse Schwäbisch-Hall** was able to maintain its strong market position.

There were increases in both new home savings business and new home finance business. It remains the undisputed number one in the home savings business. At the same time, it is investing in its long-term capabilities by transforming its IT infrastructure, creating digital platform solutions, and preparing to issue its own *Pfandbriefe* for the first time.

R+V Versicherung reported an increase in the number of customers and in its gross premiums across all business segments, underlining its appeal as one of Germany’s leading insurers.

Profit before taxes, which amounted to **€413 million**, was down sharply year on year – as had been expected. The figure for 2017 had been influenced by an exceptionally high net gain under gains and losses on investments held by insurance companies resulting from market conditions.

Under its ‘growth through change’ program, R+V Versicherung is investing in a broad range of measures for greater customer satisfaction, digitalization, and efficiency improvements.

Together with Union Investment, R+V Versicherung is also positioning itself as a pioneer in the field of occupational pension provision – a topic of vital importance for the future. It is the first provider in Germany to offer a concept for the ‘defined ambition’ arrangement made possible under German legislation aimed at strengthening occupational pensions.

TeamBank’s profit before taxes is holding steady, with a repeat of the very good performance achieved in previous years. The bank registered a particularly strong rise in the number of new customers.

At the same time, it is carrying out numerous initiatives for the future. The finance app **fymio**, for example, provides a simple and reliable tool for personal financial planning.

In Frank Mühlbauer, we have, with effect from April 1, 2019, found a strong successor from within the cooperative financial network for the long-standing Chief Executive Officer, Alexander Boldyreff.

Union Investment generated a good, albeit lower, profit before taxes. This was primarily due to the decrease in performance-related management fees.

At **€323.4 billion**, assets under management remained at a high level.

It thus maintained its position as one of the largest and most successful asset managers in Germany, both in the retail and in the institutional customer segments. As well as generating strong organic growth, it also expands towards new business sectors – as can currently be seen in residential real estate.

Last year, **DVB Bank** made substantial progress with its ongoing restructuring, and its loss before taxes shrank to **€130 million**.

Excluding temporary measurement effects under IFRS, DVB's loss before taxes was very close to zero.

We also forged ahead with our wind-down strategy of portfolio sales in a way that preserves value. The recently agreed sale of the land transport business, the aviation portfolio and LogPay are significant milestones for DVB.

I will now hand over to Mr. Fröhlich.

Ladies and gentlemen,

I would also like to warmly welcome you to today's annual press conference. In my new role, I now have the honor of helping to shape the destiny of the DZ BANK Group for the benefit of the entire cooperative financial network.

I would like to start by talking about the results of DZ BANK and the other operating segments.

At **€522 million**, DZ BANK AG's profit before taxes was down significantly year on year. This was mainly attributable to lower income from long-term equity investments and a smaller net gain under gains and losses on trading activities.

We also recognized a provision of **€80 million** for the staff reductions that we have already communicated on top of those relating to merger synergies.

As well as the traditional segment-based analysis, we will increasingly attach greater importance to the contribution to earnings from DZ BANK's primary business activities, i.e. excluding income from long-term equity investments as well as holding costs. In 2018, this contribution amounted to **€308 million**, partly due to the reversal of loss allowances.

One of our tasks for the future is to incorporate this business segment oriented perspective into our reporting to a greater degree.

Overall, our operating performance continues to give cause for optimism. Despite the fierce competition in the **market** for **loans to corporate customers**, we are generating growth both in business with the local cooperative banks and as a direct funding partner for our customers. We were able to increase the lending volume by **9 percent** to **€53.8 billion**, while still keeping a close eye on risk.

We are one of the leading banks for foreign trade finance, enabling us to help our customers to break into new markets. It is encouraging that more and more customers are using us as their principal bank. The rise of **18 percent** is a clear sign of the trust in our organization.

The lending business operated jointly with the cooperative banks expanded by **4 percent** year on year, which again underlines the potential arising from the cohesiveness of our organization.

We also further consolidated our position in the **securities business for retail customers** last year.

Sales of structured products amounted to **€6 billion** and were thus on a par with the record volume achieved in 2017.

Capital markets business with institutional customers also did well overall. We assiduously seized new market opportunities, for example in relation to bonds, promissory notes, and securitizations.

Within a few days of German lawmakers creating the necessary legal framework, DZ BANK helped customers to enter the market for the new senior unsecured preferred bonds.

We have entered the growing **green finance** market, creating a link between sustainability and business success. The first green bond of our own that we placed on the market, which had a volume of **€250 million**, was significantly oversubscribed and attracted particularly strong interest from cooperative banks and institutional investors.

We were also the lead underwriter for the second corporate green bond from Germany, cementing our market position in this segment.

The **Transaction Banking** business line is crucial to the DZ BANK Group’s market success and its integration into the cooperative financial network.

With almost **seven billion SEPA** transactions, we are the number one for payments processing in Germany and, moreover, are establishing ourselves as one of the market leaders in Europe.

Having issued just short of **five million** credit cards, we are playing a key role in ensuring the smooth processing of day-to-day payments.

In our custodian bank business, we increased the volume of assets held in custody to **€215 billion**.

I will now move onto the other operating segments.

DZ HYP reported a respectable profit before taxes of **€232 million**.

The reason for this sharp fall is that 2017’s figure contained positive valuation effects arising on the wind-down portfolio of bonds from the eurozone’s periphery.

The almost 5 percent increase in the volume of customer business and the growth of new business must be considered very positive, especially given that DG HYP and WL BANK were merged in 2018.

The merger represented another milestone in the pooling of our strengths and the technical integration of the two banks this year will finalize the fusion of DZ HYP.

VR Smart Finanz's profit before loss reflected the capital expenditure in connection with its strategic realignment. The agreed sale of BFL Leasing GmbH to BAWAG and of the centralized settlement business to AKTIVBANK AG represents substantial progress in efforts to focus more on core business.

The expansion of the digital business confirms the decision to transform VR Smart Finanz into a digital provider of finance for the self-employed and small businesses.

'**VR Smart express**' makes it much easier to obtain asset finance of up to €250,000. Thanks to the automated online process, a binding financing decision can be given within just a few minutes.

DZ PRIVATBANK made a **loss before taxes of €151 million**.

This was due to a one-off charge resulting from the impairment of goodwill and customer relationships in an amount of around **€170 million**.

These items are recognized on the balance sheet in connection with acquisitions. Their impairment is measured on the basis of the company's expected earnings prospects over the long term. These prospects have deteriorated significantly because of the fierce competition and strong pressure on margins in private banking and due to the sustained low level of interest rates.

I should emphasize that this impairment has no effect on our capital basis, as these items have also not been taken into consideration in the capital ratios previously.

One of our key tasks for the future is to refine DZ PRIVATBANK's business model in all business segments: private banking, foreign currency lending, and fund services. The bank is already delivering a solid operating performance in terms of assets under management and fund volume.

This will be the central task for the new Chief Executive Officer of DZ PRIVATBANK, Peter Schirmbeck, who succeeds Dr. Stefan Schwab.

Ladies and gentlemen,

The strong resilience of our organization was evident once again last year.

Even at a time of increasingly difficult market conditions, we are managing to generate a respectable profit before taxes. A consistent dividend policy, the strengthening of the capital base from our own resources, and a steady enterprise value are all priorities for our owners.

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

At the same time, we feel duty-bound to safeguard the capabilities of our organization beyond the immediate future.

Following the successful merger to create one central institution, we have laid the foundations on which we will build with '**Verbund First 4.0**'.

We are focusing on **three main aspects**.

Firstly, we are investing in our **market presence**. In corporate banking, we are looking to achieve even greater proximity to our customers. At the same time, we are regionalizing our customer relationship management model and our product expertise. The joint lending business is a key task of the cooperative central institution, and we are optimizing processes to ensure even tighter integration with the cooperative banks. We are also strengthening our commercial international business and development lending business.

One of our top priorities is customer focus and efficiency in all corporate customer processes, from the customer portal through to the back office.

In the capital markets business, we are investing in the business relationships with our cooperative and other institutional customers. At the same time, we are enhancing our digital trading platforms.

The market environment for transaction banking is one of the fastest-changing in the entire financial services industry. We are steadfastly widening our range of products and services through initiatives such as the expansion of merchant customer business for cooperative banks, mobile payment solutions, instant payments, and digital value-added services such as VR Smart Guide.

The second aspect – the optimization of our **control and production** functions – also centers on utilizing the technical possibilities that are available to us. We have a clear view of the main processes and the related capacities in our bank. This is a task that we are tackling with clarity of purpose in order to make further efficiency gains using both traditional and modern methods. The areas of focus are IT and the lending and control functions.

It is essential that we further optimize our cost base. As Dr. Riese already said, more than 80 percent of the merger synergies have been achieved.

We will also significantly reduce our expenditure on external service providers and we believe it is necessary to reduce the headcount by almost 500 until 2023. This figure equates to roughly 10 percent of positions after implementation of the merger synergies.

Achieving growth while intelligently reducing capacity may seem like we are trying to square the circle. But this will be absolutely essential.

While processes are key to a successful market presence, the contribution of our employees to our long-term success is just as crucial – and this is the **third aspect**.

Our organization already has a unique reputation for a values-based, responsible approach to business.

Interpreting these values for the future and ensuring our corporate culture is even more focused on our customers, on efficiency, and on performance is our daily challenge.

That is another reason why attracting and developing talented employees and thus managing demographic change is high on our list of priorities. For instance, we doubled the number of new trainees in 2019.

Despite all the considerations about the future of our organization, we must not neglect our day-to-day business. We are confronted with a slowing economy, interest rates that remain low, growing competition, and sustained volatility. Nevertheless, there are plenty of possibilities and opportunities for our organization.

Against this backdrop, 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**.

Ladies and gentlemen,

The entire DZ BANK Group is evolving, partly because we are all aware that we will have to adjust to further changes and new challenges in the future.

The questions we need to ask are obvious:

- What is the long-term impact of digitalization on our business?
- What is the right balance between decentralization and concentration?
- What are the requirements resulting from the increasing heterogeneity of the cooperative primary banks?
- And finally: What role does the central institution play in achieving this new balance?

The initiatives that we have launched offer practical and specific help in answering these questions.

Our task is clear: We have to continually re-establish the trust placed in us.

We have to do everything we can to remain the **first and attractive port of call** for the cooperative banks, to provide added value, and to pave the way for further growth.

The constructive collaboration between the BVR, the cooperative banks, the companies in the cooperative financial network, and Fiducia & GAD as part of the **joint digitalization strategy** make me more than optimistic in this regard.

We are pooling our broad and diverse digital competencies in order to deliver this crucial project successfully and are benefiting from the expertise contributed by each partner involved.

We are not just there for one another; we are operating strategically and as one.

We are not resting on the laurels of our successful track record but working together to find useful solutions, rolling up our sleeves, and playing an active part. As long as we maintain this approach, we have every reason to be optimistic.

Regardless of all the discussions about the performance of the German banking sector, the future of the European Banking Union, or even the increase in protectionism:

First and foremost, it is up to **us** to move our organization forward into a successful future by working together. And there is no doubt that we will act collaboratively and strategically within our pillar of the banking sector.