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Annual press conference

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Check against delivery

Ladies and gentlemen,

Welcome to this year's annual press conference.

The DZ BANK Group can report a profit before taxes of **€ 1.8 billion** for 2017.

This **profit** was attributable to the good operating performance delivered by most group companies.

We have made further progress in terms of our capital situation and the further development of our organization.

Last year, the economic environment once again proved to be supportive.

Sustained strong domestic demand enabled the German economy to grow for the eighth year in succession, expanding by around 2.2 percent in 2017.

However, this robust growth is still partly thanks to the policies of the ECB – despite all the tentative adjustments and corrections.

This caveat is not meant to qualify the German economy's excellent performance but simply to point out that it is also underpinned by external factors.

Ladies and gentlemen,

With a profit before taxes of € **1.8** billion, we are reliably within our **long-term target range** of € 1.5 billion to € 2 billion.

Please note that the following income statement has limited comparability with the prior year because these annual financial statements reflect, for the first time, the performance of the merged bank for the entire financial year.

I will start with the preliminary IFRS figures for the DZ BANK Group:

Net interest income amounted to **€ 2.94 billion** in 2017 due to stable customer business and favorable merger effects.

Allowances for losses on loans and advances stood at **€ 786 million** and, as in the previous year, were significantly affected by negative developments in DVB Bank's shipping finance portfolio. I will come back to this later.

Overall, I can say that allowances for losses on loans and advances were otherwise unremarkable.

Net fee and commission income was slightly higher year on year at **€ 1.86 billion**, underlining the sales strength of the entire DZ BANK Group.

This increase was bolstered by the rise in volume-related income at Union Investment.

Gains and losses on trading activities amounted to a net gain of **€ 506 million**, which was lower than in 2016. A significant factor in this was the negative impact from the valuation of DZ BANK AG's own issues.

There was a sharp rise in **other gains and losses on valuation of financial instruments**, which came to a net gain of € 289 million. This was mainly due to reversals of impairment losses on government bonds in the wind-down portfolio at DG HYP.

Administrative expenses amounted to **€ 3.87 billion** and thus increased again year on year, as had been expected. The rise was particularly pronounced at DZ BANK AG due to the inclusion of WGZ BANK from mid-2016.

The increase also reflects the regulatory costs and ongoing capital expenditure on market initiatives.

Net income from the business combination with WGZ BANK amounted to a **net expense of € 91 million** and related to expenses for integration and data migration in the reporting year.

The cost/income ratio stood at **59.0 percent** and was thus virtually unchanged compared with the prior-year figure of 58.9 percent.

I will now talk about the individual operating segments of DZ BANK.

DZ BANK AG again achieved a good profit before taxes of **€ 752 million**.

The operating performance of DZ BANK AG remains convincing.

Despite a market environment characterized by fierce competition and considerable pressure on margins, the bank increased the lending volume in **corporate banking** by 2 percent to **€ 49.7 billion**. The volume of lending in business operated jointly with the cooperative banks rose by 8 percent to € 13.2 billion.

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

Our sales of structured products rose by around € 1.7 billion to € 6.1 billion.

We defended our leading position in the **overall market for investment certificates**.

This impressive performance was reaffirmed when we received the Best Issuer of 2017/2018 prize at this year's Investment Certificates Awards.

Capital markets business with institutional clients did very well overall.

Despite fierce competition, we increased our market share in many areas of this business.

In business involving new bond issues, we increased the issuance volume for promissory notes, sustainability bonds, and other instruments.

Derivatives for interest-rate and currency hedging met with keen interest from customers, both at the cooperative banks and among corporate customers and institutional investors. The volume of securitized loans and advances to customers was up by 13 percent year on year.

In **transaction banking**, we increased the volume of assets held in custody in our custodian bank business to a record **€ 209 billion**.

Paydirekt secured major new partners, including OTTO and the CINEPLEX Group.

It is also becoming established in terms of customers, with the number of registrations doubling to 1.7 million.

Another focus last year was the introduction of new value-added products for payments processing.

With the **VR-FinanzGuide**, we are making it easier for small companies to do their accounts.

VR-ExtraPlus enables customers to convert deposits into higher-value vouchers: They get more for their money, customer loyalty and account turnover increase, and the cooperative financial network benefits from account turnover commission.

In this way, we are creating added value in the best sense of the term.

Now let us look at the business performance of the other operating segments in the DZ BANK Group.

Bausparkasse Schwäbisch Hall was able to tap into the buoyant growth of building society operations, reporting a profit before taxes of **€ 334 million**.

The wish to have one’s own home remains very strong in Germany.

This is benefiting Bausparkasse Schwäbisch Hall, which saw growth of 5 percent in new home finance business and comfortably defended its position as market leader for home savings.

Achieving a profit before taxes of **€ 795 million**, **R+V Versicherung** is maintaining its position as one of Germany’s leading insurance companies thanks, in part, to smart capital expenditure on digitalization and efficiency and to its strong partnership with the local cooperative banks.

A higher net gain under gains and losses on investments held by insurance companies also provided a one-off boost last year.

R+V registered an increase in premium income in all three segments – having already achieved an impressive level in 2016.

The momentum in the international capital markets last year provided a tailwind for **Union Investment**:

With a profit before taxes of **€ 610 million**, it sustained the encouraging profit trend seen in recent years thanks to high levels of net inflows.

It is also holding its own in future growth markets: Growing interest in sustainable investment concepts among institutional investors enabled Union Investment to further strengthen its leading position.

Assets under management had reached a total of **€ 323.9 billion** at the end of 2017, thereby setting yet another record.

The performance of **DG HYP** and **WL BANK** was good, especially given that we began reorganizing our real estate finance activities in 2017.

DG HYP's profit before taxes improved significantly to **€ 504 million** due not only to its positive operating performance but also to reversals of impairment losses on government bonds in its wind-down portfolio.

Joint marketing with the local cooperative banks was particularly fruitful:

The volume of new joint credit business grew by almost 13 percent to € 3.6 billion.

WL BANK's profit before taxes amounted to **€ 133 million**.

New business remained at a good level in all core business segments, causing the overall volume of real estate finance to advance to € 22 billion.

For both companies, 2017 was also shaped by the project to merge them.

DZ HYP will be the largest Pfandbrief bank in Germany and will enable us to carve out an even stronger position in the market and collaborate more effectively with the local cooperative banks.

TeamBank's profit before taxes of **€ 148 million** exceeded the prior-year figure thanks to its concerted efforts to integrate all customer touchpoints.

The clear focus on customer benefits and simplification of the process for entering into agreements with the bank is paying off:

TeamBank gained **49,000 new customers** in 2017, taking the total to **833,000**. The volume of new easyCredit business rose to **€ 2.95 billion**.

DZ PRIVATBANK increased its profit before taxes to **€ 20 million**.

It achieved encouraging growth in assets under management and assets under custody, which reached **€ 17.3 billion** and **€ 109 billion** respectively.

Last year, **VR LEASING** forged ahead with its strategic transformation into a digital provider of finance for the self-employed and small businesses. The related deliberate withdrawal from certain business activities with the respective restructuring provisions was reflected in its **loss before taxes of € 17 million**.

At the same time, the almost **42 percent** rise in the volume of online business entered into with the cooperative banks (leasing and lending) indicates that VR LEASING has embarked on a strategy that promises success.

The 16 percent growth in new equipment leasing business and increasing sales in the factoring business were also encouraging.

DVB Bank's results were again affected by the difficult conditions in the maritime sector.

The bank reported a loss before taxes of **€ 774 million** for 2017. This was due to a greater requirement for allowances

for losses on loans and advances in connection with overcapacity and the movement of the oil price.

DVB took important countermeasures last year.

The winding-down of the portfolio – including a reduction of € 3 billion in the maritime sector alone – is proceeding quickly.

The successful squeeze-out, the scaling back of new business, and the conclusion of a profit-and-loss transfer/control agreement have created room to manoeuvre to examine all the strategic options. We remain focused on finding a lasting and value-preserving solution.

Ladies and gentlemen,

My review of the segments shows how concertedly we are working on further increasing our effectiveness, initiative, and resilience.

This also applies with regard to our capital adequacy.

Applying the provisions of the Capital Requirements Regulation (CRR) in full, the DZ BANK Group's common

equity Tier 1 capital ratio was **13.9 percent** at the end of the year.

The year-on-year fall in this ratio was due to changes to the regulatory capital requirements regarding the R+V long-term equity investment.

We believe we are well placed to comply with the SREP ratio of **8.79 percent** for common equity Tier 1 capital that the banking supervisor has set specifically for us for 2018.

As expected, this ratio is slightly higher than in the previous year due to the implementation of **Basel III**.

We have increased our **leverage ratio**. Applying the CRR in full, the preliminary figure at the end of the year was **4.4 percent**.

Our satisfactory capital situation not only reaffirms the positive overall assessment of the past financial year, but can also be seen as the result of the DZ BANK Group's consistent and long-term focus on market requirements on the one hand and the interests of our owners on the other.

Over the past few years, the DZ BANK Group has drawn on its own strengths to establish itself as one of the most stable and profitable banking groups in Europe. Our **diversified business model** not only allows us to offset temporary

imbalances but also to reliably generate profits year after year.

This strength is reflected in the confirmation of our very good credit ratings and, above all, in the long-term trends shown by the **‘magic square’** of profit, equity, fee and commission payments, and dividends.

The interests of our owners are firmly in our sights:

Fee, commission, and bonus payments were up by more than **10 percent** year on year – and we increased our equity at the same time.

The sustained strength of our business performance surely serves as reason to be proud of what has been achieved.

However, it brings with it the obligation to build on our achievements and to secure the financial benefits for our owners over the long term.

This applies in respect of the **dividend proposed** to the Annual General Meeting of **18 cents** – which is on a par with the previous year.

However, it is all the more important in an environment in which simply ‘carrying on as we are’ is not enough.

With this firmly in mind, we are continuing to work on becoming an even more effective organization – not least with regard to the completion of the merger of DZ BANK and WGZ BANK.

The successful integration, which took place in parallel with our day-to-day business, underlines our resolve:

We are completely on track in terms of HR synergies: We have achieved efficiencies of around €50 million.

We successfully completed the integration process within a very short space of time. This included transferring 28 divisions to the new organizational structure and remeasuring around 600,000 line items on the balance sheet.

Ladies and gentlemen,

A bank seeking long-term success needs customers, capital, and liquidity, it has to have its risks under control, and it must have a strong reputation and be accepted by society as a good corporate citizen.

There is no doubt that our group has all these success factors.

But I would like to add two more to the list. Firstly, banks need – more than ever before – **continuity of leadership**.

This is exactly what we have secured through our future-oriented and stable succession planning arrangements.

In 2019, Uwe Fröhlich and Cornelius Riese will take over as the two Co-Chief Executive Officers of the group. They will strike a clever balance between a firm focus on the needs of our customers and owners on the one hand and an awareness of our organization's strategic development on the other.

The second important aspect is strong **digital DNA**.

Our willingness to innovative is demonstrated by well over **100 initiatives** and capital expenditure of around € 150 million at the level of the DZ BANK Group alone. We are in the process of transferring our successful business model into the digital world.

We know that this is only possible with a culture that positively embraces change and innovation.

This is closely linked with a second aspect. We have to keep an even closer eye on our group's costs and take countermeasures wherever we can by leveraging the

synergies, when making use of external expertise, and when optimizing and streamlining processes in our organization.

While much of the rise in costs in our industry may be attributable to regulatory requirements, we cannot make this an excuse for not exercising greater cost discipline.

We banks still believe we can hold cost discussions on matters that have long become the standard in the industry. **Banks have to be able to manage their costs**.

Self-responsibility is deeply ingrained in the **cooperative DNA**, just like the drive to tackle things head on, shape them, make them better.

In this spirit, we will transform the structures of our group – while ensuring a high degree of transparency and maintaining a clear division of tasks between the holding company and the cooperative/corporate bank.

Above all, this transformation will take place within the framework of a results-driven and objective discussion among all the relevant players and taking the different interests into account.

We must not, and will not, forget one thing: Everything we do that involves making changes to ourselves as an

organization has to be aimed at becoming even more effective.

Growth remains essential, and so too the expansion of our core business in harmony with the interests of our owners on the one hand and the long-term positioning of our company on the other.

To some extent, the political and economic environment appears more orderly than we had perhaps expected given the many uncertainties of the past year.

After one year of the Trump presidency, the transatlantic relationship may be under pressure but it has not been seriously damaged.

Brexit is and remains a huge folly, yet it seems that we are heading for a hard but orderly exit – and we will be prepared when the time comes.

And despite all the difficulties with forming a government in Berlin, Germany appears to be in very good health.

The call to the new (and old) government is clear, however:

Especially after this extremely lengthy period of time spent forming a government, it is high time to set to work.

Perhaps with slightly less focus on what are undoubtedly important details, but instead concentrating on creating the right – and above all consistent – business and regulatory environment.

The same goes, by the way, for banking policy:

Over the past year, we perhaps had the impression that the conclusion of the negotiations in Basel would provide at least a chance of a brief let-up for the financial sector.

But appearances are deceptive.

Firstly, we still have to deal with implementing the **Basel III Accord**.

Secondly, we face numerous new regulations – in addition to the Basel decisions – that, in some cases, are having consequences that surely cannot have been intended by their inventor.

The best example is **MiFID II**. There is no question that protection for investors and high-quality advice are legitimate regulatory objectives.

But if that means that we have to deny customers their choice of equities because of their risk profile, the situation becomes Kafkaesque.

Thirdly, we are witnessing how people are playing politics with the parameters of the upcoming stress test as the configuration of the test once again puts German banks at a disadvantage.

As well as these obvious new challenges, I am watching a **fourth**, less visible development in Brussels with concern.

Until recently, the prevailing opinion there was that **completing the Banking Union** could not be seriously considered unless the problem of non-performing loans had been completely resolved. Even at the end of January, the Commission said that only slow progress was being made.

Now another version of reality seems to be asserting itself: Banks are clearly making good progress on cleaning up their balance sheets – and nothing (apart from Germany) now stands in the way of the **European Deposit Insurance Scheme**.

Although identical numbers can be interpreted differently, at some point the scope for interpretation comes up against limits.

By no stretch of the imagination can I see that we would have made any notable progress on the issue of non-performing loans – especially if we look to the south.

As in the case of **bitcoins**, we can therefore only issue an urgent warning against irrational exuberance about EU deposit insurance.

It is not a smart approach – either when it comes to investing or when trying to stabilize the European financial system.

Aside from EDIS, however, the prospects for Europe are looking increasingly positive. Following a year of pivotal elections, there are growing signs of stabilization and long-term growth.

Against this backdrop, we anticipate that our profit before taxes this year will be at the lower end of our long-term target range of **€ 1.5 billion to € 2 billion**.

Ladies and gentlemen,

In this special anniversary year, the cooperative financial network is proving that it is doing more than simply

upholding a proud legacy. It is also seizing the initiative – just as our pioneering founder Friedrich Wilhelm Raiffeisen did.

We are moving closer together and pooling our resources.

We are using digitalization and automation to enable us to operate in the market even more effectively and to streamline our processes and structures.

We are demonstrating cost discipline and investing in the expansion of our business.

Financial strength, capital and liquidity adequacy achieved from our own resources, excellent credit ratings and, not least, a clear and sustainable strategy make us optimistic that we will succeed in continuing the long and illustrious cooperative success story.