Investor Relations Release

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DZ BANK AG
Deutsche Zentral-
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Investor Relations

Preliminary results for 2020: DZ BANK Group reports a profit before taxes of €1.46 billion

- Original earnings target met despite difficulties created by pandemic
- Customer business grows at a faster rate than the market in nearly all entities
- Common equity Tier 1 capital ratio exceeds 15 percent for the first time
- Broad portfolio of strategic initiatives in areas such as digitalization, payments processing, and sustainability lay the foundations for future growth

In 2020, the DZ BANK Group generated a profit before taxes of €1.46 billion (2019: €2.66 billion). The group, which is part of the cooperative financial network, has therefore coped well with the effects of the COVID-19 pandemic so far and met its earnings target of approximately €1.5 billion, which had been set before the pandemic.

While earnings had been squeezed in the first quarter, the situation changed in the middle of the year thanks to the encouraging performance of the customer business in nearly all entities and earnings have risen continually since then. Despite the pandemic-related restrictions and the brief economic downturn in many segments, the customer business continued to expand. Union Investment, for example, benefited from the buoyant equity markets and continued to record high levels of inflows. DZ HYP's operating business performed well. R+V Versicherung registered a rise in premiums earned across all of its insurance divisions. DZ BANK – central institution and corporate bank was able to cater to corporate and institutional customers' greater need for liquidity and further strengthened its market position in the capital markets, corporate business and transaction banking businesses.

The fallout from COVID-19 also necessitated an increase in loss allowances, in part because expected macroeconomic conditions had to be taken into account in accordance with IFRS 9. The slump in the global economy at the start of the pandemic took a particularly heavy toll on DVB Bank's shipping finance portfolio.

"In spite of all the challenges and uncertainties that the COVID-19 pandemic created for us last year, we achieved a very satisfying profit before taxes that met the target that we had set before the pandemic," says Dr. Cornelius Riese, Co-Chief Executive Officer of DZ BANK. "In the wake of the dramatic economic downturn in the spring, our target initially looked difficult to achieve. However, our optimism grew over the course of the year in view of our healthy business performance and the positive trend in the capital markets. Once again, therefore, the DZ BANK Group has demonstrated its resilience, diversification, and earnings power even during times of crisis. This positive performance is a reflection of the exceptional collective efforts of all employees, who overcame the challenges of the pandemic with great flexibility and dedication.” The return to a more normal level of profit before taxes compared with 2019 is primarily due to the absence of the positive one-off items that had significantly influenced the prior-year figure, such as exceptionally high net income from insurance business and increased gains on disposals.

Co-Chief Executive Officer Uwe Fröhlich says: “In a challenging environment, we were able to deepen our customer relationships and grow at a faster rate than the market in many areas of the business. During the difficulties of 2020, DZ BANK proved to be a particularly dependable partner to its customers, whether in the corporate banking, retail banking, or institutional customer business. This can also be seen from the respectable contribution to profits of €244 million from the central institution and corporate bank.”

DZ BANK Group emerges from the crisis with renewed strength

The German economy showed itself to be more robust during the pandemic than initially assumed. The financial sector helped to stabilize economic activity. This is illustrated by the approximately 48,000 applications with a total volume of over €12 billion that DZ BANK, as a channel for support loans from Germany’s KfW development bank and other development banks, quickly processed in collaboration with the local cooperative banks so that the loans could be disbursed to companies. The relationship between the DZ BANK Group and the cooperative banks proved very significant, and not only when it came to dealing with the effects of the pandemic. “We were able to expand our work with the cooperative financial institutions in nearly every area last year. They represent an important cornerstone of the success of our business,” says Uwe Fröhlich.

Despite the pandemic, DZ BANK was able to further improve its capital base in 2020. The common equity Tier 1 capital ratio stood at 15.2 percent as at December 31, 2020 (December 31, 2019: 14.4 percent) as a result of careful management of risk-weighted assets and the bank’s strong ability to retain profits. The ratio therefore exceeded the 15 percent mark for the first time. The leverage ratio increased to 5.6 percent (December 31, 2019: 4.9 percent). DZ BANK’s capital structure also improved, due to the successful placement of Tier 2 bonds with a total volume of €1.5 billion. “With a common equity Tier 1 capital ratio of 15.2 percent, the DZ BANK Group has a healthy capital base and is emerging from the challenges of 2020 with renewed strength. This provides solid foundations for continued capital expenditure aimed at securing our future market success and will enable us to repay all outstanding Tier 1 issues in 2021,” explains Cornelius Riese. Given its very good level of capital adequacy, the bank is planning to enable its shareholders to share in the success achieved in 2019 and 2020, initially to the level currently permitted by the supervisory authorities.

Income statement line items in detail

Net interest income rose by 2.2 percent to €2.80 billion (2019: €2.74 billion). Whereas DZ BANK – central institution and corporate bank and DZ HYP saw increases due to a sharp rise in income from customers, Bausparkasse Schwäbisch Hall had to recognize further provisions for interest-rate bonuses as a consequence of the persistently low interest rates. The scaling back of the ship and offshore business at DVB Bank also affected net interest income; if the wind-down of the portfolio is excluded the net interest income went up by 6.8 percent.

Net fee and commission income grew by 7.4 percent to €2.12 billion (2019: €1.98 billion). The main factors in this increase were sustained high demand for mutual funds at Union Investment and the good performance of the central institution and corporate bank. If DVB Bank's wind-down portfolio is excluded, net fee and commission income rose by 8.8 percent.

Gains and losses on trading activities jumped from a net gain of €472 million in 2019 to a net gain of €552 million in the year under review thanks to very satisfying capital markets business at the central institution and corporate bank.

Gains and losses on investments fell to a net gain of €166 million (2019: €182 million) due to the absence of the positive one-off items that had arisen in the previous year in connection with the sale of parts of the business.

Other gains and losses on valuation of financial instruments amounted to a net loss of €22 million (2019: net gain of €255 million). Although there were positive valuation effects in the government bond portfolio of DZ HYP, albeit to a lesser extent than in 2019, they were offset by changes in the valuation of guarantee commitments at Union Investment and by IFRS 9-related effects at DVB Bank.

Loss allowances rose to €678 million (2019: €329 million), primarily reflecting the increased allowances needed at DVB Bank. In accordance with IFRS 9, a sum of €220 million was also required in order to take account of expected macroeconomic conditions resulting from the COVID-19 pandemic; this was largely a precautionary measure.

Despite investment in infrastructure and growth, **administrative expenses** held steady at €4.04 billion (2019: €4.07 billion) thanks to the disciplined management of costs.

Other net operating income declined year on year to €210 million (2019: €250 million), primarily owing to a reduction in proceeds from sales.

The **cost/income ratio** stood at 65.4 percent (2019: 57.7 percent).

Profit before taxes came to €1.46 billion (2019: €2.66 billion).

Net profit was €980 million (2019: €1.88 billion).

Results of the DZ BANK Group

DZ BANK – central institution and corporate bank (CICB) posted a profit before taxes of €244 million (2019: €293 million). This decrease is primarily attributable to the rise in loss allowances, some of which was due to the current uncertainties, particularly with regard to future economic conditions. By contrast, the bank's customer business grew significantly in all areas. In the **Capital Markets business line**, the CICB benefited from the uptrend in the capital markets and increased its income and volumes in all asset classes. It also significantly strengthened its good market position with regard to the issuance of bonds for corporate and institutional customers. In the growing field of sustainable finance, the bank supported issues of green, social, and sustainability bonds with a total volume of over €27 billion (2019: €10 billion). A particularly special transaction was the second bond under the European Union's SURE program (Support to mitigate Unemployment Risk in an Emergency), which the bank placed in cooperation with four other international banks. Although the market for structured retail products was very challenging as a result of the pandemic, the bank's sales of €5.4 billion were only just below the good level reported in the previous year (2019: €5.8 billion). In the **Corporate Banking business line**, the bank strengthened its market position while still taking a conservative approach to risk, and its lending volume increased by 12 percent to €65.5 billion. This was partly the result of implementing the government support programs aimed at tackling the economic fallout from the pandemic. Another key growth driver was the close collaboration with the cooperative banks. The lending volume in the joint credit business also increased. At the same time, customer relationships were strengthened during the crisis, with the total lending volume in the export finance business advancing by 12 percent and cross-selling increasing by 6 percent. In the **Transaction Banking business line**, the pandemic led to significant growth in digital payment methods. The number of payments processed rose by 11 percent to 8.2 billion, while the number of credit cards issued was up by 5 percent to 5.6 million. In the depositary business, the bank is ranked fourth in Germany with assets under custody of €273.3 billion.

Bausparkasse Schwäbisch Hall (BSH) continued to be weighed down by the persistently low level of interest rates, generating a profit before taxes of €81 million (2019: €189 million). The absence of the positive one-off item that had arisen in 2019 due to the disposal of BSH's Czech company also contributed to the decrease. The operating business proved robust, however. Despite the contraction of new home savings business, BSH comfortably maintained its leading market position in redeemed new business, with a market share of 30.1 percent. New home finance business jumped to a record high of €19.1 billion (2019: €16.7 billion). An additional growth driver in this segment is BAUFINEX, a home finance marketplace for independent brokers. A total of €2.4 billion was arranged through this new channel in 2020.

R+V Versicherung achieved a profit before taxes of €277 million (2019: €1.06 billion). This decrease was largely due to the significant deterioration in gains and losses on investments held by insurance companies as a result of the turmoil in the financial markets created by COVID-19 and because of an increase in claims, particularly in reinsurance. In its operating business, however, R+V Versicherung recorded a healthy rise in premiums earned in all of its divisions. Gross premiums written totaled €19.0 billion, which was up from €17.4 billion in 2019.

TeamBank's profit before taxes was more or less unchanged at €154 million (2019: €152 million). Consumer loan business proved robust against a backdrop of fierce competition. The bank's loans and advances to customers amounted to €9.03 billion as at December 31, 2020, which was only just short of the figure reported a year earlier (December 31, 2019: €9.06 billion). By contrast, the volume of new business declined from €3.45 billion to €2.83 billion due to the impact of the COVID-19 pandemic. The number of customers rose by 18,000 to 962,000.

Union Investment posted a profit before taxes of €649 million that was on a par with the good prior-year figure (2019: €648 million). The success of the operating business made up for the absence of the positive effect of the sale of Union Investment's Polish company that had boosted the prior-year figure and for the impact of the unprecedented slump in the capital markets in the first quarter of 2020. Assets under management stood at a record €386 billion at the end of the year (December 31, 2019: €368 billion). Union Investment is therefore currently ranked second in Germany. And when it comes to sustainable investment, Union Investment actually holds the top spot with customer assets under management of €61 billion. The biggest factor in this growth was the sustained high demand for mutual funds. Net inflows from retail clients rose to €8.8 billion (2019: €8.1 billion), whereas net inflows from institutional clients fell from €11.3 billion in 2019 to

€6.3 billion in 2020. Union Investment also intensified its business activities in the important and fast-growing residential real estate market by acquiring a majority stake in the ZBI Group.

DZ HYP achieved a very satisfying profit before taxes of €582 million (2019: €687 million). This decrease was predominantly due to the volatility of fair value gains and losses in the government bond portfolio. The core business performed very well. New business with corporate customers declined from €10.33 billion to €8.04 billion, whereas new business with retail customers rose to €2.07 billion (2019: €1.84 billion). The overall volume of real estate finance rose to €53.3 billion (December 31, 2019: €50.2 billion).

In a market environment dominated by low interest rates, **DZ PRIVATBANK** remained stable and reported a profit before taxes of €38 million (2019: €36 million). It delivered an encouraging operating performance overall, in both private banking and the fund services business. The volume of assets under management in the private banking business increased to €20.0 billion (December 31, 2019: €18.8 billion) and the volume of assets under custody to €139.5 billion (December 31, 2019: €120.1 billion). The volume of foreign currency loans held steady at €5.3 billion.

VR Smart Finanz continued with its process of transformation into a digital provider of finance for the self-employed and small businesses in 2020. Its operating performance was affected by the COVID-19 pandemic and the temporary withdrawal of the 'VR Smart flexibel' business loan product to make way for a fully automated support loan under the government's coronavirus relief program. Reduced net interest income and net fee and commission income, the increase in loss allowances in connection with COVID-19, and the recognition of further transformation costs caused the loss before taxes to deteriorate to €45 million (2019: €10 million). The number of customers went up from 66,000 to 75,000 due to demand for the support loans and for digital value-added services.

DVB Bank registered a loss before taxes of €285 million (2019: -€108 million). The slump in the global economy took a heavy toll on the bank's shipping finance portfolio and contributed to the significant growth of loss allowances. There was further progress in the managed scaling back of the portfolio: Following the successful sale of the aviation finance business, the land transport business, and LogPay in 2019, the volume of customer loans decreased at a faster rate than anticipated in 2020 to reach €3.9 billion (December 31, 2019: €7.4 billion).

DZ BANK AG – holding function recorded a loss before taxes of €238 million (2019: -€258 million). This improvement was primarily attributable to the disciplined management of costs in the holding function.

Acceleration of strategic development despite the pandemic

In order to continue generating sustainable growth, the focus is on collaboration with the cooperative banks and the continuity of strategic activities. "Last year, it was important to be proactive and work as partners in view of the operational challenges created by the pandemic. However, the crisis was also a catalyst for existing trends and developments. One of our top priorities was therefore to accelerate our strategic development, whether through transactions, investment in IT, or our activities in the areas of sustainability and digitalization," says Cornelius Riese. In this context, the DZ BANK Group forged ahead with a broad portfolio of strategic measures last year, despite the pandemic. These include digital solutions to support sales and simplify settlement processes with the cooperative banks as well as the expansion of platform business in the area of home finance. Payments processing, which gained fresh momentum during the pandemic, also remains a strategic field of growth for DZ BANK and the wider cooperative financial network. To this end, the group is participating in key initiatives such as the European Payments Initiative (EPI) and the German #DK initiative. It is also stepping up the development of innovative solutions, for example in the area of instant payments.

DZ BANK Group enhances its sustainability credentials

Building on the system of cooperative values and equipped with a good ISS ESG rating (C+), the DZ BANK Group is working hard to enhance its sustainability credentials. "During the pandemic, sustainability has taken on a new dimension and urgency in the economy, society, and politics alike. And banks are playing an important role in helping their customers move toward a more sustainable future," says Uwe Fröhlich. "We are taking on this challenge in close partnership with our customers. As well as living up to our corporate social responsibility, which we believe is part of our DNA as a cooperative institution, we want to seize our opportunities for business in a broad and fast-growing field." The development of a classification system for the group's own portfolio and the refinement of the reporting system provide solid foundations in this context. These systems are to be used to an even greater extent across the group and in the provision of advice to customers. In the field of sustainable finance, DZ BANK Group is already a leading player in the placement of sustainability bonds, the awarding of development loans, and the management of sustainability-oriented funds. The group is constantly expanding its range of products with a sustainability focus in order to unlock the opportunities in this sphere.

As well as updating its operating business, DZ BANK continued to devote itself to the 'Verbund First 4.0' strategic program. The main priorities of this program are initiatives aimed at supporting growth and efficiency and the even more effective integration of new technologies, such as the use of cloud services. Furthermore, the bank intends to make full use of opportunities resulting from the use of blockchain-based solutions in the capital markets business and in payments processing.

Outlook

The first few weeks of the new year have seen continued brisk demand in the capital markets business, whereas the intensive activity in the lending business – that was partly fueled by government subsidy programs – has now settled at a moderate level. Across Europe, the increase in pandemic-related restrictions in late 2020 and early 2021 have weakened the economy over the winter. Nevertheless, the vaccination programs that have begun worldwide are providing hope that day-to-day life and economic activity can return to normal, resulting in an economic recovery in the second half of the year. DZ BANK Research predicts growth of 2.7 percent for the German economy in 2021.

"We are optimistic about the DZ BANK Group's performance but are keeping a close eye on possible risks stemming from economic conditions. Given the resilience that our group has shown in recent months, we believe that we are well equipped for the new financial year. We expect our profit before taxes for 2021 to be slightly lower than in 2020 due to the unpredictability of the economic fallout from the pandemic," says Cornelius Riese.

Contacts:

Markus Stachel Tel.: +49-69-7447-9841
Markus.Stachel@dzbank.de

Daniela Pauly Tel.: +49-69-7447-42373
Daniela.Pauly@dzbank.de

Further information can be found using the following link:
www.dzbank.com/content/dzbank_com/en/home/DZ_BANK/investor_relations/praesentationen.html

The annual report of the DZ BANK Group (German version) as well as other reports including our Sustainability Report will be available on March 30, 2021 under: *www.berichte2020.dzbank.de*

The English version of the report will be available on May 5, 2021 under: *www.reports.dzbank.com*

DZ BANK Group preliminary income statement (IFRS)

€ million	**2020**	**2019**	**Change (%)**
Net interest income	2,797	2,738	+2.2
Net fee and commission income	2,121	1,975	+7.4
Gains and losses on trading activities	552	472	+16.9
Gains and losses on investments	166	182	-8.8
Other gains and losses on valuation of financial instruments	-22	255	>100.0
Gains and losses from the derecognition of financial instruments measured at amortized cost	-2	15	>100.0
Net income from insurance business	347	1,174	-70.4
Loss allowances	-678	-329	>100.0
Administrative expenses	-4,036	-4,074	-0.9
Other net operating income	210	250	-16.0
Profit before taxes	1,455	2,658	-45.3
Income taxes	-475	-778	-38.9
Net profit	980	1,880	-47.9
Cost/income ratio [%]	65.4	57.7	+7.7pp
Total assets [€ billion]	595	559	+6.4