Dear Shareholders,

Last year, we set the course for the future with our ‘Verbund First 4.0’ strategic program. We made good progress with this initiative in the first half of 2019, both at DZ BANK AG and in the group. It is gratifying that our results confirm that we are on the right track.

We are pleased to report that, despite the generally challenging environment, our earnings exceeded expectations in the first half of this year. The DZ BANK Group generated profit before taxes of €1.46 billion, substantially surpassing the result of the corresponding prior-year period. This achievement was attributable to the good operating performance of all entities, coupled with an inconspicuous risk situation.

One-off items were also a contributing factor, including reporting-date-related valuation effects at R+V Versicherung and DZ HYP as a result of the situation in the capital markets. The disposal of foreign companies of Bausparkasse Schwäbisch Hall and Union Investment also had a positive impact, as did sales transactions at DVB Bank. These are examples of how we are systematically translating strategy into entrepreneurial action.
The key results in detail: Net interest income amounted to €1.28 billion in the DZ BANK Group. The decrease was due to additions to provisions relating to building-society operations at Bausparkasse Schwäbisch Hall. Net fee and commission income held steady at €958 million, reflecting the sales strength of our organization.

Gains and losses on trading activities came to a net gain of €141 million. This was lower than the figure for the prior-year period, which had been influenced by effects arising from the valuation of own issues and by proceeds from the sale of securities. A much higher net gain was recognized under other gains and losses on valuation of financial instruments in the reporting period, partly due to the positive performance of DZ HYP’s government bond portfolios. A market-related improvement in R+V Versicherung’s gains and losses on investments held by insurance companies resulted in net income from insurance business of €761 million, which was substantially higher than in the prior-year period.

Following the net reversals in the first half of 2018, loss allowances were inconspicuous at €105 million in the reporting period. Excluding consolidation effects (i.e. including VR Payment) and higher contributions to the protection scheme, administrative expenses were on a par with the first half of last year thanks to disciplined management of costs.

The DZ BANK Group’s capital adequacy continued to strengthen thanks to proactive management of risk-weighted assets. Applying the provisions of the Capital Requirements Regulation (CRR) in full, the common equity Tier 1 capital ratio of the DZ BANK Group as at June 30, 2019 was 14.3 percent (December 31, 2018: 13.7 percent).

These satisfying results reflect the significant commitment of our employees. On behalf of the Board of Managing Directors, we would like to express our appreciation and thanks to them.

As a major financial intermediary, the DZ BANK Group is highly dependent on the capital markets and thus prone to earnings volatility. The business outlook for the second half of the year must therefore be viewed with caution.

At geopolitical level, the main risk factors are a disorderly Brexit, escalation of the trade disputes, and crises in the Middle East. The economic conditions have already turned gloomier, and profit warnings are being issued in key industries. The phenomenon of low and negative interest rates is here to stay. Nevertheless, further potential in the equity markets remains limited.

Such an environment does not make it easier to generate income. Against this backdrop and taking account of the further capital expenditure that is needed for the ongoing evolution of the DZ BANK Group, we now anticipate moderate earnings growth in the second half of the year and therefore a profit before taxes in the middle to the upper end of the long-term target range of €1.5 billion to €2.0 billion.

Despite all these challenges, our current position allows us to be optimistic and to have confidence in our abilities. We are fully focused on our customers and on the strategic development of our organization.

Kind regards,

Uwe Fröhlich  
Co-Chief Executive Officer

Dr. Cornelius Riese  
Co-Chief Executive Officer