Wolfgang Kirsch (Chief Executive Officer)

Dear Shareholders,

In 2017, the DZ BANK Group generated profit before taxes of €1.81 billion. This profit was attributable to strong customer business and the sound operating performance delivered by most of the group companies. In addition, we successfully completed the post-merger integration activities at the end of the year, and therefore earlier than planned.

At the same time, the results for the year were affected by a negative contribution to earnings from DVB Bank, which increased allowances for losses on loans and advances for its maritime portfolio. Nonetheless, the group's profit before taxes was comfortably within our long-term target range of €1.5 billion to €2 billion, underlining the stability and earnings power of our broadly positioned financial services group.

This Annual Report describes the performance of the merged bank over a full year for the first time. The figures therefore only have limited comparability with the prior-year values.

The results in detail: The net interest income of the DZ BANK Group was €2.94 billion, reflecting the good level of growth in the retail and corporate banking business of our financial services group. Allowances for losses on loans and advances stood at €786 million and were primarily affected by the allocations to this line item at DVB Bank. We have already implemented comprehensive stabilization measures and are currently reviewing all strategic options for DVB. In all other operating segments, there were no notable changes in the level of allowances for losses on loans and advances. Net fee and commission income totaled €1.86 billion, with the performance of Union Investment remaining particularly encouraging. Gains and losses on trading activities came to a net gain of €506 million. The strong operating performance in DZ BANK AG's capital markets business was offset by negative effects arising from the valuation of own issues. Other gains and losses on valuation of financial instruments amounted to a net gain of €289 million and were influenced by positive valuation effects in the bond portfolio at DG HYP. Net income from insurance business was €907 million, primarily reflecting a rise in premiums earned in all segments of R+V with gains and losses on investments held by insurance companies remaining at a high level. Administrative expenses in the DZ BANK Group amounted to €3.87 billion. Significant components included investment in growth and expenses necessary to meet the requirements of digitization and regulation. Net income from the business combination with WGZ BANK amounted to a net expense of €91 million and included budgeted integration and migration expenses.

The positive business performance reflects the high level of commitment by the employees in the DZ BANK Group. My colleagues on the Board of Managing Directors and I would like to take this opportunity to express our sincere gratitude to them.

The DZ BANK Group's capital situation remains sound. As at December 31, 2017, the common equity Tier 1 capital ratio (applying the Capital Requirements Regulation (CRR) in full) was 13.9 percent (June 30, 2017: 13.0 percent). The decrease compared with the end of the previous year (December 31, 2016: 14.5 percent) was primarily due to changes to the regulatory treatment of investments in insurance companies as regards the calculation of capital.

Against this backdrop, we will propose a dividend unchanged on the previous year of 18 cents per share to the Annual General Meeting. This takes into account both the importance of capital management and the interests of our owners.

We anticipate that the tailwind from economic growth in our domestic market will continue in 2018. Our economists forecast that the German economy will expand by 2.2 percent. The DZ BANK Group has also enjoyed a satisfactory start to the year. Given the persistently challenging market and interest-rate environment, we believe a profit before taxes at the lower end of the long-term target range of €1.5 billion to €2 billion is realistic for 2018 as a whole.

We have a clear growth strategy in our core business aimed at consolidating our successful performance. We are therefore strengthening corporate banking by continuing to invest in the direct business and in joint credit business. We are also adding digital products and services to our portfolio and tapping into new sources of income. At the same time, we are sharpening our focus on enhancing cost efficiency. In this regard, we are exploiting the opportunities presented by digitization to create leaner internal processes. Following the completion of the integration, we can now further sharpen our focus on leveraging synergies.

In addition, we are continuing to press ahead with the work on our structural changes. These changes include the merger of DG HYP and WL BANK to become DZ HYP, which is progressing well. We are also carrying out the necessary preliminary work for the further development of our organizational structure which aims to make the management of our financial services group even more effective.

Over the past year, our organization has once again demonstrated both its significant resilience and its commitment to constant advancement. Building on these foundations, our aim in 2018 – the 200th anniversary of the birth of Friedrich Wilhelm Raiffeisen – is to strive for the continued commercial success of the cooperative financial network.

Kind regards,

Wolfgang Kirsch
Chief Executive Officer