Uwe Fröhlich (left) and Dr. Cornelius Riese, Co-Chief Executive Officers

Dear Shareholders,

In 2018, the DZ BANK Group generated profit before taxes of just under €1.4 billion. This respectable figure was the result of its good operating performance. Our entities increased their volume of business and gained market share in most areas. By contrast, capital markets provided more headwind than tailwind in 2018. This is also reflected in the results.

Nonetheless, the level of profit was sufficient to enable us to absorb adverse one-off items. As well as recognizing negative valuation effects due to the performance of the capital markets, we also adjusted the enterprise value of DZ PRIVATBANK to reflect the more challenging conditions in the private banking market.

Last year, we made good progress in terms of the DZ BANK Group's strategic development. Under 'Verbund First 4.0', DZ BANK AG set itself ambitious targets for earnings and costs and has already launched a comprehensive action plan. DG HYP and WL BANK successfully merged to form DZ HYP, the largest Pfandbrief bank in Germany. Subsequently, the merged institution expanded both existing and new business. DVB Bank has made good headway with reducing risks and divesting parts of its business. As we examine further options, we continue to be guided by the principle of preservation of value.

The 2018 results in detail: Net interest income decreased by 4.8 percent to €2.79 billion. Entities with particularly significant interest-earning business – such as DZ BANK AG and Bausparkasse Schwäbisch Hall – faced challenges from low interest rates. By contrast, net fee and commission income rose to €1.96 billion (2017: €1.86 billion), once more due in no small part to Union Investment's strong performance. Gains and losses on trading activities fell from a net gain of €506 million to a net gain of €285 million owing to a smaller contribution from trading income at DZ BANK AG. Gains and losses on investments came to a net gain of €150 million (2017: €10 million), primarily reflecting the increase in income from sales of securities at DZ BANK AG. Other gains and losses on the valuation of financial instruments declined from a net gain of €289 million to a net loss of €120 million. This was again mainly due to valuation effects in relation to government bonds in DZ HYP's wind-down portfolio. Net income from insurance business decreased from €907 million to €490 million, predominantly as a result of a deterioration in gains and losses on investments held by R+V, whereas R+V's operating business again performed well. At €21 million, loss allowances were unremarkable (2017: €786 million). The stabilization of DVB Bank and net reversals at DZ BANK AG had a positive effect. Administrative expenses increased slightly overall, climbing by 2.5 percent to €4.06 billion. Whereas there was a growth-related rise at Union Investment, DZ BANK made significant savings following completion of the merger.

These results reflect the high level of commitment by our employees. All of us on the Board of Managing Directors would like to express our appreciation and thanks to them.

The DZ BANK Group's capital situation remains satisfactory. As at December 31, 2018, the common equity Tier 1 capital ratio was unchanged at 13.7 percent despite the expansion of the volume of business (December 31, 2017: 13.7 percent). This reflects our circumspect approach to managing risk assets and our ability to retain profits.

Taking account of the requirements of diligent capital management and the legitimate interests of our shareholders, we will propose an unchanged dividend of 18 cents per share to the Annual General Meeting.

The outlook for 2019 reflects the first indications of a deterioration in the economy, both abroad and in our domestic German market. However, at the start of the year, we still see high demand from customers in our operating business. 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.

At the same time, it is our responsibility to safeguard the capabilities of our organization beyond the immediate future. Following the successful merger to create one central institution, we have laid a solid foundation on which we build 'Verbund First 4.0'. We focus on three main aspects. Firstly, we are investing in our market offering in the Capital Markets, Corporate Banking, and Transaction Banking business lines. One of the top priorities is customer focus and efficiency in all corporate customer processes, from the customer portal through to the back office.

Secondly, we are optimizing control and production, which includes seizing opportunities to digitize and automate core processes. The areas of focus are IT and the lending and control functions. It is essential that we further optimize our cost base. We will significantly reduce our expenditure on external service providers and we believe it is necessary to reduce the headcount by almost 500 by 2023. This figure equates to roughly 10 percent of positions after implementation of the merger synergies.

The third important aspect is the contribution of our employees to our long-term success. Our organization already has a unique reputation for a values-based, responsible approach to business. It is our ambition to translate these values into the future and to ensure that our corporate culture is even more focused on our customers, on efficiency, and on performance. That is another reason why attracting and promoting talented employees and so managing demographic change is high on our list of priorities. We will double the number of new trainees in 2019.

Thanks to our financial strength and due to our deep roots within society, we are well equipped for these future challenges. Yet for all the considerations on the future of our organization, we do not neglect our day-to-day business. We must do everything we can to remain the first 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 within the cooperative financial network, and Fiducia & GAD as part of the joint digitization strategy is a cause for optimism.

We are pooling our broad and diverse digital experience 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 do not rest on our success but are 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.

Kind regards,

Uwe Fröhlich
Co-Chief Executive Officer

Dr. Cornelius Riese
Co-Chief Executive Officer