

# I DZ BANK Group fundamentals

## 1 Business model and strategic focus

The strategic focus in the DZ BANK Group follows the guiding principle of fulfilling the role of a network-oriented central institution and financial services group. Business activities are centered on the local cooperative banks and their customers. The objective of this strategic approach is to consolidate the positioning of the cooperative financial network as one of the leading financial services providers in Germany on a long-term basis.

The entities in the DZ BANK Group work with one another and with the cooperative banks and Fiducia & GAD IT AG, Karlsruhe and Münster, (Fiducia & GAD) under the leadership of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V., Berlin, (BVR) [National Association of German Cooperative Banks] to shape their future. The strategy agenda entitled ‘Shaping the future cooperatively’ provides a framework within which the companies of the cooperative financial network are implementing the initiatives in the strategic KundenFokus (customer focus) project with the aim of establishing an omnichannel model.

### 1.1 DZ BANK – central institution and corporate bank

Following the merger of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) with the former WGZ BANK in 2016, DZ BANK has been refining its governance structure along the lines of a holding company model. To this end, it set up a Central Advisory Council in 2018, enabling the cooperative banks to participate in and influence strategic decisions to a greater extent. Furthermore, responsibility for the holding company activities and for the central institution and corporate bank activities within DZ BANK were separated from each other. To this end, the DZ BANK AG operating segment was split into the DZ BANK – central institution and corporate bank operating segment and

DZ BANK – holding function<sup>1</sup>. They are reported separately in these financial statements for the first time. The strategic focus of DZ BANK, as described below, essentially relates to the activities of DZ BANK – central institution and corporate bank.

In 2018, DZ BANK launched ‘Verbund First 4.0’, a strategic program designed to ensure the bank’s resilience for the future. The program is aimed at improvements in three key areas: market offering, control and production processes, and corporate culture. Under the program, DZ BANK is working on various action plans based on 28 defined action areas.

DZ BANK is applying its strategic focus in the various business lines, as described below.

#### 1.1.1 Cooperative Banks/Verbund

The Cooperative Banks/Verbund division is responsible for providing support for the German cooperative banks, which are both a customer group and the shareholders of DZ BANK. The Regionaldirektoren [regional directors] of DZ BANK are the first port of call and customer relationship manager for the cooperative banks, with the aim of assisting them with their business activities in the regional markets.

DZ BANK offers the cooperative banks consultancy and other services at every stage of the strategic bank management process and advises them on regulatory matters. In addition, DZ BANK assists the local cooperative banks with treasury and controlling aspects of bank management, such as planning and risk management, as well as with optimization for strategic bank management purposes and with own-account investing activities. DZ BANK offers the cooperative banks systems such as GENO-SAVE and EGon that help them to meet requirements in the areas of own-account investing, reporting, and accounting.

#### 1.1.2 Corporate Banking

In the corporate banking market, DZ BANK supports the marketing of the local cooperative banks. This support concept is geared to the needs of corporate customers and the individual market situation of the cooperative banks and is closely integrated with the activities of the cooperative financial network.

<sup>1</sup> DZ BANK – holding function is not an operating segment within the meaning of IFRS 8.5.

In 2019, DZ BANK modified its organizational structure in the Corporate Banking business line in order to ensure targeted marketing. Four regional divisions now look after not only DZ BANK's direct customers but also customers in the joint business with the cooperative banks. As a result of the activities to update corporate banking, customer relationship management for multinationals, the healthcare sector, and cooperative financial network customers has been grouped together in the Central Corporate Banking division.

Under the 'Verbund First 4.0' strategic program, DZ BANK has defined four action areas for corporate banking: corporate customer market approach for direct business, joint lending business with the cooperative banks, international business, and development lending. It has also developed action plans for these areas.

The existing customer relationship management model has been revised both in direct business and in joint business with the cooperative banks, product specialists have been assigned to specific regions, and product delivery capability has been adjusted. Existing processes in corporate banking have also been updated, for example the 'GP direkt' process for setting up new customers was overhauled in 2019.

In April 2019, DZ BANK launched VR International, a digital platform for the cooperative banks and their corporate customers that makes country-specific and product information for international business available on the websites of the cooperative banks and in an app. A guided process directs customer inquiries straight to a point of contact in the relevant cooperative bank.

DZ BANK maintains international branches and representative offices to enable the corporate customers of the cooperative financial network to access major markets outside Germany. It has operated internationally for many years, particularly in the areas of trade finance, export finance, and the local provision of banking products and services in the local currency. In 2019, it celebrated the 40th anniversary of its international branch in Hong Kong and the 30th anniversary of its representative office in Moscow. Also last year, DZ BANK signed cooperation agreements with Brazil's Banco Bradesco S. A., Poland's PKO Bank Polski, and Belarusbank in order

to widen its market coverage. It has already entered into similar agreements with banks in China, India, and Indonesia.

In the development lending business, DZ BANK provides the cooperative banks, their corporate customers, the group entities, and third-party banks with advice on public-sector development loans, subsidies, and guarantees. In this context, it primarily works with Kreditanstalt für Wiederaufbau (KfW) [Germany's KfW development bank], the federal states' own development banks, and Landwirtschaftliche Rentenbank.

### 1.1.3 Retail Banking

In the Retail Banking business line, DZ BANK offers platform- and process-driven services for the cooperative banks' and partner banks' securities business with retail customers, focusing on personal investments. As well as securities, this includes liability products, advisory services, market data, research, and trading/advisory/e-business platforms.

DZ BANK enables its customers to benefit not only from conventional banking but also from digital access to their bank via mobile login, online tools, and the DZ BANK derivatives portal.

In 2019, DZ BANK launched the online platform meinGIS, an enhancement of the GIS market data application that had previously been used. The platform was introduced as part of the 'Verbund First 4.0' strategic program and is intended to assist the local cooperative banks with the provision of securities investment advice.

### 1.1.4 Capital Markets

Alongside advisory and sales services in relation to investment and risk management products covering the interest-rate, credit, equities, and currency asset classes, DZ BANK also offers advisory and sales services in fixed-income and equities business and in secondary and primary market business to its institutional clients in Germany and abroad, to the cooperative banks in their own-account investing activities, and to their corporate customers. It also offers research services.

In 2019, DZ BANK undertook a range of activities in the Capital Markets business line as part of the 'Verbund First 4.0' strategic program. For example,

it rolled out an information and analysis platform for private placements. Moreover, local cooperative banks can use a web portal that gives them access to information on their customers' interest-rate and currency management transactions.

On behalf of the cooperative financial network, the Group Treasury division at DZ BANK carries out the cash-pooling function and ensures access to money markets and capital markets as well as to liquidity provided by central banks. In addition, Treasury acts as the product portfolio manager for secured and unsecured money market business, currency swaps and forwards, and the issue of short-term commercial paper.

#### 1.1.5 Transaction Banking

In the Transaction Banking business line, DZ BANK provides its customers with payments processing, card processing, and capital markets services. It also offers depositary and advisory services. In addition, DZ BANK makes platforms available in order to improve the competitiveness of the companies within the cooperative financial network with regard to transaction banking.

Under the 'Verbund First 4.0' strategic program, DZ BANK is further expanding its instant payments infrastructure for the cooperative financial network with the aim of establishing it as a standard payments processing technology. It has been possible to receive instant payments since November 2018. And since May 2019, the cooperative financial network's customers have been able to initiate instant payments too.

To help Germany's small and medium-sized enterprises (SMEs) to internationalize, DZ BANK has expanded its range of cash management and international payments processing services. This should not only raise awareness of the cooperative financial network's capabilities in this regard but also increase market share in international business going forward.

DZ BANK also gained new customers in the depositary business by using new technologies and stepping up sales activities.

In capital markets business, DZ BANK is responsible for the regulatory reporting of its own trading activities

and those of the cooperative banks. Moreover, it has formed a multi-institutional team with DekaBank Deutsche Girozentrale, dwpbank Deutsche WertpapierService Bank AG, and Landesbank Hessen-Thüringen Girozentrale to develop finledger, a blockchain platform for the digital execution of promissory note transactions. The first transactions were executed on the platform in 2019.

In view of changes to the regulatory environment for banking infrastructure and payments processing infrastructure, as well as the arrival of new competitors in the market, DZ BANK plays an active role in both national and international payment systems initiatives. In Germany, for example, it is participating in the #DK initiative of the Digitale Kreditwirtschaft (DK) [German Banking Industry Committee] and, in the European market, in the European Payments Initiative (EPI). As part of these initiatives, DZ BANK and the other banks involved are developing a cross-channel payment solution that builds on the reach of the current account to ensure that the payments processing business is fit for the future.

In 2019, DZ BANK began to design and implement a payment system for Apple Pay. The related services are to be offered to the customers of the local cooperative banks as soon as possible.

Furthermore, the focus of work to establish supplementary payments processing products is being sharpened by expanding existing value-added solutions and integrating payment solutions for other areas of customers' lives, for example by connecting to third-party providers' platforms.

#### 1.2 BSH

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (Bausparkasse Schwäbisch Hall; subgroup abbreviated to BSH) is the consumer home finance provider in the DZ BANK Group and offers solutions that enable customers to build up private savings, own their own home, or obtain home finance. The strategic objective is to safeguard BSH's position as market leader with its profitable building society operations, working in close collaboration with the cooperative banks on a decentralized basis.

Alongside home savings, another core pillar of the business is home finance, which allows BSH to further diversify its sources of income. The home finance

business includes building loans arranged directly by BSH and its activities as an intermediary on behalf of cooperative banks in connection with real estate loans.

In 2019, BSH continued to pursue its strategy of digitalizing its value chain. This applies to the transformation of BSH's core business, in which existing processes and channels to customers, the bank, and field sales are being updated, and to the establishment of new business models. As part of this strategy, BSH teamed up with Hypoport back in 2018 to create Baufinex, an online marketplace for home finance. The marketplace is designed for independent brokers and brokerage firms and is aimed at generating further growth in the home finance market together with the cooperative banks. BSH has also relaunched *www.wohnglueck.de*, a content platform relating to homes and house-building that consciously focuses on complementary, non-financial aspects.

To expand its own funding base, BSH began issuing Pfandbriefe in 2019 as a way of tapping into an additional source of funding.

BSH also remains active in its international business, focusing on maintaining the existing approach to business through investee companies in Slovakia, Hungary, and China. In the first half of 2019, it sold its 45 percent stake in Czech building society Českomoravská stavební spořitelna (ČMSS) to ČSOB, the Czech arm of the Belgian KBC Group. This meant that ČSOB became the sole shareholder in ČMSS.

### 1.3 DVB

DVB Bank SE, Frankfurt am Main, (DVB Bank; subgroup abbreviated to DVB) is a specialist niche provider in the area of international transport finance, focusing on shipping finance.

The restructuring of DVB began in 2017 and further progress was made with scaling back its business activities in 2019. On February 26, 2019, DVB sold all of the shares in LogPay Financial Services GmbH to Volkswagen Financial Services AG.

On May 6, 2019, it was announced that the acquisition of DVB's land transport finance portfolio by Landesbank Hessen-Thüringen, which had been made public on December 21, 2018, had been completed. The employees and the entire customer credit

portfolio in the land transport finance business were transferred to Landesbank Hessen-Thüringen.

The acquisition of DVB's aircraft finance business by MUFG Bank, Ltd., which had been announced by MUFG Bank, Ltd. and BOT Lease Co., Ltd. on March 1, 2019, was completed on November 18, 2019. As part of this transaction, the customer credit portfolio of DVB, the affected employees, and parts of the company's infrastructure were transferred to MUFG Bank.

DVB's remaining business, shipping finance, is being run off while preserving as much value as possible.

### 1.4 DZ HYP

DZ HYP AG, Hamburg and Münster, (DZ HYP), the cooperative specialist for real estate finance and local authority funding, supports the local cooperative banks in their regional markets. The bank serves commercial real estate investors, the housing sector, public-sector customers, and retail customers. DZ HYP's sales activities in its business lines are based on long-term customer relationships in its direct and cooperative network business and on products and services that are defined with a view to their risk and reward.

DZ HYP has locations across Germany: its two headquarters in Hamburg and Münster, six regional centers, and a further six regional offices. It also supports (primarily institutional) clients from Germany in the French, Dutch, UK, and Austrian markets.

All of DZ HYP's non-strategic portfolios – especially the portfolio of mortgage-backed securities and the non-strategic part of the governments/banks securities portfolio – have been brought together in a wind-down portfolio with the primary aim of winding down the portfolios while preserving value.

In November 2019, DZ HYP completed the migration required after the merger of the former DG HYP with the former WL BANK.

### 1.5 DZ PRIVATBANK

DZ PRIVATBANK S. A., Luxembourg, together with its eight branches in Germany, its two subsidiaries DZ PRIVATBANK (Schweiz) AG, Zurich, (DZ PRIVATBANK Schweiz) and IPConcept (Luxembourg) S. A. (IPC LU), and IPConcept

(Schweiz) AG (IPC CH), is the international provider of private banking, fund services, and lending in all currencies in the cooperative financial network.

DZ PRIVATBANK's products and services encompass not only investment and financing solutions for high-net-worth individuals, business people, foundations, and semi-institutional customers but also bespoke service packages for professional fund initiators and flexible loan products denominated in euros and other currencies for retail and corporate customers.

Based on its national and international expertise in personal investment, funds, and financing, DZ PRIVATBANK aims to achieve a sustained increase in the market share of the German cooperative banks and an enduring improvement in the value they are able to add, especially in the private banking and SME customer segments.

To this end, it has defined the following focus areas for sales growth: portfolio management (asset management) and third-party fund business, including in the area of alternative investment funds, and euro-denominated variable LuxCredit financing. This focus should, above all, enable further expansion of fee and commission business in a market environment that remains very competitive and should counteract the decline in income from interest-bearing business as a result of the continued expansionary monetary policy of the European Central Bank (ECB).

### 1.6 R+V

R+V Versicherung AG, Wiesbaden, (R+V Versicherung; subgroup abbreviated to R+V) is the cooperative provider of insurance and pension products. It operates in the non-life, life, health, and reinsurance sectors.

Under its 'Wachstum durch Wandel' (growth through change) strategic program, R+V is focusing on improving the management of productivity and costs, increasing its enterprise value and, in particular, gaining market share by exploiting existing potential within the cooperative financial network, expanding cross-selling, and digitalizing its business.

In September 2019, R+V announced that Sparda-Bank Baden-Württemberg was the first Sparda bank in Germany to decide to forge an exclusive alliance with R+V for the sale of pension products.

R+V also strengthened its partnerships within the DZ BANK Group and, at the start of 2019, teamed up with Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding; subgroup abbreviated to UMH) to present R+V-Direktversicherung UniRendite, an occupational pension solution. The product combines a guaranteed insurance benefit payment with additional potential for returns on fund investments.

As part of the digitalization of its business, R+V launched a digital insurance manager tool in May 2019. This gives customers of the local cooperative banks the option to use a mobile app to manage their insurance policies with R+V and other insurers. The technology, which was developed by R+V's strategic partner Friendsurance, also makes it possible to provide users, if required, with suggestions about updating their insurance cover on the basis of an analysis of their account transactions in online banking.

Transport insurance provider KRAVAG, which is part of the R+V Group, teamed up with SVG Bundes-Zentralgenossenschaft Straßenverkehr eG, Frankfurt am Main, (SVG) [German Central Cooperative for Road Transport] and Bundesverband Güterkraftverkehr Logistik und Entsorgung e. V., Frankfurt am Main, (BGL) [German Road Haulage, Logistics, and Waste Disposal Association] to develop the Wedolo logistics platform, which also went live last year. The platform is particularly aimed at small and medium-sized transport and logistics firms and offers digital services such as linked access to their SVG, BGL, and KRAVAG accounts, access to Timocom's freight exchange, and a tool for preparing invoices that includes an interface for advance financing.

### 1.7 TeamBank

TeamBank AG Nürnberg, Nuremberg, (TeamBank) is the provider of liquidity management products in the cooperative financial network. In Germany, it offers its easyCredit family of consumer finance products. In Austria, it collaborates with the cooperative banks to offer 'Der faire Credit', a consumer finance product. The product range also includes 'Ratenkauf by easyCredit', which is an installment purchase solution that can be used both online and in-store.

As part of its strategic development, TeamBank aims to step up collaboration with the cooperative banks in

its core business and generate growth in all business lines.

In this regard, TeamBank is also focusing on digitalizing its product range. Since mid-2019, it has been offering its customers easyCredit-Finanzreserve, which gives them a financial buffer of up to €15,000, including for SEPA instant payments. TeamBank has been one of the participants in the ECB's TIPS clearing system (TARGET Instant Payments and Settlement) since its official start on November 30, 2018. It is also connected to the RT1 payments system of the Euro Banking Association (EBA CLEARING). TeamBank believes that direct integration with these two clearing systems is essential in order to offer SEPA instant payments in connection with the easyCredit ecosystem to as many customers as possible.

### 1.8 UMH

UMH is the asset manager in the cooperative financial network and offers investment solutions for retail and institutional clients. In both areas of business, it is aiming for further expansion of the volume of assets under management.

In the retail business, the products and services for UMH's customers are aimed at building up savings, investing and optimizing assets, and providing for old age. As well as fund solutions, UMH offers platforms such as the MeinInvest digital investment tool to the cooperative banks and their customers. MeinInvest is an asset management solution that the local cooperative banks can make available to their customers on their own websites. Its design can be adapted to their own bank branding. The underlying algorithm uses the data entered by the customer to suggest suitable fund investments in different risk categories.

To expand its range of sustainability products, UMH integrated a sustainability-oriented equity fund into its Riester pension product family in July 2019. Since then, UniProfiRente Select has enabled investors to choose whether they wish to add an opportunity component, in the shape of the sustainability-oriented fund UniNachhaltig Aktien Global, as an alternative to the options previously offered.

In the institutional client business, UMH is the central asset manager for the cooperative financial network. It also provides asset management for German and

international institutional clients outside the cooperative sector. It offers special funds, institutional mutual funds, asset management, advisory services, capital preservation strategies, and quantitative asset management strategies.

### 1.9 VR Smart Finanz

VR Smart Finanz AG, Eschborn, (VR Smart Finanz) launched a program in 2017 to transform itself into the digital provider of finance for the self-employed and small businesses in the cooperative financial network. Since then, it has been focusing on lending, hire purchase, and leasing solutions up to €750,000 and on digital services for the cooperative banks' customers in the small business, self-employed, and lower SME segments.

At the end of 2017, VR Smart Finanz announced that it would dispose of its non-strategic business activities as part of the transformation. In the first half of 2019, the sale of the centralized settlement business and of subsidiaries BFL Leasing and VR Immobilien Leasing were completed. The factoring business is to be hived off to DZ BANK AG as an independent subsidiary in the first half of 2020.

Under its updated strategy, VR Smart Finanz is focusing on automated finance solutions and on the development of digital services. At the end of 2018, for example, it launched the accounting software VR Smart Guide and the Bonitätsmanager (credit status manager). VR Smart Finanz and the cooperative banks together offer an online banking tool, VR Smart Online, to their partners to complement the digital and hybrid digital/personal sales channels. The tool enables the cooperative banks to make integrated, automated decisions about financing of up to €250,000 in real time.

## 2 Management of the DZ BANK Group

### 2.1 Management units

The DZ BANK Group comprises DZ BANK as the parent company, the DZ BANK Group's fully consolidated subsidiaries in which DZ BANK directly or indirectly exercises control, and other long-term equity investments that are not fully consolidated.

All entities in the DZ BANK Group are integrated into groupwide management. In the case of subgroups, the disclosures in the group management report on management units relate to the entire subgroup comprising the parent company of the subgroup plus its subsidiaries and second-tier subsidiaries. The management units are managed by the parent company in the subgroup, which is responsible for compliance with management directions in the subsidiaries and second-tier subsidiaries. The following management units form the core of the financial services group:

- BSH
- R+V
- UMH
- TeamBank
- DZ BANK – central institution and corporate bank (DZ BANK – CICB)
- DZ HYP
- DZ PRIVATBANK
- VR Smart Finanz
- DVB

The management units are each managed as a separate operating segment. DZ BANK – holding function is also presented separately, although it does not constitute an operating segment within the meaning of IFRS 8.5.

From the reporting year, the previous DZ BANK management unit has been broken down into central institution and corporate bank (DZ BANK – CICB) and the group management function (DZ BANK – holding function) because of changes to the internal business management structure and the associated modification of the internal financial reporting system. The related reorganization of the management units in the internal financial reporting system has been adopted for the presentation of the operating segments. The DZ BANK – CICB operating segment comprises both the cooperative central institution

function, which supports the operating activities of the local cooperative banks, and the corporate bank function. DZ BANK – holding function is used to pool a range of responsibilities, notably tasks carried out on behalf of the DZ BANK Group in relation to commercial law, tax, and prudential supervision.

All risks at DZ BANK, and therefore arising in connection with the CICB segment and the holding function, are determined, reported and, managed for DZ BANK on an integrated basis. The aim of this approach is to satisfy the regulatory requirements under Basel Pillar 1 and Pillar 2 whereby DZ BANK must be treated as one bank overall. This also meets the German Minimum Requirements for Risk Management for Banks and Financial Services Institutions (MaRisk BA), which is a generally accepted framework for risk management that DZ BANK is under an obligation to apply. The operating segments presented in the combined opportunity and risk report (chapter VI) are not inconsistent with the operating segments in the consolidated financial statements, because the CICB segment accounts for the main risks at DZ BANK. These risks are credit risk, market risk, equity investment risk, and most of the business risk, reputational risk, and operational risk.

The terms DZ BANK Group and DZ BANK financial conglomerate are synonymous and refer to all the management units together. The context dictates the choice of term. For example, in the case of disclosures relating to economic management, the focus is on the DZ BANK Group, whereas in the case of regulatory issues relating to all the management units in the DZ BANK Group, the term DZ BANK financial conglomerate is used.

The DZ BANK financial conglomerate largely comprises the DZ BANK banking group and R+V. DZ BANK acts as the financial conglomerate's parent company.

### 2.2 Governance

Governance in the DZ BANK Group is characterized by the general management approach of the DZ BANK Group, appointments to key posts in the subsidiaries, and the committee structure.

FIG. 1 – MANAGEMENT COMMITTEES IN THE DZ BANK GROUP



### 2.2.1 General management approach

The general management approach consists of a combination of centralized and decentralized management tools. It is aligned with the business model and risks of the DZ BANK Group as a diversified financial services group that is integrated into the Volksbanken Raiffeisenbanken cooperative financial network and that provides this network with a comprehensive range of financial products.

The DZ BANK Group is a financial services group comprising entities whose task as product specialists is to supply the Volksbanken Raiffeisenbanken cooperative financial network with an entire range of financial services. Because of the particular nature of the DZ BANK Group, it is managed both centrally and locally with clearly defined interfaces and taking into account business policy requirements.

### 2.2.2 Appointments to key posts in the subsidiaries

For the purposes of managing the subsidiaries through appointments to key posts, a representative of DZ BANK is appointed in each case as the chairman of the supervisory body and generally also as the chairman of any associated committees (risk and investment committee, audit committee, human resources committee).

### 2.2.3 Corporate management committees

Figure 1 provides an overview of the committees of particular importance in the management of the DZ BANK Group.

The **Group Coordination Committee** is the highest-level management and coordination committee in the DZ BANK Group. The objectives of this committee are to strengthen the competitiveness of the

DZ BANK Group and to coordinate fundamental product and sales issues. The committee also aims to ensure coordination between the key entities in the DZ BANK Group to achieve consistent management of opportunities and risks, allocate capital, deal with strategic issues, and leverage synergies. The members of this committee comprise the Board of Managing Directors of DZ BANK and the chief executive officers of BSH, DZ HYP, DZ PRIVATBANK, R+V, TeamBank, UMH, and VR Smart Finanz.

Various committees consisting of representatives from all strategic business lines and group functions assist the Group Coordination Committee's decision-making by preparing proposals. These are the following committees: the Group Risk and Finance Committee, the Group IT Committee, the Group HR Committee, the product and sales committees for retail customers, corporate customers, and institutional customers, the Heads of Internal Audit working group, the Heads of Compliance working group, the Economic Roundtable, the Innovation Roundtable and the Group Corporate Responsibility Committee.

The **Group Risk and Finance Committee** is the central committee in the DZ BANK Group responsible for proper operational organization and, in particular, risk management in accordance with section 25 (1) of the German Supervision of Financial Conglomerates Act (FKAG) and section 25a (1) in conjunction with section 25a (3) of the German Banking Act (KWG). It assists DZ BANK with groupwide financial and liquidity management and provides support for risk capital management throughout the group. The Group Risk and Finance Committee also assists the Group Coordination Committee in matters of principle. The members of this committee include the relevant executives at DZ BANK responsible for finance, risk,

and treasury. The committee members also include representatives of the executives of various group companies. The Group Risk and Finance Committee has set up the following working groups to prepare proposals for decision-making and to implement management action plans relating to financial and risk management at group level:

- The **Group Risk Management working group** supports the Group Risk and Finance Committee in all matters concerning risk and the management of risk capital and market risk in the DZ BANK Group, and in matters relating to external risk reporting. At DZ BANK level, the monitoring and control of the aggregate risks to the bank is coordinated by the **Risk Committee**. The Risk Committee makes recommendations to the entire Board of Managing Directors in matters relating to risk management, risk methodology, risk policies, risk processes, and the management of operational risk.

- The **Architecture and Processes Finance/Risk working group** assists the Group Risk and Finance Committee with the further development of the integrated finance and risk architecture in the DZ BANK Group. In terms of the corporate management of the DZ BANK Group, this committee works on refining the blueprint for the business, process, and data architecture, ensuring a coordinated roadmap and a transparent project portfolio, and establishing overarching data governance.

The management of credit risk throughout the group is the responsibility of the **Group Credit Management working group** of the Group Risk and Finance Committee. This working group monitors compliance with the rules in the group credit risk policy in connection with its involvement in drawing up group credit standards and related monitoring processes as the basis for groupwide management of counterparty risk. In particular, this covers all measures relating to the monitoring and management of the limit allocation at individual counterparty level. The working group also participates in the further development and harmonization of the credit management organization and processes, and it discusses and continually develops the group credit risk strategy, group credit risk management, and group credit standards. It thus assists the Group Risk and Finance Committee with the groupwide

harmonization of credit-related processes with due regard to their economic necessity. The monitoring and control of DZ BANK's overall portfolio for credit risk is coordinated by the **Credit Committee**. This committee normally meets every two weeks and makes decisions on material lending exposures at DZ BANK, taking into account the credit risk strategy of both the bank and the group. The Credit Committee is also responsible for managing credit risk at DZ BANK and country risk throughout the DZ BANK Group.

- The Group Risk and Finance Committee's **Market working group** is responsible for providing implementation support throughout the group in the following areas: liquidity management, funding activities, balance sheet structure management, and capital management. This body also focuses on coordinating and dovetailing funding strategies and liquidity reserve policies, as well as on planning the funding within the DZ BANK Group. In addition, the Market working group is responsible for refining the management of centrally measured market risk. At DZ BANK level, the **Treasury and Capital Committee** is the central body responsible for the operational implementation of the strategic requirements in the following areas to ensure integrated resource management: capital management, balance sheet and balance sheet structure management, liquidity and liquidity risk management, and income statement and profitability management. This committee also discusses overarching issues and current regulatory matters with the aim of identifying those requiring management action.

- The **Finance working group** advises the Group Risk and Finance Committee on matters concerning the consolidated financial statements, tax law at group level, regulatory law at group level, group controlling, and the management of financial resources. It discusses new statutory requirements and works out possible implementation options. The objective of the Finance working group is to continually update the uniform management framework used throughout the group (definitions, nomenclature, methodologies), particularly taking into account requests made by the supervisory authorities.

The **Group IT Committee**, comprising the members of the boards of managing directors of the main group entities with responsibility for IT, supports the Group Coordination Committee in matters relating to IT strategy. This committee manages all overarching IT activities in the DZ BANK Group. In particular, the Group IT Committee makes decisions on collaboration issues, identifies and realizes synergies, and initiates joint projects.

The members of the **Group HR Committee** comprise the members of the boards of managing directors with responsibility for HR and the HR directors from the main entities in the DZ BANK Group. This committee helps the Group Coordination Committee address HR issues of strategic relevance. The Group HR Committee initiates and coordinates activities relating to overarching HR issues while at the same time exploiting potential synergies. It also coordinates the groupwide implementation of regulatory requirements concerning HR systems and facilitates the sharing of HR policy information within the DZ BANK Group.

The **product and sales committees** perform insight, coordination, and bundling functions relating to the range of products and services provided by the DZ BANK Group.

- The **retail customers** product and sales committee coordinates products and services, and the marketing activities of its members where there are overarching interests affecting the whole of the group. The common objective is to generate profitable growth in market share for the cooperative banks and the entities in the DZ BANK Group with a focus on customer loyalty and customer acquisition by providing needs-based solutions (products and processes) as part of a holistic advisory approach across all sales channels (omnichannel approach).
- The **corporate customers** product and sales committee is responsible for coordinating the strategies, planning, projects, and sales activities in the DZ BANK Group's corporate banking business if overarching interests are involved. The objective is closer integration in both the joint lending business with the cooperative banks and the direct corporate customer business of the entities in the DZ BANK Group.

- The aim of the **institutional clients** product and sales committee is to help strengthen the position of the DZ BANK Group in the institutional clients market.

The DZ BANK Group **Heads of Internal Audit working group**, which is led by DZ BANK, coordinates group-relevant audit issues and the planning of cross-company audits and activities based on a jointly developed framework approved by the relevant members of the Board of Managing Directors. This working group also serves as a platform for sharing specialist information across the group – especially information on current trends in internal audit – and for refining group audit activities. On behalf of this working group, the Head of Group Audit reports to the member of the Board of Managing Directors responsible for group audit and, where appropriate, to the Group Coordination Committee.

The **Heads of Compliance working group**, whose members comprise the heads of compliance in the management units and at ReiseBank AG, Frankfurt am Main (ReiseBank) and GENO Broker GmbH, assists DZ BANK with compliance management across the group if this is legally required. It also advises the DZ BANK Group's Group Coordination Committee on fundamental compliance-related issues. One of the primary tasks of the Heads of Compliance working group is to draw up a compliance standard for the DZ BANK Group; in addition, it serves as a platform enabling specialists to share information across the group. When fulfilling its responsibilities, the Heads of Compliance working group must respect the individual responsibility of the heads of compliance in the group entities and ensure specific regulatory requirements are observed. The working group reports to the member of the DZ BANK Board of Managing Directors responsible for compliance and, where appropriate, to the Group Coordination Committee.

The **Economic Roundtable**, the members of which comprise the economists from the main group companies, helps the Group Coordination Committee to assess economic and capital market trends, providing a uniform basis for consistent planning scenarios throughout the group, and to prepare risk scenarios required by regulators.

The members of the **Innovation Roundtable** comprise specialists, executive managers, and innovation managers from the various divisions of DZ BANK and the group companies. The Innovation Roundtable is therefore the Group Coordination Committee's key point of contact for information on innovations and trends relevant to the group. The objectives of the Innovation Roundtable are to systematically examine innovative topics with group relevance on an ongoing basis, to bring together the divisions involved in innovation projects and to ensure that innovation activities in the DZ BANK Group are transparent.

The **Group Corporate Responsibility Committee**, which is coordinated by DZ BANK and whose members include the sustainability coordinators in the management units and at ReiseBank, is a platform for sharing specialist information throughout the group about the latest sustainability-related trends and activities. The committee identifies key issues relevant to the whole of the group and initiates joint projects. The head of the Group Corporate Responsibility Committee reports to the DZ BANK Co-Chief Executive Officer responsible for sustainability. He or she also reports annually and on an ad hoc basis to the Group Coordination Committee.

### 2.3 Key performance indicators

The DZ BANK Group's KPIs for profitability, volume, productivity, liquidity adequacy, and capital adequacy, as well as the regulatory return on risk-adjusted capital (RORAC), are presented below.

#### – Profitability figures in accordance with International Financial Reporting Standards (IFRS):

The profitability figures (primarily loss allowances for loans and advances, profit/loss before taxes, net profit/loss) are presented in chapter II, sections 3.1 and 3.2 of this group management report as well as in note 33 of the notes to the consolidated financial statements.

#### – IFRS volume figures:

The main volume-related KPIs include equity and total assets. These are set out in chapter II, section 3.2 (figure 3) and section 4 of the group management report, in the consolidated financial statements (balance sheet as at December 31, 2019), and in note 33 of the notes to the consolidated financial statements.

#### – Productivity:

The KPI for productivity is the cost/income ratio. This KPI is described in chapter II, sections 3.1 and 3.2 of this group management report and in note 33 of the notes to the consolidated financial statements.

#### – Liquidity adequacy:

Appropriate levels of liquidity reserves in relation to the risks associated with future payment obligations are demonstrated using the ratios for economic and regulatory liquidity adequacy presented in chapter VI, section 6.2 and section 6.3 of this group management report. The minimum liquidity surplus reflects economic liquidity adequacy. Regulatory liquidity adequacy is expressed in terms of the liquidity coverage ratio (LCR).

#### – Capital adequacy:

The KPIs and the calculation method for economic capital adequacy are described in chapter VI, section 7.2 of this group management report. The KPIs for regulatory capital adequacy (coverage ratio for the financial conglomerate, total capital ratio, Tier 1 capital ratio, common equity Tier 1 capital ratio, and leverage ratio) are included in chapter VI, section 7.3.

#### – Regulatory RORAC:

Regulatory RORAC is a risk-adjusted performance measure. In the year under review, it reflected the relationship between profit before taxes and the average own funds for the year (calculated as an average of the figure for the four quarters) in accordance with the own funds/solvency capital requirement. It therefore shows the return on the regulatory risk capital employed. This is described in chapter II, section 3.2 of this group management report and in note 33 of the notes to the consolidated financial statements.

Forecasts for core KPIs in the DZ BANK Group are set out in the Outlook section of the group management report.

### 2.4 Management process

In the annual strategic planning process, the entities in the DZ BANK Group produce a business strategy (objectives, strategic direction, and action plan), a finance and capital requirements plan, and risk strategies derived from the business strategy.

The planning by the management units is then validated and the plans are also discussed in strategy meetings. When the individual entity planning has been completed, the process then moves on to consolidated group planning, which aims to facilitate active management of the DZ BANK Group's economic and regulatory capital adequacy.

The action plans to attain the targets are discussed in a number of ways, notably in quarterly meetings with the subsidiaries and in steering committees with DZ BANK's divisions.

At DZ BANK level, the main divisions involved in the strategic planning process are Strategy & Corporate Development, Group Risk Controlling, Group Finance, Bank Finance, and Research and Economics. The planning coordinators in the front-office divisions of DZ BANK and the subsidiaries are also incorporated into the process. The Strategy & Corporate Development division is responsible for overall coordination of the strategic planning process.