

## 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.