

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 partnership between the cooperative banks and the entities in the DZ BANK Group is built on the principles of subsidiarity, decentralization, and regional market responsibility.

The DZ BANK Group drives forward strategic initiatives and programs at three different levels. Firstly, the entities in the DZ BANK Group work 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] on strategic projects and initiatives. The strategy agenda entitled 'Shaping the future cooperatively' provides a framework within which the entities of the cooperative financial network are implementing the initiatives in the BVR's strategic KundenFokus (customer focus) project with the aim of establishing an omnichannel model to strengthen their competitiveness. Secondly, the entities in the DZ BANK Group have jointly identified key areas of collaboration that offer the potential for reinforcing the future viability and profitability of all the members of the cooperative financial network. These areas include measures to streamline the business model. At the third level, each individual entity in the DZ BANK Group pursues its own strategic initiatives, such as the 'Verbund First 4.0' strategic program at DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK), the 'Wachstum durch Wandel' (growth through change) program at R+V Versicherung AG, Wiesbaden, (R+V Versicherung; subgroup abbreviated to R+V), and the Fokus 2020 program at DZ HYP AG, Hamburg and Münster, (DZ HYP).

The DZ BANK Group did not need to significantly adjust its strategic focus as a result of the COVID-19 pandemic. Nevertheless, the entities in the DZ BANK Group responded to the changed market conditions by taking various measures and adapting their product ranges. Nearly all sales activities were moved to digital channels owing to the social distancing requirements introduced in connection with the crisis. Within the DZ BANK Group, precautionary measures were coordinated and implemented to ensure operational stability. The technical options for working from home were extended across the group. During the crisis, DZ BANK's committees were kept up to date on the latest situation and were able to make decisions at all times by holding virtual meetings, including extra meetings added to the usual schedule. Changes that have been initiated, such as the accelerated digitalization of sales and back-office processes, and the introduction of different ways of collaborating, will continue to have an effect on the DZ BANK Group's business activities even when the COVID-19 pandemic has passed.

1.1 DZ BANK – central institution and corporate bank

The strategic focus of DZ BANK, as described below, essentially relates to the activities of DZ BANK – central institution and corporate bank. DZ BANK – central institution and corporate bank 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, which is presented separately in this report in line with the internal reporting structure, 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. It does not therefore constitute a separate operating segment within the meaning of IFRS 8.5 and is not analyzed separately in this chapter.

At DZ BANK, the strategic initiatives designed to ensure the bank's resilience for the future are brought together in 'Verbund First 4.0', a strategic program launched in 2018. 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 measures based on defined action areas. A positive impact on employee satisfaction from the changes instigated under the 'Verbund First 4.0' strategy was already evident in the reporting year. Results from a staff survey in the middle of 2020 showed that satisfaction had risen and that employees strongly identified with DZ BANK's current corporate strategy and values.

The following sections describe how DZ BANK is implementing its strategy in the various business lines.

1.1.1 Cooperative Banks/Verbund

The cooperative banks are DZ BANK's most important customer group and its partners in joint activities covering sales and the provision of advisory services, as well as being shareholders. The focus of the Cooperative Banks/Verbund division is to meet the needs of this relationship and provide comprehensive, optimum support for the cooperative banks. 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's presence in all regions ensures that it can be close to the banks it supports, in terms of both physical proximity and emotional connection.

DZ BANK offers the cooperative banks consultancy and other services at every stage of strategic bank management and regulatory processes. 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. As part of the 'Verbund First 4.0' program, DZ BANK has updated its advisory and sales processes relating to own-account investing activities and upgraded its platform for cooperative banks, which is closely integrated into their system landscape.

Key network committees ensure that the cooperative banks are closely involved in DZ BANK's strategic considerations and initiatives. The Central Advisory Council enables important strategic matters in the DZ BANK Group to be discussed in depth and connects the various players and levels in the cooperative financial network. DZ BANK also has five regional Banking Advisory Councils that carry out an advisory and multiplier function.

1.1.2 Corporate Banking

In the corporate banking market, DZ BANK supports the cooperative banks. This support concept is geared to the needs of corporate customers and the individual market situation, and is closely integrated with the activities of the cooperative financial network. DZ BANK has four regional customer care centers that look after both its direct customers and customers in the joint business with the cooperative banks. Customer relationship management for multinationals, the agricultural and healthcare sectors, and cooperative financial network customers has been grouped together in the Central Corporate Banking division. This division is also responsible for corporate banking development activities.

Support is also provided for the international business of the cooperative financial network's corporate customers, where required. DZ BANK offers a range of solutions geared to Germany's export-oriented economy, including foreign payments processing, export credit guarantees and financing, and currency hedging. It frequently makes use of its contacts with well-established partner banks in the countries concerned to help corporate customers open local accounts or obtain financing in the relevant currency. DZ BANK has four branches and six representative offices outside Germany. They are located in key financial markets and in certain countries outside the European Economic Area (EEA) that are important trading partners for Germany. The VR International information and communications platform has been specially developed to help large and medium-sized companies conduct international business.

In September 2020, DZ BANK took over the former VR Factorem GmbH from VR Smart Finanz AG, Eschborn, (VR Smart Finanz). The company now has the name VR Factoring GmbH and rounds off the range of products in the receivables management business. It is a specialty financing provider and offers a platform that facilitates the sale of unsettled trade receivables.

In 2020, DZ BANK continued the process of digitalizing the business line with the launch of the DZdigital360 platform, which covers the corporate customer lending process. Combined with the link to VR GeschäftsNavigator (VR business navigator), which provides digital sales process support for corporate customer relationship managers in cooperative banks and was completely revised and upgraded in 2020, the introduction of DZdigital360 is intended to further enhance process efficiency in the corporate customer lending business operated jointly with the cooperative banks.

Since the reporting year, DZ BANK has been focusing particularly on support lending in order to meet the requirements associated with the implementation of the different government assistance programs in response to the COVID-19 pandemic. It offers the cooperative banks, their corporate customers, and group entities various advisory, process, and digitalization services in connection with public-sector support loans. 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. The coronavirus support programs were integrated into the sales platform, VR Bankenportal (VR banking portal), and the Foerder-Welt.de website right at the beginning of the COVID-19 pandemic. In addition, VR Smart Finanz and DZ BANK quickly combined their digital production processes to create 'VR Smart flexibel support loan', a completely new product offering.

1.1.3 Retail Banking

In retail banking, one of the primary areas of DZ BANK's marketing is the securities business with retail customers. In this business, DZ BANK offers services in the form of products, processes, and platforms, which are predominantly made available to the cooperative banks and cooperation banks. DZ BANK's aim is to help these banks with their marketing and strategic planning in relation to securities business with retail customers. As well as securities and savings plans, this includes liability products, advisory services, market data, research, and trading/advisory/e-business platforms.

DZ BANK makes available individual analyses and data tools to support the cooperative banks with their planning, implementation, and review of strategy throughout the management cycle. It thereby helps the cooperative banks to meet their regulatory obligations. This support is being accompanied by the accelerated expansion of a range of sustainable products aimed at satisfying regulatory requirements as part of DZ BANK's approach to sustainability in its advisory services.

In the context of the digitalization strategy, DZ BANK is developing solutions that can be used to provide customers of the cooperative banks and cooperation banks with digital access to their bank in addition to conventional branch visits. Alongside online banking applications, this has also included, since 2019, a facility whereby retail customers are able to quickly open an investment account themselves online, thereby cutting the administrative burden, both for themselves and the bank.

Within the scope of the 'Verbund First 4.0' strategic program, DZ BANK is aiming to broaden its sales activities and step up the market penetration of its B2B and B2B4C platform solutions, in particular in collaboration with the cooperative banks. These activities include the meinGIS web-based market data platform for advisors, the Meine Anlagezertifikate (my investment certificates) digital world, and the DZ BANK derivatives portal for retail customers. The meinGIS platform provides advisors with access to the latest market information, such as share prices, bond prices, charts, and corporate news. Retail customers can access the Meine Anlagezertifikate digital world at any time and from any device to obtain detailed information on investment products in their investment accounts. The DZ BANK derivatives portal also offers a broad range of investment products for independent retail investors.

1.1.4 Capital Markets

DZ BANK offers advisory and sales services in relation to investment and risk management products covering the interest-rate, credit, equities, and currency asset classes for the benefit of its institutional customers in Germany and abroad, the cooperative banks in their own-account investing activities, and its corporate customers. Its offering also encompasses advisory and sales services in connection with equities and fixed-income products in both primary and secondary markets, as well as research services.

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.

As part of the 'Verbund First 4.0' strategic program, DZ BANK is focusing its capital markets activities on consolidating its market position and on expanding its services and digital platforms. For example, the SalesCockpit developed by DZ BANK's InnovationLAB went live in 2020. This application supports sales employees with product ideas and information about customer needs and brings together a large amount of previously fragmented data covering trades, limits, and contact names. The EGon own-account investing platform is being steadily expanded into an integrated trading and treasury platform for the benefit of cooperative banks. Since the first quarter of 2021, it has been possible to use EGon to pick stocks across the range of products and to directly enter into standard bond transactions.

DZ BANK is constantly working on expanding its expertise and business in sustainable capital market products, and on positioning itself as a leader in the structuring and placement of new issues in the ESG (environmental, social, governance) market segment. After placing the first issue of its own green bond in 2018, DZ BANK placed a second such bond with a volume of €250 million in December 2020. The bond is primarily focused on green financing for wind power generation projects. DZ BANK is active in the segment covering social bonds aimed at dealing with the consequences of the pandemic, for example with support for a bond issued under the European Union's SURE program (Support to mitigate Unemployment Risk in an Emergency). The ESGlocate database created in 2020 enables issuers to ensure that their sustainable bonds are consistently allocated to socially responsible investors. These activities underline the importance that DZ BANK attaches to sustainability.

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.

Based on the corporate strategy of the cooperative financial network, DZ BANK is intending to handle all payments processing itself again going forward so that it can offer payments processing solutions more efficiently and independently of third-party involvement. In a process of gradual migration, the plan is to carry out further pooling of resources, functions, and services.

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 is playing an active role in initiatives to create cross-channel, independent payments solutions. For example, in the European market, it is participating in the European Payments Initiative (EPI) and the German #DK digital banking project, which is closely integrated with the EPI. DZ BANK is also involved in activities organized by Deutsche Bundesbank and the Bundesministerium der Finanzen (BMF) [German Federal Ministry of Finance] concerning the design and introduction of the digital euro.

In April 2020, DZ BANK introduced ApplePay for customers of the cooperative financial network, thereby complementing its mobile payments offering. Currently, it is also working on the design of the Request to

Pay service, the future pan-European standard for exchanging real-time messages securely and simply, either with or without an accompanying payment transaction. In this regard, DZ BANK is planning to offer the first solutions to its corporate customers in the near future.

In the capital markets services business, DZ BANK processed a further completely digital promissory note transaction based on blockchain technology in 2020 in collaboration with other banking partners. The type of digital execution established to do this, referred to as Finledger, streamlines the approach, cutting out more than half of the steps previously required by the process. This activity is an example of the complex measures needed to digitalize the processes involved in capital markets services. DZ BANK is also offering a central transaction-based reporting system that strengthens the ability of the entities in the cooperative financial network to satisfy regulatory requirements.

As part of the growth strategy in the depositary business, DZ BANK increased the volume of its assets under custody in 2020 through both organic growth and growth by acquisition.

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 retirement or other 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.

In its core home finance business, BSH positions itself as a partner of the cooperative banks. It focuses on traditional home savings loans, its own instant finance options backed by home savings, building loans, and the brokering of cooperative bank real estate loans. In the core home savings business, BSH is continuously developing the range of products to improve the return on the products.

To expand its own funding base, BSH has begun to issue Pfandbriefe as a source of funding. In 2020, for the first time, it issued a bearer Pfandbrief in benchmark format with a value of €500 million and a term of ten years.

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 response to new market requirements, the persistently low interest rates, and changes in customer needs, BSH is keeping costs tightly controlled over the long term while at the same time investing in the future, as dictated by its corporate strategy. This investment is primarily concentrated on upgrading IT infrastructure and implementing digitalization initiatives, such as the development of a digital ecosystem for finance products based on homes and house-building, and BAUFINEX, a digital home finance marketplace for independent brokers, established in 2018.

1.3 R+V

R+V is the cooperative provider of insurance and pension products and operates in the non-life, life, health, and reinsurance sectors.

R+V has established a strategic program known as 'Wachstum durch Wandel' (growth through change) to guide its overall development going forward. This program aims to consolidate R+V's market position, enhance value creation for the cooperative financial network, and support the focus of future activities. Action to safeguard lasting profitable growth, a focus on customers, the refinement of sales operations, and digitalization are the cornerstones of the program. 'Wachstum durch Wandel' is accompanied by an evolution of corporate culture.

Within this framework, R+V is continuing to develop its range of products. In response to the consequences of the COVID-19 pandemic, R+V participated in a German government initiative in 2020 aimed at maintaining credit insurance and ensuring the movement of goods, and supported the VR-ExtraPlus Hilft voucher portal set up by the cooperative financial network.

To add a further dimension to its sustainability profile, R+V signed the Principles for Responsible Investment in the reporting year, thus becoming the second entity within the DZ BANK Group to support these principles after Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding; subgroup abbreviated to UMH). From now on, customers can include sustainability aspects in their R+V unit-linked policies by selecting an institutional fund that invests the money in the equities of sustainability-oriented companies in the equities phase.

1.4 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. The products offered also include easyCredit-Finanzreserve, which customers can use to obtain additional cash of up to €15,000 at any time and via instant payments, and 'Ratenkauf by easyCredit', which is an installment purchase solution that can be used both online and in-store. In Austria, it collaborates with the cooperative banks to offer 'Der faire Credit', a consumer finance product.

TeamBank's strategic activities are focused on generating long-term profitable growth for the cooperative financial network. The company aims to be customers' first choice for liquidity management. In this context, TeamBank is continuing to upgrade its technical infrastructure in order to establish the necessary foundations for further growth. In 2020, it introduced a legal, qualified electronic signature for finalizing transactions with customers in branches of cooperative banks. Contract documents were then also issued digitally in conjunction with the new signing procedure.

1.5 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. UMH is striving to generate growth in this business by expanding its range of solutions for partner banks. In this context, it is offering the cooperative banks and their customers fund solutions, platforms such as the MeinInvest digital investment tool, and the VermögenPlus product in which investments in funds are actively managed; it is also constantly expanding its digital marketing activities.

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. UMH's objective in its institutional client business is to consolidate its positioning as an active risks/returns manager and sustainability manager using a range of sustainability solutions developed as part of the enhancement of its product offering.

1.6 DZ HYP

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 corporate, retail, and public-sector 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 two headquarters, in Hamburg and Münster, plus twelve further offices across Germany. It also supports (primarily institutional) clients from Germany in the French, Dutch, UK, and Austrian markets.

DZ HYP's strategic development is now focused on systematic regional marketing in collaboration with the cooperative banks in order to consolidate its market position in Germany. It is also working steadily on upgrading and digitalizing its processes for new business and existing portfolios.

DZ HYP has moved the non-strategic part of its governments/banks securities portfolio to a wind-down portfolio with the primary aim of running off these securities while preserving value.

1.7 DZ PRIVATBANK

DZ PRIVATBANK S.A., Luxembourg, with its eight branches in Germany, the two subsidiaries DZ PRIVATBANK (Schweiz) AG, Zurich, (DZ PRIVATBANK Schweiz) and IPCConcept (Luxemburg) S.A. (IPC LU), and IPCConcept (Schweiz) AG (IPC CH), is the international provider for private banking/wealth management, fund services, and lending in all currencies within 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.

It has also specified targeted areas for sales growth in its sectors of the market. These include financial portfolio management (asset management), for example for Switzerland-oriented client accounts, that facilitates asset diversification for European customers outside the eurozone, and further expansion of the investment solutions managed according to strict sustainability criteria that have been offered for many years. Other key growth areas are third-party fund business relating to liquid and alternative investment funds, for example in close collaboration with DZ BANK AG (Fondshafen (fund havens) sales initiative), and flexible euro-denominated LuxCredit financing to cover customers' variable borrowing needs in the retail and business financing sector.

1.8 VR Smart Finanz

In the cooperative financial network, VR Smart Finanz is the digital provider of finance for the self-employed and small businesses and operates as a subsidiary partner of the local cooperative banks. Since its strategic transformation process was initiated in 2017, VR Smart Finanz has been focusing on lending, hire purchase, and leasing solutions up to €750,000, and on digital services for customers in the small business, self-employed, and lower SME segments. In addition, VR Smart Finanz has been divesting non-strategic operations, most recently in September 2020 with the transfer of its subsidiary VR Factorem to DZ BANK.

As part of its corporate strategy, VR Smart Finanz is focusing on further expansion of its automated financing solutions. In addition, it offers its small-business and self-employed customers digital services relating to day-to-day financial requirements, such as the VR Smart Guide accounting software introduced at the end of 2018 and Bonitätsmanager (credit status manager), an application for optimizing the credit quality of a business. The digitally supported financing solutions and digital services aim to offer target customers needs-based and omnichannel access with less administrative effort for bank and customer alike.

In response to the COVID-19 pandemic, VR Smart Finanz extended its range of solutions and, from the end of March 2020, offered the 'VR Smart flexibel support loan', a loan for small and medium-sized businesses that can be taken out digitally or in person through the local cooperative banks and is subsidized through KfW. VR Smart Finanz thus enables customers of the cooperative banks to submit an automated application for loans, hire purchase, or leasing and is supporting the growing digital sales trend, which has gathered pace during the COVID-19 pandemic.

1.9 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 its business activities have been scaled back markedly over the last few years. DVB's remaining business, shipping finance, is being run off while preserving as much value as possible. An open-ended review is currently being carried out to establish whether the remaining activities of DVB can be integrated into DZ BANK.

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.

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 risk report (chapter VII) are consistent 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.

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.

FIG. 1 – MANAGEMENT COMMITTEES IN 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 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 of the German Supervision of Financial Conglomerates Act (FKAG) and section 25a 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 risk reporting.
- 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 further development of 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 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.
- 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 **Compliance working group**, whose members comprise the heads of the management units and of ReiseBank AG, Frankfurt am Main, (ReiseBank), assists DZ BANK with compliance management across the group if this is legally required. It also advises the DZ BANK Group's Group Risk and Finance Committee on fundamental compliance-related issues. One of the primary tasks of the Compliance working group is to draw up common compliance standards for the DZ BANK Group; in addition, it serves as a platform enabling specialists to share information and agree on requirements across the group. When fulfilling its responsibilities, the 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 Heads of Compliance working group reports to the Group Risk and Finance Committee, headed by the member of the DZ BANK Board of Managing Directors responsible for compliance and finance, and by the member of the DZ BANK Board of Managing Directors responsible for risk control.

- The **Information Security working group** of the Group Risk and Finance Committee and of the Group IT Committee is the central body responsible for managing information security and information security risk in the DZ BANK Group. It advises the Group Coordination Committee, the Group Risk and Finance Committee, and the Group IT Committee on matters relating to specifying and adjusting information security targets and on the Group's corporate strategy in this regard. The working group encourages information and experience relating to information security issues to be shared throughout the group, is responsible for the design of the risk management system for information security in the DZ BANK Group, and signs off the documentation forming part of the rules and regulations for the groupwide information security management system before this documentation is presented, where required, to the Boards of Managing Directors in the DZ BANK Group for approval.

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 in the DZ BANK Group. This committee manages the DZ BANK Group's IT activities that are relevant throughout the group. In particular, the Group IT Committee makes decisions on collaboration issues between IT units, identifies and realizes synergies, specifies common IT standards, and initiates joint IT projects.

The **Group HR Committee** comprises 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 **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 chapters II.3.1 and II.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 chapters II.3.2 (figure 3) and II.4 of the group management report, in the consolidated financial statements (balance sheet as at December 31, 2020), 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 chapters II.3.1 and II.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 normative internal liquidity adequacy presented in chapters VII.4.2 and VII.4.3 of this group management report. The minimum liquidity surplus reflects economic liquidity adequacy. Normative internal 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 VII.5.2 of this group management report. The KPIs for normative internal capital adequacy (coverage ratio for the financial conglomerate, total capital ratio, Tier 1 capital ratio, common equity Tier 1 capital ratio, leverage ratio, and the minimum requirement for own funds and eligible liabilities (MREL)) are included in chapter VII.5.3.

– **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.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 in 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 strategic finance and capital 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.

At DZ BANK level, the main divisions involved in the strategic planning process are Strategy & Group 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 & Group Development division is responsible for overall coordination of the strategic planning process.