

VI DZ BANK Group and DZ BANK opportunity report

Up to and including the 2019 annual financial report, opportunities and risks were disclosed together in one chapter (Opportunity and risk report) of the (group) management report. In view of the increasingly complex regulation affecting risk management, which is reflected in the broader scope of external risk reporting, opportunities and risks are now set out in separate chapters of the (group) management report to ensure that opportunities are presented with greater clarity.

The details relating to DZ BANK are included in the opportunity report for the DZ BANK Group so that the disclosures are more transparent and understandable. A separate opportunity report is not prepared for DZ BANK. Unless stated otherwise, the disclosures relating to the DZ BANK Group also apply to DZ BANK.

1 Management of opportunities

The DZ BANK Group and DZ BANK define **opportunities** as situations presenting the potential for further returns that could be exploited.

The management of opportunities is integrated into the **annual strategic planning process**. The potential for returns is identified and analyzed on the basis of various macroeconomic scenarios, trends, and changes in the market environment, and then included in strategic financial planning. Details about the strategic planning process are presented in chapter I.2.4 in 'DZ BANK Group fundamentals' in this (group) management report.

Reports on future business development opportunities are based on the business strategies. As part of the general communication of the business strategies, employees are kept up to date about potential opportunities that have been identified.

Opportunity management is an integral component of governance and is therefore taken into account in the general management approach, in the management of subsidiaries via appointments to key posts, and in the DZ BANK Group's committees. The governance of the DZ BANK Group is described in chapter I.2.2 in 'DZ BANK Group fundamentals'.

The opportunity management system is not integrated into the risk management system.

2 Potential opportunities

2.1 Corporate strategy

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.

Note:

In the event of differences between the English version of the opportunity report and the original German version, the German version shall be definitive.

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 levels.

- Firstly, the entities in the DZ BANK Group work on strategic projects and initiatives in collaboration with the cooperative banks and Fiducia & GAD, with the BVR taking a leading role. 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 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 (such as operating models and sustainability) that offer the potential for reinforcing the future viability and profitability of all the members of the cooperative financial network. The aim is to continue to press ahead with collaboration in these areas of activity over the coming years.
- 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. The strategic focus of the DZ BANK Group is described in chapter I.1 in ‘DZ BANK Group fundamentals’ in this (group) management report.

Chapter V in the outlook describes expected developments in the market and operating environment and their implications for the earnings performance forecast for 2021. The expected developments in the market and business environment are crucial factors in the **strategic positioning** and the resulting opportunities for increasing earnings and cutting costs.

2.2 Digitalization and new competitors

The process of **digitalization** has been surging ahead in virtually every area of life, evidenced by the widespread growth in the use of internet-based services and high-tech end devices. This trend is encouraging the intermediation of **new competitors** at the interface between customers and banking services. For example, it is evident that non-banks are increasingly gaining a foothold in the payments processing segment.

At the same time, the advancing digitalization across all areas of life and the associated changes in customer behavior are opening up opportunities in relation to day-to-day banking business, especially payments processing. For example, increased **use of mobile devices in payments processing** means that particularly Germany – where paying in cash has generally continued to be more common than in other countries – is now seeing cash transactions being substituted with cashless payments. Payments through online cash register functions are climbing steadily, making it more important to have payment processes that are suitable for omnichannel use. Overall, the acceleration in the use of financial management applications means that business processes and payment processes are becoming increasingly merged.

The entities in the DZ BANK Group responded to these developments a while ago by increasing the new products and services that they offer. Examples include the launch of a cross-bank e-commerce payment system called paydirekt, the implementation of **contactless credit card payments** using a smartphone at point of sale, and the introduction of standardized and stronger authentication procedures. Furthermore, DZ BANK offers a portfolio of solutions for mobile payments systems, which was rounded off in 2020 with the addition of Apple Pay.

In response to the growing importance of payment processes suitable for omnichannel use, DZ BANK is also supporting the development of a European omnichannel payments solution (**European Payments Initiative**) and the consolidation of national systems in the first step toward a pan-European payments solution. The expansion of applications aimed at simplifying liquidity management and billing, together with greater use of a range of special benefits, facilitates more integration of banking business into customer value chains.

DZ BANK's participation in the **SEPA instant payments** system also opens up opportunities for developing new solutions. Future solutions such as Request to Pay – a system in which the account acquires another dimension as a communications channel – are currently being designed using the instant payments infrastructure. Based on this range of initiatives, the DZ BANK Group is forging ahead with the replacement of cash and increasingly tying in additional **payment-related services with accounts**. DZ BANK is thus sharing in the accelerating trend toward electronic payment transactions with the objective of increasing its earnings.

Furthermore, **new technologies and developments** – such as blockchain, internet of things, and digital currencies – are being identified as potential opportunities, tested by the Transaction Banking business line, and assessed as to whether they are viable for use in the cooperative financial network.

2.3 Credit ratings

The credit ratings of DZ BANK and its subsidiaries are critical in determining the funding opportunities available on money and capital markets. The relatively high ratings compared with other entities in the market open up potential opportunities for the entities in the DZ BANK Group, primarily in terms of customer acquisition, pricing, and funding through capital markets.

The credit ratings for DZ BANK can be found in the 'Key figures' at the front of the Annual Report.

2.4 Summary of the opportunity situation

The opportunities presented by the forecast developments are reasonable in relation to the risks that will be incurred.