

# Report of the Supervisory Board



Henning Deneke-Jöhrens, Chairman of the Supervisory Board of DZ BANK AG

In 2020, the Supervisory Board carried out the tasks assigned to it by law, the Articles of Association, and rules of procedure. As part of this remit, the Supervisory Board advised the Board of Managing Directors and monitored its management activities. In particular, the Supervisory Board focused on the capital situation of DZ BANK and its strategy as the network-oriented central institution and holding company of a financial services group. It also studied current regulatory challenges arising from the EU's ongoing legislative process, such as implementation of the EU banking package. The Supervisory Board thoroughly examined the risk position of the bank and the group as well as the development of systems and procedures used to manage the main risks in the Bank sector and Insurance sector. The Supervisory Board was always involved in decisions of fundamental importance. The Board of Managing Directors provided the Supervisory Board with regular, timely, and comprehensive reports on all matters relevant to the company, in particular the strategy, planning, business performance, risk situation, risk management, remuneration systems, regulatory requirements, technology, organizational matters, and compliance.

In 2020, just about everything was shaped by the coronavirus pandemic, even in the German banking industry. The numerous risk factors considered to be major threats to the global economy at the beginning of the year, such as Brexit and international trade disputes, were completely eclipsed by COVID-19. The start of the COVID-19 crisis triggered a general flight to safe-haven assets, causing a sharp drop in the yields on ten-year Bunds, which hit a record low of minus 0.90 percent before settling in a range between minus 0.65 percent and minus 0.30 percent. In the wake of the lockdown in March, the stock markets – measured by the DAX – tumbled from around 13,795 points to 8,256 points. However, the indices then recovered, boosted by expansionary monetary and fiscal policy. Following the economic rebound in the summer months, the German economy hit turbulent waters again in the autumn. Many countries reintroduced lockdowns in November and December in response to a second wave of COVID-19. Nevertheless, the prospect of an effective COVID-19 vaccine then lifted sentiment markedly in financial markets. At the end of the year, the DAX rose to an all-time high of around 13,900 points. The euro also appreciated against the US dollar in

2020. It benefited from the agreement on the EU recovery fund, the averted risk of a hard Brexit, and from a further rise in risk appetite, which placed the dollar under pressure.

Despite the widespread impact of the COVID-19 pandemic on financial markets, the DZ BANK Group did not need to adjust its strategic focus to any significant degree. 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 pandemic. 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 and those of the Supervisory Board 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. These changes also form part of the strategic initiatives designed to ensure DZ BANK's resilience for the future, which have been brought together under the 'Verbund First 4.0' strategic program established in 2018 and which continued to be the subject of detailed deliberations by the Supervisory Board in 2020. The program is aimed at improvements in three key areas: market offering, control and production processes, and corporate culture. A positive impact from the changes instigated under the 'Verbund First 4.0' strategy was already evident in the reporting year.

### Meetings of the Supervisory Board

The Supervisory Board held five regular and two extraordinary meetings in 2020. Its members attended the meetings of the Supervisory Board and its committees regularly.

At its meetings in the reporting year, the Supervisory Board received and discussed reports from the Board of Managing Directors on current business performance and the capital situation of DZ BANK and the DZ BANK Group. In this context, there were also discussions on the impact of the COVID-19 pandemic on the performance, liquidity, and capital of the DZ BANK Group, the challenges for Bausparkasse Schwäbisch Hall posed by low interest rates, and the reduction of the portfolio and structure at DVB Bank. In addition, the Supervisory Board examined the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report for the year ended December 31, 2019 and approved them in line with the Audit Committee's recommendation. It reviewed the combined non-financial statement for DZ BANK AG and the DZ BANK Group for 2019 and confirmed that the statement satisfied the statutory requirements. It also decided to engage a third party to carry out a review of the combined non-financial statement for 2020. In further discussions, the Supervisory Board addressed the report on profitability in 2019 and, in accordance with the Audit Committee's recommendations, approved the report of the Supervisory Board to the Annual General Meeting as well as the agenda for the Annual General Meeting on May 27, 2020. Based on the recommendation of the Audit Committee, this was accompanied by the Supervisory Board's proposal to the Annual General Meeting that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, (EY) be appointed as auditor of the single-entity financial statements and the consolidated financial statements for the year ended December 31, 2020 and as auditor for the review of the group's half-year financial report for the period ended June 30, 2020 and other interim financial statements at the level of the group or DZ BANK AG prepared for periods prior to December 31, 2020. This was linked, following a recommendation of the Audit Committee, to the Supervisory Board's proposal to the Annual General Meeting that PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, (PwC) be appointed as auditor responsible for the review report on interim financial statements at the level of the group or DZ BANK AG prepared for periods after December 31, 2020 but before the 2021 Annual General Meeting. These proposals were made in view of the planned change of auditor in 2021, which had been preceded by a process to select the auditor. In its deliberations, the Supervisory Board also elected the Chairman of the Supervisory Board and his two deputies. It decided on the composition of the

Supervisory Board committees and made recommendations on the appointment of the Chair and deputy for each committee.

Under items scheduled for regular discussion, the Supervisory Board examined the strategic and operational planning at DZ BANK and in the DZ BANK Group in the third and fourth quarters of 2020. This included discussing the recovery planning, which is required by law, and the outsourcing strategy. The Supervisory Board also adopted various resolutions in connection with transactions requiring its consent, such as long-term equity investments and loans. As part of another aspect of its activities, the Supervisory Board received and discussed a presentation from representatives of the ECB and Deutsche Bundesbank on the following: the reorganization of the Single Supervisory Mechanism (SSM) and the priorities for 2021; the COVID-19 support measures under the SSM; the 2020 Supervisory Review and Evaluation Process (SREP), including the most recent major progress made by DZ BANK and the supervisor's primary concerns and recommendations in respect of DZ BANK; and the key supervisory activities relating to DZ BANK in 2020. In addition, the Supervisory Board addressed nomination and remuneration issues, passing the necessary resolutions in accordance with the recommendations submitted by the Nominations Committee and Remuneration Control Committee. Finally, the Supervisory Board regularly received and discussed reports on the work of the committees from their Chairs.

The Supervisory Board held two extraordinary meetings in April in response to the COVID-19 pandemic and its economic and regulatory consequences. At these meetings, the Supervisory Board received reports from the Board of Managing Directors about the impact of the pandemic on the overall economy, capital markets, financial and risk position, and the funding and liquidity situation. The Supervisory Board also initially decided in April 2020 to present its proposal for the appropriation of profit (and thus payment of a dividend) for 2019 at an extraordinary general meeting of shareholders in the fourth quarter of 2020. This was because of the recommendations made by the ECB in March 2020 regarding banks' dividend policy during the COVID-19 pandemic. In order to retain the option of distributing a dividend in 2020, the Supervisory Board therefore initially postponed the resolution regarding the appropriation of profits from the Annual General meeting on May 27, 2020 until a date later in the year. However, the ECB maintained its restrictive stance on the payment of dividends, which meant that it still was not possible to distribute a dividend in the fourth quarter of 2020. As a consequence, the Board of Managing Directors of DZ BANK informed the Supervisory Board in September 2020 that it would no longer be convening an extraordinary general meeting of shareholders in 2020. Accordingly, the Supervisory Board could no longer propose an appropriation of profits in respect of 2019. Instead, the distributable profit for 2019 was treated as profit carried forward and added to the distributable profit for 2020. This treatment was agreed with the independent auditor. The Supervisory Board will come to a decision on this distributable profit when it makes its proposal for the appropriation of profit in respect of the 2020 financial year.

### Meetings of the Supervisory Board committees

Each Supervisory Board committee also met on a number of occasions in 2020. During this period, the Remuneration Control Committee and Nominations Committee each held three meetings, the Audit Committee four meetings, and the Risk Committee five meetings. The Mediation Committee did not need to meet at all.

In the year under review, the **Nominations Committee** addressed the annual reappraisal of the Board of Managing Directors and the Supervisory Board, proposing a related resolution to the Supervisory Board. The committee also discussed the suitability and election of new members of the Supervisory Board and dealt with personnel matters relating to the Board of Managing Directors. Additionally, it decided on modifications to the framework policy for the suitability requirements relating to the Board of Managing Directors and the Supervisory Board and their members, and to two annexes to the policy (including the diversity policy).

At its meetings in 2020, the **Remuneration Control Committee** covered a wide range of remuneration issues and contractual matters relating to the Board of Managing Directors. This included the variable remuneration for the members of the Board of Managing Directors, with the committee setting the level of such remuneration for 2019 and specifying the company targets and individual targets for 2020. In this context, the committee also devoted time to specifying the overall amount of variable remuneration for DZ BANK AG and the DZ BANK Group. In further discussions, the committee examined contract extensions, the structure of the remuneration systems for employees, the appropriateness of the remuneration systems, analysis of the risk takers for 2020, and the remuneration officer's remuneration control report. Finally, the Remuneration Control Committee assessed the appropriateness of the remuneration of the Board of Managing Directors and received a forecast from the remuneration officer based on the latest remuneration regulations. Where necessary, the Remuneration Control Committee proposed individual resolutions to the Supervisory Board on these matters.

In 2020, the **Audit Committee** studied the findings of the audit of the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report for the year ended December 31, 2019 by EY. It proposed a related resolution to the Supervisory Board. The committee examined the auditor's reports on the half-year financial report of the DZ BANK Group and on the audit of the securities and investment services business in 2019/2020. Furthermore, the Audit Committee studied the planning for the audit of the 2020 single-entity and consolidated financial statements, discussed the auditor's areas of focus for 2020 and key findings from the current audit, and monitored the financial reporting process.

Furthermore, the committee discussed the appointment of the auditor of the single-entity financial statements and the auditor of the consolidated financial statements for 2020 as well as the auditor for the review of the group's half-year financial report and other interim financial statements. In this context, the Audit Committee discussed the independence and quality of the auditor and recommended to the Supervisory Board that the appointment of EY be once again proposed to the Annual General Meeting as auditor of the single-entity financial statements and the consolidated financial statements for the year ended December 31, 2020 and as auditor for the review of the group's half-year financial report for the period ended June 30, 2020 and other interim financial statements at the level of the group or DZ BANK AG prepared for periods prior to December 31, 2020. The fee to be paid to EY was taken into account. In view of EY's role as the independent auditor of Wirecard AG, the Audit Committee devoted greater effort to examining the issue of EY's independence as DZ BANK's auditor. Both the Audit Committee and EY ultimately came to the conclusion that EY could continue to act as the independent auditor of DZ BANK. In other activities, the Audit Committee prepared the Supervisory Board's review of the non-financial statement for DZ BANK AG and the DZ BANK Group for 2019. This also involved studying the findings of the external review of the non-financial statement, for which EY was also engaged by the Supervisory Board.

Because of the intended change of independent auditor in 2021, the Audit Committee recommended to the Supervisory Board that it propose to the Annual General Meeting the appointment of PwC or KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, as auditor for the review of any interim financial statements at the level of DZ BANK AG or the DZ BANK Group prepared for the period after December 31, 2020 but before the 2021 Annual General Meeting; it took into account the expected fees and expressed its preference for PwC. Beforehand, the Audit Committee had already reviewed the independence and quality of the PwC audit services.

In addition, the Audit Committee examined and discussed the business performance, capital, and profitability of the DZ BANK Group. It routinely focused on supervisory audits carried out in the DZ BANK Group, the latest regulatory issues, and the project portfolio. From the middle of the reporting year, non-financial risk at DZ BANK AG was integrated into the regular reports to the Audit Committee (NFR reporting). These reports include details on legal, information, security, and project risks as well as covering compliance risks. The Audit Committee addressed the changes in these risks and their reporting, and discussed these matters with the Board of Managing Directors. The committee also looked at the latest tax developments.

Other matters addressed by the committee included the report for the year ended December 31, 2019 and the quarterly reports prepared by Group Audit, the annual compliance report for 2019, and the IT strategy of DZ BANK and the DZ BANK Group. In this context, the Audit Committee monitored the effectiveness of the internal control system, risk management system, and internal audit. Additionally, it examined the engagement of the auditor for non-audit services and adjusted the guidance for the approval of such services at the end of the year. As part of these activities, the committee fundamentally revised the list of predefined services in view of the switch in auditor from EY to PwC in 2021. The revision included monitoring the upper limit on fees and checking the necessity of measures to maintain the auditor's independence.

The **Risk Committee** advised the Supervisory Board on current and future aggregate risk appetite and strategy in the DZ BANK Group. It also helped the Supervisory Board to monitor implementation of this strategy. This involved regularly examining the recovery indicators and the quarterly reports on aggregate risk and credit risk. As scheduled at the end of the year, it also involved reviewing the 2021 risk strategies for the DZ BANK Group. The Wirecard insolvency came up for detailed discussion in this context. As a result of the COVID-19 pandemic and following the supervisor's relaxation of various requirements, such as those relating to capital ratios, the risk appetite statement was adjusted during the year. The Risk Committee also paid close attention to DZ HYP's management of risk in connection with commercial real estate finance in the context of the COVID-19 pandemic. Furthermore, when addressing the risk reports and strategies, the committee monitored the effectiveness of the risk management system at DZ BANK AG and in the DZ BANK Group. The committee additionally focused on the review of the lending business, which had been brought forward, regulatory and organizational matters, and the shareholdings in connection with the audit of the annual financial statements for the year ended December 31, 2019. Moreover, the Risk Committee acknowledged and discussed the results of the stress tests in the DZ BANK Group. It also dealt with various loan applications and matters relating to long-term equity investments, where necessary adopting resolutions or issuing recommendations to the Supervisory Board. The committee discussed terms and conditions in the customer business and limit lists for banks and insurers. In line with its remit, it examined and monitored these limits. The Risk Committee reviewed DZ BANK's remuneration systems and recommended to the Supervisory Board that the requirements of section 7 of the German Regulation Governing Remuneration at Institutions (InstitutsVergV) be recognized as satisfied in terms of the current overall amount of variable remuneration. The deliberations of the committee also covered the DZ BANK Group's Brexit preparations and the work program for resolution planning in accordance with the Single Resolution Board's requirements.

### Corporate governance

In line with the requirements of the German Banking Act, the Supervisory Board conducted an evaluation of the Board of Managing Directors and a self-evaluation in the first quarter of 2020. It found that the structure, size, composition, and performance of both the Board of Managing Directors and the Supervisory Board and the knowledge, skills, and experience of the individual members of the Board of Managing Directors and Supervisory Board and of the Board of Managing Directors and Supervisory Board as a whole fulfilled the requirements laid down by law and in the Articles of Association. The Supervisory Board therefore confirmed the individual suitability of the individual members of the Board of Managing Directors and Supervisory Board and the collective suitability of the Board of Managing Directors and Supervisory Board as a whole. In this context, it also signed off a profile of skills and expertise for the Board of Managing Directors and Supervisory Board.

In its view, the Supervisory Board had adequate financial and personnel resources at its disposal in 2020 to be able to support new members in becoming familiar with their role and to provide the training that is necessary to maintain members' required level of expertise. DZ BANK offered and offers to cover the costs for members of the Supervisory Board of training programs from external providers that are relevant to the activities of Supervisory Boards. As part of the onboarding process, new members took up the offer of customized internal training sessions and information meetings to help them prepare for their tasks on the Supervisory Board of DZ BANK AG. In 2020, the Supervisory Board also received internal training on IT matters.

There were no indications of fundamental and far-reaching conflicts of interests affecting Supervisory Board members.

### **Cooperation with the auditor**

To monitor the independence of the auditor, the Audit Committee accepted EY's own confirmation of its independence and satisfied itself that EY complied with the prohibition on providing certain non-audit services. It also satisfied itself that EY has implemented appropriate processes and measures relating to quality assurance – including in connection with the acceptance and continuation of engagements and in connection with independent quality assurance related to engagements – and that EY is regularly subject to external quality control in the form of a peer review.

The Board of Managing Directors of DZ BANK issued a non-financial statement for 2020. The Supervisory Board decided to submit the statement for a voluntary external review, for which it engaged DZ BANK's auditor. EY did not become aware of any facts that would lead it to believe that the combined non-financial statement of the DZ BANK Group for the period January 1 to December 31, 2020 had not been prepared, in all material respects, in accordance with the statutory requirements. On this basis and in accordance with the Audit Committee's recommendation, the Supervisory Board concluded, having conducted its own review, that the non-financial statement complies with the statutory requirements. At its meeting on March 25, 2021, the Supervisory Board therefore approved the 2020 non-financial statement prepared by DZ BANK.

The auditor EY confirmed that the single-entity financial statements – together with the bookkeeping system – and the management report of DZ BANK as well as the consolidated financial statements and the group management report submitted by the Board of Managing Directors for the year ended December 31, 2020 complied with the applicable legal provisions. EY issued an unqualified opinion for each of these sets of financial statements. The audit reports were submitted to the members of the Supervisory Board, who discussed them in detail at their meetings. In addition, the Chairman of the Supervisory Board and the Chairs of the Supervisory Board committees maintained a regular, intensive dialog with the auditor. This dialog also covered the independent auditor's report pursuant to section 322 HGB (including the key audit matters). The Supervisory Board agrees with the findings of the audit.

## Adoption of the financial statements

At their meetings, the Supervisory Board and its Audit Committee scrutinized the single-entity financial statements and management report of DZ BANK (including the Board of Managing Directors' proposal for the appropriation of profits) as well as the consolidated financial statements and group management report for the year ended December 31, 2020. The Chairman of the Audit Committee provided the Supervisory Board with detailed information about the committee's extensive deliberations on the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report. Representatives of the auditor attended the Supervisory Board meeting convened to adopt the financial statements as well as the preparatory meetings held by the Audit Committee and by the Risk Committee so that they could report in detail on the material findings of their audit. They were also available to answer questions from the members of the Supervisory Board. The Supervisory Board did not express any reservations following the concluding findings of its review. The Supervisory Board approved the single-entity financial statements of DZ BANK and the consolidated financial statements prepared by the Board of Managing Directors for the year ended December 31, 2020 at its meeting on March 25, 2021 in line with the Audit Committee's resolution recommendation. The financial statements have therefore been adopted. The Supervisory Board agreed with the Board of Managing Directors' proposal for the appropriation of profits of €578,812,975.50 in respect of 2020. This includes the distributable profit for 2019 amounting to €324,021,291.41, in respect of which the Annual General Meeting in 2020 did not pass any profit appropriation resolution in application of the ECB's recommendation on dividend policy at banks during the COVID-19 pandemic. Accordingly, the distributable profit for 2019 had to be carried forward to the next financial year. Following the end of the 2020 financial year, this amount no longer constituted a separate item in respect of which the Annual General Meeting of DZ BANK could pass a separate profit appropriation resolution. Instead, the distributable profit for 2020 comprises the total for the two years, namely the sum of €324,021,291.41 (2019) and €254,791,684.09 (2020). The distribution of dividends must take into account the ECB's pronouncement on December 15, 2020 in which it continues to recommend that banks exercise extreme caution when distributing dividends. The ECB provides for two dividend limits: dividend limit 1 is a maximum of 15 percent of the accumulated consolidated net profit for the financial years 2019 and 2020; dividend limit 2 is a maximum of 20 basis points in terms of the CET1 ratio as at December 31, 2020. The application of these dividend limits means that the dividends originally planned for financial years 2019 and 2020 cannot be distributed in full, at least initially. The dividend limit in relation to the CET1 ratio constitutes the greater obstacle. Taking into account the above requirements, both the Supervisory Board and the Board of Managing Directors believe that a maximum dividend of just €0.16 per non-par-value share can be proposed to the Annual General Meeting on May 19, 2021. A decision on any further dividend distributions could only be made at an extraordinary general meeting of shareholders in the fourth quarter of 2021.

## Personnel changes on the Supervisory Board

Mr. Uwe Goldstein stepped down from the Supervisory Board of DZ BANK AG on May 27, 2020. Mr. Goldstein spent two years as a member of the Supervisory Board of the former WGZ BANK AG and subsequently four years as a member of the Supervisory Board of DZ BANK AG, in connection with which he was also a member of the Risk Committee and the Audit Committee, holding the position of Chairman of the Audit Committee for the last two years. The Supervisory Board would like to thank Mr. Goldstein for his huge level of commitment, in which he has been able to offer his expertise as an auditor and also his experience as a member of the Supervisory Board of WGZ BANK, thereby making a significant contribution to the successful development of DZ BANK.

After ten years as a member, Mr. Hermann Buerstedde also stepped down from the Supervisory Board of DZ BANK on May 27, 2020. The Supervisory Board is grateful to Mr. Buerstedde for being so dedicated and constructive and for representing the interests of the employees. During his time on the Supervisory Board, Mr. Buerstedde was a member of the Risk Committee for around nine years.

Mr. Sascha Monschauer and Mr. Rolf-Dieter Pogacar joined the Supervisory Board on May 27, 2020.

The Supervisory Board wishes to thank the Board of Managing Directors and all employees of the DZ BANK Group for their valuable contribution in 2020.

Frankfurt am Main, March 25, 2021

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Deutsche Zentral-Genossenschaftsbank,  
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