

**2020**  
Annual Financial  
Statements and  
Management Report  
of DZ BANK AG



# Contents

2	<b>Management report of DZ BANK AG</b>
6	DZ BANK AG fundamentals
16	Business report
28	Events after the balance sheet date
29	Human resources report and sustainability
30	Outlook
36	DZ BANK Group and DZ BANK opportunity report
39	DZ BANK Group and DZ BANK risk report
158	<b>Annual financial statements of DZ BANK AG</b>
160	Balance sheet as at December 31, 2020
162	Income statement for the period January 1 to December 31, 2020
164	Notes
210	<b>Responsibility statement</b>
211	<b>Independent auditor's report (translation)</b>

# Management report of DZ BANK AG

<b>6</b>	<b>DZ BANK AG fundamentals</b>	<b>28</b>	<b>Events after the balance sheet date</b>
<b>6</b>	<b>Business model and strategic focus</b>	<b>29</b>	<b>Human resources report and sustainability</b>
6	Cooperative Banks/Verbund	29	Human resources report
7	Corporate Banking	29	29 Declaration on corporate governance
7	Retail Banking		
8	Capital Markets		
9	Transaction Banking		
<b>10</b>	<b>Management of DZ BANK</b>	<b>30</b>	<b>Outlook</b>
10	Management units	<b>30</b>	<b>Economic conditions</b>
11	Governance	30	30 Global economic trends
14	Key performance indicators	30	30 Trends in the USA
15	Management process	30	30 Trends in the eurozone
<b>16</b>	<b>Business report</b>	31	31 Trends in Germany
<b>16</b>	<b>Economic conditions</b>	31	31 Trends in the financial sector
<b>17</b>	<b>The banking industry amid continued efforts to stabilize the economy of the eurozone</b>	<b>32</b>	<b>Changes in financial position and financial performance</b>
<b>19</b>	<b>Financial performance</b>	32	32 Financial performance
19	Financial performance at a glance	<b>35</b>	<b>Liquidity and capital adequacy</b>
20	Financial performance in detail	<b>36</b>	<b>DZ BANK Group and DZ BANK opportunity report</b>
24	Number of branches	<b>36</b>	<b>Management of opportunities</b>
<b>24</b>	<b>Net assets</b>	<b>36</b>	<b>Potential opportunities</b>
<b>26</b>	<b>Financial position</b>	36	36 Corporate strategy
		37	37 Digitalization and new competitors
		38	38 Credit ratings
		38	38 Summary of the opportunity situation

39	<b>DZ BANK Group and DZ BANK risk report</b>	
39	<b>Disclosure principles</b>	
40	<b>DZ BANK Group</b>	
40	<b>Summary and material changes</b>	
40	Risk management system	
43	Risk	
47	General risk factors	
49	Dealing with the impact of the COVID-19 pandemic	
51	Risk profile	
52	<b>Fundamental principles of risk management</b>	
52	Regulatory framework for risk management	
52	Risk culture	
53	Risk strategies	
53	Risk appetite	
53	Risk-oriented corporate governance	
61	Risk management tools	
66	<b>Liquidity adequacy</b>	
66	Principles	
66	Economic perspective	
73	Normative internal perspective	
74	<b>Capital adequacy</b>	
74	Strategy, organization, and responsibility	
75	Economic perspective	
78	Normative internal perspective	
85	Stress tests for types of risk covered by capital	
86	<b>Bank sector</b>	
86	<b>Credit risk</b>	
86	Definition	
87	Business background and risk strategy	
88	Risk factors	
89	Organization, responsibility, and reporting	
90	Risk management	
99	Lending volume	
106	Exposures particularly affected by the COVID-19 pandemic	
107	Credit portfolios with increased risk content	
110	Volume of non-performing loans	
111	Risk position	
112	<b>Equity investment risk</b>	
112	Definition and business background	
112	Risk strategy, responsibility, and reporting	
113	Risk factors	
113	Risk management	
113	Risk position	
114	<b>Market risk</b>	
114	Definition	
114	Business background and risk strategy	
115	Risk factors	
115	Organization, responsibility, and reporting	
116	Management of market risk	
118	Management of market liquidity risk	
119	Risk position	
120	<b>Technical risk of a home savings and loan company</b>	
120	Definition	
120	Business background and risk strategy	
120	Risk factors	
120	Responsibility, reporting, and risk management	
121	Risk position	
121	<b>Business risk</b>	
121	Definition and business background	
121	Risk strategy	
122	Risk factors	
125	Organization, responsibility, and reporting	
125	Risk management	
125	Risk position	

126	<b>Reputational risk</b>	142	<b>Market risk</b>
	126 Definition and business background		142 Definition and business background
	126 Risk strategy		143 Risk factors
	126 Risk factors		143 Risk management
	126 Responsibility and risk management		147 Lending volume
			150 Risk position
127	<b>Operational risk</b>	151	<b>Counterparty default risk</b>
	127 Definition		151 Definition and business background
	127 Business background and risk strategy		151 Risk factors
	127 Organization, responsibility, and reporting		151 Risk management
	128 Central risk management		152 Risk position
	129 Operational risk subtypes		
	132 Losses	152	<b>Reputational risk</b>
	133 Risk position		152 Definition and business background
134	<b>Insurance sector</b>		152 Risk factors
			152 Risk management
134	<b>Basic principles of risk management in the Insurance sector</b>	152	<b>Operational risk</b>
	134 Risk strategy		152 Definition and business background
	134 Organization, responsibility, and reporting		153 Central risk management
			153 Operational risk components
135	<b>Actuarial risk</b>		155 Risk position
	135 Definition and business background	155	<b>Risks from entities in other financial sectors</b>
	136 Risk factors		
	136 Management of life actuarial risk		
	137 Management of health actuarial risk		
	139 Management of non-life actuarial risk		
	141 Claims rate trend in non-life insurance		
	141 Risk position		

#### Note

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) implements the transparency requirements as specified in section 289 of the German Commercial Code (HGB) with the publication of this management report. In addition, the report satisfies German accounting standard no. 20 (Group Management Report), which relates to management reports that apply at group level.

All figures are rounded to the nearest whole number. This may result in very small discrepancies in the calculation of totals and percentages.

# I DZ BANK AG fundamentals

## 1 Business model and strategic focus

The strategic focus at DZ BANK 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.

DZ BANK 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.

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 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.

## 1.2 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.

## 1.3 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.

#### 1.4 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, corporate 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.

### **1.5 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.

## 2 Management of DZ BANK

### 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 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:

- Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (Bausparkasse Schwäbisch Hall; subgroup abbreviated to BSH)
- R+V Versicherung AG, Wiesbaden, (R+V Versicherung; subgroup abbreviated to R+V)
- Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding; subgroup abbreviated to UMH)
- TeamBank AG Nürnberg, Nuremberg, (TeamBank)
- DZ BANK – central institution and corporate bank (DZ BANK – CICB)
- DZ HYP AG, Hamburg and Münster, (DZ HYP)
- DZ PRIVATBANK S. A., Strassen, (DZ PRIVATBANK S. A.; subgroup abbreviated to DZ PRIVATBANK)
- VR Smart Finanz AG, Eschborn, (VR Smart Finanz AG; subgroup abbreviated to VR Smart Finanz)
- DVB Bank SE, Frankfurt am Main, (DVB Bank; subgroup abbreviated to 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

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. 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 further development 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**, a committee of the Board of Managing Directors. It normally meets every week and makes decisions on material lending exposures at DZ BANK, taking into account the credit risk strategy of the DZ BANK 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 **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

DZ BANK's KPIs for profitability, volume, productivity, liquidity adequacy, and capital adequacy are presented below.

– **Profitability figures:**

The profitability figures (primarily loss allowances, profit/loss before taxes, net income for the year) are presented in chapters II.3.1 and II.3.2 of this management report.

– **Volume figures:**

The main volume-related KPIs include equity and total assets, which are presented in chapter II.4 of this management report and in the annual financial statements (balance sheet as at December 31, 2020).

– **Productivity:**

The KPI for productivity is the cost/income ratio. This figure is described in chapter II.3.1 of this management report.

– **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 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 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.

Forecasts for core KPIs at DZ BANK are set out in the outlook in the 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 and in steering committees with DZ BANK's divisions.

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.

## II Business report

### 1 Economic conditions

The COVID-19 pandemic and the associated restrictions on economic activity dominated the entire year in 2020. Adjusted for inflation, average overall economic output in Germany for the year slumped by 5.0 percent compared with 2019. This contrasted with corresponding year-on-year growth of 0.6 percent in 2019.

German economic output in the first quarter of 2020 was down by 2.0 percent compared with the preceding quarter. In the second quarter of the year, it contracted by 9.7 percent before a recovery in the third quarter brought a gain in gross domestic product (GDP) of 8.5 percent. The final quarter saw a further small increase of 0.1 percent.

Both in the spring and toward the end of 2020, many shops and factories had to shut because of the COVID-19 pandemic, thereby restricting economic activity. This led to a reduction in consumer spending, and companies scaled back their capital expenditure. The pandemic also resulted in a fall in demand from other countries. The aforementioned restrictions began to be eased in May 2020, ushering in a temporary economic rebound over the summer months.

The pandemic also caused an economic slump in the eurozone in 2020. Following a 1.3 percent year-on-year rise in GDP in 2019, the eurozone's economic output shrank by 6.8 percent in the reporting period. GDP decreased by 3.7 percent in the first quarter of 2020. In the second quarter, it fell by 11.7 percent compared with the previous quarter. This gave way to growth of 12.4 percent in the third quarter, before economic output contracted again in the final quarter of 2020, by 0.7 percent.

In the US presidential elections on November 3, 2020, the challenger Joe Biden emerged victorious in the race against the incumbent US President Donald Trump. The policy of 'America first', which had been pursued by the US government for some years, remained unchanged in 2020 and was reflected particularly in the trade negotiations between the United States and China. The reporting year saw a continuation of the trade dispute between the United States and EU concerning the potential introduction of further US tariffs on selected goods from the EU with the aim of reducing the US trade deficit.

The US economy was not hit quite as badly as its European counterpart by the pandemic in 2020. During the months of spring, employment declined at an even faster rate than in the eurozone but also rose again more quickly when the lockdown was eased. The restrictions imposed to contain the COVID-19 pandemic in the United States also resulted in lower levels of consumer spending, capital spending on plant and equipment, and foreign trade.

China was affected by the pandemic earlier than Europe and the United States. The adverse impact on the Chinese economy was primarily felt in the first quarter of 2020 but the economy quickly began to recover again in the second quarter. The rebound was sustained in the second half of the year as China escaped a second wave of infection. The economic problems caused by the pandemic and efforts to contain it also dominated conditions in other emerging markets during the reporting period. Brazil and Russia were particularly hard hit, as was India.

## 2 The banking industry amid continued efforts to stabilize the economy of the eurozone

The main focus in 2020 was on dealing with the economic impact – and the resulting recession – arising from the action taken to contain the spread of the COVID-19 pandemic. In Europe, EU member states responded to the economic crash with fiscal packages at national level and negotiated a European recovery fund (Next Generation EU, NGEU) as a way of providing economic support. The European Central Bank (ECB) stepped up its already expansionary monetary policy by launching the pandemic emergency purchase program (PEPP).

The COVID-19 virus, which first emerged in China at the end of 2019 and developed into a worldwide pandemic from January 2020 onward, necessitated international efforts to contain the outbreak. Although these efforts did counter the uncontrolled spread of the disease, they also had a significant negative impact on the global economy. In the first half of 2020, prices fell in the international equity markets and spreads widened in the bond markets. Following a decrease in the number of new cases and in conjunction with steps taken to prevent the spread of infection, some of the safeguards were eased in the summer of 2020 in order to mitigate the economic fallout. Financial markets rallied in response. The safeguards were progressively tightened again in the autumn of 2020 as the number of new cases rose. Some of the restrictions were even more severe than those imposed in the spring. A few countries managed to launch vaccination programs as early as December 2020. For the rest of the year, however, there was no negative impact of these containment measures on financial markets, such as falling share prices or widening of spreads.

Some EU countries still exceeded the ratios for new and overall indebtedness required for compliance with the stability criteria specified in the Fiscal Compact agreed by the EU member states at the beginning of 2012. In the Fiscal Compact, the signatory countries committed to reducing their debt (as a proportion of GDP) each year by one twentieth of the difference between the debt level and the Maastricht limit of 60 percent of GDP.

At the end of the third quarter of 2020, the total borrowing of the 19 eurozone countries equated to 97.3 percent of their GDP, an increase of 11.5 percentage points compared with the figure of 85.8 percent as at September 30, 2019.

Greece's public debt as a percentage of GDP was 199.9 percent in the third quarter of 2020 (third quarter of 2019: 182.6 percent). In the last few years, Greece has been forced to pursue a restrictive fiscal policy under the conditions for receiving support loans and, since mid-2019, has had a conservative government headed by Prime Minister Kyriakos Mitsotakis of the Nea Dimokratia (ND) party. In the reporting year, the country was unable to maintain the improvement in its economic and fiscal position evident in the previous year. The Greek economy, which is heavily dependent on tourism, was especially badly affected by the international travel restrictions imposed as a consequence of the COVID-19 pandemic.

The pandemic had a notable adverse impact on Italy, which has the lowest growth in the EU. The coronavirus crisis threw the spotlight on Italy's calls for greater financial solidarity in the eurozone. In 2020, the sustainability of Italy's debt largely depended on funding costs influenced by the ECB's bond-buying program. Italy's public debt as a percentage of GDP stood at 154.2 percent in the third quarter of 2020 (third quarter of 2019: 136.8 percent), which is the highest in the eurozone after that of Greece.

Portugal's economy, which likewise relies on the tourism industry, was detrimentally affected by the measures taken to contain the spread of COVID-19. Portugal's public debt as a percentage of GDP was 130.8 percent in the third quarter of 2020, compared with 119.6 percent in the third quarter of 2019.

Spain is ruled by a minority government led by Prime Minister Pedro Sánchez from the socialist workers' party. Spain was hit particularly hard by the COVID-19 crisis in 2020, its GDP contracting by 11.0 percent compared with 2019. Public debt as a percentage of GDP was 114.1 percent in the third quarter of 2020 (third quarter of 2019: 97.5 percent).

Based on a policy of quantitative easing, the ECB has continued to support the markets for government bonds, thereby creating the necessary time over the last few years for the European Monetary Union (EMU) countries burdened with excessive debt to reduce their budget deficits. In the reporting year, the ECB's monetary policy was predominantly focused on mitigating the negative impact of the protective measures introduced to contain the spread of the COVID-19 pandemic on EU member state public finances and on financial markets. Nonetheless, even in previous years, the countries specified above had not made sufficient efforts to reduce their high levels of indebtedness, which are above the Maastricht limit of 60 percent, or to bring in the necessary structural reforms. The benefit from the current low level of interest rates is reducing the impact from the debt burden and having the effect of decreasing various EMU countries' efforts to implement austerity measures.

The ECB's policy of zero and negative interest rates prevailing in 2019 was maintained in the reporting year. At its meeting on December 10, 2020, the ECB decided to leave the rate for the deposit facility at minus 0.50 percent. The main refinancing rate remained the same at 0.00 percent, while the rate for the marginal lending facility was also unchanged at 0.25 percent. The ECB Governing Council again let it be known that the ECB's key interest rates would remain at their current or a lower level until the inflation outlook is clearly approaching the target level of inflation, i.e. close to, but below, 2 percent. The Council also decided that net purchases under PEPP would be increased by a further €500.0 billion to a total of €1,850.0 billion until at least the end of March 2022. The net purchases under the asset purchase program (APP) were continued in 2020 with a monthly volume of €20.0 billion. The deposit facility rate, which has applied since September 12, 2019, meant that banks had to pay a higher negative interest rate on their deposits with the ECB. In October 2019, to mitigate the adverse impact on banks, the ECB introduced a two-tier system for remunerating excess reserve holdings, under which some of banks' excess liquidity would be exempted from the negative deposit rate. This system was retained in 2020.

On December 16, 2020, the US Federal Reserve (Fed) announced that the federal funds rate would remain unchanged in the range of 0 to 0.25 percent. The Fed also committed to maintaining its bond-buying program with a monthly volume of US\$ 120 billion until substantial progress had been made toward achieving the inflation target and employment growth.

There was a significant difference in financial performance between Germany's two largest banks in 2020. Whereas one reported a sharp rise in net profit in the challenging market conditions, the other recorded a loss in the billions of euros. The loss allowances for loans and advances recognized by the major banks were significantly higher than in 2019. The major banks presented a mixed picture regarding administrative expenses, ranging from a 2 percent decrease brought about by management of costs to an 11 percent decrease as a result of transformation.

## 3 Financial performance

### 3.1 Financial performance at a glance

Although market conditions remained challenging, the operating business had a positive impact on the bank's financial performance. However, increased loss allowances were required owing to the COVID-19 pandemic. Net profit amounted to €255 million, which was below the 2019 figure.

The year-on-year changes in the key figures that made up the operating profit generated by DZ BANK in 2020 were as described below.

**Operating income** amounted to €2,051 million, a year-on-year rise of €41 million (2019: €2,010 million). It is made up of net interest income, net fee and commission income, net trading income, and other net operating income/expense.

**Administrative expenses** went up by €5 million, or 0.3 percent, to €1,471 million (2019: €1,466 million).

The **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) improved to 71.7 percent in 2020 (2019: 72.9 percent).

**Operating profit before loss allowances** increased by €36 million to €580 million (2019: €544 million).

**Loss allowances** amounted to a net addition of €300 million (2019: net addition of €169 million).

The **operating profit** amounted to €280 million (2019: €375 million), a year-on-year decrease of €95 million.

The details on the financial performance of DZ BANK set out above and below (section 3.2) include the following variances compared with the information provided in the outlook in chapter V of the 2019 management report.

The operating profit before loss allowances achieved in the reporting year was €102 million higher than the forecast for 2020. This was due to net interest income coming in above budget in the Corporates and Capital Markets business segment. Net fee and commission income from securities business in the capital markets business was also higher than budgeted. Furthermore, other net operating income exceeded expectations due to income from pensions that resulted from fair value gains on plan assets.

By contrast, net income from long-term equity investments fell short of expectations. The balance of income from long-term equity investments, write-downs on long-term equity investments, and gains on the disposal of long-term equity investments was lower than the budgeted figure. Loss allowances were higher than anticipated owing to the additions required as a result of COVID-19. The figure budgeted for net trading income was also not reached because of the need to make a larger addition to the valuation reserve (value-at-risk reserve).

In the reporting year, the cost/income ratio was lower than expected due to an increase in income.

### 3.2 Financial performance in detail

The individual year-on-year changes in the financial performance of DZ BANK in 2020 are described in detail below.

FIG. 1 – INCOME STATEMENT

€ million	2020	2019	Change (%)
<b>Net interest income<sup>1</sup></b>	<b>1,218</b>	<b>1,158</b>	<b>5.2</b>
<b>of which: income from long-term equity investments<sup>2</sup></b>	<b>487</b>	<b>478</b>	<b>1.9</b>
<b>Net fee and commission income<sup>3</sup></b>	<b>465</b>	<b>411</b>	<b>-13.1</b>
<b>Net trading income</b>	<b>372</b>	<b>426</b>	<b>-12.7</b>
<b>Administrative expenses</b>	<b>-1,471</b>	<b>-1,466</b>	<b>0.3</b>
Staff expenses	-667	-636	4.9
Other administrative expenses <sup>4</sup>	-804	-830	-3.1
<b>Other net operating income/expense</b>	<b>-4</b>	<b>15</b>	<b>&gt;100.0</b>
<b>Operating profit before loss allowances</b>	<b>580</b>	<b>544</b>	<b>6.6</b>
<b>Loss allowances<sup>5</sup></b>	<b>-300</b>	<b>-169</b>	<b>77.5</b>
<b>Operating profit</b>	<b>280</b>	<b>375</b>	<b>-25.3</b>
<b>Other net income/expense<sup>6</sup></b>	<b>-12</b>	<b>85</b>	<b>&gt;100.0</b>
<b>Profit before taxes</b>	<b>268</b>	<b>460</b>	<b>-41.7</b>
<b>Income taxes<sup>7</sup></b>	<b>-13</b>	<b>-66</b>	<b>80.3</b>
<b>Net income for the year</b>	<b>255</b>	<b>394</b>	<b>-35.3</b>

1 See annual financial statements, income statement, total of nos. 1 to 4.

2 See annual financial statements, income statement, total of nos. 3b, 3c, and 4.

3 See annual financial statements, income statement, total of nos. 5 and 6.

4 See annual financial statements, income statement, total of nos. 9b and 10.

5 See annual financial statements, income statement, no. 12.

6 See annual financial statements, income statement, total of nos. 13, 14, and 16.

7 See annual financial statements, income statement, total of nos. 18 and 19.

**Net interest income** increased by 5.2 percent to €1,218 million (2019: €1,158 million).

Net interest income (excluding income from long-term equity investments) is primarily attributable to the lending business portfolios (Corporate Banking business line and a separately managed real estate lending portfolio) and the capital markets business. Net interest income also includes the interest expense and income relating to issued subordinated bonds and those purchased by group entities. The amounts of the individual items and the effects on the change in net interest income are described below.

Net interest income (excluding income from long-term equity investments) advanced by 7.5 percent to €731 million (2019: €680 million).

In the Corporate Banking business line, net interest income rose by 7.8 percent to €481 million (2019: €446 million).

The net interest income in the four regional corporate customer divisions plus Central Corporate Banking went up by 7.8 percent to €264 million (2019: €245 million). This change was attributable to the growth in the lending volume.

Net interest income in the Structured Finance division amounted to €162 million, an increase of 7.3 percent compared with the prior-year figure of €151 million. The drivers behind this increase were successful acquisitions at the beginning of 2020 and at the end of 2019, together with the conclusion of new income-generating deals in the reporting year in virtually all of the division's product groups, as a result of which there was a significant rise in net interest income particularly in the infrastructure, international trade finance, and project finance businesses.

Net interest income in the Investment Promotion division rose by 10.0 percent to €55 million (2019: €50 million). The year-on-year increase was mainly due to substantial growth in volume driven by the strong demand for business support programs in connection with the COVID-19 pandemic and for residential development loans.

At €23 million, net interest income from the separately managed real estate lending portfolio was down compared with the prior-year figure of €46 million due to the reduction in the size of portfolio caused by the transfer of some of its components to DZ HYP.

Net interest income from capital markets business increased by 30.6 percent to €337 million (2019: €258 million). The main reasons for the increase were the larger volume of money market business, lower interest expense on the specific funding structure, and the beneficial effect of the tiered interest rates introduced by the ECB.

The adverse impact of subordinated capital (balance of subordinated own issues and subordinated securities purchased by group entities) on net interest income increased by 57.1 percent to €110 million in 2020 (2019: €70 million) as a consequence of growth in the liability portfolios.

DZ BANK's reported income from long-term equity investments amounted to €487 million, which was on a par with the prior-year figure (2019: €478 million).

The year-on-year decrease in income from long-term equity investments in respect of R+V (down by €37 million), KBIH Beteiligungsgesellschaft für Industrie und Handel mbH (down by €9 million), and BSH (down by €8 million) was offset by increased income from long-term equity investments in respect of UMH (up by €27 million), DZ HYP (up by €10 million), VR Equitypartner GmbH (up by €10 million), and DZ PRIVATBANK (up by €10 million).

**Net fee and commission income** rose by 13.1 percent to €465 million (2019: €411 million).

The principal sources of income were service fees in the Corporate Banking business line (in particular, from lending business including guarantees and international business), in the Capital Markets business line (mainly from securities issuance and brokerage business, agents' fees, transactions on futures and options exchanges, financial services, and the provision of information), and in the Transaction Banking business line (largely from payments processing including credit card processing, safe custody, and gains/losses from the currency service business).

In the Corporate Banking business line, net fee and commission income fell by 0.8 percent to €122 million (2019: €123 million). This decrease was mainly attributable to lower income in the corporate finance business and was largely offset by other corporate banking business.

In the Capital Markets business line, the contribution to net fee and commission income rose by 31.3 percent to €214 million (2019: €163 million). Of particular note was the growth of income from the securities business, among other things on the back of an increase in securities brokerage transactions.

In addition, net fee and commission income in the Transaction Banking business line was also up on the previous year at €132 million, an increase of €5 million or 3.9 percent (2019: €127 million). This increase was primarily accounted for by payments processing, in particular due to market growth caused by the greater use of contactless payments. Income from credit card processing was similar to the level in 2019.

As part of service procurement arrangements, DZ BANK has transferred processing services in the lending business to Schwäbisch Hall Kreditservice, in the payments processing business to equensWorldline SE, and in capital markets business/transaction banking to Deutsche WertpapierService Bank AG. The expenses arising in connection with obtaining services from the above external processing companies amounted to a total of €185 million (2019: €169 million) and are reported under net fee and commission income for the individual

business lines as follows: Corporate Banking €9 million (2019: €9 million) and Capital Markets/Transaction Banking €176 million (2019: €160 million).

**Net trading income** declined by 12.7 percent to €372 million (2019: €426 million).

Net trading income relates to the business activities of the Capital Markets business line. The Group Treasury division's income from money market business entered into for trading purposes (mainly repurchase agreements) is also included in net trading income because of its categorization.

Gains and losses on operating trading activities in the Capital Markets business line amounted to a net gain of €524 million, a year-on-year rise of 21.9 percent (2019: net gain of €430 million). The business involving cooperative banks' own-account investing activities and institutional client business were expanded in 2020 compared with the previous year. In both cases, the level of income exceeded the corresponding prior-year figures. The volume of products sold rose across all customer groups. In terms of asset classes, the increase in product sales arose predominantly from trading in sovereign, supranational and agency (SSA) bonds, bank bonds, government bonds, and covered bonds, from business involving interest-rate structures and interest-rate derivatives, and from spot exchange business. In 2020, customer use of electronic trading platforms again exceeded the level of the previous year.

Other gains and losses on trading activities resulting from non-operating, HGB-related effects amounted to a net loss of €152 million (2019: €4 million). This line item was adversely affected by the need to make a larger addition to the valuation reserve (value-at-risk reserve) of €46 million (2019: income of €9 million).

**Administrative expenses** at DZ BANK amounted to €1,471 million, an increase of €5 million or 0.3 percent on the comparable figure in 2019 (€1,466 million).

Staff expenses went up by €31 million, from €636 million in 2019 to €667 million in the reporting year. Of this increase, €24 million was attributable to pension provision and €7 million to higher remuneration expenses. The rise in connection with pensions was due to a positive non-recurring item having been recognized in 2019 owing to the fall in the annuity trend.

Other administrative expenses dropped by €26 million to €804 million in 2020 (2019: €830 million). The overall reduction comprised a substantial €36 million decrease in consultancy expenses, a €9 million fall in business travel expenses, and a countervailing €14 million increase in the contributions to the BVR protection scheme and to the restructuring fund for banks (bank levy).

The amortization and write-downs on intangible assets and the depreciation and write-downs on property, plant and equipment included in administrative expenses increased by €4 million to €54 million.

Other **net operating income/expense** at DZ BANK amounted to a net expense of €4 million in 2020 (2019: net income of €15 million). This included a net expense of €41 million (2019: net income of €9 million) that resulted from the measurement of the occupational pension plan and primarily comprised the cost of €107 million from the unwinding of discounts reported in 2020 (2019: €117 million) in connection with the measurement of defined benefit obligations and the income resulting from plan assets in 2020 of €66 million (2019: income of €127 million).

In 2020, other net operating income also included income from the reversal of provisions of €84 million (2019: €32 million) and expenses in connection with currency transactions of €40 million (2019: €4 million).

**Loss allowances** amounted to a net addition of €300 million (2019: net addition of €169 million). This item includes not only the income/expense from loss allowances for loans and advances but also gains and losses on securities in the liquidity reserve.



In 2020, loss allowances for loans and advances amounted to an expense of €338 million (2019: expense of €87 million). Some of the net additions in respect of the lending business (€357 million) and direct write-downs (€9 million) were offset by other income of €28 million (including recoveries on loans and advances previously impaired).

The requirement for the addition of €93 million in stages 1 and 2 in connection with the COVID-19 pandemic arose because the anticipated macroeconomic conditions were included in the calculation, in particular by adjusting the model-based default probability profiles (referred to as shift factors), which are taken into account when determining the expected losses. Loss allowances in stage 3 also went up due to significant individual additions that were not solely attributable to the pandemic.

Gains and losses on securities in the liquidity reserve amounted to a gain of €38 million in 2020 (2019: loss of €82 million). This was predominantly due to interest-rate-related measurements and sales in 2020.

In the year under review, DZ BANK's **other net income and expense** amounted to an expense of €12 million (2019: income of €85 million).

Within this figure, gains on investments of €22 million (2019: gains of €115 million) included both gains from long-term equity investments of €18 million (2019: gains of €83 million) and gains on long-term securities of €4 million (2019: gains of €32 million).

Gains from long-term equity investments included, in particular, gains of €27 million on the disposal of part of the long-term equity investment in Visa Inc., gains of €8 million on the disposal of the long-term equity investment in DZ Polska Spółka Akcyjna, the reversal of a write-down of €7 million on the carrying amount of the long-term equity investment in Banco Cooperativo Español, and write-downs of €25 million on the carrying amount of the long-term equity investment in KBIH Beteiligungsgesellschaft für Industrie und Handel mbH. The main items in 2019 had been gains of €277 million on the disposal of the long-term equity investment in equensWorldline SE and write-downs of €200 million on the carrying amount of DZ BANK's direct investment in BSH.

In the reporting year, the net gain on long-term securities primarily comprised income of €5 million from the disposal of non-group securities. In 2019, it had mainly consisted of income of €28 million from the disposal of non-group securities, from repurchases of DVB paper, and from the closing out of derivatives used for hedging.

The expense in respect of the transfer of losses amounted to €30 million (2019: €10 million). This was mainly attributable to the transfer of losses of €15 million from VR Smart Finanz.

In 2020, the extraordinary result amounted to an expense of €4 million (2019: expense of €20 million) and included an expense of €4 million from the addition to the provisions for restructuring as part of the 'Verbund First 4.0' strategic program (2019: expense of €20 million).

**Profit before taxes** amounted to €268 million (2019: €460 million).

The net **tax expense** for 2020 of €13 million (2019: €66 million) included income from group tax levies of €282 million (2019: €363 million), an expense resulting from the measurement of deferred taxes of €118 million (2019: €58 million), and a tax expense of €177 million (2019: €371 million).

**Net income for the year** came to €255 million (2019: €394 million).

As a result of the net income for the year of €255 million and the profit brought forward from 2019 of €324 million, DZ BANK will propose a dividend of €0.16 per share to the Annual General Meeting. This would equate to a total distribution of €287 million.

### 3.3 Number of branches

As at December 31, 2020, as had been the case a year earlier, DZ BANK had 7 German branches in Berlin, Düsseldorf, Hannover, Koblenz, Munich, Münster, and Stuttgart as well as 4 international branches situated in London, New York, Hong Kong, and Singapore.

The 7 branches in Germany oversee a further 6 sub-offices.

## 4 Net assets

As at December 31, 2020, DZ BANK's total assets had increased by €25.6 billion, or 9.0 percent, to €309.9 billion (December 31, 2019: €284.3 billion).

DZ BANK's international branches accounted for €16.7 billion (December 31, 2019: €38.7 billion), or around 5.4 percent, of the total assets of DZ BANK as at December 31, 2020. New York (€6.8 billion; December 31, 2019: €10.0 billion) and London (€5.3 billion; December 31, 2019: €22.7 billion) together accounted for around 72.5 percent of the €16.7 billion. The remaining €4.6 billion was attributable to the branches in Singapore (€2.3 billion; December 31, 2019: €3.4 billion) and Hong Kong (€2.3 billion; December 31, 2019: €2.6 billion).

The **return on assets**, which was calculated by dividing the net income for the year by the total assets at December 31, 2020, was 0.1 percent (2019: 0.1 percent).

As at December 31, 2020, the **volume of business** amounted to €348.9 billion (December 31, 2019: €314.5 billion). This figure comprises not only total equity and liabilities but also the contingent liabilities of €8.4 billion (December 31, 2019: €8.0 billion) and DZ BANK's other obligations of €30.6 billion (December 31, 2019: €22.2 billion). The increase in other obligations was due to the growth of irrevocable loan commitments.

**The notional amount of the derivatives recognized at fair value** of €1,297.6 billion (December 31, 2019: €1,201.6 billion) and **of the derivatives not recognized at fair value** of €52.1 billion (December 31, 2019: €81.6 billion) came to €1,349.7 billion as at December 31, 2020 (December 31, 2019: €1,283.2 billion). This rise was due, in particular, to interest-linked contracts. Of the total amount, €22.3 billion was accounted for by positive fair values (December 31, 2019: €20.6 billion) and €19.2 billion by negative fair values (December 31, 2019: €17.5 billion).

**Cash and cash equivalents** fell by €27.4 billion to €1.1 billion owing to smaller balances with central banks (December 31, 2019: €28.5 billion).

**Loans and advances to banks** had gone up by €52.4 billion to €185.3 billion as at December 31, 2020, compared with €132.9 billion as at December 31, 2019. Loans and advances to affiliated banks had increased by €7.4 billion, or 9.4 percent, to €85.5 billion. Loans and advances to other banks had risen by €45.0 billion, or 82.1 percent, to €99.8 billion.

**Loans and advances to customers** as at December 31, 2020 had declined by €0.7 billion to €37.6 billion (December 31, 2019: €38.3 billion). Within this amount, current account debit balances and loans had fallen by €0.9 billion and €0.6 billion respectively, while development program loans had increased by €0.9 billion.

As at December 31, 2020, the value of **bonds, shares, and other securities** had risen by €2.4 billion to €36.2 billion (December 31, 2019: €33.8 billion). This change was attributable almost exclusively to holdings of bonds, the value of which amounted to €36.1 billion as at December 31, 2020 (December 31, 2019: €33.7 billion). The value of shares and other variable-yield securities was unchanged year on year at €0.1 billion (December 31, 2019: €0.1 billion).

The **trading assets** line item was €33.2 billion as at December 31, 2020, a drop of €2.6 billion compared with December 31, 2019 (€35.8 billion). This was mainly the result of a decrease of €2.1 billion for repurchase agreements and €2.2 billion for bonds, whereas there was an increase of €1.3 billion for derivatives.

**Deposits from banks** had grown by €34.8 billion to €170.6 billion (December 31, 2019: €135.8 billion). Deposits from affiliated banks had climbed by €18.0 billion to €69.9 billion, while deposits from other banks had gone up by €16.8 billion to €100.7 billion. Of this sum, €14.8 billion was attributable to deposits under the ECB's TLTRO III program.

**Deposits from customers** as at December 31, 2020 had risen by €6.0 billion to €39.6 billion (December 31, 2019: €33.6 billion). This change was predominantly attributable to an increase in current account credit balances (up by €3.2 billion), overnight and fixed-term deposits (up by €2.2 billion), and registered bonds (up by €0.8 billion).

**Debt certificates issued including bonds** stood at €39.2 billion. This equates to a fall of €15.5 billion compared with the figure at December 31, 2019 of €54.7 billion. The reasons for this were a €20.3 billion decrease in the portfolio of commercial paper and a €4.7 billion increase in the portfolio of bonds (excluding German commercial paper).

The **trading liabilities** line item had contracted by €2.6 billion to €35.3 billion (December 31, 2019: €37.9 billion). Within this amount, repurchase agreements were down by €3.3 billion and structured fixed-term deposits were up by €1.1 billion.

FIG. 2 – SHAREHOLDERS AS AT DECEMBER 31, 2020



\* Directly and indirectly.

The **fund for general banking risks** in accordance with section 340g HGB stood at €3,812 million, which was unchanged on the figure of €3,812 million as at December 31, 2019.

The **equity** of €10,831 million reported on the balance sheet as at December 31, 2020 increased during the reporting year (December 31, 2019: €10,576 million) owing to the distributable profit for 2020. No dividend for 2019 was paid in 2020. The distributable profit for 2019 of €324 million, about which no decision has yet been made, has been recognized under profit brought forward from 2019 in the income statement for 2020. The distributable profit for 2020 of €579 million therefore consists of the distributable profit for 2019 of €324 million and the net income for 2020 of €255 million.

DZ BANK's capital and solvency situation is described in the risk report within this management report (chapter VII.5.3.3).

## 5 Financial position

**Liquidity management** for the entities in the DZ BANK Group is carried out by the Group Treasury division at DZ BANK and on a decentralized basis by the individual subsidiaries. The individual entities are provided with funding by DZ BANK (group funding) or the entities exchange cash among themselves via DZ BANK (group clearing). Liquidity is managed within DZ BANK centrally by the Group Treasury division in Frankfurt and by the associated treasury units in its international branches, although Frankfurt has primary responsibility.

In the context of liquidity management, the DZ BANK Group distinguishes between operational liquidity (liquidity in the maturity band of up to one year) and structural liquidity (liquidity in the maturity band of more than one year).

The DZ BANK Group has a diversified funding base for **operational liquidity**. A considerable portion is accounted for by money market activities resulting from the cash-pooling function with the local cooperative banks. This enables cooperative banks to invest available liquidity with DZ BANK or obtain liquidity from DZ BANK if they need it. This regularly results in a liquidity surplus, which provides one of the main bases for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for covering operational liquidity requirements.

For funding purposes, the DZ BANK Group also issues money market products based on debt certificates under a standardized groupwide multi-issuer euro commercial paper program through its offices and branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. In addition, a new US CP head office program was set up centrally for Frankfurt in 2020.

Key repo and securities lending activities, together with the collateral management process, are managed centrally in DZ BANK's Group Treasury division as a basis for secured money market financing activities. Funding on the interbank market is not strategically important to the DZ BANK Group.

The DZ BANK Group also has at its disposal liquid securities that form part of its counterbalancing capacity. These securities can be used as collateral in monetary policy funding transactions with central banks, or in connection with secured funding in private markets.

**Structural liquidity** activities are used to manage and satisfy the long-term funding requirements (more than one year) of DZ BANK and, in coordination with the group entities, those of the DZ BANK Group.

In June and September 2020, the joint bidder group of DZ BANK AG and TeamBank participated in the ECB's TLTRO III programs with a total drawdown amount of €14.8 billion.

The Group Treasury division at DZ BANK draws up a groupwide **liquidity outlook** annually. This involves determining the funding requirements of the DZ BANK Group for the next financial year on the basis of the coordinated business plans of the individual companies. The liquidity outlook is updated throughout the year.

Monthly **structural analyses** of the various resources available on the liabilities side of DZ BANK's balance sheet are also conducted. The purpose of these analyses is to provide senior management with information that can then be used as the basis for actively managing the liability profile. In addition to this description of the funding structure, the risk report within the group management report includes disclosures on **liquidity risk** (chapter VII.4.2).

## III Events after the balance sheet date

There were no events of particular importance after the end of the financial year.

## IV Human resources report and sustainability

The non-financial group statement of DZ BANK AG in accordance with section 340i in conjunction with section 315b of the German Commercial Code (HGB) is combined with the non-financial statement of the parent entity in accordance with section 340a in conjunction with section 289b HGB.

The separate combined non-financial statement is integrated into the DZ BANK Group's 2020 Sustainability Report. It is available in German at [www.berichte2020.dzbank.de](http://www.berichte2020.dzbank.de) and in English at [www.reports2020.dzbank.com](http://www.reports2020.dzbank.com).

### 1 Human resources report

#### 1.1 Declaration on corporate governance

##### Equal participation of women and men in managerial positions

The German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors (FührposGleichberG) requires companies with more than 500 employees that are subject to codetermination under German industrial relations legislation to set binding targets for the supervisory board, the board of managing directors, and the first and second levels of management (heads of division and heads of department).

The Board of Managing Directors of DZ BANK examined in detail how to implement FührposGleichberG at DZ BANK and has set the following targets for the proportion of women at the two management levels for the period up to December 31, 2021:

Target for first-level management: 10 percent

Target for second-level management: 20 percent.

In line with the diversity policy adopted, the Supervisory Board of DZ BANK set the following targets on November 29, 2018 for the proportion of women on the Board of Managing Directors and on the Supervisory Board for the period up to October 31, 2023:

Target for the Supervisory Board: 25 percent

Target for the Board of Managing Directors: 12.5 percent.

Irrespective of the statutory requirements, the aim is to further increase the proportion of women in managerial positions.

# V Outlook

## 1 Economic conditions

### 1.1 Global economic trends

In 2020, the COVID-19 pandemic plunged the global economy into the deepest recession since the end of the Second World War. Global economic output contracted by almost 4 percent.

Even at the end of 2020 and at the beginning of 2021, the effects of COVID-19 remained all-pervading. However, various announcements over the last few weeks have given hope that the development of a number of vaccines to combat COVID-19 has been successful. During the course of 2021, a blanket global population vaccination program is therefore likely to stabilize the health emergency and then also help economic activity to return to normal. If this works, the pandemic will fade into the background, allowing everyone to focus on other issues. In almost every region, pent-up demand will then also probably give a huge boost to economic growth.

An enormous rebound in the global economy is anticipated during 2021, with growth predicted at 5.2 percent. Nevertheless, there is a risk that the vaccination program will not deliver a sufficient level of protection, as a consequence of which the COVID-19 pandemic could weigh on the economy and society at large for a much longer period.

Only brief upward pressure on consumer prices is expected in 2021. In key national economies, inflation rates are unlikely to reach a level that could be considered a cause for concern by central banks.

### 1.2 Trends in the USA

While the changeover in the White House at the beginning of 2021 is likely to open the way for negotiations on resolving the international trade disputes between the United States, China, and Europe, this does not mean that these disputes have been eliminated. In the absence of a lasting solution, there is still a risk that countries will impose protectionist measures, delivering a further blow to world trade already weakened by the impact of the COVID-19 pandemic. This would adversely affect the global economy and hit the heavily export-dependent German economy particularly hard.

In the most likely scenario, the US economy is expected to recover in 2021 from the pandemic-induced recession in 2020. Economic output in the country is predicted to rise by 6.0 percent, with the recovery probably being driven mainly by consumer spending.

### 1.3 Trends in the eurozone

The economic bounce-back in the eurozone was brought to a halt at the end of 2020 by the second wave of the pandemic. GDP contracted again in the final quarter of 2020 and the situation was expected to remain challenging in the first quarter of 2021. Many of the containment measures will remain more or less in place, acting as a brake on economic growth. Current assessments are that the situation will only normalize later in the year with the help of rising vaccination rates and warmer weather, at which point the economy is likely to kick into gear. Following a contraction of 6.8 percent in GDP in 2020, hefty economic growth of 3.7 percent is projected for 2021.

Consumer prices are only expected to be subject to a little upward pressure. The effect of falling energy prices will probably fade away during 2021, as will the pandemic-related weakness in the prices of other goods and services. The price of crude oil, in particular, is likely to climb as the economy recovers. While the inflation rate in 2020 was low at just 0.3 percent, consumer prices are expected to rise by an average of 1.6 percent in 2021.



#### 1.4 Trends in Germany

As a consequence of high COVID-19 infection rates, lockdown measures were tightened again in December 2020 in order to bring about a lasting reduction in new cases by mid-February 2021. These restrictions are expected to have caused a recession in the fourth quarter of 2020 and first quarter of 2021, although current assessments indicate that this is likely to have been significantly less severe than in the first half of 2020.

A vigorous recovery is anticipated from the spring of 2021, bolstered by progress in the distribution of vaccines. An economic growth rate of 2.7 percent is projected for 2021. There is undoubtedly a significant risk that this forecast could be overstated if there were to be a harder and longer lockdown that extends beyond the first quarter of 2021. On the other hand, rapid success in combating the pandemic (for various reasons including faster distribution of vaccines) could bring the chance of a quicker recovery.

The average rate of inflation in Germany for 2021 will probably be markedly higher than in the previous year at 2.1 percent (2020: 0.4 percent). The main reasons are the end of the temporary reduction in VAT and a return to higher energy prices. There are no predictions of higher inflationary pressure over the longer term in Germany.

#### 1.5 Trends in the financial sector

For some years, the financial sector has faced considerable pressure in terms of both adjustment and costs caused by the need to comply with regulatory reforms and implement structural change to adapt to competitive conditions.

The regulatory measures introduced since the financial crisis have had a range of objectives, including to make the financial sector more resilient in the event of a crisis, mainly through improved capital and liquidity adequacy, and to ensure that the risks arising from the business activities in the financial industry are not borne by the public sector.

In response to these regulatory requirements, banks have reduced their leverage over the last few years and substantially bolstered their risk-bearing capacity by improving liquidity and capital adequacy.

In addition, new competitors with approaches based on the use of technology are presenting the financial sector with the challenge of scrutinizing its existing business models, adapting them as required, and substantially improving its efficiency by digitalizing business and IT processes. The corresponding capital investment is initially likely to push up costs in the industry before the anticipated profitability gains can be realized.

From the current perspective and in view of the expansionary monetary policy pursued by virtually all central banks, efforts to address the challenges in the financial sector described above will be made more difficult in 2021 by what is expected to remain a comparatively low level of nominal interest rates. This will be accompanied by a relatively flat yield curve and will prevent any significant increase in margins in interest-related business. Accordingly, interest rates are not expected to return to normal levels in 2021.

In the last few years, central banks' expansionary monetary policy, and particularly the ECB's bond-buying programs, largely prevented structural problems, mainly in some EMU member countries, from being perceivable in the capital markets. Because of the way in which the COVID-19 pandemic has spread, the economic fallout in these countries has been especially severe and their need to obtain funding in the capital markets has risen sharply in view of the fiscal support measures that have been required. Asset-buying programs in response to the pandemic have so far limited an increase in risk premiums. However, a securities valuation risk could arise in conjunction with a potentially more restrictive approach to the bond-buying programs.

Because of the expansionary monetary policy pursued by central banks and the fiscal policy measures implemented in many countries, it is reasonable to assume that there will be a global economic recovery, which should also help to stabilize financial performance in the financial sector. However, it is not possible to rule out potential negative effects from the COVID-19 pandemic on businesses and consumers in 2021, which in turn could have an adverse impact on the financial sector.

The potential impact of uncertain political developments on the economic position of banks and insurance companies should also not be ignored. Relevant information on macroeconomic risk factors can be found in the risk report (chapter VII.2.3).

## 2 Changes in financial position and financial performance

### 2.1 Financial performance

The effects of the COVID-19 pandemic on economic output and on banks in Germany and the rest of Europe are likely to continue at the same level in 2021. In particular, this has led to greater planning uncertainty and risk. Around the world, banks are therefore faced with new challenges, primarily in terms of expected earnings, an associated greater level of loss allowances, and a potential rise in capital requirements.

Deutsche Bundesbank anticipates a significant increase in the number of company insolvencies as a result of the COVID-19 pandemic. The expected rise in loss allowances for loans to companies will weigh heavily on the capital base of German banks in the medium term.

Greater competitive pressure combined with low interest rates and rising costs, specifically those resulting from necessary IT upgrades and increasing digitalization expenses, are creating both the incentive and the need for consolidation measures in the European banking landscape.

Because of this market environment, **profit before taxes** is expected to fall sharply in 2021. Most of the year-on-year decrease can be explained by effects in 2020 that had not been anticipated in the budget process.

**Net interest income** (excluding income from long-term equity investments) in 2021 is predicted to be slightly above the 2020 level. The intended growth in net interest income is likely to be derived mainly from corporate banking, largely through an expansion in volume. In its budget accounts, DZ BANK AG expects slightly higher margins in domestic corporate banking despite a market environment still considered to be competitive.

It is likely that 2021 will see the continued drawdown of loan facilities because of the COVID-19 pandemic. In addition, the Investment Promotion division anticipates that the volume of business will remain high owing to demand for COVID-19 support.

In line with the strategic ambitions of DZ BANK AG, corporate banking will remain a key area of growth. It is intended to actively support the planned growth in volume with packages of measures under the 'Verbund First 4.0' strategy, such as greater customer focus and digitalization-driven streamlining of sales processes.

Expected contributions to value in treasury in connection with the use of TLTRO open market operations with Deutsche Bundesbank will have a positive impact on net interest income. The chances of satisfying the condition for obtaining the premium have gone up because of the decision made in February 2021 to expand the existing joint bidder group comprising DZ BANK AG and TeamBank to include DZ HYP.

Net interest income from the separately managed real estate lending portfolio will fall sharply year on year owing to the planned wind down and transfer of the portfolio to DZ HYP. The transfer of the portfolios and the wind down were almost complete by the end of 2020. Only a small amount of income from residual balances is expected in 2021.

**Income from long-term equity investments** will increase significantly in 2021 based on positive planning assessments that assume a return to a more normal course of business following the difficulties created by the COVID-19 pandemic in 2020. Thanks to the strong market position of the main management units, financial performance is also predicted to return to normal over the course of 2021.

**Net fee and commission income** in 2021 is expected to remain at a high level, albeit down slightly compared with 2020. The figure for the reporting year was boosted by a large number of securities brokerage transactions as a result of the COVID-19 pandemic.

Service fees will be generated in different operating units. Significant impetus will be provided by the Transaction Banking business line, which is establishing an instant payments structure, consolidating procedures in payments processing, and insourcing services that were previously procured externally. In addition to instant payments, it also intends to design and implement Request to Pay, a standardized Europe-wide electronic payment scheme. The planned income growth is also underpinned by digitalization-driven improvements in efficiency and quality.

Customer business involving structured finance and corporate banking business in Germany are expected to continue generating a constant level of fee and commission income from fees for securitization and acquisition financing, commitment fees for loans, structuring fees, fees and commissions in connection with loan processing, and agents' fees. This fee and commission income will be in line with the planned volume. The commitment fees for open lines and for guarantees and indemnities should also be in line with the planned volumes.

**Net trading income** is forecast to increase significantly in 2021, provided there is no substantial market turmoil. Another factor will be the absence of negative valuation effects that were included in the 2020 figure.

Gains on trading activities at DZ BANK will otherwise be generated from margins in customer business involving investment and risk management products and from the related customer-initiated trading contributions.

In operating capital markets business, key income drivers are likely to include the exploitation of capital-markets-related cross-selling potential in corporate banking, the expansion of the range of products via targeted product initiatives, and the harnessing of potential in the securities business.

Specific measures are also to be taken to step up collaboration with the cooperative banks in the securities business, particularly in the customer business. The aim is to ensure the future success and digitalization of the customer business by expanding the technical infrastructure and the securities platforms for B2B/B2C activities.

Growth stimulus in the customer business should also be provided by extending the range of sustainability-oriented products, especially those for the primary and secondary markets. To this end, the bank intends to broaden its brand core and its product expertise in respect of bonds for primary market business. It also plans to raise its profile in the ESG (environmental, social, and corporate governance) and green finance segments. This strategic focus will be accompanied by the digitalization of services and processes.

The activities have been defined as part of various implementation packages under the 'Verbund First 4.0' strategic program and within individual action areas for 2021. Their implementation will be monitored over the course of 2021.

In 2021, gains and losses on trading activities are likely to be weighed down by the adjustment of valuation curves in 2020 in connection with the pull-to-par effect.

Net trading income may be hit unexpectedly by a deterioration in macroeconomic conditions and the economic policy environment, particularly if there is a related increase in uncertainty as a result of the COVID-19 pandemic.

**Administrative expenses** in 2021 will probably remain at the 2020 level. Despite the systematic implementation of the forward-looking 'Verbund First 4.0' strategic program with the leveraging of specific efficiencies, further cuts in the number of full-time equivalents, and the reduction of project portfolios, there will be countervailing charges under extraordinary general and administrative expenses. These include expenses related to strategic investment in further digitalization of market access and the expansion of next-generation working methods. Higher contributions to the BVR protection scheme and for the bank levy are also expected.

**Other net operating income** is likely to fall sharply in 2021. The high level of reversals of write-downs on the CTA assets for occupational pensions in 2020 is not expected to be repeated in 2021 in view of the macroeconomic assumptions.

**Loss allowances** are likely to rise significantly in 2021. This is because of the write-downs recognized on securities in the liquidity reserve due to market interest rates. The fair value gains on securities in the liquidity reserve in 2020 will probably be reversed in 2021 due to the anticipated change in the level of interest rates.

In 2020, loss allowances for loans and advances were increased because of the COVID-19 pandemic and additional effects on these loss allowances from major individual exposures. Despite the forecast that 2021 will see an economic recovery, thereby easing the need to apply a PD shift, additions to loss allowances for loans and advances are likely to remain at a high level.

Loss allowances will therefore be shaped by the effects of the COVID-19 pandemic, which are unlikely to be fully overcome in 2021. Furthermore, a downturn in the economy could have an adverse impact on loss allowances.

**Net income/expense from other business** should improve significantly in 2021 due to the rise in net income from long-term equity investments.

The **cost/income ratio** is likely to be slightly lower in 2021 than it was in 2020 as a result of the expected increase in income and an unchanged level of expenses. As before, DZ BANK will be focusing its energies on managing costs and generating growth in the operating business.

### 3 Liquidity and capital adequacy

Based on the position in the year under review and the funding measures planned for 2021, the DZ BANK Group predicts that it will be able to continue maintaining an appropriate level of economic and regulatory **liquidity adequacy** in 2021.

Further information on liquidity adequacy can be found in the risk report (chapter VII.4).

As matters currently stand, DZ BANK AG's **capital adequacy** will continue to be assured for 2021 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital necessary to cover the risks associated with the finance business and other risks arising from the group's business operations.

Over the last few years, DZ BANK AG has greatly strengthened its capital base from its own resources (through the retention of profits) and through corporate action. In 2021, a high priority will once again be given to strengthening the capital base.

Further information on capital adequacy can be found in the risk report (chapter VII.5).

## 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.



## VII DZ BANK Group and DZ BANK risk report

### 1 Disclosure principles

In its capacity as the parent company in the DZ BANK Group, DZ BANK is publishing this risk report in order to meet the transparency requirements for risks applicable to the DZ BANK Group as specified in **sections 114 and 117 of the German Securities Trading Act (WpHG)** and **section 315 of the German Commercial Code (HGB)** in conjunction with **German Accounting Standard (GAS) 20**. Furthermore, the risk report meets the transparency requirements regarding risks applicable to DZ BANK as a separate entity that are specified in **section 289 HGB** in accordance with GAS 20.

This report also implements the risk reporting requirements specified in the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), specifically those set out in the following legal standards:

- **IAS 1.134–136** (capital)
- **IFRS 7.31–42** (nature and extent of risks arising from financial instruments)
- **IFRS 4.38–39A** (nature and extent of risks arising from insurance contracts).

This does not include the legal standards below, because the required disclosures are not used to manage risk. In these instances, the disclosures are included in the notes to the consolidated financial statements ('notes'):

- Accounting-related credit disclosures in accordance with **IFRS 7.35F(a)–36(b)**: note 85
- Maturity analysis in respect of financial assets and financial liabilities in accordance with **IFRS 7.39(a) and (b)**: note 86
- Maturity analysis in respect of financial assets and financial liabilities in accordance with **IFRS 4.39(d)(i)**: note 86
- Claims rate trend for direct non-life insurance business and for the inward reinsurance business in accordance with **IFRS 4.39(c)(iii)**: note 42.

The requirements set out in IFRS 7 are generally limited to financial instruments, shifting the focus of reporting to credit risk, equity investment risk, market risk, and liquidity risk. In contrast, the DZ BANK Group takes a holistic view of all these risks when using risk management tools and when assessing the risk position. As a consequence, the groupwide risk management system not only covers risks that arise specifically in connection with financial instruments, but also all other relevant types of risk. This integrated approach is reflected in this risk report.

The risk report also includes information in compliance with those recommended risk-related disclosures that have been issued by the **Financial Stability Board (FSB)**, the **European Banking Authority (EBA)**, and the **European Securities and Markets Authority (ESMA)** that are intended to improve the usefulness of the disclosures in the decision-making process.

The quantitative disclosures in this risk report are based on information that is presented to the Board of Managing Directors and used for internal management purposes (known as the **management approach**). The disclosure of this information, which is important for knowledgeable users, is designed to ensure that external reporting is useful when such users need to make decisions.

#### Note:

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

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

Detailed information on individual subsidiaries of DZ BANK is only provided if the subsidiaries are of material significance to risk management, risk factors or the risk position, and if the situation in the subsidiaries differs substantially from the overall descriptions applicable to the DZ BANK Group. However, subsidiaries are always specifically mentioned where this is necessary to explain the amount, structure, and management of the risks in the DZ BANK Group, and the changes in these risks.

The disclosure of **non-financial risks** in accordance with section 315c HGB in conjunction with section 289c HGB is included in the non-financial statement, which forms part of the Sustainability Report. The statement analyzes the impact of the activities of the entities in the DZ BANK Group on economic units and persons outside the DZ BANK Group. The concept of risk in section 315c HGB therefore fundamentally differs from the standard concept of risk as defined in Basel Pillar 2, which is concerned with risks that affect the entities in the DZ BANK Group themselves. The risks as defined in Basel Pillar 2 are disclosed in this risk report.

Non-financial risks subject to regulatory standards comprise reputational risk and operational risk. Details on the management of these risks are included in sections 11 and 17 (reputational risk) and in sections 12 and 18 (operational risk) of this risk report.

## DZ BANK Group

### 2 Summary and material changes

#### 2.1 Risk management system

##### 2.1.1 Fundamental features

**Risks** result from adverse developments affecting financial position or financial performance, and essentially comprise the risk of an unexpected future liquidity shortfall or unexpected future losses. A distinction is made between liquidity and capital. Risks that materialize can affect both of these resources.

The risk management system is based on the risk appetite statement – the fundamental document for determining risk appetite in the DZ BANK Group – and the specific details and additions in **risk strategies**, which are consistent with the business strategies and have been approved by the Board of Managing Directors. The **risk appetite statement** contains risk policy guidelines and risk strategy requirements applicable throughout the group. It also sets out quantitative requirements reflecting the risk appetite specified by the Board of Managing Directors.

**Management and control tools** are used in all areas of risk. These tools are subject to continual refinement. The methods used for measuring risk are integrated into the risk management system. Risk model calculations are used to manage the DZ BANK Group, DZ BANK, and its subsidiaries.

DZ BANK and its subsidiaries have a **risk management system** that is updated on an ongoing basis in line with changes to the business and regulatory environment. The organizational arrangements, methods, and IT systems that have been implemented – especially the limit system based on risk-bearing capacity, stress testing of all material risk types, and internal reporting – are designed to enable the entities in the DZ BANK Group to identify

material risks at an early stage and initiate the necessary control measures. This particularly applies to **risks that could affect the group's survival as a going concern**.

The tools used for the purposes of risk management are also designed to enable the DZ BANK Group to respond appropriately to **significant market movements**. Possible changes in risk factors are reflected in adjusted risk parameters in the mark-to-model measurement of credit risk and market risk. Conservative crisis scenarios for short-term and medium-term liquidity are intended to ensure that liquidity risk management also takes adequate account of market crises.

#### 2.1.2 KPIs

Risks affecting liquidity and capital resources are managed on the basis of groupwide liquidity risk management and groupwide risk capital management. The purpose of **liquidity risk management** is to ensure adequate levels of liquidity reserves are in place in respect of risks arising from future payment obligations (liquidity adequacy). The aim of **risk capital management** is to ensure the availability of capital resources that are commensurate with the risks assumed (capital adequacy).

The key risk management figures are the minimum liquidity surplus and the liquidity coverage ratio (LCR) in respect of **liquidity**, economic capital adequacy, the coverage ratio for the financial conglomerate, and the regulatory capital ratios in respect of **capital**, plus the leverage ratio and the minimum requirement for own funds and eligible liabilities (MREL).

#### 2.1.3 Management units

Based on statutory requirements (GAS 20.A1.3), this risk report is structured according to **risk type**. The DZ BANK Group is managed using the main types of risk, taking into account particular features relating to DZ BANK and its material subsidiaries (referred to below as **management units**).

All entities in the DZ BANK Group are integrated into the groupwide risk management system. The DZ BANK Group largely comprises the regulatory DZ BANK banking group and R+V. The management units form the core of the financial services group.

The insurance business operated at R+V differs in material respects from the other businesses of the DZ BANK Group. For example, actuarial risk is subject to factors that are different from those affecting risks typically assumed in banking business. Furthermore, policyholders have a share in any gains or losses from investments in connection with life insurance, as specified in statutory requirements, and this must be appropriately taken into account in the measurement of risk. Not least, the supervisory authorities also treat banking business and insurance business differently. This is reflected in differing regulatory regimes for banks and insurance companies.

Because of these circumstances, two sectors – Bank sector and Insurance sector – have been created within the DZ BANK Group for the purposes of risk management. The management units are assigned to these sectors as follows:

#### **Bank sector:**

- DZ BANK
- BSH
- DVB
- DZ HYP
- DZ PRIVATBANK
- TeamBank
- UMH
- VR Smart Finanz

### Insurance sector:

– R+V.

The management units represent the operating segments of the DZ BANK Group. From a risk perspective, the 'DZ BANK' management unit equates to the central institution and corporate bank operating segment and the holding function.

**DZ HYP** has applied the **waiver** pursuant to section 2a (1), (2), and (5) of the German Banking Act (KWG) in conjunction with article 7 (1) of the Capital Requirements Regulation (CRR), under which – provided certain conditions are met – the regulatory supervision at individual bank level (for example, in relation to capital adequacy) may be replaced by supervision of the entire banking group.

The management units are deemed to be material in terms of their contribution to the DZ BANK Group's aggregate risk and are directly incorporated into the group's risk management system. The other subsidiaries and investee entities of DZ BANK are included in the risk management system either indirectly as part of equity investment risk or directly as part of other types of risk. This is decided for each of them annually.

The management units' subsidiaries and investees are also included in the DZ BANK Group's risk management system – indirectly via the majority-owned entities – with due regard to the minimum standards applicable throughout the group.

Risk is managed groupwide on a consolidated basis. Risks arising in the subsidiaries therefore impact the risk-bearing capacity of DZ BANK as the group parent.

#### 2.1.4 Material changes to the risk management system

##### Business risk (Bank sector)

The modeling of business risk in the Bank sector was changed at the start of 2020. Until 2019, this risk had been measured on a decentralized basis in the management units. Business risk in the Bank sector is now calculated centrally by DZ BANK with the help of a standardized method. The centralized model for business risk is used to calculate the risk capital requirement for each management unit in isolation and the risk capital requirement for the Bank sector as a whole, including the management units' risk contributions to the aggregate risk. The calculation covers a forecast period of one year. The centralized model takes account of diversification effects between the management units, thereby significantly reducing the capital requirement for business risk in the Bank sector. Replacing the decentralized calculation method with the centralized risk model should also help to reduce costs because of the simplification of data structures and management processes. Further details on the management of business risk can be found in section 10.5 of this risk report.

##### Operational risk (Bank sector)

In 2020, the management of operational risk in the Bank sector was more sharply focused on the main risk subtypes. This shift in focus is intended to provide a more nuanced view of operational risk and help the specialist divisions in the second line of defense manage the risk better. This is reflected in the management tools used for operational risk and in the reports to the Board of Managing Directors.

The risk subtypes were therefore amended, as follows:

- IT risk was broadened to include communication technology and is now referred to as information and communication technology (ICT) risk; it is integrated into the information risk subtype.
- Security risk and project risk were added.
- HR risk, tax risk, and risk in connection with the (consolidated) financial reporting process were not deemed to be material. Disclosures for these risks have therefore no longer been provided.

These changes mean there is only limited direct comparability with the corresponding disclosures in the 2019 opportunity and risk report.

The structure of sections 12.5 and 12.6 in this risk report reflects the realignment of the management of operational risk.

#### Volatility adjustment and transitional measure on technical provisions (Insurance sector)

In the first half of 2020, BaFin was notified of the first-time use of the transitional measure on technical provisions for individual personal insurance companies of R+V. BaFin approved the application to use the volatility adjustment, which was also submitted in the first half of the reporting year. Both measures have a positive impact on economic and regulatory capital adequacy. The volatility adjustment, which can be used indefinitely, prevents a brief phase of heightened market volatility from affecting the valuation of long-term insurance guarantees. The transitional measure on technical provisions is a time-limited measure designed to make it easier for insurance companies to transition from Solvency I to the current regulatory regime, Solvency II.

## 2.2 Risk

The main **features of the directly managed risks** and their significance for the operating segments in the Bank and Insurance sectors are shown in Fig. 3 and Fig. 4. The risks shown correspond to the outcome of the risk inventory check carried out for 2020 and reflect the risks that are material to the DZ BANK Group.

To ensure that the presentation of the disclosures remains clear, the risk management system disclosures included in the risk report are limited to the main material entities in the group (indicated in Fig. 3 by a dot on a dark gray background). This selection is based on a **materiality assessment**, which takes into account the contribution of each management unit to the DZ BANK Group's overall risk for each type of risk. However, the figures presented in the risk report cover all the management units included in the internal reporting system (indicated additionally in Fig. 3 by a dot on a light gray background).

The following risks have been identified as **not material**:

- Funding risk (Bank sector)
- Strategic risk (Bank sector and Insurance sector).

FIG. 3 – RISKS AND OPERATING SEGMENTS IN THE BANK SECTOR<sup>1</sup>

Risks			
Risk type	Definition	Risk factors	
<b>RISK NOT COVERED BY CAPITAL</b>			
Liquidity risk	Risk that cash and cash equivalents will not be available in sufficient amounts to ensure that payment obligations can be met (insolvency risk)	<ul style="list-style-type: none"> <li>– Follow-up funding risk</li> <li>– Collateral risk</li> <li>– Fair value risk</li> <li>– Drawdown risk</li> <li>– Termination risk</li> <li>– New business risk</li> <li>– Repurchase risk</li> <li>– Intraday risk</li> <li>– Foreign currency funding risk</li> </ul>	
<b>RISK COVERED BY CAPITAL</b>			
Financial risks	Credit risk – Traditional credit risk – Issuer risk – Replacement risk	<p>Risk of losses arising from the default of counterparties (borrowers, issuers, other counterparties) and from the migration of the credit ratings of these counterparties</p> <p>General credit risk factors:</p> <ul style="list-style-type: none"> <li>– Increase in the concentration of volume in counterparties, industries, or countries</li> <li>– Accumulation of exposures with longer terms to maturity</li> </ul> <p>Specific credit risk factors:</p> <ul style="list-style-type: none"> <li>– Economic divergence in the eurozone</li> <li>– Challenging shipping and offshore markets</li> <li>– Risks to the global economy</li> <li>– Climate change</li> </ul>	
	Equity investment risk	<p>Risk of losses arising from negative changes in the fair value of that portion of the long-term equity investments portfolio for which the risks are not included in other types of risk</p> <p>Increased requirement for the recognition of impairment losses on the carrying amounts of investments</p> <ul style="list-style-type: none"> <li>– as a result of impaired carrying amounts</li> <li>– as a result of a lack of information in the case of non-controlling interests</li> </ul>	
	Market risk – Interest-rate risk – Equity risk – Fund price risk – Currency risk – Commodity risk – Spread risk and migration risk – Asset-management risk – Market liquidity risk	<ul style="list-style-type: none"> <li>– Risk of losses that could arise from adverse changes in market prices or in the parameters that influence prices (market risk in the narrow sense of the term)</li> <li>– Risk of losses that could arise from adverse changes in market liquidity such that assets can only be liquidated in markets if they are discounted and that it is only possible to carry out active risk management on a limited basis (market liquidity risk)</li> </ul> <p>General market risk factors:</p> <ul style="list-style-type: none"> <li>– Changes in the yield curve</li> <li>– Changes in credit spreads</li> <li>– Changes in exchange rates</li> <li>– Changes in share prices</li> </ul> <p>Specific market risk factors:</p> <ul style="list-style-type: none"> <li>– Low interest rates</li> <li>– Risks to the global economy</li> <li>– Economic divergence in the eurozone</li> </ul>	
	Technical risk of a home savings and loan company <sup>2</sup> – New business risk – Collective risk	<ul style="list-style-type: none"> <li>– Risk of a negative impact from possible variances compared with the planned new business volume (new business risk)</li> <li>– Risk of a negative impact that could arise from variances between the actual and forecast performance of the collective building society operations caused by significant long-term changes in customer behavior unrelated to changes in interest rates (collective risk)</li> </ul>	<ul style="list-style-type: none"> <li>– Decline in new business</li> <li>– Changed customer behavior (unrelated to changes in interest rates)</li> </ul>
	Business risk	Risk of losses arising from earnings volatility for a given business strategy and not covered by other types of risk	<p>Regulatory risk factors:</p> <ul style="list-style-type: none"> <li>– Costs of regulation</li> <li>– Basel IV</li> <li>– Switch in interest-rate benchmarks</li> </ul> <p>Competition-related risk factors:</p> <ul style="list-style-type: none"> <li>– Competition based on pricing and terms</li> <li>– Greater competition in capital markets business</li> <li>– New competitors in transaction banking</li> </ul> <p>Rating downgrades</p>
	Reputational risk <sup>3</sup>	Risk of losses from events that damage confidence, mainly among customers (including the cooperative banks), shareholders, employees, the labor market, the general public, and the supervisory authorities, in the entities in the Bank sector or in the products and services that they offer	<ul style="list-style-type: none"> <li>– Decrease in new and existing business</li> <li>– Backing of stakeholders is no longer guaranteed</li> </ul>
Non-financial risks	Operational risk	<p>Risk of losses from human behavior, technological failure, weaknesses in process or project management, or external events</p> <p>– Compliance risk including conduct risk: Violations of legal provisions; failure to comply with corporate policies</p> <p>– Legal risk: Violations of legal provisions or failures in applying such provisions; adverse changes in the legal environment</p> <p>– Information risk including ICT risk: Failure to maintain the confidentiality, integrity, availability, or authenticity of information or data</p> <p>– Security risk: Inadequate protection of individuals, premises, assets, or time-critical processes</p> <p>– Outsourcing risk: Disruptions to outsourced processes and services</p> <p>– Project risk: Failure to complete projects on schedule</p>	

<sup>1</sup> Apart from migration risk on traditional loans, which are covered by the capital buffer.

<sup>2</sup> Including business risk and reputational risk of BSH.

<sup>3</sup> The Bank sector's reputational risk is contained in the risk capital requirement for business risk. BSH's reputational risk, which is covered mainly by the technical risk of a home savings and loan company, is not included here.

Risks		Operating segments (management units)							
		DZ BANK	BSH	DVB	DZ HYP	DZ PRIVATBANK	TeamBank	UMH	VR Smart Finanz
<b>Risk management KPIs disclosed</b>									
– Liquid securities	Section 4.2.6								
– Unsecured short-term and medium-term funding	Section 4.2.6								
– Minimum liquidity surplus	Section 4.2.7								
– LCR	Section 4.3.3	•	•	•	•	•	•		•
– Lending volume	Sections 0, 6.7, and 6.8								
– Risk capital requirement	Section 6.10	•	•	•	•	•	•		•
– Carrying amounts of investments	Section 7.5								
– Risk capital requirement		•	•	•	•		•	•	•
– Value-at-risk	Section 8.7.1								
– Risk capital requirement	Section 8.7.2	•	•	•	•	•	•	•	•
Risk capital requirement	Section 9.5		•						
Risk capital requirement	Section 10.6	•				•			•
		•	•	•	•	•	•	•	•
– Losses	Section 12.6								
– Risk capital requirement	Section 12.7	•	•	•	•	•	•	•	•

Management unit disclosures in the risk report:

	Quantitative and qualitative disclosures		Quantitative disclosures		Not relevant
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FIG. 4 – RISKS IN THE INSURANCE OPERATING SEGMENT AND SECTOR

Risk type	Definition	Risk factors	Risk management KPIs disclosed		
<b>RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY II</b>					
Financial risks	Actuarial risk	– Life actuarial risk: Risk arising from the assumption of life insurance obligations in relation to the risks covered and the processes used in the conduct of this business	– Life actuarial risk: Adverse change in the calculation assumptions for life insurance over the lifetime of the contract	– Claims rate trend in non-life insurance	Section 14.6
	– Life actuarial risk				
	– Health actuarial risk				
	– Non-life actuarial risk	– Non-life actuarial risk: Unexpected rise in claims incurred			
	Market risk	Risk arising from fluctuation in the level or volatility of market prices of assets, liabilities, and financial instruments that have an impact on the value of the assets and liabilities of the entity	It becomes difficult to generate a guaranteed rate of return because of – a protracted period of low interest rates – a narrowing of spreads on investments  The fair values of investments fall because of – a fast rise in interest rates – a widening of spreads on investments	– Lending volume – Overall solvency requirement	Section 15.4 Section 15.5
– Interest-rate risk					
– Spread risk					
– Equity risk					
– Currency risk					
– Real-estate risk – Concentration risk					
Counterparty default risk	Risk of losses due to unexpected default or deterioration in the credit standing of counterparties or debtors of insurance or reinsurance companies over the subsequent 12 months	Deterioration of counterparties' financial circumstances	Overall solvency requirement	Section 16.4	
Non-financial risks	Reputational risk <sup>1</sup>	Risk of losses that could arise from damage to the reputation of R+V or of the entire industry as a result of a negative perception among the general public	– Decrease in new and existing business – Backing of stakeholders is no longer guaranteed		
	Operational risk	Risk of losses arising from inadequate or failed internal processes, personnel, or systems, or from external events (including legal risk)	– Legal and compliance risk: Violations of legal provisions or failures in applying such provisions; adverse changes in the legal environment; violations of statutory provisions; failure to comply with corporate policies – Information risk: Malfunctions or breakdowns in IT systems – Security risk: Inadequate protection of individuals, premises, assets, or time-critical processes – Outsourcing risk: Disruptions to outsourced processes and services – Project risk: Failure to complete projects on schedule	Overall solvency requirement	Section 18.4
<b>RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY I</b>					
	Risks from entities in other financial sectors	The entities in other financial sectors mainly consist of pension funds and occupational pension schemes	Generally corresponding to the risk factors for risks backed by capital pursuant to Solvency II	Overall solvency requirement	Section 19

<sup>1</sup> The Insurance sector's reputational risk is included in the overall solvency requirement for life actuarial risk (lapse risk).



## 2.3 General risk factors

The entities in the DZ BANK Group are exposed to a range of risk factors that could affect a number of risk types. These general risk factors are explained below.

### 2.3.1 Low interest rates

Chapter V.1.5 in the outlook describes the anticipated trend in interest rates in 2021. Permanently low interest rates could have the following negative consequences for the DZ BANK Group.

- In BSH's **building society operations**, the current very low level of interest rates means that home savings loans are not particularly appealing for customers, whereas high-interest home savings deposits under older contracts are attractive. If interest rates were to go down yet again, interest income on home savings loans could fall further, while the interest expense for home savings deposits could rise. Furthermore, available liquidity could only be invested at low rates of return, which would be an additional factor depressing earnings, and this could lead to a decrease in capital.
- In addition, a long period of low interest rates and the growing importance of central banks' bond-buying programs also increase the risk of **incorrect valuations** in the financial and real estate markets in the form of significant overpricing. If bubbles like this are created, there is a risk of a sudden correction, which could lead to a sharp drop in share prices and widening credit spreads. In extreme cases, a **market crisis** of this nature could cause the interbank market to crash. These effects could increase the specific risk factors applicable to liquidity risk and the risks covered by capital, resulting in a fall in the DZ BANK Group's liquidity and capital adequacy. Information on the inclusion of market crises in liquidity risk management can be found in sections 4.2.5 and 4.2.7 of this risk report.

Further potential effects of the low interest rates on **individual risks in the DZ BANK Group** are described within the sections of this risk report covering the following:

- Market risk factors in the Bank sector (section 8.3.2)
- Business risk factors in the Bank sector resulting from the competitive situation in the capital markets business (section 10.3.2)
- Market risk factors in the Insurance sector (sections 15.2 and 15.3.4).

### 2.3.2 Risks to the global economy

Chapters V.1.1 to V.1.4 in the outlook include assessments as to the consequences of the **COVID-19 pandemic** in the coming year. Chapter V.1.2 also provides information on the anticipated developments in **international trade disputes**.

- In addition to the above information, the impact of the COVID-19 pandemic and the international trade disputes on **the DZ BANK Group's risks** are also discussed within the sections of this risk report covering the following:
  - Credit risk factors in the Bank sector (section 6.3.2)
  - Market risk factors in the Bank sector (section 8.3.2)
  - Market risk factors in the Insurance sector (section 15.2).

### 2.3.3 Economic divergence in the eurozone

In **Italy**, the current COVID-19 pandemic is expected to result in a sharp fall in GDP, a high and rising level of unemployment, and a marked increase in the already high level of government debt. This is the likely outcome of the fiscal spending in connection with the government's support measures to reduce the adverse effects of the pandemic. At the same time, the Italian administration continues to show no signs of willingness to implement far-reaching reforms. If there are no lasting solutions to these problems, there could be perpetual concerns about whether the government debt can be sustained and/or refinanced and about whether long-term growth can be initiated. This could prejudice the ability of the country to obtain funding in international capital markets.

As a result of the economic developments in Italy, **Italian banks** are finding it increasingly difficult to secure funding via the capital markets. Moreover, the financial performance of Italian banks is continuing to suffer as they make large additions to loss allowances and incur losses relating to the elimination of non-performing loans.

The COVID-19 pandemic is substantially exacerbating the existing difficulties in **Spain**. Its already high level of government debt is coming under even more pressure due to high government spending as part of its fiscal support measures. Moreover, the macroeconomic outlook has turned decidedly gloomy in view of the forecast recession and predicted further increase in the already high unemployment rate. The direction of the fiscal policy of the Spanish government, which has been in place since January 2020, is also subject to significant uncertainty. The tensions in Catalonia could give rise to further risks for the economy. Overall, these factors could prejudice the ability of the country and its banks to obtain funding in international capital markets.

**Portugal's** financial strength is weakened by a significant level of government debt that is likely to rise even higher owing to the COVID-19 pandemic and the increase in fiscal spending aimed at supporting the economy. The pandemic will probably mean a sharp fall in GDP too. The banking sector harbors further risks to financial stability. Even after capitalization, the banks are still carrying substantial portfolios of non-performing loans, although these are declining. To add to this, the earnings prospects for the sector are weak because of the current low level of interest rates. The Portuguese financial market is highly susceptible to volatility in investor confidence. At the same time, the country's ability to respond to negative shocks with fiscal policy measures is limited because of the high level of public debt.

In the last few years, the **expansionary monetary policy of the European Central Bank (ECB)**, and particularly its bond-buying program, largely prevented the structural problems in some European Monetary Union (EMU) member countries from being reflected in the capital markets. Because the COVID-19 pandemic has hit Italy and Spain particularly hard, the economic fallout in these countries is especially severe and their need to obtain funding in the capital markets has risen sharply. Expansion of the ECB's asset purchase program has so far limited the widening of credit spreads. But there is a risk that this situation could change if the asset purchase program were to end. These highly indebted countries could find it considerably more difficult to arrange funding through capital markets.

The effects of the economic divergence in the eurozone on the **DZ BANK Group's risks** are described within the sections of this risk report covering the following:

- Credit risk factors in the Bank sector (section 6.3.2)
- Market risk factors in the Bank sector (section 8.3.2)
- Market risk factors in the Insurance sector (section 15.2).

#### 2.3.4 Climate change

Property damage caused by climate change and the transformation to a low-emission economy could have a considerable negative impact on the real economy, the financial system, and banks. The DZ BANK Group is therefore exposed to medium- and long-term risks resulting from climate change. These risks comprise both physical risks, such as more occurrences of natural disasters and flooded buildings, and transition risks, which can arise particularly as a result of legislative initiatives and changes in consumer behavior.

**Physical climate risks** affect the lending business of the entities in the Bank sector. Further details on the significance of climate change for **credit risk in the Bank sector** can be found in section 6.3.2 of this risk report.

In the Insurance sector of the DZ BANK Group, catastrophe risk (which forms part of **non-life actuarial risk**) is the main type of risk that could be significantly affected by physical climate risk (see sections 14.2 and 14.5). Specifically, in any one year, the actual impact from the size and frequency of losses could exceed the forecast impact.

In both the Bank sector and the Insurance sector, physical climate risk materializing in a number of forms, such as weather or environmental events, could also give rise to **operational risk** from the non-availability of buildings. This type of security risk is described for the Bank sector in section 12.5.4, and for the Insurance sector in section 18.3.3, of this risk report.

Furthermore, negative effects from physical climate risk on the **reputation** of individual entities in the DZ BANK Group or on the DZ BANK Group as a whole cannot be ruled out.

**Transition climate risk** could be reflected in the main economic risk types in the DZ BANK Group as a consequence of the transition to a lower-carbon, more sustainable economy.

If climate risks are relevant because of the business model, they are implicitly backed with capital within the risk types referred to above.

## 2.4 Dealing with the impact of the COVID-19 pandemic

### 2.4.1 Relaxation of supervisory requirements

To enable the banking industry to tackle the impact of the COVID-19 pandemic, the supervisory authorities introduced various relief measures in 2020 concerning the **liquidity and solvency requirements**. This led to the external minimum targets for regulatory key figures being lowered until further notice. Consequently, the Board of Managing Directors of DZ BANK reduced selected **internal thresholds** for the management of capital adequacy in the DZ BANK Group's risk appetite statement. The new arrangements came into force on June 30, 2020. The internal thresholds are set out in Fig. 5. No material changes to the **risk strategies** were required in response to the pandemic. In addition, the EBA relaxed some of its requirements for DZ BANK, and for the banking industry as a whole, relating to the preparation of a group recovery plan.

### 2.4.2 Risk management measures

#### Reporting and stress tests

In addition, changes were made to the **risk-related reporting to the Board of Managing Directors** of DZ BANK to match the management requirements at the start of the COVID-19 pandemic. This included the introduction of two new reporting instruments that can also be used to report on the risk situation to the supervisory authorities. The **financial and risk radar** was established as a monthly reporting format that covers economic indicators, forecasts, and the DZ BANK Group's current financial and risk position. The report is designed, in particular, to monitor the impact of the capital market turmoil brought about by the COVID-19 pandemic and any other developments that may adversely affect the business models in the DZ BANK Group. The second instrument, the **CET1 radar**, is used to report on the expected changes to the DZ BANK Group's common equity Tier 1 capital ratio. It also shows other relevant parameters that have an influence on this ratio.

Furthermore, the focus of **stress testing** was switched to identifying and analyzing the effects of the COVID-19 pandemic. Specific COVID-19 scenarios were developed and their effect on the DZ BANK Group simulated. The findings from the scenarios are made available to the Board of Managing Directors and to the Supervisory Board's Risk Committee in a report on the stress tests in the DZ BANK Group. See section 5.4.1 of this risk report for further information.

To date, the COVID-19 pandemic has mainly had an impact on credit risk in the Bank sector and on market risk and non-life actuarial risk in the Insurance sector.

#### Credit risk in the Bank sector

The entities in the Bank sector adapted their **process management** in the lending business to reflect the relief measures brought in by the supervisory authorities in light of COVID-19. The following special arrangements were temporarily introduced in this context.

In response to the fallout from the COVID-19 pandemic, the credit portfolio of the Bank sector is being **monitored** even more closely at individual borrower level and at sector and country levels. The content of the credit risk report was expanded. In addition, credit-risk-related effects of the pandemic were reported at monthly intervals as part of the financial and risk radar.

Ad hoc **re-ratings** led to an increase in credit rating downgrades in some sectors. This particularly affected the **shipping, cruise ships, and automotive** industries, but other sectors such as steel, logistics, consumer goods, services, and publishing were also hit. Owing to the quality of the portfolio prior to the COVID-19 pandemic, re-ratings did not automatically result in these industries being classified as credit portfolios with increased risk content. Further disclosures relating to shipping finance and the related risks can be found in sections 6.3.2, 6.8.2, and 6.10.2 of this risk report. Details of the financing of cruise ships and the resulting risks can be found in sections 6.3.2, 6.8.3, and 6.10.2. The situation in the automotive sector and the exposure to this market segment of the entities in the Bank sector is explained in section 6.7.1.

At the end of 2020, the **hotel and department store financing** business at DZ HYP was also subject to substantial uncertainty because of the trend in new COVID-19 cases. However, no significant credit rating downgrades were necessary because the quality of the portfolio remained fundamentally sound. Section 6.7.1 of this risk report includes further details on this subportfolio.

The COVID-19 pandemic led to existing customers submitting a substantial volume of **applications for liquidity support**. To process them, DZ BANK made use of the support programs of the Federal Republic of Germany provided through KfW and the development banks of the individual federal states (see also section 6.7.2).

Borrowers also applied to **defer repayments** under measures introduced by the German government and banking federations and under options offered voluntarily by the entities in the Bank sector to their customers. Details on the extent of deferred payments are also included in section 6.7.2 of this risk report.

The temporary, government-imposed shutdown of public life and economic activity (lockdown) and the resulting recession in the economy as a whole led to a significant rise in **loss allowances**. In addition to the COVID-19-related effects, loss allowances also increased because of significant impairment losses recognized on a specific exposure.

It is already foreseeable that the adverse effects of the pandemic on credit risk in the Bank sector will continue in 2021. Depending on the duration and intensity of the pandemic, there may also be **subsequent effects** on the credit portfolio in 2021. In particular, there is expected to be a sharp rise in company insolvencies that have not yet had to be registered because of the statutory changes to the obligation to apply for insolvency. Personal insolvencies due to unemployment are also likely to increase.

#### Risks in the Insurance sector

R+V tightened its underwriting guidelines for various products in order to limit the adverse effects of the COVID-19 pandemic on the insurance business.

The increases in risk presented in the sections on the risk position in the Insurance sector were primarily driven by the market turmoil triggered by the COVID-19 pandemic. Where there were other material reasons, this is explained with regard to the affected risk type. In the first half of 2020, the overall limit for the Insurance sector

was raised in response to the market turmoil triggered by the pandemic (see section 5.2.3). On this basis, the limits were raised for life, health, and non-life actuarial risk, market risk, and counterparty default risk.

The increase in risk was partly offset by the first-time use of the volatility adjustment in individual personal insurance companies (see also sections 5.2.3 and 5.3.4).

## 2.5 Risk profile

The DZ BANK Group's **business model** and the associated business models used by the management units (see chapter I.1 in 'DZ BANK Group fundamentals' in this (group) management report) shape the risk profile of the group. The main risks associated with the business models are shown in Fig. 3 and Fig. 4. The businesses operated by the management units that have a significant impact on the risk profile are described under 'Business background and risk strategy' within the sections of the risk report covering the different risk types.

The values for the measurement of **liquidity and capital adequacy** presented in Fig. 5 reflect the liquidity risks and the risks backed by capital assumed by the DZ BANK Group. They illustrate the **risk profile** of the DZ BANK Group. The values for these KPIs are compared against the (internal) threshold values specified by the Board of Managing Directors of DZ BANK with due regard to the business and risk strategies – also referred to below as **risk appetite** – and against the (external) minimum targets laid down by the supervisory authorities.

FIG. 5 – LIQUIDITY AND CAPITAL ADEQUACY KPIS

	Measured figure		Internal minimum threshold value <sup>1</sup>		External minimum target			
	Dec. 31, 2020	Dec. 31, 2019	2020 (after adjustment) <sup>2</sup>	2020 (before adjustment) <sup>2</sup>	2019	2020 (after adjustment) <sup>2</sup>	2020 (before adjustment) <sup>2</sup>	2019
<b>LIQUIDITY ADEQUACY</b>								
<b>DZ BANK Group (economic perspective)</b>								
Economic liquidity adequacy (€ billion) <sup>3</sup>	15.3	12.5	4.0	4.0	4.0	-	-	-
<b>DZ BANK banking group (normative internal perspective)</b>								
Liquidity coverage ratio (%) <sup>4</sup>	146.3	144.6	110.0	110.0	110.0	< 100.0	100.0	100.0
<b>CAPITAL ADEQUACY</b>								
<b>DZ BANK Group (economic perspective)</b>								
Economic capital adequacy (%) <sup>5</sup>	163.1	160.2	120.0	120.0	120.0	100.0	100.0	100.0
<b>DZ BANK financial conglomerate (normative internal perspective)</b>								
Coverage ratio (%) <sup>6</sup>	142.2	127.6	110.0	120.0	120.0	100.0	100.0	100.0
<b>DZ BANK banking group (normative internal perspective)</b>								
Common equity Tier 1 capital ratio (%) <sup>6,7</sup>	15.2	14.4	10.0	11.5	11.5	9.0	9.8	9.8
Tier 1 capital ratio (%) <sup>6,7</sup>	16.6	15.9	11.9	13.0	13.0	10.8	11.3	11.3
Total capital ratio (%) <sup>6,7</sup>	19.4	17.9	14.3	15.0	15.0	13.3	13.3	13.3
Leverage ratio (%) <sup>6</sup>	5.6	4.9	3.5	3.5	3.5			
MREL ratio (%) <sup>8</sup>	12.2	11.0	8.3	8.3	8.5	8.0	8.0	8.2

Not available

<sup>1</sup> As specified by the Board of Managing Directors.

<sup>2</sup> 'Before adjustment': internal thresholds originally planned for 2020 and external minimum requirements originally specified by the supervisory authorities for 2020. 'After adjustment': internal thresholds and external minimum requirements after factoring in the changes triggered by the COVID-19 pandemic.

<sup>3</sup> The measured value relates to the stress scenario with the lowest minimum liquidity surplus. The internal threshold value relates to the observation threshold.

<sup>4</sup> In view of the COVID-19 pandemic, the supervisory authorities will tolerate a value below the external minimum target of 100 percent until further notice.

<sup>5</sup> The internal threshold value is the amber threshold in the traffic light system for managing and monitoring economic capital adequacy.

<sup>6</sup> Measured values based on full application of CRR I.

<sup>7</sup> The external minimum targets are the binding regulatory minimum capital requirements. Details on the minimum capital requirements can be found in section 5.3.3.

<sup>8</sup> The value as at December 31, 2020 was not available by the publishing deadline for this risk report. The value measured as at September 30, 2020 is therefore shown.

In view of the fallout from the COVID-19 pandemic, the supervisory authorities tolerated values that had temporarily fallen below the external minimum targets for liquidity adequacy and capital adequacy during the reporting period. This applies analogously to the internal thresholds defined by the Board of Managing Directors.

The **solvency** of DZ BANK and its subsidiaries was never in jeopardy at any point during the reporting period.

They also complied with regulatory requirements for liquidity adequacy on every reporting date. By holding ample liquidity reserves, the group aims to be able to protect its liquidity against any potential crisis-related threats.

In addition, the DZ BANK Group remained within its economic **risk-bearing capacity** in 2020 and also complied with regulatory requirements for capital adequacy on every reporting date.

### 3 Fundamental principles of risk management

#### 3.1 Regulatory framework for risk management

The **conglomerate-wide risk management system** takes into account the statutory requirements specified in section 25 (1) of the German Supervision of Financial Conglomerates Act (FKAG) in conjunction with section 25a KWG and the German Minimum Requirements for Risk Management for Banks and Financial Services Institutions (MaRisk BA). In respect of risk management for the relevant management units, the DZ BANK Group also observes the requirements specified in sections 26 and 27 of the German Act on the Supervision of Insurance Undertakings (VAG) and section 28 of the German Capital Investment Code (KAGB) in conjunction with the German Minimum Requirements for Risk Management for Investment Management Companies (KAMaRisk).

When the DZ BANK Group designed the risk management system, it followed the guidance provided by the EBA and the European Insurance and Occupational Pensions Authority (EIOPA), together with the pronouncements of the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) on risk management issues.

In the reporting year, DZ BANK updated its **group recovery plan** for the DZ BANK Group in accordance with the requirements specified by banking supervisors and submitted it to the ECB. The recovery plan is based on the requirements specified in the German Bank Recovery and Resolution Act (SAG) and in other legal sources, especially Commission Delegated Regulation (EU) No. 2016/1075, which implements various EBA guidelines and also includes specific national stipulations. The German Regulation on Minimum Requirements for the Design of Recovery Plans (MaSanV) contains further relevant provisions. Furthermore, R+V was requested by BaFin to prepare a hypothetical recovery plan in accordance with section 26 (1) VAG in conjunction with section 275 (1) VAG. **R+V's recovery plan** was submitted to BaFin on time.

In accordance with article 7 (2) of Regulation (EU) No. 806/2014, the Single Resolution Board (SRB) is the European regulator responsible under the Single Resolution Mechanism (SRM) for the preparation of resolution plans and for all decisions in connection with the resolution of all institutions that are under the direct supervision of the ECB. A group resolution plan is drawn up for institutions that are subject to supervision at consolidated level. The SRB works closely with the national resolution authorities (in 2020 in Germany, this was the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [German Federal Financial Supervisory Authority]). The **resolution plan** is aimed at ensuring the resolvability of the banking group. In accordance with section 42 (1) SAG, the resolution authority (BaFin) can demand that the institution provide it with comprehensive assistance in connection with drawing up and updating the resolution plan. For this reason, as in prior years, DZ BANK once again in 2020 supported the ongoing preparation of the resolution plan for the DZ BANK Group. It supplied the resolution authority with numerous analyses related to DZ BANK and completed standardized questionnaires.

#### 3.2 Risk culture

The risk culture at DZ BANK is shaped by the high degree of responsibility assumed by the cooperative financial network for its members and for society. At DZ BANK, activities involving risk are based on the values of drive, integrity, and trust. The priority is on compliance with strategic and associated operating requirements when dealing with risk. The risk culture is reflected in the existing risk management processes and methods and in the conduct of employees.

The following **principles** apply in respect of employee conduct:

- **Leadership culture:** The management must set out clear expectations regarding the handling of risk and lead by example.
- **Risk appetite:** Employees must understand their roles and their part in the risk management system; they must assume responsibility for their decisions.
- **Communications:** Internal communications must be open and consensus-based. Alternative opinions must be respected and employees encouraged to analyze risk transparently.
- **Employees and expertise:** Employees must bear responsibility for conscious handling of risk. They must use the available expertise and undertake continuing professional development in a changing environment.
- **Change management:** Employees must learn from past experience and ensure the business model is sustainable by managing change proactively.

The key features of the risk culture are documented in a framework, which is available to all employees of DZ BANK.

### 3.3 Risk strategies

The **systematic controlled assumption of risk in relation to target returns** is an integral part of corporate control in the DZ BANK Group. The activities resulting from the business model require the ability to identify, measure, assess, manage, monitor, and communicate risks. The need to hold appropriate reserves of cash and to cover risks with adequate capital is also recognized as an essential prerequisite for the operation of the business and is of fundamental importance.

The Board of Managing Directors of DZ BANK has drawn up risk strategies for each of the material risks using the **business strategies** as a basis. The risk strategies each encompass the main risk-bearing business activities, the objectives of risk management (including the requirements for accepting or preventing risk), and the action to be taken to attain the objectives. The risk strategies are each valid for one calendar year.

The annual updating of the risk strategies is integrated with the **strategic planning process** and is carried out by the Group Risk Controlling, Group Finance, and Credit divisions in close consultation with other relevant divisions at DZ BANK and its subsidiaries.

The risk strategies are described in the sections covering the individual risk types in this risk report.

### 3.4 Risk appetite

The entities in the DZ BANK Group define risk appetite as the nature and extent of the risks that will be accepted at group level or by the management units when implementing their business models. Risk appetite equates to the term '**risk tolerance**' used by the supervisory authorities in a disclosure context.

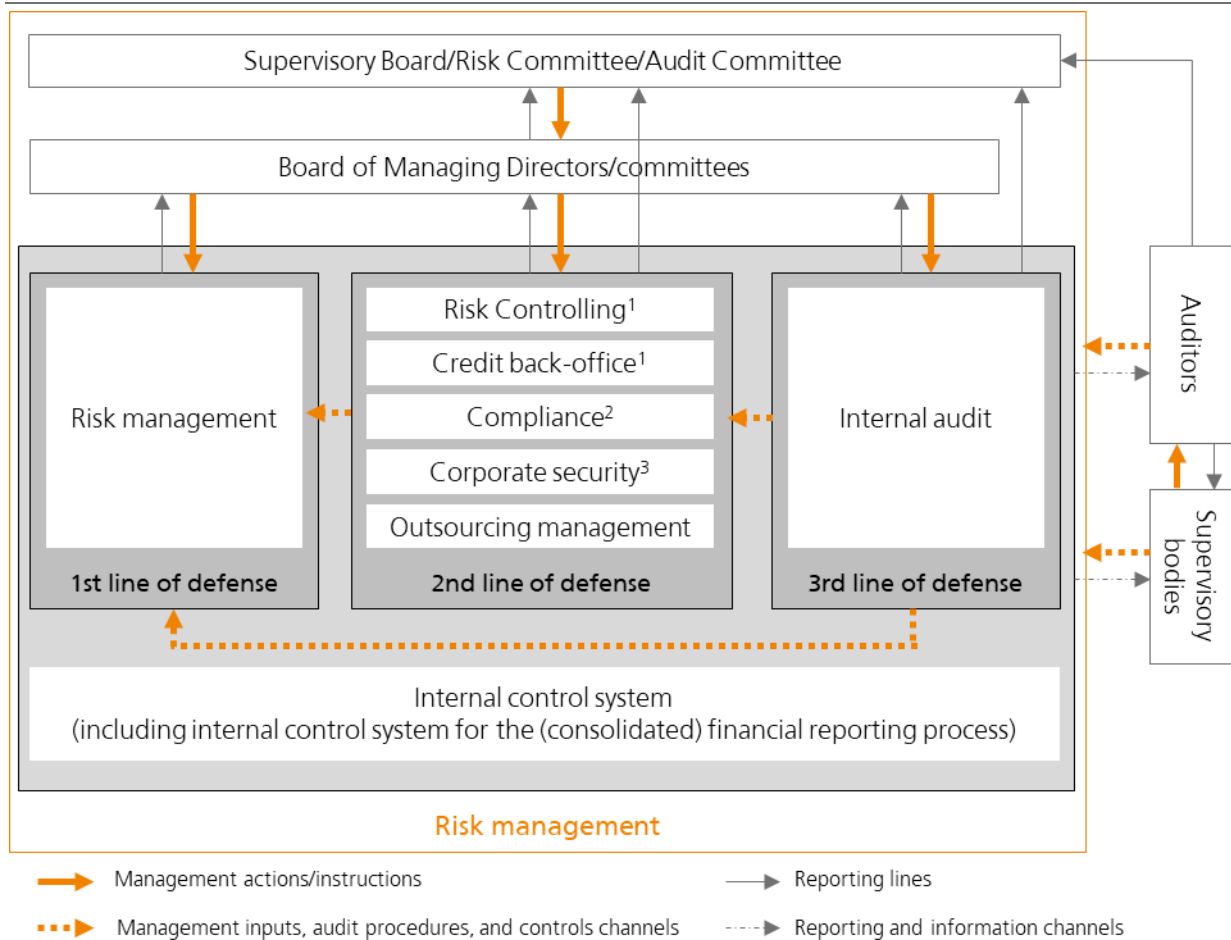
The **risk appetite statement** formulates risk policy principles on risk tolerance in the DZ BANK Group. The principles are overarching statements that are consistent with the business model and the risk strategies. The qualitative principles are supplemented by quantitative key figures, for which threshold values are set internally. The values for the KPIs and the internal threshold values are shown in Fig. 5. The monthly overall risk report is used to monitor the internal threshold values.

### 3.5 Risk-oriented corporate governance

#### 3.5.1 Governance structure

The DZ BANK Group's **risk management system** builds on the risk appetite statement and risk strategies. It is based on three lines of defense that are interlinked and well established in the monitoring and control environment. Fig. 6 shows the governance structure for risk management.

FIG. 6 – GOVERNANCE STRUCTURE OF RISK MANAGEMENT IN THE DZ BANK GROUP (SCHEMATIC DIAGRAM)



<sup>1</sup> Risk Controlling and the Credit back-office division together form the risk management function in the narrower sense as specified in the EBA guidelines on internal governance.

<sup>2</sup> Including data protection.

<sup>3</sup> Including information security and business continuity management.

The **three-lines-of-defense model** clarifies the understanding of risk management within the DZ BANK Group and sets out the roles and responsibilities.

The interaction between the three functional areas, or lines of defense, is intended to provide the basis for effective groupwide risk management. The tasks of the individual lines of defense are as follows:

**First line of defense:**

Day-to-day assumption and management of risk; related reporting to the Board of Managing Directors

**Second line of defense:**

- Establishment and enhancement of a framework for risk management
- Monitoring of compliance with the framework in the first line of defense
- Related reporting to the Supervisory Board and Board of Managing Directors
- Second vote in credit decisions as defined in MaRisk
- Structuring and monitoring of compliance, data protection, and corporate security
- Development and monitoring of principles for compliance with data protection requirements
- Group Risk Controlling and Credit divisions together form the risk management function



### Third line of defense:

- Process-independent examination and assessment of risk management and control processes in the first and second lines of defense
- Reporting to the Board of Managing Directors, Supervisory Board, and Audit Committee

Independent auditors, together with banking and insurance supervisory authorities, form the **external control functions** and these functions regularly hold discussions with all three lines of defense. The supervisory authorities can specify key points to be covered by independent auditors in their audits of financial statements. The auditors report to the supervisory authorities on the findings of their audits of financial statements and special audits.

Risk 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' in this (group) management report.

### Risk management

Risk management refers to the operational implementation of the risk strategies based on standards applicable throughout the group.

The management units make conscious decisions on whether to assume or avoid risks. They must observe guidelines and risk limits specified by the head office. The divisions responsible for risk management in the first line of defense are separated in terms of both organization and function from the divisions in the second and third lines of defense.

### 3.5.2 Risk control

Central Risk Controlling at DZ BANK is responsible for identifying, measuring, and assessing risk in the DZ BANK Group. This role includes early detection, full recording of data (to the extent that this is possible), and internal monitoring for all material risks. Risk Controlling also reports risks to the Supervisory Board, the Board of Managing Directors, and the management units.

Risk Controlling at DZ BANK lays down the fundamental requirements for the risk measurement methods to be used throughout the group and coordinates implementation with the risk control units in the other management units. The aim of this structure is to ensure that the management of risk capital is consistent throughout the group.

In cooperation with the other management units, Risk Controlling at DZ BANK establishes a groupwide risk reporting system covering all material types of risk based on specified minimum standards using methods agreed between the management units.

Both at DZ BANK and in the other management units, Risk Controlling is responsible for the transparency of risks assumed and aims to ensure that all risk measurement methods used are up to date. The risk control units in the management units also monitor compliance with the entity-related limits that have been set based on the risk capital allocated by DZ BANK.

### 3.5.3 Credit back-office division

The Credit divisions of the entities in the Bank sector form the back office within the meaning of MaRisk. They are responsible for aspects of identifying, measuring, monitoring, and managing credit risk. These aspects include analyzing the risk (including ratings), approving or rejecting a credit decision with the back office's 'second vote', ensuring compliance with the credit risk strategy, and identifying and appropriately assessing the risks from loans to members of the governing bodies. The responsibilities of the back office also comprise the ongoing monitoring of loan exposures, including identifying and processing non-performing exposures and deciding on measures to be implemented if limits are exceeded, as well as the management of loan collateral. In the case of exposures that are relevant for management, the exposure throughout the group is taken into account and appropriate management guidance is given to the management units.

The Credit back-office division also specifies credit standards, processes, and procedures for the lending business and monitors compliance in a number of ways, notably through the comply-or-explain approach. In addition, the Credit divisions are responsible for supervising and updating the group credit risk reporting system, which complements the risk control reporting system.

### 3.5.4 Compliance

#### Compliance function

The Board of Managing Directors of DZ BANK and the Boards of Managing Directors of the other management units are responsible for compliance with legal provisions and requirements and with the principles and measures implemented for this purpose. To fulfill these duties, the Boards of Managing Directors generally appoint an independent compliance function.

The main tasks of the compliance function are to identify, manage, and mitigate compliance risk in order to protect customers, the entities in the DZ BANK Group, and their employees against breaches of legal provisions and requirements. The compliance function is also responsible for monitoring compliance with legal provisions, external and internal agreements, and internal standards. Other tasks of the compliance function are to keep senior management up to date with new regulatory requirements and to advise the departments on implementing new provisions and requirements.

In accordance with the requirements of the Supervisory Review and Evaluation Process for Basel Pillar 2 (SREP), a single compliance framework must be established for the main entities in the DZ BANK Group. This framework must lay down rules on cooperation between the individual compliance functions and set out their authority and responsibilities. The DZ BANK Group's compliance framework comprises the compliance policy. The policy includes requirements for establishing and organizing the compliance functions and details of their duties. It is supplemented by compliance standards, which specify how to implement these requirements at an operational level. If individual requirements in the compliance standards cannot be fulfilled by a management unit, for example because they conflict with local rules or special legal requirements, the affected management unit must provide an explanation. The compliance framework is reviewed annually to check that it is up to date.

Further disclosures relating to compliance risks can be found in sections 12.5.1 and 18.3.1 of this risk report.

#### Code of conduct

The risk culture principles (see section 3.2) are mirrored in the DZ BANK Group's code of conduct. The code of conduct represents a framework for the group entities, the details of which are implemented by means of internal regulations and policies in the management units according to their respective core businesses and entity-specific requirements. The code of conduct encompasses the responsibility to stakeholders who are directly affected by the management unit concerned. These stakeholders include customers, business partners, shareholders, and employees. Compliance with social and ethical standards also forms part of the code of conduct.

The subsidiaries of DZ BANK have undertaken to uphold DZ BANK's standards on preventing money laundering, the financing of terrorism, and other criminal offenses. The measures required by the German Anti-Money Laundering Act (GwG) have been put in place and implemented. No corruption is tolerated, either in the entities of the DZ BANK Group or at business partners or other third parties. The DZ BANK Group implements appropriate organizational arrangements designed to ensure compliance with all applicable sanctions and embargoes.

#### Data protection

The entities in the DZ BANK Group have introduced suitable precautions aimed at ensuring that they comply with data protection provisions relating to customers, business partners, and employees. This has involved, in particular, creating the function of data protection officer and issuing standard data protection principles. In addition, employees regularly receive updates on the currently applicable data protection provisions.

In the management units, independent data protection officers report to the relevant Board of Managing Directors. A Data Protection Officers working group was created for the DZ BANK Group in 2020; it generally meets four times a year. The working group deals with current issues relating to data protection.

#### 3.5.5 Corporate security

The entities in the DZ BANK Group take into account the relevant regulatory requirements in the following areas of corporate security:

- Information security
- Business continuity management.

The regulatory requirements are implemented in all of the group's subsidiaries by means of written specifications and compliance is monitored by DZ BANK.

#### Information security

The DZ BANK Group understands information security management to encompass organizational structures, processes, and IT infrastructures that serve to protect data and information.

DZ BANK has implemented an information security management system (ISMS). The rules that it contains, along with the methodological framework that it provides, are based on the ISO/IEC 27001:2013 standard. The ISMS is designed to ensure the confidentiality, integrity, availability, and authenticity of data, information, and the media on which data is stored (IT applications, IT systems, and infrastructure components). The governance model implemented defines the methods, processes, roles, responsibilities, authority, and reporting channels that are necessary to achieve the strategic objectives and carry out the tasks of information security at operational level. It also provides an operational framework for the consistent quantitative and qualitative evaluation and management of information security risk, which forms part of operational risk.

Further disclosures relating to information risk, including ICT risk, can be found in sections 12.5.3 and 18.3.2 of this risk report.

#### Business continuity management

A groupwide business continuity and crisis management system has been set up to implement regulatory requirements throughout the group and to mitigate security risk relating to time-critical processes. Group standards are applied to address the regulatory minimum requirements for the business continuity and crisis management system and a governance process is used to track compliance with the standards.

At DZ BANK, business continuity management provides structures and methodologies that will enable time-critical business processes to be maintained should an emergency arise (dealing with emergencies). Measures to protect people, premises, and assets are also developed and implemented (preventing emergencies). In this way, DZ BANK aims to ensure that it can maintain its operations in the event of emergencies, even though the level of

activity may have to be reduced. This applies particularly if there are situations in which whole groups of individuals or significant parts of the buildings or IT infrastructure are affected.

At DZ BANK, time-critical business processes are identified by the head-office team for business continuity management using business impact analyses and protected by business continuity planning. DZ BANK's business continuity management system has been certified in accordance with the ISO 22301 2012 standard.

Further disclosures relating to security risk can be found in sections 12.5.4 and 18.3.3 of this risk report.

### 3.5.6 Outsourcing management

At DZ BANK, the Central Outsourcing Management unit acts as the central point of contact for all issues relating to the management of external procurement. This includes outsourcing and management-relevant external procurement (external procurement of IT services and other purchases from third parties). The Central Outsourcing Management unit is responsible for developing, introducing, and monitoring the framework specifications as well as for appropriately implementing the statutory requirements in respect of regulated external procurement at DZ BANK.

The framework specifications for outsourcing management include general requirements for the management units in the Bank sector to ensure that the management of outsourcing is largely standardized throughout the DZ BANK Group. The Insurance sector is subject to separate regulatory requirements that are described in internal guidance issued by R+V.

Further disclosures relating to outsourcing risk can be found in sections 12.5.5 and 18.3.4 of this risk report.

### 3.5.7 Control functions

#### Internal audit

The internal audit departments of the management units are responsible for control and monitoring tasks, which are carried out independently of individual processes. They carry out systematic, regular risk-based audits focusing on compliance with statutory and regulatory requirements. The internal audit departments also review and assess risk management and the internal control system to ensure that they are fully operational and effective, and that processing is properly carried out. In addition, they monitor the action taken in response to audit findings to ensure that identified problems have been rectified.

The internal audit departments at the entities in the DZ BANK Group report to the chief executive officer or other senior managers of the entity concerned.

DZ BANK's internal audit department is responsible for internal audit tasks at group level. These tasks include, in particular, the design and coordination of audits involving multiple entities, the implementation of which lies within the remit of the individual internal audit departments in the management units concerned, and the evaluation of individual management unit audit reports of relevance to the group as a whole. Cooperation between internal audit departments in the DZ BANK Group is governed by general parameters, the operational details of which are set out in a separate group audit manual. DZ BANK's internal audit department also carries out audit activities for selected subsidiaries under service agreements.

#### Supervisory Board

The Board of Managing Directors reports to the Supervisory Board of DZ BANK four times a year about the risk situation, the risk strategies, and the status and further development of the risk management system of the DZ BANK Group and DZ BANK. The Board of Managing Directors also provides the Supervisory Board with reports about significant loan and investment exposures and the associated risks, again four times a year. The Supervisory Board discusses these issues with the Board of Managing Directors, advises it, and monitors its management activities. The Supervisory Board is involved in decisions of fundamental importance.

The Supervisory Board has set up a Risk Committee, which addresses issues related to overall risk appetite and risk strategy. The chairman of the Risk Committee reports to the full Supervisory Board four times a year on the material findings of the committee's work.

At least quarterly, the Board of Managing Directors makes the centrally produced risk reports available to the members of the Risk Committee and the other members of the Supervisory Board. The chairman of the Risk Committee informs the full Supervisory Board about the main content of these reports no later than at its next meeting.

#### External control functions

Independent **auditors** carry out audits pursuant to section 29 (1) sentence 2 no. 2a KWG in conjunction with section 25a (1) sentence 3 KWG in relation to the risk management system, including the internal control functions, of the entities in the Bank sector. For the Insurance sector, verification of the Solvency II balance sheet is carried out pursuant to section 35 (2) VAG and an audit of the early-warning system for risk, including the internal monitoring system of R+V, is carried out pursuant to section 35 (3) VAG in conjunction with section 317 (4) HGB and section 91 (2) of the German Stock Corporation Act (AktG).

The **banking and insurance supervisory authorities** also conduct audits focusing on risk.

#### 3.5.8 General internal control system

The objective of the internal control systems operated in the entities of the DZ BANK Group is to ensure, in each case, the effectiveness and efficiency of the risk management activities by means of suitable basic principles, action plans, and procedures.

Organizational structures and controls built into work processes serve to ensure that the monitoring of risk management activity is integrated into processes. IT systems are systematically protected by authority-dependent management of authorizations and by technical security measures, the aim of which is to prevent unauthorized access both within and outside management units.

#### 3.5.9 Internal control system for the (consolidated) financial reporting process

##### Objective and responsibilities

DZ BANK is subject to a requirement to prepare consolidated financial statements and a group management report as well as separate financial statements and a management report. The primary objective of external (consolidated) financial reporting for the entities in the DZ BANK Group is to provide decision-useful information for the users of the reports. This includes all activities to ensure that (consolidated) financial reporting is properly prepared and that material violations of accounting standards – which could result in the provision of inaccurate information to users or in mismanagement of the group – are avoided with a sufficient degree of certainty.

In order to limit operational risk in this area of activity, the entities in the DZ BANK Group have set up internal control systems for the (consolidated) financial reporting process as an integral component of the control systems put in place for the general risk management process. In this context, the activities of employees, the implemented controls, the technologies used, and the design of work processes are structured to ensure that the objectives associated with (consolidated) financial reporting are achieved.

Overall responsibility for (consolidated) financial reporting lies in the first instance with Group Finance and Group Risk Controlling at DZ BANK, with all the consolidated entities in the DZ BANK Group responsible for preparing and monitoring the quantitative and qualitative information required for the consolidated financial statements.

#### Instructions and rules

The methods to be applied within the DZ BANK Group in the preparation of the consolidated financial statements are set out in writing in a group manual. The methods to be applied within DZ BANK in the preparation of the separate financial statements are documented in a written set of procedural rules. Both of these internal documents are updated on an ongoing basis. The instructions and rules are audited to assess whether they remain appropriate and are amended in line with changes to internal and external requirements.

#### Resources and methods

The group's financial reporting process is decentralized. Responsibility for preparing and checking the quantitative and qualitative information required for the consolidated financial statements lies with the organizational units used for this purpose in the entities of the DZ BANK Group. The Group Finance and Group Risk Controlling divisions at DZ BANK implement the relevant controls and checks in respect of data quality and compliance with the DZ BANK Group rules. Guidelines for the management units' risk control departments on data quality management and the internal control system set out the standards for ensuring the quality of data in the process for managing economic capital adequacy.

The organizational units post the accounting entries for individual transactions. The consolidation processes are carried out by DZ BANK's Group Finance division and by the accounting departments of each entity in the DZ BANK Group. The purpose of this structure is to ensure that all accounting entries and consolidation processes are properly documented and checked.

Financial reporting, including consolidated financial reporting, is chiefly the responsibility of employees of DZ BANK and the other organizational units used for this purpose in the entities of the DZ BANK Group. If required, external experts are brought in for certain accounting-related calculations as part of the financial reporting process, such as determining the defined benefit obligation and valuing collateral.

Consolidated financial reporting is based on mandatory workflow plans agreed between DZ BANK's Group Finance division and the individual accounting departments of the subsidiaries. These plans set out the procedures for collating and generating the quantitative and qualitative information required for the preparation of statutory financial reports. The plans also apply to the financial reports prepared for DZ BANK.

Generally accepted valuation methods are used in the preparation of the consolidated financial statements and group management report, and the separate financial statements and the management report. These methods are regularly reviewed to ensure they remain appropriate.

In order to ensure the efficiency of the (consolidated) financial reporting system, the processing of the underlying data is extensively automated using IT systems. Control mechanisms are in place with the aim of ensuring the quality of processing and are one of the elements used to limit operational risk. (Consolidated) accounting input and output data undergoes automated and manual checks.

Business continuity plans have also been put in place. These plans are intended to ensure the availability of HR and technical resources required for the (consolidated) accounting and financial reporting processes.

#### Information technology

The IT systems used for (consolidated) financial reporting have to satisfy the applicable security requirements in terms of confidentiality, integrity, availability, and authenticity. Automated controls are used to ensure that the processed (consolidated) accounting data is handled properly and securely in accordance with the relevant requirements. The controls in IT-supported (consolidated) accounting processes include, in particular, validation procedures to ensure consistent issue of authorizations, verification of master data modifications, logical access controls, and change management validation procedures in connection with developing, implementing, or modifying IT applications.

The IT infrastructure required for the use of electronic (consolidated) accounting systems is subject to the security controls implemented on the basis of the general IT security principles in the entities of the DZ BANK Group.

The information technology used for consolidated accounting purposes is equipped with the functionality to enable it to handle the journal entries in individual organizational units as well as the consolidation transactions carried out by DZ BANK's group accounting department and by the accounting departments in the subgroups.

IT-supported (consolidated) accounting processes are audited as an integral part of the internal audits carried out by the internal audit departments of the entities in the DZ BANK Group.

#### Ensuring and improving effectiveness

The processes used are reviewed to ensure they remain appropriate and fit for purpose; they are adapted in line with new products, circumstances, or changes in statutory requirements. To guarantee and increase the quality of (consolidated) accounting in the entities of the DZ BANK Group, the employees charged with responsibility for financial reporting receive needs-based training in the legal requirements and the IT systems used. When statutory changes are implemented, external advisors and auditors are brought in to provide quality assurance for financial reporting. At regular intervals, the internal audit department audits the internal control system related to the process for (consolidated) financial reporting.

### 3.6 Risk management tools

#### 3.6.1 Accounting basis

##### Accounting basis for risk measurement

The transaction data that is used to prepare the DZ BANK consolidated financial statements forms the basis for the measurement of risk in the Bank sector and in the Insurance sector. Similarly, the transaction data used by the entities in the DZ BANK Group to prepare separate financial statements and subgroup financial statements is also used for the measurement of risk in the management units. A wide range of other factors are also taken into account in the calculation of risk. These factors are explained in more detail during the course of this risk report.

The line items in the consolidated financial statements significant to risk measurement are shown in Fig. 7. The information presented is also applicable to the measurement of risk for the separate financial statements of DZ BANK and the measurement of its risk, which does not include the technical risk of a home savings and loan company or the risks incurred by the Insurance sector.

FIG. 7 – RISK-BEARING LINE ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS<sup>1</sup>

		BANK SECTOR										INSURANCE SECTOR											
		Credit risk			Market risk							Actuarial risk			Market risk			Counterparty default risk					
		Traditional credit risk	Issuer risk	Replacement risk	Equity investment risk	General market risk							Asset-management risk	Technical risk of a home savings and loan company	Life	Health	Non-life	Interest-rate risk	Spread risk	Equity risk	Currency risk	Real-estate risk	Operational risk
						Interest-rate risk	Equity risk	Fund price risk	Currency risk	Commodity risk	Spread risk and migration risk												
Consolidated financial statements																							
Risk-bearing assets	Loans and advances to banks	•		•		•				•		•											
	Loans and advances to customers	•				•				•		•											
	Derivatives used for hedging (positive fair values)			•		•	•	•	•	•	•	•											
	Financial assets held for trading		•	•		•	•	•	•	•	•	•											
	Investments		•	•	•	•	•	•	•	•	•	•											
	Investments held by insurance companies																•	•	•	•	•	•	
	Other assets													•	•	•						•	
	Financial guarantee contracts and loan commitments	•				•				•													
Risk-bearing liabilities	Deposits from banks					•				•		•											
	Deposits from customers					•				•		•											
	Debt certificates issued including bonds					•	•	•	•	•	•	•											
	Derivatives used for hedging (negative fair values)			•		•	•	•	•	•	•	•	•										
	Financial liabilities held for trading			•		•	•	•	•	•	•	•											
		Insurance liabilities													•	•	•	•					•

<sup>1</sup> As liquidity risk is determined on the basis of all line items in the consolidated financial statements, the details for liquidity risk are not provided here for reasons of clarity.

The sections below provide a further explanation of the link between individual types of risk and the consolidated financial statements.

A further breakdown of the line items in the consolidated financial statements used to determine **credit risk** is given in section 6.6.2 of this risk report.

The investments used for the purposes of measuring **equity investment risk** are the following items reported in note 56 of the notes to the consolidated financial statements: shares and other shareholdings, investments in subsidiaries, investments in associates, and investments in joint ventures.

In the **Bank sector**, the measurement of financial instruments both for the purposes of determining market risk and for financial reporting purposes is based on financial market data provided centrally. Discrepancies in carrying amounts arise from the differing treatment of impairment amounts in the market risk calculation and in the accounting figures. Differences also arise because the market risk calculation measures bonds on the basis of issuer and credit spreads using available market data whereas the accounting treatment uses liquid bond prices. If no liquid prices are available for bonds, issuer and credit spreads are also used to measure bonds for accounting purposes. With the exception of these differences, the disclosures relating to **market risk** reflect the fair values of the assets and liabilities concerned.

The measurement for the **technical risk of a home savings and loan company** is based on the loans and advances to banks and customers (home savings loans) and also the home savings deposits (deposits from banks and customers) described in notes 64 and 65 of the notes to the consolidated financial statements.



Insurance liabilities, as reported in the financial statements, are a key value for determining all types of **actuarial risk**. Insurance liabilities are also a determining factor in the calculation of **risks from entities in other financial sectors**. The line item Investments held by insurance companies is used to determine all types of **market risk** and **counterparty default risk**. The line item Other assets is included in the computation of actuarial risk and counterparty default risk.

**Operational risk in the Bank sector, business risk** (Bank sector), and **reputational risk** (Bank sector and Insurance sector) are measured without a direct link to balance sheet line items reported in the consolidated financial statements. On the other hand, **operational risk in the Insurance sector** is based on insurance liabilities.

The calculation of **liquidity risk** is derived from future cash flows, which in general terms are determined from all of the balance sheet items in the consolidated financial statements.

#### Accounting basis for risk coverage

The link between available liquidity reserves, which are used to determine economic liquidity adequacy, and the consolidated balance sheet is described in section 4.2.6 of this risk report. The link between available internal capital, which is used to determine economic capital adequacy, and the consolidated balance sheet is covered in section 5.2.1.

### 3.6.2 Measurement of risk and risk concentrations

#### Framework

Risk management in the DZ BANK Group is based on a **resource-oriented perspective of liquidity and capital**. The group uses this approach to implement the regulatory requirements for the internal liquidity adequacy assessment process (ILAAP) and the internal capital adequacy assessment process (ICAAP). This involves dovetailing between the economic and normative internal perspectives within the ILAAP and ICAAP.

A distinction is also made between **economic and regulatory liquidity adequacy and between economic and regulatory capital adequacy**. The impact of each risk type on both economic capital and economic liquidity is taken into consideration. The effect and materiality of the various types of risk may vary, depending on the resource in question.

#### Economic liquidity adequacy

To ascertain the DZ BANK Group's economic liquidity adequacy, the minimum surplus cash that would be available if various scenarios were to materialize within the following year is determined as part of the **measurement of liquidity risk**.

**Concentrations** of liquidity risk can occur primarily due to the accumulation of outgoing payments at particular times of the day or on particular days (concentrations of maturities), the distribution of funding across particular currencies, markets, products, and liquidity providers (concentrations of funding sources), and the distribution of liquidity reserves across particular currencies, ratings, and issuers (concentrations of reserves). There is no capital requirement in connection with liquidity risk.

Liquidity risk at R+V (Insurance sector) is not material at DZ BANK Group level. This is because liquidity is typically tied up in liabilities with maturities of 5 years or more in insurance business.

#### Economic capital adequacy

In the **Bank sector, economic capital** (risk capital requirement) is calculated for credit risk, equity investment risk, market risk, the technical risk of a home savings and loan company, operational risk, and business risk in order to ascertain economic capital adequacy. This risk capital requirement is generally calculated as value-at-risk with a holding period of one year and a unilateral confidence level of 99.9 percent.

The capital requirement for the individual risk types is aggregated into the total risk capital requirement for the Bank sector taking into account various diversification effects. The diversified risk capital requirement reflects the interdependency of individual types of risk. The risks relating to the Bank and Insurance sectors are aggregated, disregarding diversification effects between the sectors.

In the **Insurance sector**, risk measurement is based on the method specified in Solvency II with the aim of determining value-at-risk, which is the measure of **economic capital**. The value-at-risk for the change in economic own funds is determined with a confidence level of 99.5 percent over a period of one year.

The DZ BANK Group holds a **capital buffer** as a component of aggregate risk to allow for a possible lack of precision in the measurement of the risks backed by capital.

Based on an analysis of portfolios, the sector-specific and cross-sector management of **risk concentrations** aims to identify potential downside risks that may arise from the accumulation of individual risks and, if necessary, to take corrective action. A distinction is made between risk concentrations that occur within a risk type (intra-risk concentrations) and concentrations that arise as a result of the interaction between different types of risk (inter-risk concentrations). Inter-risk concentrations are implicitly taken into account when determining correlation matrices for the purposes of inter-risk aggregation. They are mainly managed by using quantitative stress test approaches and qualitative analyses, which aim to provide a holistic view across all types of risk.

### 3.6.3 Stress tests

In addition to the risk measurements, the effects of extreme but plausible events are also analyzed. Stress tests of this kind are used to establish whether the DZ BANK Group can sustain its business models, even under extreme economic conditions. Stress tests are carried out in respect of liquidity, economic risk-bearing capacity, and regulatory capital ratios.

The stress tests include scenarios for the purposes of liquidity management, capital, funding, and balance sheet planning, as well as internal capital and risk management. Stress tests are also carried out as part of bank recovery and resolution planning. Furthermore, the DZ BANK Group takes part in supervisory stress tests organized by the EBA and ECB. The outcome of the stress tests provides guidance for the management of risk, business planning, and decisions on liquidity measures or corporate action.

### 3.6.4 Limitation principles

The DZ BANK Group has implemented a system of limits to ensure that it retains an adequate level of liquidity and maintains its risk-bearing capacity. A system of limits and pre-set threshold values aims to ensure that the **liquidity surplus** at the level of the DZ BANK Group does not become a shortfall and therefore that an adequate level of liquidity is guaranteed.

In the case of **risks backed by capital**, the limits take the form of risk limits or volume limits, depending on the type of business and type of risk. Whereas risk limits in all types of risk restrict exposure measured with an economic model, volume limits are applied additionally in transactions involving counterparties. Risk management is also supported by limits for relevant key performance indicators. Specific amendments to risk positions based on an adjustment of the volume and risk structure in the underlying transactions are intended to ensure that the measured exposure does not exceed the approved volume and risk limits. Risks that are incurred are compared with the limits allocated to them and monitored using a traffic light system.

### 3.6.5 Hedging objectives and hedging transactions

**Hedging activities** can be undertaken where appropriate in order to transfer liquidity risk, credit risk, market risk (Bank sector), market risk (Insurance sector), actuarial risk, and operational risk to the greatest possible extent to third parties outside the DZ BANK Group. All hedging activities are conducted within the strategic rules specified in writing and applicable throughout the group. Derivatives and other instruments are used to hedge credit risk and market risk.

If the hedging of risk in connection with financial instruments gives rise to **accounting mismatches** between the hedged item and the derivative hedging instrument used, the DZ BANK Group designates the hedging transaction as a hedge in accordance with the hedge accounting requirements of IFRS 9 in order to eliminate or reduce such mismatches. The DZ BANK Group continues to account for portfolio hedges in application of the rules under IAS 39. Hedge accounting in the DZ BANK Group encompasses the hedging of interest-rate risk and currency risk. It therefore affects market risk in both the Bank and Insurance sectors. Hedging information is disclosed in note 84 of the notes to the consolidated financial statements.

DZ BANK has not recognized any hedges on the balance sheet in accordance with section 254 HGB.

### 3.6.6 Risk reporting and risk manual

The quarterly **overall risk report** includes the risks throughout the group identified by DZ BANK. Together with the **DZ BANK Group stress tests report**, which is also compiled on a quarterly basis, the **report on recovery indicators**, which is prepared quarterly, and the **reverse stress tests report**, which is produced annually, the overall risk report is the main channel through which risks incurred by the DZ BANK Group and the management units are communicated to the Supervisory Board's Risk Committee, the Board of Managing Directors, and the Group Risk and Finance Committee. Economic and regulatory key risk indicators are also made available to the Board of Managing Directors in a **monthly overall risk report**, which is intended to ensure that the Board is informed promptly about the overall risk situation. In addition, the Board of Managing Directors and the Supervisory Board's Risk Committee receive portfolio and exposure-related management information in the quarterly **credit risk report for the DZ BANK Group**. The Board of Managing Directors also receives monthly information on **liquidity risk** in the DZ BANK Group and in the management units.

To complement the above, the management units have further reporting systems for all relevant types of risk. Depending on the degree of materiality in the risk exposures concerned, these systems aim to ensure that decision-makers and supervisory bodies receive transparent information at each measurement date on the risk profile of the management units for which they are responsible.

The **risk manual**, which is available to all employees of the management units, sets out the general parameters for identifying, measuring, assessing, managing, monitoring, and communicating risks. These general parameters are intended to ensure that risk management is properly carried out in the DZ BANK Group. The manual forms the basis for a shared understanding of the minimum standards for risk management throughout the group.

The main subsidiaries also have their own risk manuals covering special aspects of risk related specifically to these management units. R+V has Solvency II guidelines.

### 3.6.7 Risk inventory and appropriateness test

Every year, DZ BANK draws up a **risk inventory**, the objective of which is to identify the types of risk that are relevant for the DZ BANK Group and assess the materiality of these risk types. According to need, a risk inventory check may also be carried out at other times in order to identify any material changes in the risk profile during the course of the year. A materiality analysis is carried out for those types of risk that could arise in connection with the operating activities of the entities in the DZ BANK Group. The next step is to assess the extent to which there are concentrations of risk types classified as material in the Bank sector, the Insurance sector, and across sectors.

DZ BANK also conducts an annual **appropriateness test**, both for itself and at DZ BANK Group level. The appropriateness test may also be carried out at other times in response to specific events. The objective is to review the latest groupwide specifications for the analysis of risk-bearing capacity. In addition, the appropriateness test includes a number of other tests to assess whether the risk measurement methods used for all types of risk classified as material are in fact fit for purpose. The appropriateness test found that risk measurement in the DZ BANK Group is generally appropriate, although potential improvements to some aspects of risk measurement were identified.

The risk inventory check and appropriateness test are coordinated in terms of content and timing. All management units in the DZ BANK Group are included in both processes. The findings of the risk inventory and the appropriateness test are incorporated into the risk management process.

Risk inventory checks and appropriateness tests are generally conducted in a similar way for the main subsidiaries.

## 4 Liquidity adequacy

### 4.1 Principles

The management of liquidity adequacy is an integral component of business management in the DZ BANK Group and the management units. Liquidity adequacy is defined as the holding of sufficient liquidity reserves in relation to the risks arising from future payment obligations. It is considered from both an economic and a regulatory perspective. Whereas the economic perspective takes into account the requirements of MaRisk BA and the ECB Guide to the ILAAP, the regulatory perspective (normative internal perspective), while also taking account of the ECB Guide to the ILAAP, additionally applies the requirements from the CRR and the German national requirements for the implementation of Capital Requirements Directive (CRD) IV in the KWG.

Economic liquidity adequacy is managed on the basis of the internal liquidity risk model, which takes account of the impact on liquidity of other risks when measuring liquidity risk. The DZ BANK Group fulfills the regulatory liquidity adequacy requirements by managing economic liquidity adequacy.

### 4.2 Economic perspective

Owing to the close ties between management of economic liquidity adequacy at DZ BANK and that of the DZ BANK Group, the information below on economic liquidity adequacy also applies to DZ BANK. Liquidity risk is a key aspect of economic liquidity adequacy. Liquidity risk at DZ BANK to a large degree determines liquidity risk in the DZ BANK Group.

#### 4.2.1 Definition

Liquidity risk is the risk that cash and cash equivalents will not be available in sufficient amounts to ensure that payment obligations can be met. It is therefore defined as insolvency risk. Liquidity risk is significantly influenced by the risks that are backed by capital and those that are not backed by capital. In particular, reputational risk is relevant to liquidity risk.

#### 4.2.2 Business background and risk strategy

The activities of DZ BANK and the management units BSH, DVB, DZ HYP, DZ PRIVATBANK, TeamBank, and VR Smart Finanz are relevant to the level of liquidity risk in the DZ BANK Group.

A key component of the liquidity risk strategy is the process of specifying and monitoring the risk appetite for liquidity risk. The liquidity risk strategy aims to establish a binding basis for implementing these requirements at operational level.

The operations of the entities in the DZ BANK Group are governed by the principle that liquidity risk must only be assumed if it is in compliance with the **risk appetite** specified by the Board of Managing Directors. Solvency must be ensured, even in times of serious crisis. Risk appetite is expressed in the form of crisis scenarios, and stress tests must demonstrate that there is adequate cover for these scenarios. The crisis scenarios also take into account the specific MaRisk BA requirements for the structure of stress scenarios at capital-market-oriented banks.

However, further **extreme scenarios** are not covered by the risk appetite. The risks arising in this regard are accepted and therefore not taken into account in the management of risk. Examples of such scenarios are a run on the bank, i.e. an extensive withdrawal of customer deposits as a result of damage to the reputation of the

banking system, or a situation in which all non-collateralized funding sources on money markets completely dry up over the long term, also encompassing transactions with those corporate customers, institutional customers, and customer banks that have close ties to the entities in the DZ BANK Group. On the other hand, the risk of a short-term and complete loss, or the risk of a medium-term and substantial loss, of unsecured funding from institutional investors is not accepted and this risk is the subject of relevant stress scenarios.

Liquidity reserves in the form of liquid securities are held by the entities so that they can remain solvent, even in the event of a crisis. Potential sources of funding in the secured and unsecured money markets are safeguarded by maintaining a broadly diversified national and international customer base. The local cooperative banks also provide a significant source of funding.

DZ BANK aims to ensure that the liquidity risk strategy is consistent with the **business strategies**. To this end, the liquidity risk strategy is reviewed at least once a year with due regard to the business strategies and adjusted as necessary.

#### 4.2.3 Risk factors

The following factors, alone or in combination with each other, could lead to an increase in liquidity risk, adversely affect financial position and, in an extreme case, cause the insolvency of DZ BANK:

- Funding is withdrawn but cash nevertheless still flows out when legally due (follow-up funding risk).
- Derivatives result in greater collateral requirements that involve cash outflows (collateral risk).
- Changes in the fair value of financial instruments mean that less liquidity can be generated (fair value risk).
- Cash is paid out earlier than expected because drawing rights are exercised (drawdown risk).
- Cash outflows are earlier than expected or cash inflows later than expected because termination rights are exercised (termination risk).
- New business is entered into on a significant scale, resulting in cash outflows (new business risk).
- Products are repurchased on a significant scale, resulting in cash outflows (repurchase risk).
- The liquidity requirement to ensure intraday payment obligations can be satisfied is greater than expected (intraday risk).
- There has been a negative impact on opportunities for funding in foreign currencies, for example the generation of currency-related liquidity through currency swaps (foreign currency funding risk).

These events are incorporated into the calculation of liquidity risk as **stress scenarios** (see section 4.2.5).

#### 4.2.4 Organization, responsibility, and risk reporting

##### Organization and responsibility

The strategic guidelines for the management of liquidity risk by the entities in the DZ BANK Group are established by the **Group Risk and Finance Committee**. At the level of DZ BANK, this is the responsibility of the **Treasury and Capital Committee**.

**Liquidity risk control** in the DZ BANK Group is coordinated by the Group Risk Management working group and carried out in Risk Controlling at DZ BANK independently of the units that are responsible for liquidity risk management. The risk data calculated by the subsidiaries on the basis of intra-group guidelines is aggregated to provide a group perspective.

##### Risk reporting

Liquidity up to one year and structural liquidity of one year or more are reported by liquidity risk control at DZ BANK on a daily basis to the **members of the Board of Managing Directors** of DZ BANK responsible for the Group Treasury and Group Risk Controlling divisions. The **Board of Managing Directors** receives a monthly report on liquidity risk. The DZ BANK Group Treasury division and the units in the subsidiaries responsible for the management of liquidity risk also receive detailed daily information showing the contribution from each individual position to the aggregate position.

The **Group Risk and Finance Committee** receives a quarterly report on the liquidity risk of the DZ BANK Group and the individual management units. The entities in the DZ BANK Group have their own corresponding reporting procedures that help to manage and monitor liquidity risk at individual entity level.

Group Treasury is informed on a daily basis of the largest providers of liquidity to DZ BANK in the unsecured money markets. This is reported to the **Treasury and Capital Committee** and the **Board of Managing Directors** on a monthly basis. The reports make a distinction between customers and banks and relate to DZ BANK in Frankfurt and to each foreign branch. These reports ensure that any possible concentration risk as regards sources of liquidity can be clearly identified at an early stage.

#### 4.2.5 Risk management

##### Measurement of liquidity risk

DZ BANK uses an **internal risk model** to determine liquidity risk for the DZ BANK Group and DZ BANK over a time horizon of one year. Using this model, four stress scenarios and one risk scenario are simulated on a daily basis. In addition to DZ BANK, all other entities in the DZ BANK Group relevant to liquidity risk are integrated into the groupwide measurement of this risk.

A **minimum liquidity surplus** figure is calculated for each scenario. This figure quantifies the minimum surplus cash that would be available if the scenario were to materialize suddenly within the next 12 months. To carry out this calculation, cumulative cash flow (forward cash exposure) is compared against available liquidity reserves (counterbalancing capacity) on a day-by-day basis. The minimum liquidity surplus expresses economic liquidity adequacy. **Forward cash exposure** includes both expected and unexpected payments.

The **counterbalancing capacity** includes balances on nostro accounts, liquid securities, and unsecured funding capacity with customers, banks, and institutional investors. By including the counterbalancing capacity, the calculation of the minimum liquidity surplus already takes into account the effect on liquidity of the measures that could be implemented to generate liquidity in each scenario. These measures include collateralized funding of securities in the repo market.

The internal liquidity risk model is constantly revised using an **appropriateness test** and adjusted in line with changes in the market, products, and processes. The appropriateness test is conducted for each entity in the DZ BANK Group and aggregated at group level.

##### Liquidity risk stress tests

Stress tests are conducted for the forward cash exposure and for the counterbalancing capacity using the following four scenarios with defined limits: 'downgrading', 'corporate crisis', 'market crisis', and 'combination crisis'. The stress scenarios are defined as follows:

- **Downgrading:** Long-term ratings of one or more entities in the DZ BANK Group downgraded by one notch, indirectly triggered, for example, by a temporary loss of confidence among customers and banks.
- **Corporate crisis:** Serious entity-specific crisis, for example caused by reputational damage. The main consequences of this scenario could be a considerable negative impact on customer behavior and downgrading of the long-term rating by three notches.
- **Market crisis:** Turmoil in global money and capital markets. The primary feature of this scenario is a sudden, sharp fall in the value of assets traded in these markets. The scenario assumes, for example, a loss of confidence among money market players, which could lead to a liquidity squeeze.
- **Combination crisis:** Analysis of a combination of bank-specific and market-related factors. However, it does not constitute a mere aggregation of the two stress scenarios arising from a market crisis and a corporate crisis. Instead, the interaction between the two scenarios is taken into account. The combination crisis assumes

that the financial sector would be particularly badly affected. The underlying scenario is also based on a deterioration in the reputation of the entities in the DZ BANK Group. It assumes there would only be very limited access to unsecured funding from customers, banks, and institutional investors over the forecast period of one year.

The stress scenario with the lowest minimum liquidity surplus is deemed to be the **squeeze scenario**. Economic liquidity adequacy is determined as the amount of the minimum liquidity surplus in the squeeze scenario.

Further stress scenarios in addition to the scenarios with defined limits are analyzed, and a **reverse stress test** is carried out and reported on a monthly basis. The reverse stress test shows which stress events (changes in risk factors) could still occur without liquidity falling below the limit in a subsequent liquidity risk measurement and triggering the need for a business model adjustment.

#### Management of limits for liquidity risk

Liquidity risk is monitored and managed with the aim of ensuring economic liquidity adequacy at every measurement date. This is based on the minimum liquidity surplus calculated for the four stress scenarios with defined limits. The Board of Managing Directors of DZ BANK has set, at the level of the **DZ BANK Group**, a **limit** (€1.0 billion) for liquidity risk and an **observation threshold** (€4.0 billion) that is higher than the limit. The observation threshold equates to the threshold value for economic liquidity adequacy specified in the risk appetite statement. The observation threshold and limit as at December 31, 2020 were unchanged compared with the end of 2019. The Board of Managing Directors of DZ BANK has also specified a limit for **each management unit**. The observation threshold and the limits are monitored by the liquidity risk control function at DZ BANK both at group level and also for the management units.

The limit system aims to ensure that the DZ BANK Group remains solvent even in serious stress scenarios.

**Emergency liquidity plans** are in place so that the group is able to respond to crisis events rapidly and in a coordinated manner. The emergency plans are revised annually.

#### Liquidity risk mitigation

Within liquidity management activities, measures to reduce liquidity risk are initiated by the treasuries of the management units. Active liquidity risk management is made possible by holding instruments in the form of cash and liquid securities, and by managing the maturity profile of money market and capital market transactions.

#### Liquidity transfer pricing system

The DZ BANK Group aims to use liquidity – which is both a resource and a success factor – in line with risks. Liquidity costs, benefits, and risks are allocated among the entities in the DZ BANK Group based on the liquidity transfer pricing system using internal prices charged by the units generating liquidity and paid by those consuming liquidity. Care is taken to ensure that the transfer prices are consistent with risk measurement and risk management.

Transfer prices are set for all significant products. The transfer pricing system takes into account the holding period and market liquidity of the products and has an impact on risk/return management.

### 4.2.6 Quantitative variables

#### Liquid securities

The available liquid securities have a significant influence on the level of the minimum liquidity surplus. Liquid securities are a component of the **counterbalancing capacity** and are largely held in the portfolios managed by DZ BANK's Group Treasury and Capital Markets Trading divisions or in the portfolios of the treasury units at the subsidiaries of DZ BANK. Only bearer bonds are counted as liquid securities.

Liquid securities comprise highly liquid securities that are suitable for collateralizing funding in private markets, securities eligible as collateral for central bank loans, and other securities that can be liquidated in the one-year forecast period that is relevant for liquidity risk.

Securities are only eligible as liquid securities if they are not pledged as collateral, e.g. for secured funding. Securities that have been borrowed or taken as collateral for derivatives business or in connection with secured funding only become eligible when they are freely transferable. Eligibility is recognized on a daily basis and also takes into account factors such as restrictions on the period in which the securities are freely available.

Fig. 8 shows the liquidity value of the liquid securities that would result from secured funding or if the securities were sold.

FIG. 8 – LIQUID SECURITIES

€ billion	DZ BANK Group		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
<b>Liquid securities eligible for GC Pooling (ECB Basket)<sup>1</sup></b>	<b>21.7</b>	<b>26.3</b>	<b>14.1</b>	<b>18.7</b>
Securities in own portfolio	29.7	27.6	15.9	16.2
Securities received as collateral	8.5	9.4	8.5	9.4
Securities provided as collateral	-16.5	-10.7	-10.3	-7.0
<b>Liquid securities eligible as collateral for central bank loans</b>	<b>9.1</b>	<b>16.8</b>	<b>5.8</b>	<b>14.2</b>
Securities in own portfolio	20.5	17.7	13.4	12.6
Securities received as collateral	5.7	6.0	5.7	6.0
Securities provided as collateral	-17.2	-6.9	-13.3	-4.3
<b>Other liquid securities</b>	<b>6.1</b>	<b>6.5</b>	<b>5.8</b>	<b>6.1</b>
Securities in own portfolio	5.7	5.5	5.2	4.9
Securities received as collateral	0.8	1.2	0.8	1.2
Securities provided as collateral	-0.3	-0.2	-0.2	-0.0
<b>Total</b>	<b>36.9</b>	<b>49.6</b>	<b>25.7</b>	<b>39.0</b>
Securities in own portfolio	55.9	50.8	34.5	33.7
Securities received as collateral	15.0	16.6	15.0	16.6
Securities provided as collateral	-33.9	-17.7	-23.8	-11.3

<sup>1</sup> GC = general collateral, ECB Basket = eligible collateral for ECB funding.

As at December 31, 2020, the total liquidity value at the level of the **DZ BANK Group** was €36.9 billion (December 31, 2019: €49.6 billion). The total liquidity value attributable to **DZ BANK** as at December 31, 2020 was €25.7 billion (December 31, 2019: €39.0 billion). The decline in the volume of liquid securities was largely attributable to their use as pledged collateral.

Consequently, liquid securities represent the largest proportion of the counterbalancing capacity and make a major contribution to maintaining solvency in the stress scenarios with defined limits at all times during the relevant forecast period. In the first month, which is a particularly critical period in a crisis, liquid securities were almost exclusively responsible for maintaining solvency in the stress scenarios with defined limits.

#### Unsecured short- and medium-term funding

Other than liquid securities, the main factors determining the minimum liquidity surplus are the availability and composition of the sources of funding. The DZ BANK Group has a diversified funding base for operational liquidity.

A considerable portion is accounted for by money market activities resulting from the cash-pooling function with the **local cooperative banks**. Under these arrangements, the cooperative banks can invest free cash flow with DZ BANK. Conversely, if the cooperative banks need liquidity, they can obtain it from DZ BANK. This regularly



results in a liquidity surplus in the DZ BANK Group and at DZ BANK, which provides one of the main bases for short-term funding in the unsecured money markets.

**Corporate customers** and **institutional clients** are another important source of funding for covering operational liquidity requirements in the DZ BANK Group.

For funding purposes, the management units also issue **money market products based on debt certificates** under a standardized groupwide multi-issuer euro commercial paper program through the offices and branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. In 2020, DZ BANK also launched a new US-dollar-denominated commercial paper program for Frankfurt. Key repo and securities lending activities, together with the collateral management process, are managed centrally in DZ BANK's Group Treasury division. Funding on the **interbank market** is not strategically important, either to the DZ BANK Group or to DZ BANK.

Group Treasury at DZ BANK prepares a groupwide **liquidity outlook** annually. This involves determining the funding requirements of the DZ BANK Group and DZ BANK for the next financial year on the basis of the coordinated business plans of the individual management units. The liquidity outlook is updated throughout the year.

Further liquidity management disclosures can be found in chapter II.5 in the business report.

The range of funding sources in the unsecured money markets is shown in Fig. 9.

The year-on-year changes in the composition of the main sources of funding were attributable to a change in the behavior of customers and investors resulting from money market policy implemented by the ECB.

The **maturity analysis of contractual cash inflows and cash outflows** is set out in note 86 of the notes to the consolidated financial statements. The cash flows in these disclosures are not the same as the expected and unexpected cash flows used for internal liquidity risk management.

FIG. 9 – UNSECURED SHORT-TERM AND MEDIUM-TERM FUNDING

€ billion	DZ BANK Group		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Local cooperative banks	61.6	42.9	61.5	42.7
Commercial paper (institutional investors)	7.5	33.6	5.1	31.0
Corporate customers, institutional customers	13.2	11.5	12.5	10.1
Interbank, customer banks, central banks	6.0	11.3	5.1	10.2

#### 4.2.7 Risk position

Economic liquidity adequacy is assured if none of the four stress scenarios with defined limits exhibit a negative value for the internal key risk indicator 'minimum liquidity surplus'. Fig. 10 shows the results of measuring liquidity risk. The results are based on a daily calculation and comparison of forward cash exposure and

counterbalancing capacity. The values reported are the values that occur on the day on which the liquidity surplus calculated over the forecast period of one year is at its lowest point.

FIG. 10 – LIQUIDITY UP TO 1 YEAR IN THE STRESS SCENARIOS WITH DEFINED LIMITS:  
 MINIMUM LIQUIDITY SURPLUSES FOR THE DZ BANK GROUP

€ billion	Forward cash exposure		Counterbalancing capacity		Minimum liquidity surplus	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Downgrading	-31.1	-76.1	58.4	105.7	27.4	29.6
Corporate crisis	-34.2	-74.5	49.6	88.0	15.3	13.5
Market crisis	-32.8	-80.7	53.9	97.2	21.1	16.4
Combination crisis	-35.8	-80.2	53.5	92.7	17.7	12.5

The liquidity risk value measured for the **DZ BANK Group** as at December 31, 2020 for the stress scenario with defined limits with the lowest minimum liquidity surplus (squeeze scenario) was €15.3 billion (December 31, 2019: €12.5 billion). The liquidity risk value attributable to **DZ BANK** as at December 31, 2020 was €4.4 billion (December 31, 2019: €3.0 billion). The increase in the minimum liquidity surplus for the DZ BANK Group and for DZ BANK was largely due to greater issuing activities.

The risk values as at December 31, 2020 for the **DZ BANK Group** were above the internal threshold value (€4.0 billion) and above the limit (€1.0 billion). They were also above the external minimum target (€0 billion). The observation threshold, limit, and external minimum target remained unchanged compared with 2019. Furthermore, **DZ BANK** did not exceed the limit of €700 million as at December 31, 2020. The limit at the end of 2019 had been €750 million.

The minimum liquidity surplus as at December 31, 2020 for both the DZ BANK Group and DZ BANK was positive in the stress scenarios with defined limits that were determined on the basis of risk appetite. This is due to the fact that the counterbalancing capacity was above the cumulative cash outflows on each day of the defined forecast period for each scenario, which indicates that the cash outflows assumed to take place in a crisis could be comfortably covered.

#### 4.2.8 Possible impact from crystallized liquidity risk

One of the main operating activities of the management units is to make long-term liquidity available to their customers for different maturity periods and in different currencies, for example in the form of loans. The units generally organize their funding to match these transactions that tie up liquidity. Any funding needs that are not covered by the local cooperative banks are met by obtaining additional funding in the money and capital markets, with the deposit base from money market funding reducing the need for long-term funding. When funding matures, it is therefore possible that the replacement funding required to fund transactions with longer maturities has to be obtained at **unfavorable terms and conditions**.

The entities in the DZ BANK Group are also exposed to the risk that the minimum liquidity surplus will fall below the limit. If the minimum liquidity surplus were to fall below the limit for an extended period, the possibility of **reputational damage and a ratings downgrade** could not be ruled out.

Crystallization of liquidity risk causes an unexpected **reduction in the liquidity surplus**, with potential negative consequences for DZ BANK's financial position and enterprise value. If a crisis were to occur in which the circumstances were more serious or the combination of factors were significantly different from those assumed in the stress scenarios, there would be a risk of **insolvency**.

## 4.3 Normative internal perspective

### 4.3.1 Regulatory framework

The normative internal perspective is based on the liquidity ratios required under Basel Pillar 1. Its objective is to assess the DZ BANK banking group's ability to comply with regulatory minimum requirements (plus an internally specified management buffer).

Internal liquidity risk management is supplemented by the liquidity coverage ratio (LCR) specified in the Basel III framework, which was transposed into law with the CRR and Commission Delegated Regulation (EU) No. 2015/61, and by the net stable funding ratio (NSFR), which is based on the Basel III framework (BCBS 295) and which was implemented in European law with CRR II.

The **LCR** has a short-term focus and is intended to ensure that institutions can withstand a liquidity stress scenario lasting 30 days. This KPI is defined as the ratio of available liquid assets (liquidity buffer) to total net cash outflows in defined stress conditions over the next 30 days. DZ BANK reports its own LCR and that of the DZ BANK banking group, calculated in accordance with the CRR in conjunction with Commission Delegated Regulation (EU) No. 2015/61, to the supervisory authority on a monthly basis.

The **net stable funding ratio** has a long-term focus and is intended to ensure that institutions restrict mismatches between the maturity structures of their assets-side and liabilities-side business. This ratio is the amount of available stable funding (equity and liabilities) relative to the amount of required stable funding (assets-side business). The funding sources are weighted according to their degree of stability and assets are weighted according to their degree of liquidity based on factors defined by the supervisory authority. Unlike the LCR, compliance with the NSFR will only become mandatory from June 2021 with the application of CRR II. From this point, it is planned to manage the NSFR within the groupwide liquidity risk management system.

### 4.3.2 Organization, responsibility, and reporting

The liquidity ratios reported for supervisory purposes resulting from the CRR and Commission Delegated Regulation (EU) No. 2015/61 are calculated for DZ BANK by the **Group Finance** division and aggregated at the level of the DZ BANK banking group with the corresponding values for the management units.

Both the **Treasury and Capital Committee** and the **Board of Managing Directors** are notified of the LCR and the NSFR each month.

### 4.3.3 Liquidity coverage ratio

The LCRs for the **DZ BANK banking group** and **DZ BANK** calculated in accordance with Commission Delegated Regulation (EU) No. 2015/61 are shown in Fig. 11.

FIG. 11 – LIQUIDITY COVERAGE RATIOS AND THEIR COMPONENTS

	DZ BANK banking group		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Total liquidity buffer (€ billion)	91.4	84.1	73.7	63.4
Total net liquidity outflows (€ billion)	62.5	58.2	55.2	46.1
<b>LCR (%)</b>	<b>146.3</b>	<b>144.6</b>	<b>133.5</b>	<b>137.5</b>

The rise in the LCR measured for the **DZ BANK banking group** from 144.6 percent as at December 31, 2019 to 146.3 percent as at December 31, 2020 was largely attributable to the excess cover at DZ BANK and in the subsidiaries, especially DZ PRIVATBANK and BSH.

Despite the rise in excess cover, the LCR measured for **DZ BANK** declined from 137.5 percent as at December 31, 2019 to 133.5 percent as at December 31, 2020, which was attributable to the ratio's increased sensitivity to net liquidity outflows. Excess cover in relation to the LCR is the difference between the liquidity buffer and the net liquidity outflows.

As at December 31, 2020, both the internal threshold (110.0 percent) and the external minimum target, i.e. the normal regulatory minimum requirement, (100 percent) were exceeded at the level of the DZ BANK banking group. Under the relief measures introduced to help banks cope with the COVID-19 pandemic, the supervisory authorities have permitted banks' LCR to fall temporarily below the external minimum target. However, the DZ BANK Group exceeded this target by some way as at December 31 2020.

## 5 Capital adequacy

### 5.1 Strategy, organization, and responsibility

The management of capital adequacy is an integral component of business management in the DZ BANK Group and the management units. Capital adequacy is defined as the holding of sufficient capital to cover the risks assumed by the business. It is considered from both an economic and a regulatory perspective. Whereas the economic perspective takes into account the requirements of MaRisk BA and the ECB Guide to the ICAAP, the regulatory perspective (normative internal perspective), while also taking account of the ECB Guide to the ICAAP, additionally applies the requirements from the CRR and the German national requirements for the implementation of CRD IV.

The aim of the ICAAP is to ensure that, from two complementary perspectives (the economic and the normative internal perspectives), **capital resources are adequate** for an institution to be able to continue operating. Both perspectives are equally valid management approaches. They are integrated mainly on the basis of the risk inventory check, which the management uses to determine and specify the main risks in the DZ BANK Group.

All management units are included in the groupwide management of capital adequacy. Management of economic capital adequacy on the basis of both internal risk measurement methods and regulatory capital adequacy requirements aims to ensure that the assumption of risk is consistent with the capital resources of the DZ BANK Group, the DZ BANK financial conglomerate, and the DZ BANK banking group at every measurement date and at every reporting date.

The **Board of Managing Directors of DZ BANK** defines the corporate objectives and the capital requirement in the DZ BANK Group and at DZ BANK in terms of both risks and returns. In managing the risk profile, the Board of Managing Directors strives for an appropriate balance between risk and available internal capital (calculated from both economic and normative internal perspectives). DZ BANK is responsible for risk and capital management, and for compliance with capital adequacy at group level.

The management of economic and regulatory capital adequacy is based on internal target values. To avoid any unexpected adverse impact on **target values and capital ratios** and ensure that any changes in risk are consistent with corporate strategy, groupwide economic limits and risk-weighted assets are planned as limits on an annual basis as part of the **strategic planning process**. This process results in a requirements budget for the economic and regulatory capital needed by the group. Any corresponding measures to raise capital are approved by the Treasury and Capital Committee or recommended to the Board of Managing Directors for approval. The implementation of the measures is then coordinated by **Group Treasury** at DZ BANK.

At DZ BANK, the **Group Finance** division is responsible for monitoring regulatory capital adequacy. Regular monitoring is designed to ensure that the applicable minimum regulatory requirements for solvency are met at every reporting date. Monitoring takes place monthly for the DZ BANK financial conglomerate, the DZ BANK banking group, and DZ BANK, and at least quarterly for the R+V Versicherung AG insurance group. The Board of

Managing Directors and the supervisory authority are notified of the results within the monthly reports on capital management.

## 5.2 Economic perspective

Owing to the close ties between the management of economic capital adequacy at DZ BANK and that of the DZ BANK Group, the information below also applies to DZ BANK.

### 5.2.1 Measurement methods

The **economic perspective** of capital adequacy is an internally defined management perspective with the aim of ensuring that all of the DZ BANK Group's material capital risks are fully backed by capital plus an internally specified management buffer. The economic perspective is based on the assumption that an institution will continue to operate as a going concern.

Economic capital management is based on internal risk measurement methods that take into account all types of risk that are material from a capital adequacy perspective. The risk capital requirement is determined by aggregating the various risk types relevant to the DZ BANK Group. The methods selected serve to meet the statutory requirements for a groupwide integrated risk capital management system.

In the **risk-bearing-capacity analysis**, the risk capital requirement (including capital buffer) is compared with the available internal capital in order to determine the economic capital adequacy. The Board of Managing Directors determines the limits for a particular year on the basis of the available internal capital. These limits then restrict the risk capital requirement (including capital buffer). If necessary, the limits can be adjusted during the year, e.g. if economic conditions change.

**Available internal capital** comprises equity and hidden reserves. It is reviewed on a quarterly basis. The available internal capital is determined as follows:

- The available internal capital from the **Bank sector** is calculated on the basis of the IFRS data in accordance with regulatory financial reporting. In this process, R+V is not fully consolidated but taken into account using the equity method.
- The available internal capital from the **Insurance sector** is based on the own funds of the R+V Versicherung AG insurance group in accordance with Solvency II.
- The available internal capital from the two sectors is combined to produce the available internal capital of the DZ BANK Group. During this process, the effects of consolidation between the Bank and Insurance sectors are taken into account, resulting in a reduction in the available internal capital at group level.

The purpose of the **capital buffer** (also referred to below as the capital buffer requirement) is to cover the lack of precision in some areas of risk measurement. This applies to migration risk on traditional loans and the risk arising from defined benefit obligations, for example. The latter, in the form of longevity risk, is one aspect of actuarial risk and is particularly important for the Bank sector. The individual components of the capital buffer are quantified using a method based on scenarios and models with input from experts. A distinction is made between centralized and decentralized capital buffer requirements. Decentralized capital buffer requirements are managed within the limits for the individual risk types, whereas the centralized capital buffer is managed on the basis of a limit covering all sectors and risk types.

### 5.2.2 Traffic light system

Economic capital adequacy is monitored and managed using a traffic light system based on the ratio of available internal capital to aggregate risk (expressed as a percentage). The switch from green to amber in the traffic light system (**amber threshold**) is set at the internal threshold value for economic capital adequacy specified in the risk appetite statement, which in 2020 was unchanged compared with the previous year at 120 percent. The amber threshold serves as an early warning indicator. The **red threshold**, i.e. the borderline between amber and red in the traffic light system, was set at 110.0 percent in the year under review, again unchanged compared with 2019. The threshold values for economic capital adequacy are reviewed annually and adjusted if necessary.

### 5.2.3 Risk-bearing capacity

#### Retrospective recalculation of the overall solvency requirement

It was necessary to recalculate the overall solvency requirement as at December 31, 2019 owing to scheduled changes to the parameters for the risk measurement procedures and the updating of actuarial assumptions carried out in the second quarter of 2020 for the Insurance sector on the basis of R+V's 2019 consolidated financial statements. The recalculation reflects updated measurements of insurance liabilities based on annual actuarial analyses and updates to parameters in the risk capital calculation. Because of the complexity and the amount of time involved, the parameters are not completely updated in the in-year calculation and an appropriate projection is made.

The recalculation led to changes in the available internal capital, the key risk indicators at the level of the DZ BANK Group, and economic capital adequacy. The figures as at December 31, 2019 given in this risk report have been restated accordingly and are not directly comparable with the figures in the 2019 opportunity and risk report.

#### Available internal capital and limit

The DZ BANK Group's **available internal capital** as at December 31, 2020 was measured at €29,555 million. The comparable figure as at December 31, 2019 was €27,328 million. The figure originally measured as at December 31, 2019 and disclosed in the 2019 opportunity and risk report came to €26,968 million. The increase in available internal capital compared with December 31, 2019 was largely due to developments in the capital markets and the first-time use of the transitional measure on technical provisions and the volatility adjustment in the Insurance sector (for details, see section 5.3.4 of this risk report).

The **limit** derived from the available internal capital was specified at €23,730 million as at December 31, 2020 (December 31, 2019: €21,723 million). It was raised because of the planned expansion of business and in response to the fallout from the COVID-19 pandemic. The limit for the Insurance sector was lifted by €2,268 million, from €5,902 million to €8,170 million, whereas the limit for the Bank sector was reduced by €366 million, from €15,201 million to €14,835 million. In the Bank sector, the reallocation of limits led to significant changes in limits compared with the previous year. The main risks affected were the technical risk of a home savings and loan company and operational risk. The limit for the centralized capital buffer requirement was raised by €105 million.

As at December 31, 2020, **aggregate risk** was calculated at €18,126 million. The comparable figure as at December 31, 2019 was €17,056 million. The figure originally measured as at December 31, 2019 and disclosed in the 2019 opportunity and risk report came to €16,932 million. This increase was driven by higher numbers in both the Bank sector and the Insurance sector that were primarily attributable to movements in capital markets and business growth.

#### Economic capital adequacy

As at December 31, 2020, the economic capital adequacy ratio for the **DZ BANK Group** was calculated at 163.1 percent. The comparable figure as at December 31, 2019 was 160.2 percent. The figure originally measured as at December 31, 2019 and disclosed in the 2019 opportunity and risk report was 159.3 percent. As at the reporting date, the economic capital adequacy ratio was higher than the internal threshold value of 120.0 percent and the external minimum target of 100.0 percent. The internal threshold value and the external minimum target for 2020 remained unchanged compared with those for 2019. The increase in the economic capital adequacy ratio compared with the end of 2019 was due to the larger rise in available internal capital relative to the rise in aggregate risk.

Fig. 12 provides an overview of the components of economic capital adequacy.

FIG. 12 – ECONOMIC CAPITAL ADEQUACY OF THE DZ BANK GROUP

	Dec. 31, 2020	Dec. 31, 2019
Available internal capital (€ million)	29,555.0	27,328.0
Limit (€ million)	23,730.0	21,723.0
Aggregate risk (€ million)	18,126.0	17,056.0
<b>Economic capital adequacy (%)</b>	<b>163.1</b>	<b>160.2</b>

The limits and risk capital requirements including the capital buffer requirements for the **Bank sector**, broken down by risk type, are shown in Fig. 13.

FIG. 13 – LIMITS AND RISK CAPITAL REQUIREMENTS INCLUDING CAPITAL BUFFER REQUIREMENTS IN THE BANK SECTOR

€ million	Bank sector				DZ BANK			
	Limit		Risk capital requirement <sup>3</sup>		Limit		Risk capital requirement <sup>3</sup>	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Credit risk	6,978	7,189	5,496	5,484	2,730	2,674	2,227	2,297
Equity investment risk	1,090	1,063	936	850	725	640	634	503
Market risk	5,725	5,646	4,310	3,860	2,600	2,220	1,908	1,698
Technical risk of a home savings and loan company <sup>1</sup>	550	706	545	397				
Business risk <sup>2</sup>	550	1,016	382	837	500	770	356	673
Operational risk	1,020	926	844	859	547	472	467	459
<b>Total (after diversification)<sup>4</sup></b>	<b>14,835</b>	<b>15,201</b>	<b>11,647</b>	<b>11,289</b>				

Not relevant

<sup>1</sup> Including business risk and reputational risk of BSH.

<sup>2</sup> Apart from that of BSH, reputational risk is contained in the risk capital requirement for business risk.

<sup>3</sup> Including decentralized capital buffer requirement.

<sup>4</sup> No totals are shown for DZ BANK because the management within the Bank sector is by risk type.

Fig. 14 sets out the limits and overall solvency requirements for the **Insurance sector**, broken down by risk type, and includes policyholder participation. The definition of the limits and determination of overall solvency requirements take into account the ability to offset deferred taxes against losses (which arises where deferred tax liabilities can be eliminated in the loss scenario). Diversification effects between the risk types are also taken into consideration. Owing to these effects of correlation, the overall solvency requirement and limit for each risk type are not cumulative. The rise in the overall solvency requirement compared with the prior year resulted first and foremost from the trend in interest rates and business growth.

FIG. 14 – LIMITS AND OVERALL SOLVENCY REQUIREMENTS IN THE INSURANCE SECTOR

€ million	Limit		Overall solvency requirement	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Life actuarial risk	1,400	1,200	1,058	1,049
Health actuarial risk	700	410	286	245
Non-life actuarial risk	4,500	3,960	3,979	3,724
Market risk	5,750	3,850	3,869	3,789
Counterparty default risk	220	100	188	88
Operational risk	800	680	709	637
Risks from entities in other financial sectors	140	112	119	119
<b>Total (after diversification)</b>	<b>8,170</b>	<b>5,902</b>	<b>5,845</b>	<b>5,240</b>

In addition to the figures shown in Fig. 13 and Fig. 14, the aggregate risk includes a **centralized capital buffer requirement across all types of risk**, which was calculated at €633 million as at December 31, 2020 (December 31, 2019: €526 million). The corresponding **limit** was €725 million (December 31, 2019: €620 million). The increase was primarily due to the inclusion of DVB's business risk, which is not included in the centralized risk model.

#### 5.2.4 Possible impact from crystallized risk covered by capital

If there is a deterioration in financial performance, there is the risk of long-term **negative risk-adjusted profitability** where the cost of capital cannot then be covered, and economic value added (EVA) becomes negative. If this situation arose, there would no longer be any point in continuing business operations from a business management perspective.

Viewed in isolation and assuming there are no other influencing factors, this chain of events would apply particularly in a scenario where the equity holder is simply seeking to maximize profits. In the case of DZ BANK, however, there is another significant factor in that the intention of the equity holders (who in many cases are also customers of DZ BANK and its subsidiaries) in committing equity to DZ BANK is not only to achieve, as far as possible, market-level returns commensurate with the risk involved, but also to utilize the decentralized services that DZ BANK provides as the central institution in the cooperative financial network. The return on capital that forms part of any purely monetary analysis therefore needs to be adjusted in the case of DZ BANK to add the effects of the extra benefits. Given this background, EVA is only of limited use for assessing the advantages of the investment in DZ BANK. Thus, a negative EVA is not necessarily associated with the discontinuation of business activities undertaken by DZ BANK or its subsidiaries.

If risk were to materialize and associated losses be incurred, there would be a risk that the DZ BANK Group would **miss its economic capital adequacy target**. However, this situation could also occur with an increase in risk arising from heightened market volatility or as a consequence of changes in the business structure. In addition, a decrease in available internal capital, for example because its components have expired or are no longer eligible, could mean that the risk capital requirement exceeds the available internal capital. Additional or more stringent regulatory requirements could also have a negative impact on the economic capital adequacy of the DZ BANK Group.

In a situation in which the economic capital adequacy of the DZ BANK Group could not be guaranteed, there would be insufficient capital available to meet the group's own standards with regard to the coverage of risk. This could lead to a **deterioration in the credit ratings** for DZ BANK and its subsidiaries. If there is also insufficient capital to meet the level of protection demanded by the supervisory authority, this authority could initiate action, which in extreme cases could lead to the **resolution** of DZ BANK or its subsidiaries.

### 5.3 Normative internal perspective

#### 5.3.1 Regulatory framework

The normative internal perspective is based on the capital ratios in Basel Pillar 1. It comprises three management dimensions: monitoring of actual regulatory KPIs, capital planning, and adverse stress tests.

Whereas the monitoring of actual and projected figures, together with capital planning, in the baseline scenario focuses on the current regulatory ratios and their changes in probable scenarios, the analysis of these ratios in adverse scenarios is based on capital planning and the quarterly adverse stress tests.

From the normative internal perspective, the DZ BANK Group's risk-bearing capacity is assured if, in the medium term, the group is in a position to meet all regulatory minimum solvency requirements at any future reporting date, even in crisis situations. An internal management buffer over and above the regulatory requirements for each ratio is also included in order to ensure that the group has an adequate level of capital.



The normative internal perspective is an integral part of the ICAAP. The key risk indicators in the normative internal perspective are specified by the regulatory requirements, mainly the CRR, but the selection and specific design of the scenarios are internal decisions. With due regard to regulatory and supervisory guidance, such as the ECB Guide to the ICAAP and the EBA Guidelines on stress testing, the DZ BANK Group selects and simulates scenarios that adequately reflect the vulnerabilities of the business models operated in the group. The scenarios to be analyzed are determined at least once a year.

The regulatory ratios presented below are used as part of the internal management of the DZ BANK financial conglomerate, the DZ BANK banking group, and DZ BANK. The procedures used to determine these ratios are predominantly those that will be required by the full application of CRR I going forward.

### 5.3.2 DZ BANK financial conglomerate

The DZ BANK financial conglomerate comprises the DZ BANK banking group and the R+V Versicherung AG insurance group.

The FKAG forms the main legal basis for the supervision of the DZ BANK financial conglomerate. The calculation methodology for the coverage ratio is taken from Commission Delegated Regulation (EU) No. 342/2014 in conjunction with article 49 (1) CRR. The financial conglomerate coverage ratio is the ratio between the total of own funds in the financial conglomerate and the total of solvency requirements for the conglomerate. The resulting ratio must be at least 100 percent.

Until the end of the second quarter of 2020, the coverage ratio for the financial conglomerate was calculated on the basis of the minimum capital requirement according to the CRR (8 percent). Since the third quarter, the coverage ratio has been determined using the overall minimum capital requirement applicable to the DZ BANK banking group as specified in the SREP. As at December 31, 2020, this figure was 13.26 percent.

The change in the coverage ratio determined for the DZ BANK banking group using the SREP minimum capital requirement and in the own funds and in the solvency requirements for the DZ BANK financial conglomerate are shown in Fig. 15.

FIG. 15 – REGULATORY CAPITAL ADEQUACY OF THE DZ BANK FINANCIAL CONGLOMERATE

	Dec. 31, 2020 <sup>1</sup>	Dec. 31, 2019 <sup>2</sup>
Own funds (€ million)	35,288	30,039
Solvency requirements (€ million)	24,809	23,552
<b>Coverage ratio (%)</b>	<b>142.2</b>	<b>127.6</b>

<sup>1</sup> Preliminary figures.

<sup>2</sup> The figures for the solvency requirements and the coverage ratio reported as at December 31, 2019 are final figures. They are not comparable with the corresponding figures in the 2019 opportunity and risk report because of the changes to the calculation methodology. In the 2019 report, the preliminary solvency requirements came to €17,205 million and the preliminary coverage ratio to 174.6 percent.

The year-on-year rise in own funds and in the solvency requirements calculated for the DZ BANK financial conglomerate was attributable to the change in own funds and in the solvency requirements at the level of the DZ BANK banking group and the R+V Versicherung AG insurance group (for details, see sections 5.3.3 and 5.3.4 of this risk report).

The preliminary coverage ratio calculated for the financial conglomerate as at December 31, 2020 was higher than both the internal threshold value (110.0 percent) and the external minimum target (100.0 percent). According to current projections, the requirements are also expected to be satisfied in 2021.

### 5.3.3 DZ BANK banking group

#### Procedure for determining regulatory risk-weighted assets

The entities in the DZ BANK banking group use the following methods to calculate the regulatory risk-weighted assets in accordance with the CRR:

- **Credit risk:** Primarily the foundation internal ratings-based (IRB) approach and the IRB approach for the retail business (the regulatory credit risk measurement methods used by DVB are based on the advanced IRB approach)
- **Market risk:** Predominantly the group's own internal models and, to a minor extent, the Standardized Approaches
- **Operational risk:** Primarily the Standardized Approach.

#### Regulatory minimum capital requirements specified by the SREP

The minimum capital requirements that the **DZ BANK banking group** had to comply with in 2020 comprised those components of Pillar 1 laid down as mandatory by law and those individually specified by the banking supervisor. Institution-specific requirements under the additional capital requirements in Pillar 2, determined in the outcome of the SREP conducted for the DZ BANK banking group in 2019, also had to be satisfied. In this process, the banking supervisor specified a mandatory add-on (**Pillar 2 requirement**) that is factored into the basis of calculation used to determine the threshold for the maximum distributable amount (MDA). Distributions are restricted if capital falls below the MDA threshold.

In addition to this mandatory component, there is a recommended own funds amount under Pillar 2 (**Pillar 2 guidance**), which likewise is determined from the SREP, but unlike the mandatory component relates only to common equity Tier 1 capital. Failure to comply with the own funds guidance under Pillar 2 does not constitute a breach of regulatory capital requirements. Nevertheless, this figure is relevant as an early warning indicator for capital planning.

BaFin has classified DZ BANK as an other systemically important institution (O-SII). The DZ BANK banking group had to comply with an **O-SII capital buffer** (comprising common equity Tier 1 capital) as defined in section 10g (1) KWG at a level of 1.0 percent in 2020.

The minimum capital requirements applicable to **DZ BANK** comprised those components of **Pillar 1** laid down as mandatory by law and those individually specified by the banking supervisor. Pillar 2 add-ons are currently not relevant to DZ BANK.

The mandatory minimum capital requirements relevant to the DZ BANK banking group and DZ BANK, and their components, are shown in Fig. 16. Based on current knowledge, the minimum capital requirements shown are also expected to apply for 2021.

FIG. 16 – REGULATORY MINIMUM CAPITAL REQUIREMENTS FOR THE DZ BANK BANKING GROUP<sup>1</sup>

%	DZ BANK banking group			DZ BANK	
	2020 (after adjustment) <sup>3</sup>	2020 (before adjustment) <sup>3</sup>	2019	2020	2019
Minimum requirement for common equity Tier 1 capital	4.50	4.50	4.50	4.50	4.50
Additional Pillar 2 capital requirement	0.98	1.75	1.75		
Capital conservation buffer	2.50	2.50	2.50	2.50	2.50
Countercyclical capital buffer	0.01	0.01	0.04	0.01	0.04
O-SII capital buffer	1.00	1.00	1.00		
<b>Mandatory minimum requirement for common equity Tier 1 capital</b>	<b>9.00</b>	<b>9.76</b>	<b>9.79</b>	<b>7.01</b>	<b>7.04</b>
Minimum requirement for additional Tier 1 capital <sup>1</sup>	1.50	1.50	1.50	1.50	1.50
Additional Pillar 2 capital requirement	0.33				
<b>Mandatory minimum requirement for Tier 1 capital</b>	<b>10.82</b>	<b>11.26</b>	<b>11.29</b>	<b>8.51</b>	<b>8.54</b>
Minimum requirement for Tier 2 capital <sup>2</sup>	2.00	2.00	2.00	2.00	2.00
Additional Pillar 2 capital requirement	0.44				
<b>Mandatory minimum requirement for total capital</b>	<b>13.26</b>	<b>13.26</b>	<b>13.29</b>	<b>10.51</b>	<b>10.54</b>

Not available

<sup>1</sup> The value for the countercyclical capital buffer is recalculated at each reporting date. Unlike the other reported values, which apply to the entire financial year, the countercyclical capital buffers shown for 2020 and 2019 relate solely to the reporting dates.

<sup>2</sup> The minimum requirement can also be satisfied with common equity Tier 1 capital.

<sup>3</sup> 'Before adjustment': minimum requirements originally planned for 2020. 'After adjustment': minimum requirements after factoring in the relief measures introduced by the supervisory authorities due to the COVID-19 pandemic.

#### Relaxation of the minimum capital requirements in response to the COVID-19 pandemic

Because of the COVID-19 pandemic, the supervisory authorities introduced various relief measures for banks, including in relation to the binding minimum capital requirements. For example, a bank can temporarily use up its capital conservation buffer and O-SII capital buffer without incurring sanctions. In such an eventuality, it must submit a capital conservation plan to the supervisory authorities. If, as a result, the combined capital buffer requirement and thus the threshold for the maximum distributable amount are no longer met, the rules regarding the limits for distributions continue to apply. These relief measures are therefore not taken into account in Fig. 16.

However, Fig. 16 does take account of the relief measures resulting from early application of the changes to the composition of the additional capital requirements under Pillar 2. Until December 31, 2019, the additional Pillar 2 capital requirement had to be met entirely with common equity Tier 1 capital. In view of the COVID-19 pandemic, the use of additional Tier 1 instruments and of Tier 2 instruments is now partially permitted along with common equity Tier 1 capital. This rule had originally been planned for early 2021, but the supervisory authorities decided on April 8, 2020 to bring its implementation forward. This change applies retrospectively from March 12, 2020.

The supervisory authorities in some countries reduced the capital buffer rates used to calculate the countercyclical capital buffer, in some cases lowering them right down to 0 percent. In a general administrative act dated March 31, 2020, BaFin lowered the domestic countercyclical capital buffer rate for Germany to 0 percent (it was originally supposed to be raised to 0.25 percent with effect from July 1, 2020).

Banks are also temporarily not required to comply with the Pillar 2 capital recommendation. Applying the CRR in full, the mandatory minimum capital requirements stipulated by the supervisory authorities and the recommended minimum capital requirements were complied with on every reporting date in the first half of 2020.

#### Compliance with the minimum capital requirements

As at December 31, 2020, the internal threshold values applicable at the level of the DZ BANK banking group for the common equity Tier 1 capital ratio, the Tier 1 capital ratio, and the total capital ratio were exceeded at the level of the DZ BANK banking group and DZ BANK, both before and after application of the relief measures introduced in connection with COVID-19. The internal threshold values are shown in Fig. 5 in section 2.5 of this risk report.

Applying CRR I in full, the regulatory minimum capital requirements stipulated by law and by the supervisory authorities were also complied with on the reporting date at the level of the DZ BANK banking group and at DZ BANK. Again, this applied both before and after the application of the pandemic-related relief measures. According to current projections, the requirements will also be satisfied in 2021.

#### Regulatory capital ratios

The regulatory **own funds** of the **DZ BANK banking group** as at December 31, 2020 determined in accordance with full application of CRR I amounted to a total of €28,616 million (December 31, 2019: €25,690 million).

This equates to a **rise in own funds** of €2,927 million compared with the end of 2019, comprising an increase in common equity Tier 1 capital of €1,635 million and in Tier 2 capital of €1,292 million.

In the case of **common equity Tier 1 capital**, net profits eligible for retention had a particularly positive impact. The profit calculated as at December 31, 2020 was included in common equity Tier 1 capital in accordance with article 26 (2) CRR in the amount of €635 million. Furthermore, other comprehensive income rose by €372 million.

**Tier 2 capital** advanced from €2,875 million as at December 31, 2019 to €4,167 million as at December 31, 2020, a year-on-year increase of €1,292 million that was essentially attributable to the issuance of Tier 2 capital instruments amounting to €1,477 million. The increase was partly offset by the reduced level of eligibility under CRR rules for Tier 2 capital instruments in the last five years before their maturity date.

Regulatory **risk-weighted assets** in the DZ BANK banking group went up from €143,800 million as at December 31, 2019 to €147,173 million as at December 31, 2020, a rise of €3,373 million. This increase was mainly due to a higher level of credit risk and application of the new securitization framework to the entire portfolio of the DZ BANK banking group.

As at December 31, 2020, the DZ BANK banking group's **common equity Tier 1 capital ratio** was 15.2 percent and therefore higher than the ratio of 14.4 percent at the end of 2019. The **Tier 1 capital ratio** of 16.6 percent calculated as at the reporting date was also up compared with the figure at December 31, 2019. The figure as at December 31, 2019 was 15.9 percent. The **total capital ratio** also went up year on year from 17.9 percent as at December 31, 2019 to 19.4 percent as at the reporting date.

Fig. 17 provides an overview of the regulatory capital ratios for the DZ BANK banking group and for DZ BANK.

FIG. 17 – REGULATORY CAPITAL RATIOS WITH FULL APPLICATION OF CRR I<sup>1</sup>

	DZ BANK banking group		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
<b>Capital</b>				
Common equity Tier 1 capital (€ million)	22,340	20,705	13,601	13,665
Additional Tier 1 capital (€ million)	2,109	2,109	2,150	2,150
<b>Tier 1 capital</b>	<b>24,449</b>	<b>22,814</b>	<b>15,751</b>	<b>15,815</b>
Total Tier 2 capital (€ million)	4,167	2,875	3,849	2,649
<b>Own funds</b>	<b>28,616</b>	<b>25,690</b>	<b>19,600</b>	<b>18,464</b>
<b>Risk-weighted assets</b>				
Credit risk including long-term equity investments (€ million)	128,177	124,734	83,571	83,908
Market risk (€ million)	8,388	8,350	7,502	7,240
Operational risk (€ million)	10,608	10,716	3,249	3,333
<b>Total</b>	<b>147,173</b>	<b>143,800</b>	<b>94,322</b>	<b>94,480</b>
<b>Capital ratios</b>				
Common equity Tier 1 capital ratio (%)	15.2	14.4	14.4	14.5
Tier 1 capital ratio (%)	16.6	15.9	16.7	16.7
Total capital ratio (%)	19.4	17.9	20.8	19.5

<sup>1</sup> Full application of CRR I means that the current rules are applied, disregarding the transitional guidance in Regulation (EU) No. 575/2013.

#### Leverage ratio

The leverage ratio shows the ratio of a bank's Tier 1 capital to its total exposure. In contrast to credit-risk-related capital requirements for which the assumptions are derived from models, the individual exposures in the calculation of the leverage ratio are not allocated their own risk weight but are generally included in the total exposure without any risk weight at all.

In the reporting period, the leverage ratio of the **DZ BANK banking group** determined with **full application of the CRR I regulations** went up by 0.7 percentage points from 4.9 percent as at December 31, 2019 to 5.6 percent as at December 31, 2020. This increase resulted primarily from the decline in the total exposure, combined with an increase of €1.6 billion in Tier 1 capital. The fall in the total exposure was largely due to the ECB's decision dated September 17, 2020 that permits the banks supervised directly by the ECB to exclude certain central bank exposures from the leverage ratio. This relief measure is available until June 27, 2021. As a result of this measure, the total exposure contracted by €62.0 billion.

**DZ BANK's** leverage ratio as at December 31, 2020 was calculated at 4.1 percent (December 31, 2019: 3.9 percent). This rise was also mainly due to the decrease in the total exposure as a result of the aforementioned ECB decision. The reduction at DZ BANK amounted to €57.9 billion. Another reason for the increase in the leverage ratio was the €63 million fall in Tier 1 capital.

The internal **threshold value** of 3.5 percent applicable to the leverage ratio of the DZ BANK banking group was exceeded as at the reporting date. According to current projections, the requirements will also be satisfied in 2021.

From **June 2021**, both the DZ BANK banking group and DZ BANK will have to comply with a **minimum target** for the leverage ratio of 3 percent, which has been set externally by the banking supervisor.

At the same time, the **calculation of total exposure** will be adjusted as part of the introduction of CRR II. As a consequence, the leverage ratio for the DZ BANK banking group and DZ BANK is expected to increase based on full application of CRR I. The expected rise in the ratio comprises two countervailing effects. Firstly, the total exposure measure is predicted to fall substantially because more exposures within the cooperative financial network will not have to be included. Secondly, the temporary exclusion of certain central bank exposures will

end in mid-2021. Overall, the DZ BANK banking group's leverage ratio is expected to rise by 0.4 percentage points.

#### Minimum requirement for own funds and eligible liabilities

The BRRD, Regulation (EU) No. 806/2014 establishing a Single Resolution Mechanism, and the transposition of the BRRD into German law in the form of the SAG have created the legal basis at European and national level for a single resolution mechanism for banks and the MREL regulatory ratio.

The MREL is intended to ensure that banks hold a sufficiently large volume of own funds and liabilities that can be 'bail-in' to make it possible at all times to carry out an orderly resolution. 'Bail-in-able' liabilities are those that provide for creditors to take an interest in losses incurred and recapitalization if a bank gets into financial difficulties, enabling resolution to take place on the basis of the bail-in and other instruments without recourse to government help and without jeopardizing the stability of the financial system.

The MREL ratio is the ratio of the total of own funds and eligible bail-in-able liabilities of the DZ BANK banking group to the total liabilities and own funds of the DZ BANK banking group.

DZ BANK's Board of Managing Directors set the **internal threshold value** for the **DZ BANK banking group's** MREL ratio for 2020 at 8.3 percent (2019: 8.5 percent). In April 2020, BaFin notified DZ BANK that the Single Resolution Board had set an MREL ratio (**external minimum target**) of 8.0 percent for the DZ BANK banking group (2019: 8.2 percent). The internal threshold value and the external minimum target were not adjusted in light of the COVID-19 pandemic. They therefore applied for the entire financial year.

The **MREL ratio** measured for the DZ BANK banking group was 12.2 percent as at September 30, 2020 (December 31, 2019: 11.0 percent). The latest MREL ratio relates to September 30, 2020 because the figure as at December 31, 2020 was not yet available at the deadline date for the publication of this risk report. The MREL reported as at December 31, 2019 is the figure determined retrospectively for this reporting date. The increase in the ratio compared with the figure at the end of 2019 was attributable to the rise in both own funds and the eligible bonds and deposits used in the calculation of the MREL. The MREL ratio measured as at September 30, 2020 was therefore above the internal threshold value and the external minimum target. It is reasonable to assume that the requirements were also met as at December 31, 2020 and – according to current projections – will be satisfied in 2021.

#### 5.3.4 R+V Versicherung AG insurance group

The regulatory solvency requirements for insurance companies and insurance groups provide a means of evaluating the overall risk position in the R+V Versicherung AG insurance group.

The group's risk-bearing capacity for regulatory purposes is defined as the eligible own funds at group level in relation to the risks arising from operating activities. The changes in the regulatory risk-bearing capacity of the R+V Versicherung AG insurance group as a whole and each of its constituent entities are analyzed at least once a quarter.

Fig. 18 shows how the solvency requirements are covered by eligible own funds.

FIG. 18 – REGULATORY CAPITAL ADEQUACY OF THE R+V VERSICHERUNG AG INSURANCE GROUP<sup>1</sup>

	Dec. 31, 2020	Dec. 31, 2019
Own funds (€ million)	14,897	12,025
Solvency requirements (€ million)	8,599	7,568
<b>Coverage ratio (%)</b>	<b>173.2</b>	<b>159.0</b>

<sup>1</sup> December 31, 2020: Preliminary figures; December 31, 2019: Final figures.

As at December 31, 2020, the preliminary figure for the **regulatory risk-bearing capacity** of the R+V Versicherung AG insurance group was 173.2 percent (final figure as at December 31, 2019: 159.0 percent). The main reason for the rise in own funds was the use of the volatility adjustment and the transitional measure on technical provisions. The higher solvency requirements can be explained by the increase in non-life actuarial risk and in market risk. The reasons for the increase in these risks are set out in sections 14.7 and 15.5 of this risk report.

The recalculation of the overall solvency requirement described in section 5.2.3 of this risk report also affected the regulatory risk-bearing capacity of the R+V Versicherung AG insurance group and led to retrospective changes in the solvency requirements as at the end of 2019. The figures as at December 31, 2019 given in this risk report have been restated accordingly and are not directly comparable with the figures in the 2019 opportunity and risk report.

The project accounting applied in the internal planning shows that the R+V Versicherung AG insurance group's coverage ratio will continue to exceed the minimum statutory requirement as at December 31, 2021.

## 5.4 Stress tests for types of risk covered by capital

### 5.4.1 Adverse stress tests

Adverse stress tests are used to examine the impact on capital and risk from potential **crisis scenarios** that are exceptional, but plausible, and particularly relevant to the DZ BANK Group's value and risk drivers. The **KPIs** relating to economic and regulatory capital adequacy are analyzed in this context. However, the stress tests also reflect events that go beyond the methods established for calculating capital adequacy. The term 'adverse stress tests' encompasses those stress scenarios that represent negative macroeconomic trends or events from the perspective of the DZ BANK Group. In this context, 'adverse' indicates that the scenarios may be particularly disadvantageous or even harmful.

Adverse stress tests can provide information on whether the level of capital resources – especially the buffer held to cover crisis situations – is also sufficient to cover various types of moderate to serious crisis scenario. The stress test results also facilitate an assessment of the extent to which the analyzed value and risk drivers are material for the DZ BANK Group.

The methods used are designed so that the specific features of R+V's business model and its risk and capital management systems are taken into account when determining the results of stress testing in the DZ BANK Group.

For the adverse stress tests, DZ BANK has put in place a system of threshold values as an **early-warning mechanism**. The threshold values for the scenarios across all risk types are monitored in the ongoing reporting system. These early-warning signals trigger various risk management processes so that there can be an early response to the potential risks highlighted by the stress tests. Control measures potentially available for the crisis scenario in question are also taken into account so that there is a comprehensive, critical evaluation of the stress test results.

The adverse stress tests are carried out quarterly. The results are submitted in the DZ BANK Group stress tests report and are noted by the **Board of Managing Directors** and by the DZ BANK Supervisory Board's **Risk Committee**.

Specific **COVID-19 scenarios** were also analyzed as adverse scenarios in 2020. They included one-year and two-year scenarios. The one-year scenario modeled a serious evolution of the first wave of the pandemic in 2020 and analyzed the resulting effects on the normative internal perspective. The two-year scenario assumed severe economic disruption during a second wave of the pandemic and extended the analysis to include the economic perspective. Both scenarios were included in the stress tests reports.

#### 5.4.2 Reverse stress tests

Reverse stress tests complement the adverse stress tests and are used to investigate which of the hypothetical scenarios could conceivably be sufficiently plausible and relevant to jeopardize the ability of the DZ BANK Group to **continue as a going concern**.

‘Reverse’ indicates that the tests are in the opposite direction and distinguishes them from the adverse stress tests. In adverse stress tests, scenarios are defined and the corresponding KPIs determined in order to assess whether there is a sufficient level of capital resources available to cover moderate or serious crisis scenarios. Reverse stress tests, on the other hand, examine which scenarios would have to occur to jeopardize the survival of the bank as a going concern.

In reverse stress tests, the risk particularly to the regulatory KPIs is simulated with scenarios in which it would no longer be feasible to **continue the business model** or in which the business model would prove to be no longer sustainable. In the case of reverse stress tests, the priorities are therefore as follows: firstly, to identify relevant scenario approaches that could have the potential to jeopardize the bank’s survival as a going concern, and secondly, to estimate the probability and plausibility of a specific, sufficiently serious scenario of this nature.

The reverse stress tests are carried out annually. The results are noted by the **Board of Managing Directors** and by the DZ BANK **Supervisory Board’s Risk Committee**. No reverse stress tests were carried out in 2020 by agreement with the supervisory authorities.

#### 5.4.3 Scenario analyses in the risk types

In the economic perspective, the quarterly report on stress tests in the DZ BANK Group is supplemented by various scenario analyses in the risk types. These analyses serve as a link between risk drivers and sensitivities, and between potential events and adverse scenarios. The scenario analyses also enhance the risk quantification for each risk type by including an alternative perspective.

In the scenario analyses, specific risk drivers, risk concentrations, or events are examined in detail for each type of risk by simulating economic losses and comparing them against the relevant risk limit.

Scenario analyses in the risk types are carried out quarterly. The results are submitted in the DZ BANK Group stress tests report and are noted by the **Board of Managing Directors** and by the DZ BANK **Supervisory Board’s Risk Committee**.

## Bank sector

### 6 Credit risk

#### 6.1 Definition

**Credit risk** is defined as the risk of losses arising from the default of counterparties (borrowers, issuers, other counterparties) and from the migration of the credit ratings of these counterparties.

Credit risk may arise in traditional lending business and also in trading activities. **Traditional lending business** is for the most part commercial lending, including financial guarantee contracts and loan commitments. In the context of credit risk management, **trading activities** refers to capital market products such as securities (in both the banking book and the trading book), promissory notes, derivatives, secured money market business (such as repo transactions), and unsecured money market business.



In **traditional lending business**, credit risk arises mainly in the form of default risk and migration risk. In this context, default risk refers to the risk that a customer may be unable to settle receivables arising from loans or advances made to the customer (including lease receivables) or make overdue payments, or that losses may arise from contingent liabilities or from lines of credit committed to third parties. Migration risk is a sub-risk within traditional credit risk and reflects changes in the fair value of types of exposure subject to credit risk caused by a change in the rating for a borrower (rating migration).

Credit risk in connection with **trading activities** arises in the form of default risk, which can be subdivided into issuer risk, replacement risk, and settlement risk, depending on the type of transaction involved.

**Issuer risk** is the risk of incurring losses from the default of issuers of tradable debt or equity instruments (such as bonds, shares, profit-participation certificates), losses from a default in connection with the underlying instrument in derivatives (for example, credit or equity derivatives), or losses from a default in connection with fund components.

**Replacement risk** on derivatives is the risk of a counterparty defaulting during the term of a trading transaction.

Transaction processing risk forms part of replacement risk and is considered as 'extended' replacement risk. Transaction processing risk arises in connection with both delivery-versus-payment (DVP) settlement and unilateral payments in a trading transaction (for example in an interest-rate swap). Transaction processing risk arises when the counterparty in a trading transaction fails to perform its contractual obligation. For the purposes of determining economic capital, the amount of the transaction processing risk is the net present value of the reciprocally required performance in favor of the entities in the Bank sector.

**Recovery risk** forms part of credit risk. It cannot be determined as an exposure amount but increases the risk capital requirement for traditional credit risk, issuer risk, and replacement risk. Recovery risk arises from uncertainty relating to the recovery rates for collateral received. It also reflects the uncertainty regarding the recovery rate for unsecured receivables and a potential cure following counterparty default.

**Settlement risk** arises when there are two mutually conditional payments and there is no guarantee that when the outgoing payment is made the incoming payment will be received. Settlement risk is the risk of a loss if counterparties do not meet their obligations, counter-performance already having taken place.

**Country risk** is also included within credit risk. Country risk in the narrower sense of the term refers to conversion, transfer, payment prohibition, or moratorium risk. It is the risk that a foreign government may impose restrictions preventing a debtor in the country concerned from transferring funds to a foreign creditor. This type of risk is taken into account by means of the ratings used in credit risk measurement and specific modeling in the credit portfolio model. It increases the risk capital requirement for traditional credit risk, issuer risk, and replacement risk. In the broader sense of the term, country risk forms part of credit risk. In this case, it refers to the risk arising from exposure to the government itself (sovereign risk) and the risk that the quality of the overall exposure in a country may be impaired as a result of country-specific events.

## 6.2 Business background and risk strategy

The DZ BANK Group is exposed to considerable credit risk in the Bank sector. The lending business is one of the most important core activities of the entities in the Bank sector. In its role as the central institution, DZ BANK covers the **entire range of lending business**, either in partnership with the local cooperative banks or in direct business, and provides its customers with financing solutions. Its customers include the local cooperative banks themselves, corporate customers, international companies, and banks and institutions both in Germany and abroad.

**Default risk from traditional lending business** arises primarily at DZ BANK, BSH, DVB, DZ HYP, and TeamBank. The risk results from the specific transactions in each management unit and therefore has varying characteristics in terms of diversification and size in relation to the volume of business.

**Default risk relating to trading transactions** arises from issuer risk, particularly in connection with the trading activities and investment business of DZ BANK and DZ HYP. Replacement risk arises for the most part at DZ BANK and DZ PRIVATBANK.

The entities in the Bank sector pursue a strictly decentralized business policy aimed at promoting the cooperative banks and are bound by the core strategic guiding principle of a **'network-oriented central institution and financial services group'**. The business and risk policy for the credit-risk-bearing core businesses in the group is formulated on the basis of risk-bearing capacity. The credit risk strategy therefore forms the basis for credit risk management and reporting across the whole group and ensures that there is a standard approach to credit risk within the group. It takes into account the business models of each of the management units.

Lending throughout the group is predominantly based on the **VR rating** system, a rating procedure developed by DZ BANK in collaboration with the BVR.

The management units aim to ensure that their credit portfolios always have **a sound credit quality and risk structure**. In the future, the portfolios will continue to be characterized by a high degree of diversification.

Where required, the Board of Managing Directors of DZ BANK makes decisions during the course of the year to ensure that the rules for the medium-term and long-term credit risk strategy are adjusted in line with changing circumstances and current developments.

The disclosures covering the sustainability review in connection with lending activities, which were included in the 2019 opportunity and risk report, have now been moved to the Sustainability Report.

## 6.3 Risk factors

### 6.3.1 General credit risk factors

Key values used in determining credit risk include the concentrations of lending volume in terms of counterparties, sectors, country groups, and residual maturities, and the credit quality structure of the credit portfolio. **Significant concentrations of volume** in counterparties, sectors, or countries increase the risk that an accumulation of credit risk will become critical, for example if there are defaults among greater concentrations of counterparties or, in economic crises, defaults in sectors or countries with significant concentrations in the credit portfolio.

The term of loan agreements is also a key credit risk factor because the probability of a deterioration in credit rating and therefore of a counterparty default during the term of an agreement generally increases over time. Particularly in the case of an **accumulation of exposures that have longer terms to maturity** and a non-investment-grade rating, there is a danger that the credit risk will materialize and the recognition of impairment losses will become necessary.

### 6.3.2 Specific credit risk factors

#### Definition

In addition to the general risk factors, the **macroeconomic and environmental trends** described below could lead to higher credit risk, more defaults among individual counterparties, and therefore to a greater requirement for the recognition of impairment losses in the lending business.

The following sections explain risk factors that are directly relevant to distinct subportfolios in the lending business and have a material measurable effect in those subportfolios. Information is also provided on risk factors that are potentially significant for the whole of the credit portfolio, but that do not at the moment have any material impact on portfolio quality.

#### Credit risk factors of material importance to individual credit portfolios

DZ BANK and DZ HYP hold investments in Italian, Spanish, and Portuguese bonds. DZ BANK has also entered into lending, derivatives, and money market business with Italian and Spanish counterparties. The prolonged **economic divergence in the eurozone**, combined with the ECB's expansionary monetary policy, thus leads to heightened risk in the Bank sector's lending business. The macroeconomic background to this risk factor is described in section 2.3.3. Disclosures on the lending volume and credit value-at-risk in relation to the exposures in Italy, Spain, and Portugal can be found in sections 6.8.1 and 6.10.2 of this risk report.

DVB and DZ BANK provide shipping finance. DVB is also involved in offshore finance. There has been no change to the **challenging conditions in the shipping and offshore markets** and this is leading to a greater level of credit risk in the Bank sector. The situation in the industry, the significance of this business to the Bank sector, and the associated lending volume are described in sections 6.8.2 and 6.8.4 of this risk report. Disclosures on the credit value-at-risk relating to shipping and offshore finance are included in section 6.10.2.

DZ BANK finances the purchase of cruise ships by shipping companies. The **COVID-19 pandemic** is having a direct impact on this business. The risk factor is explained in chapters V.1.1 to V.1.4 in the outlook. The lending volume related to cruise ship finance and the associated credit value-at-risk are presented in sections 6.8.3 and 6.10.2.

#### Credit risk factors of significance to the entire lending business

The COVID-19 pandemic and international trade disputes constitute **risks for the global economy**. The background to these risk factors is described in chapters V.1.1 to V.1.4 in the outlook. If the pandemic persists for a while longer yet, or the international trade disputes cannot be resolved, there is a risk that the Bank sector's credit risk will rise significantly.

There is also a risk that **climate change** will give rise to credit risk if, for example, the recoverability of collateral for loan exposures is adversely impacted by climate events. In addition, as a result of transition effects such as the transformation to a carbon-neutral economy, there is a risk in the lending business that the profitability of corporate finance borrowers (mainly at DZ BANK) and of real estate finance borrowers (mainly at BSH and DZ HYP) could be decreased. These effects could lead to a deterioration of the borrowers' credit quality and thus to a higher requirement for the recognition of impairment losses.

### 6.4 Organization, responsibility, and reporting

Responsibilities in the lending process have been laid down and are documented in a written set of procedural rules. These responsibilities cover loan applications, approvals, and processing, including periodic credit control with regular analysis of ratings. Decision-making authority levels are specified by the relevant **rules** based on the risk content of lending transactions.

Established **reporting and monitoring processes** help to provide decision-makers with information about changes in the risk structure of credit portfolios and form the basis for managing credit risk.

The **credit risk report** keeps the Board of Managing Directors, the Group Risk and Finance Committee, and the Supervisory Board's Risk Committee informed of the economic capital required to cover credit risk. In addition to providing management with recommendations for action, internal reporting also includes an in-depth analysis of the portfolio structure in regard to risk concentrations based on key risk characteristics such as credit rating class, industry, country group, and the lending volume to single borrowers. In addition, the reports include details on specific exposures. In the context of the risk limit, the credit value-at-risk is also included in the credit risk report.

## 6.5 Risk management

### 6.5.1 Rating systems

#### Use and characteristics of the rating systems

The generation of internal credit ratings for the counterparties of entities in the Bank sector helps to provide a solid basis for lending decisions in the management of transactions, in that the expected losses from defaults in the lending business are then factored into pricing. In addition, internal ratings are used to incorporate the credit quality of the counterparties when calculating unexpected losses in the credit portfolio.

The **VR rating system** used as standard throughout the cooperative financial network ensures that all the entities in the network apply a sophisticated uniform methodology producing ratings that are comparable.

DZ BANK primarily uses VR rating systems in its credit risk management system to assess large and medium-sized companies, major corporate customers, banks, investment funds, and project finance (slotting approach). The internal assessment approach is also used to evaluate the liquidity lines and credit enhancements made available by DZ BANK to programs for the issuance of asset-backed commercial paper (ABCP). These rating systems have been approved by the competent supervisory authority for the purposes of calculating regulatory capital using the **foundation IRB approach** or the **slotting approach**.

For **internal management purposes**, DZ BANK uses further rating systems to assess SMEs (German Mittelstand), countries, asset finance, acquisition financing, agricultural businesses, public-sector entities, not-for-profit organizations, foreign SMEs, and insurance companies.

Most of the other entities in the Bank sector use the DZ BANK rating systems for banks, countries, and major corporate customers. Rating systems for specific business segments are also used by individual subsidiaries.

#### Development and expansion of rating systems

All internal rating systems and those approved by the banking supervisor for solvency reporting were validated in 2020. The revised rating system for project finance and the slotting approach for project finance were introduced in March 2020.

The overhaul of the rating system for major corporations has been completed. The testing phase began in November of the reporting year. The supervisory review of this rating system is scheduled for the end of 2021.

#### DZ BANK credit rating master scale

The credit rating master scale serves as a groupwide rating benchmark with which to standardize the different rating systems used by the entities in the Bank sector as a result of differences in their business priorities. It thereby provides all management units with a uniform view of counterparties' credit ratings.

Fig. 19 shows DZ BANK's credit rating master scale, in which internal credit ratings are matched to the ratings used by Moody's, Standard & Poor's, and Fitch Ratings. Some internal ratings cannot be matched with a particular external rating because of the greater degree of refinement in the credit rating master scale. The ratings for securitization exposures are matched to various different external ratings depending on the asset class and region.

In DZ BANK's master scale, the default bands remain unchanged to ensure comparability over the course of time, whereas some fluctuation in default rates can be seen in external ratings. Therefore, it is not possible to map the internal ratings directly to the ratings used by the rating agencies. Consequently, the scale can only be used as a starting point for comparison between internal and external credit ratings.

#### DZ BANK rating desk

The VR rating systems for banks and countries are also available to DZ BANK subsidiaries and the cooperative banks. Users can enter into a master agreement to access the ratings via an IT application (Rating Desk), which is available throughout the cooperative financial network, in return for the payment of a fee. Any accessed ratings are first validated by the entities in the Bank sector or the cooperative banks before they are included in the user's credit procedures.

FIG. 19 – BANK SECTOR: DZ BANK'S VR CREDIT RATING MASTER SCALE AND EXTERNAL CREDIT RATINGS

Internal rating class	Average default probability	External rating classes			Rating category
		Moody's	Standard & Poor's	Fitch	
1A	0.01%	Aaa to Aa2	AAA to AA	AAA to AA	Investment grade
1B	0.02%	Aa3	AA-	AA-	
1C	0.03%				
1D	0.04%	A1	A+	A+	
1E	0.05%				
2A	0.07%	A2	A	A	
2B	0.10%	A3	A-	A-	
2C	0.15%	Baa1	BBB+	BBB+	
2D	0.23%	Baa2	BBB	BBB	
2E	0.35%				
3A	0.50%	Baa3	BBB-	BBB-	Non-investment grade
3B	0.75%	Ba1	BB+	BB+	
3C	1.10%	Ba2	BB	BB	
3D	1.70%				
3E	2.60%	Ba3	BB-	BB-	
4A	4.00%	B1	B+	B+	
4B	6.00%	B2	B	B	
4C	9.00%	B3	B-	B-	
4D	13.50%				
4E	30.00%	Caa1 or lower	CCC+ or lower	CCC+ or lower	
5A	DPD default				Default
5B	Specific loan loss allowance / internal neutralization of interest / rating-related sale with significant loss / further bank-internal criteria				
5C	Distressed restructuring				
5D	Insolvency				
5E	Direct impairment / workout				
NR	Not rated				

#### 6.5.2 Lending business pricing

The management units in the Bank sector use the risk-adjusted pricing of the financing as a criterion in lending decisions. Adequate standard risk costs and risk-adjusted capital costs are taken into account. The methods used by the management units to manage transactions reflect the particular features of the product or business concerned.

To ensure that lending business remains profitable, **standard risk costs** are determined in the management of individual transactions in many parts of the **Bank sector**. The purpose of these costs is to cover average expected losses from borrower defaults. The aim is to ensure that the net loss allowances recognized in the

financial statements are covered on average over the long term in an actuarial-type approach by the standard risk costs included in the pricing.

In addition to standard risk costs, **an imputed economic and regulatory cost of capital** based on the capital requirement is integrated into **DZ BANK's** contribution margin costing. This enables DZ BANK to obtain a return on the capital tied up that is in line with the risk involved and that covers any unexpected losses arising from the lending business. Pricing also includes an appropriate amount to cover the costs of risk concentration.

### 6.5.3 Credit-portfolio management

Credit portfolio models are used together with value-at-risk methods to quantify unexpected losses that may arise from the credit portfolio for lending and for trading business. Credit value-at-risk reduced by the expected loss describes the risk of unexpected losses arising should a default or migration event occur in the credit portfolio. This calculation is based on one-year default probabilities, taking into account additional transaction-specific features and reflecting the current rating of the borrower.

When determining credit value-at-risk, recovery risk is taken into account as the amount by which the actual loss deviates from the expected recovery rate or – in the case of transactions already in default – from the specific loan loss allowances. Existing netting agreements are included in the measurement of trading exposures subject to default risk. The risk capital requirement is determined in the management units on a decentralized basis.

The credit portfolio is managed by restricting the credit value-at-risk to the limit set for credit risk. A traffic light system is used to monitor Bank sector management units' compliance with the limits specified for credit risk.

### 6.5.4 Management of exposure in traditional lending business

#### Measuring exposure in traditional lending business

Individual lending exposures are managed on the basis of an analysis of gross lending exposure. The period taken into account in this case is equivalent to the monitoring cycle of one year. Together with risk-related credit-portfolio management, volume-oriented credit risk management is one of the components in the management of risk concentrations in the lending business.

In traditional lending business, the credit exposure or lending volume is generally the same as the nominal value of the total loan book and reflects the maximum volume at risk of default. The credit exposure is a gross value because risk-bearing financial instruments are measured before the application of any credit risk mitigation and before the recognition of any loss allowances.

In building society operations, nominal amounts are used as a basis for measuring the gross lending volume. In addition, loans and advances to customers in building society operations are reduced by the associated deposits. The maximum credit exposure comprises the total lines of credit committed to third parties, or in the case of limit overruns, the higher amounts already drawn.

#### Limit system for managing exposures in traditional lending business

**Limits** are set in the relevant entities in the Bank sector for individual borrowers and groups of connected customers. Counterparties are also managed centrally at the level of the Bank sector, depending on the limit level and credit rating.

As a prerequisite for prompt monitoring of limits, suitable **early-warning processes** have been established in the management units that are of material significance for the Bank sector's credit risk. In this context, financial covenants are often incorporated into loan agreements to act as early-warning indicators for changes in credit standing and as a tool for the proactive risk management of lending exposures.

In addition, processes have been set up in the Bank sector to handle instances in which limits are **exceeded**. Such excess exposures must be approved by the relevant level of authority in the management units concerned and in accordance with applicable internal requirements, and must be reduced if necessary.

Country exposure in the traditional lending business is managed by setting **country limits** for industrialized countries and emerging markets at the Bank sector level.

#### 6.5.5 Management of credit exposure in trading transactions

##### Measuring credit exposure in trading transactions

Issuer risk, replacement risk, and settlement risk are exposure-based measurements of the potential loss in trading transactions. These are determined without taking into account the likelihood of a default. In order to determine the credit exposure, securities in the banking book and trading book are predominantly measured at fair value (nominal amounts are used in building society operations), while derivatives are measured at fair value and, in respect of settlement risk, at the cash-flow-based accepted value.

The fair value of a securities exposure is used to determine the **issuer risk**. Risks relating to the underlying instruments in derivative transactions are also included in issuer risk.

At the level of the **Bank sector**, **replacement risk** is generally determined on the basis of fair value, taking into account appropriate add-ons. At **DZ BANK**, which is of particular significance as far as replacement risk is concerned, these add-ons are determined primarily according to each individual transaction as part of a portfolio simulation. The portfolio simulation models future exposures, taking into account a large number of risk factors. The add-ons for the remaining derivatives not included in the portfolio simulation are determined on the basis of a product-specific allocation, which also takes into account specific risk factors and residual maturities. Transaction processing risk is additionally factored into the exposure calculation for replacement risk. This risk is largely determined as the net present value of the reciprocally required performance.

With regard to exchange-traded derivatives, the replacement risk vis-à-vis the customer in customer brokerage business consists of the actual collateral exchanged (the variation margin for the daily settlement of profits and losses, and the initial margin as the collateral to be provided in advance to cover the loss risk), the fair value, and additional collateral requirements. To calculate the replacement risk vis-à-vis stock exchanges, additional potential for changes in value or add-ons for individual transactions are also taken into consideration. Where legally enforceable, netting agreements and collateral agreements are used at counterparty level for all derivatives in order to reduce exposure. In the case of repos and securities lending transactions, haircuts are applied instead of add-ons. Unsecured money market transactions are measured at fair value.

As regards **settlement risk**, the risk amount is the expected payment due. Settlement risk is recognized for the specified settlement period. It takes into account the amount and timing of outstanding cash flows for the purposes of managing the risk associated with mutual settlement at some point in the future. These future cash flows are already factored into the replacement risk through the fair value measurement and are therefore included in the risk capital requirement. As a result, settlement risk does not need to be covered with risk capital in addition to that for the other types of credit risk related to trading activities.

##### Limit system for managing trading exposure

DZ BANK has established an exposure-oriented **limit system** related to credit ratings to limit the default risk arising from trading business. Replacement risk is managed via a structure of limits broken down into maturity bands. Unsecured money market transactions are subject to separate limits. The transaction processing risk forming part of the replacement risk is included in the shortest maturity band. A daily limit is set in order to manage settlement risk. A specific limit for each issuer or, in certain circumstances, a general limit is determined as the basis for managing issuer risk. Covered bonds are subject to separate limits. The main subsidiaries have their own comparable limit systems.

The issuer risk in treasury's investment book is restricted by means of portfolio limits in addition to the individual issuer limits.

Exposure in connection with DZ BANK's trading business is measured and monitored using a standard method and two IT-supported limit monitoring systems to which all relevant trading systems are directly or indirectly connected. Furthermore, the trading exposure in the Bank sector is managed on a decentralized basis at management unit level.

As in the traditional lending business, appropriate processes have also been established for the trading business to provide **early warnings and notification of limit overruns**. The member of the Board of Managing Directors responsible for risk monitoring is sent a daily list of significant exceeded trading limits. A monthly report is prepared covering the utilization of replacement and issuer risk in connection with trading activities.

Country exposure in the trading business is managed in the same way as in the traditional lending business by setting **limits for countries** at the Bank sector level.

#### 6.5.6 Management of risk concentrations and correlation risks

##### Identifying risk concentrations

In order to highlight concentrations of credit risk, the exposure at portfolio level is categorized by, among other things, rating, industry sector, country group, term to maturity, and size category. In addition, risks resulting from large exposures to individual single borrower units are closely monitored and managed. The key factor to be considered when determining concentrations of credit risk is the possibility of a simultaneous default by a number of borrowers who share the same characteristics. This is why determining the correlated exposure to loss as a part of the calculation of the risk capital required for credit risk is essential for managing risk concentrations.

##### Risk concentrations in credit and collateral portfolios

In managing the traditional lending business and its trading business, DZ BANK takes into account the correlation between collateral and the borrower pledging the collateral or between the collateral and the counterparty whose replacement risk the collateral is intended to mitigate. If there is a significant positive correlation between the collateral and the borrower or the counterparty pledging the collateral, the collateral is disregarded or accorded a reduced value as collateral. This situation arises, for example, where a guarantor, garnishee, or issuer forms a group of connected clients or a similar economic entity with the borrower or counterparty.

##### Wrong-way risk

**General wrong-way risk** can arise as a result of DZ BANK's trading activities. This is defined as the risk of a positive correlation between the default probability of a counterparty and the replacement value (replacement risk exposure) of a (hedging) transaction entered into with this counterparty because of a change in the macroeconomic market factors of the traded underlying instrument (e.g. price changes for exchange rates).

**Specific wrong-way risk** can also occur. This is the risk of a positive correlation between the default probability of a counterparty and the replacement value (replacement risk exposure) of a (hedging) transaction entered into with this counterparty because of an increase in the default probability of the issuer of the traded underlying instrument. This type of risk largely arises in connection with OTC equity and credit derivatives in which the underlying instrument is a (reference) security or (reference) issuer.

The measures described below are used to appropriately monitor these risks and significantly reduce them. As a result, wrong-way risk, in particular, is not material at DZ BANK.



#### Measures to prevent concentration risk and wrong-way risk

In order to prevent unwanted risks that may arise from the concentration or correlation of collateral in the trading business or from general wrong-way risk, DZ BANK has brought into force a **collateral policy** and its own internal 'minimum requirements for bilateral reverse repo transactions and securities lending transactions'.

These requirements are based on the Credit Support Annex (ISDA Master Agreement) and the Collateralization Annex (German Master Agreement for Financial Futures) and stipulate that, in accordance with the collateral policy, only collateral in the form of cash (mainly in euros or US dollars), investment-grade government bonds, and/or Pfandbriefe can be used for mitigating risks arising from **OTC derivatives**. Exceptions to this rule are permitted, mainly for local cooperative banks, although a very good credit rating (at least 2B on DZ BANK's credit rating master scale) is still required for the relevant securities collateral. The collateral must also be eligible for use as collateral at the ECB.

High-grade collateral is also required for **repo and securities lending transactions** in compliance with DZ BANK's own internal minimum requirements and the generally accepted master agreements, although the range of collateral is somewhat broader here than in the case of OTC derivatives. Furthermore, the 'minimum requirements for bilateral reverse repos and securities lending transactions' exclude prohibited correlations and specify collateral quality depending on the credit rating of the counterparties. The relevant rules are monitored on a daily basis and any infringements of the requirements are reported each month to the Risk Committee.

If material specific wrong-way risk arises in connection with a bilateral OTC trading transaction, it is taken into account when the exposure is calculated.

The **Risk Committee** receives quarterly reports on relevant wrong-way risk and concentration risk arising in connection with derivatives and securities financing, including any necessary exposure adjustments.

#### 6.5.7 Mitigating credit risk

##### Collateral strategy and secured transactions

In accordance with the credit risk strategy, customer credit quality forms the main basis for any lending decision; collateral has no bearing on the borrower's credit rating. However, depending on the structure of the transaction, collateral may be of material significance in the **assessment of risk** in a transaction.

Collateral in line with the level of risk in medium-term or long-term financing arrangements is generally sought. In particular, recoverable collateral equivalent to 50 percent of the finance volume is required for new business with SME customers in rating category 3E or below on the credit rating master scale.

Collateral is used as an appropriate tool for the management of risk in export finance or structured trade finance transactions. In the case of project finance, the financed project itself or the assignment of the rights in the underlying agreements typically serve as collateral.

**Secured transactions** in traditional lending business encompass commercial lending including financial guarantee contracts and loan commitments. In order to protect transactions against default risk, traditional collateral is obtained, the decision being made on a case-by-case basis.

#### Types of collateral

The entities in the Bank sector use all forms of **traditional loan collateral**. Specifically, these include mortgages on residential and commercial real estate, registered ship and aircraft mortgages, guarantees (including sureties, credit insurance, and letters of comfort), financial security (certain fixed-income securities, shares, and investment fund units), assigned receivables (blanket and individual assignments of trade receivables), and physical collateral.

Privileged mortgages, registered ship and aircraft mortgages, guarantees, and financial collateral are the main sources of collateral recognized for regulatory purposes under the CRR.

In accordance with DZ BANK's collateral policy, only cash, investment-grade government bonds, and/or Pfandbriefe are normally accepted as **collateral for trading transactions** required by the collateral agreements used to mitigate the risk attaching to OTC derivatives. DZ BANK also enters into netting agreements to reduce the credit risk arising in connection with OTC derivatives. The prompt evaluation of collateral within the agreed margining period also helps to limit risk.

Credit derivatives, such as credit default swaps, are used to reduce the issuer risk arising on bonds and derivatives. Macro hedges are used dynamically to mitigate spread risk and migration risk as well as risks attaching to underlying assets. In isolated cases, transactions are conducted on a back-to-back basis. For risk management purposes, the protection provided by credit derivatives is set against the reference entity risk, thereby mitigating it. The main protection providers/counterparties in credit derivatives are financial institutions, mostly investment-grade banks in the VR rating classes 1A to 2C.

#### Management of traditional loan collateral

Collateral management is the responsibility mainly of **specialist units**, generally outside the front-office divisions. The core tasks of these units include providing, inspecting, measuring, recording, and managing collateral and providing advice to all divisions in related matters.

To a large extent, standardized contracts are used for the provision of collateral and the associated declarations. Specialist departments are consulted in cases where customized collateral agreements are required. Collateral is managed in separate IT systems.

Collateral **is measured** in accordance with internal guidelines and is usually the responsibility of back-office units. As a minimum, carrying amounts are normally reviewed annually or on the agreed submission date for documents relevant to measurement of the collateral. Shorter monitoring intervals may be specified for critical lending exposures. Regardless of the specified intervals, collateral is tested for impairment without delay if any indications of impairment become evident.

The workout units are responsible for **recovering collateral**. In the case of non-performing loans, it is possible to depart from the general measurement guidelines and measure collateral on the basis of its likely recoverable value and time of recovery. Contrary to the general collateralization criteria, collateral involved in restructuring exposures can be measured using market values or the estimated liquidation proceeds.

#### Collateral management

In addition to **netting agreements** (ISDA Master Agreement and German Master Agreement for Financial Futures), **collateral agreements** (Credit Support Annex to the ISDA Master Agreement and Collateralization Annex to the German Master Agreement for Financial Futures) are entered into as instruments to reduce credit exposure in OTC transactions.

DZ BANK's **collateral policy** regulates the content of collateral agreements and the responsibilities and authorities for implementing the rights and obligations they confer within the bank. This policy specifies contractual parameters, such as the quality of collateral, frequency of transfer, minimum transfer amounts, and thresholds. DZ BANK regularly uses bilateral collateral agreements. Exceptions apply to cover assets and special-purpose entities, as the special legal status of the counterparties means that only unilateral collateral agreements can be usefully enforced, and to supranational or government entities. Any decision not to use a bilateral collateral agreement for counterparties not subject to the European Market Infrastructure Regulation (EMIR) rules must be approved by a person with the relevant authority.

Netting and collateralization generally result in a significant reduction in the exposure from trading business. IT systems are used to measure exposures and collateral. **Margining** is carried out on a daily basis for the vast majority of collateral agreements in accordance with the collateral policy.

Collateral agreements generally include minimum transfer amounts and, in some cases, also **thresholds** that are independent of the credit rating. There are also some agreements with triggers based on the credit rating. In these agreements, for example, the unsecured part of an exposure is reduced in the event of a ratings downgrade or the borrower is required to make additional payments (for example, payments known as 'independent amounts'). Because of the EMIR collateral agreement obligation, the supervisory authorities have specified these contractual provisions as standard.

EMIR requires the exchange of an initial margin in bilateral OTC derivatives transactions in addition to the variation margin. For the entities in the Bank sector, the start of the mandatory initial margin exchange has been postponed for one year until September 2021.

#### Central counterparties

EMIR has permanently changed the environment in which banks, insurance companies, and investment funds conduct OTC derivative transactions. Under this regulation, market players must report all exchange-traded and OTC derivatives to central trade repositories and use predefined steps to settle certain standardized OTC derivatives via central counterparties (known as clearing houses). Furthermore, risk mitigation methods have to be used for OTC derivatives that are not settled centrally through a clearing house. This is intended to minimize counterparty risk.

Any market players not exempted from this new clearing obligation must be connected to a central counterparty. The market player concerned may be a direct member of a clearing house or may process its derivative contracts using a bank that is a member of a central counterparty.

DZ BANK is a direct member of the London Clearing House, which is Europe's largest clearing house for interest-rate derivatives, and of Eurex Clearing AG. The bank therefore has direct access to central counterparties for derivatives for the purposes of clearing derivative transactions. In the case of credit derivatives, it also has indirect access to the Intercontinental Exchange clearing house via clearing broker Deutsche Bank.

### 6.5.8 Management of non-performing lending exposures

#### Management and monitoring of exposures subject to heightened risk

Exposures subject to heightened risk are transferred to the **workout units** at an early stage. By providing intensified loan management for critical exposures and applying tried-and-tested solutions, these special units lay the basis for securing and optimizing exposures with heightened risk.

In its traditional lending business, DZ BANK has a comprehensive range of tools at its disposal for the early identification, support, and monitoring of non-performing exposures. The subportfolio of non-performing loans is reviewed, updated, and reported on a quarterly basis. The process is also carried out at shorter intervals if required. This process is supported by IT systems. Prompt internal reporting focused on target groups is a key component of this approach. If necessary, the intensified loan management put in place for individual borrowers is transferred to task forces specially set up for this purpose. The risks in subportfolios are monitored and analyzed by means of regular reports.

Where required, similar procedures have been implemented in the main subsidiaries, which adapt them to the characteristics of the risks faced in their particular business.

#### Policies and procedures for the recognition of loss allowances

The description required by GAS 20 A1.7(c) of the methods used for recognizing loss allowances is included in note 5 of the notes to the consolidated financial statements.

#### Non-performing loans

The entities in the Bank sector classify a loan as non-performing if it has been rated between 5A and 5E on the VR credit rating master scale. This corresponds to the definition of default specified by the CRR. These non-performing loans (NPLs) are thus exposures that are in default.

The following key figures are used to manage non-performing loans:

- Coverage ratio (specific loan loss allowances plus collateral as a proportion of the volume of non-performing loans)
- NPL ratio (volume of non-performing loans as a proportion of total lending volume).

The management of non-performing loans at DZ BANK is currently being updated in line with the requirements specified in the NPL guidance issued by the ECB.

## 6.6 Lending volume

### 6.6.1 Changes to the presentation of lending volume

In a departure from the previous procedure, the disclosures on lending volume in this risk report are no longer broken down by credit-risk-bearing instrument – traditional lending, securities business, and derivatives and money market business. This change is designed to ensure that the published disclosures reflect the approach used by the internal management of credit risk. For the purposes of implementing the requirements specified in IFRS 7.6 and GAS 20.A1.6 sentence 1, the breakdown by credit-risk-bearing instrument is retained in Fig. 20 (Bank sector: Reconciliation of the lending volume) and Fig. 28 (Bank sector: Factors determining the credit value-at-risk).

### 6.6.2 Reconciliation of lending volume to the consolidated financial statements

To reconcile the lending volume managed at Bank sector level with the lending volume reported on the balance sheet, the volume is broken down by traditional lending business, securities business, derivatives business, and money market business, because this breakdown corresponds to the classes of risks from financial instruments used for external reporting purposes.

Fig. 20 shows a reconciliation of the gross lending volume on which the risk management is based to individual balance sheet items in order to provide a transparent illustration of the link between the consolidated financial statements and risk management. There are discrepancies between the internal management and external consolidated financial reporting measurements for some products owing to the focus on the risk content of the items. The other main reasons for the discrepancies between the internal management figures and those

FIG. 20 – BANK SECTOR: RECONCILIATION OF THE LENDING VOLUME

Lending volume for internal management accounts	Reconciliation										
			Scope of consolidation		Carrying amount and measurement						
	2020	2019	2020	2019	2020	2019	Dec. 31, 2020	Dec. 31, 2019			
Traditional lending business	321.5	299.6	3.8	2.3	24.2	26.2	349.5	87.6	81.3		
								87.6	81.3		
								-	-		
								186.9	183.2		
								-2.2	-2.2		
								77.3	65.8		
Securities business	83.0	82.7	0.3	0.3	-15.0	-16.5	68.2	68.2	66.5		
								10.1	11.7	66.5	
								1.2	1.0		
								56.9	53.8		
Derivatives business	12.4	11.4	-0.2	-0.1	-12.5	-12.0	-0.3	-0.3	-0.7		
								0.2	0.2		
								22.3	19.3	-0.7	
								-2.6	-1.3		
Money market business	5.8	4.6	0.0	0.0	21.4	26.6	27.2	-20.1	-18.9		
								27.2	31.3		
								15.4	16.2		
								3.4	3.1	31.3	
								0.4	1.0		
7.4	10.6										
0.5	0.4										
<b>Total</b>	<b>422.6</b>	<b>398.3</b>	<b>3.9</b>	<b>2.5</b>	<b>18.0</b>	<b>24.3</b>	<b>444.5</b>		<b>425.1</b>		
								<b>Balance as at Dec. 31, 2020</b>	<b>21.9</b>	<b>5.2%</b>	
								<b>Balance as at Dec. 31, 2019</b>	<b>26.8</b>	<b>6.7%</b>	

Not relevant

in the external consolidated financial statements are differences in the scope of consolidation and differences in recognition and measurement methods.

Differences in the **scope of consolidation** result from the fact that, in internal credit risk management, only the entities in the Bank sector that contribute significantly to the aggregate risk of the sector are included.

The discrepancy in the **securities business** is mainly due to the variations in carrying amounts that arise because credit derivatives are offset against the issuer risk attaching to the underlying transaction in the internal management accounts, whereas such derivatives are recognized at their fair value as financial assets or financial liabilities held for trading in the consolidated financial statements.

The differences between the measurements in the **derivatives business** and those in the **money market business** arise because of differences in the treatment of offsetting items in internal risk management and in external financial reporting. Offsetting items are actually netted for the purposes of risk management, whereas netting of this nature is not permitted in the consolidated financial statements. In addition, add-ons are attached to the current fair values of derivative positions in the internal management accounts to take account of potential future changes in their fair value. By contrast, the external (consolidated) financial statements focus exclusively on the fair values determined on the valuation date, and, unlike in the internal accounts, collateral must not be recognized for risk mitigation purposes.

Lending volume for the consolidated financial statements	Note
<b>Loans and advances to banks</b>	
of which: loans and advances to banks excluding money market placements	52
of which: loss allowances for loans and advances to banks	61
<b>Loans and advances to customers</b>	
Loans and advances to customers excluding money market placements	53
of which: loss allowances for loans and advances to customers	61
<b>Financial guarantee contracts and loan commitments</b>	89
<b>Bonds and other securities</b>	
of which: financial assets held for trading/bonds excluding money market placements	55
of which: financial assets held for trading/promissory notes, registered bonds, and loans and advances	55
of which: investments/bonds excluding money market placements	56
<b>Derivatives</b>	
of which: derivatives used for hedging (positive fair values)	54
of which: financial assets held for trading/derivatives (positive fair values)	55
of which: derivatives used for hedging (negative fair values)	67
of which: financial liabilities held for trading/derivatives (negative fair values)	68
<b>Money market placements</b>	
of which: loans and advances to banks/money market placements	52
of which: loans and advances to customers/money market placements	53
of which: financial assets held for trading/money market instruments	55
of which: financial assets held for trading/money market placements	55
of which: investments/money market instruments	56

In money market business, further discrepancies arise between the consolidated financial statements and internal risk management due to the method used for the recognition of repo transactions. In contrast to the treatment in the consolidated financial statements, securities provided or received as collateral are offset against the corresponding assets or liabilities for the purposes of the internal analysis.

### 6.6.3 Sector structure of the credit portfolio

The total lending volume of the **Bank sector** increased by 6 percent overall in the year under review, from €398.3 billion as at December 31, 2019 to €422.6 billion as at December 31, 2020. At **DZ BANK**, the total lending volume rose by 10 percent, from €216.5 billion as at December 31, 2019 to €238.8 billion as at December 31, 2020.

The year-on-year rise in lending volume in the Bank sector was mainly due to an increase in volume in the traditional lending business, which went up from €299.6 billion as at the prior-year reporting date to €321.5 billion as at December 31, 2020. DZ BANK accounted for most of the increase, which was driven by liquidity support provided under government financing programs to cushion the consequences of the COVID-19 pandemic (see section 6.7.2) and by other lending business with entities in the cooperative financial network and corporates.

Fig. 21 shows the breakdown of the credit portfolio by sector, in which the lending volume is classified according to the industry codes used by Deutsche Bundesbank. This also applies to the other sector breakdowns related to credit risk in this risk report.

FIG. 21 – BANK SECTOR: LENDING VOLUME, BY SECTOR

€ billion	Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Financial sector	158.9	142.8	144.8	128.3
Public sector	48.5	49.5	13.8	12.9
Corporates	123.2	120.4	71.2	66.4
Retail	77.1	71.4	1.0	1.2
Industry conglomerates	14.5	13.6	8.0	7.7
Other	0.3	0.6	-	-
<b>Total</b>	<b>422.6</b>	<b>398.3</b>	<b>238.8</b>	<b>216.5</b>

As at December 31, 2020, a significant proportion (38 percent) of the lending volume in the **Bank sector** continued to be concentrated in the financial sector (December 31, 2019: 36 percent). In addition to the local cooperative banks, the borrowers in this customer segment comprised banks from other sectors of the banking industry and other financial institutions.

As at December 31, 2020, a significant proportion (61 percent) of **DZ BANK's** lending volume was also concentrated in the financial sector (December 31, 2019: 59 percent). The composition of this customer segment is the same both at DZ BANK and in the Bank sector.

In its role as central institution for the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK provides funding for the entities in the Bank sector and for the cooperative banks. For this reason, the cooperative banks account for one of the largest receivables items in the DZ BANK Group's credit portfolio. DZ BANK also supports the cooperative banks in the provision of larger-scale funding to corporate customers. The resulting syndicated business, the direct business of DZ BANK and DZ HYP, the real-estate lending business brought together in BSH, and DZ HYP's local authority lending business determine the industry breakdown for the remainder of the portfolio.

#### 6.6.4 Geographical structure of the credit portfolio

Fig. 22 shows the geographical distribution of the credit portfolio by country group. The lending volume is assigned to the individual country groups using the International Monetary Fund's breakdown, which is updated annually.

FIG. 22 – BANK SECTOR: LENDING VOLUME, BY COUNTRY GROUP

€ billion	Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Germany	351.6	327.8	189.1	170.4
Other industrialized countries	57.4	56.7	38.2	35.5
Advanced economies	2.2	2.8	1.7	1.7
Emerging markets	8.3	8.5	7.6	6.9
Supranational institutions	3.0	2.6	2.2	2.0
<b>Total</b>	<b>422.6</b>	<b>398.3</b>	<b>238.8</b>	<b>216.5</b>

As at December 31, 2020, 97 percent of the total lending in the Bank sector and 95 percent of the total lending by DZ BANK (in both cases the figures being unchanged compared with those as at December 31, 2019), i.e. by far the greatest proportion of lending, was concentrated in Germany and other industrialized countries.



Other than Germany, the following **industrialized countries** accounted for the largest exposures at Bank sector level as at the reporting date (prior-year figures in parentheses):

- United States: €8.7 billion (€8.5 billion)
- France: €7.1 billion (€6.2 billion)
- Netherlands: €5.6 billion (€5.5 billion).

The corresponding breakdown at DZ BANK was as follows:

- United States: €7.4 billion (€6.7 billion)
- France: €4.9 billion (€4.0 billion)
- Netherlands: €4.1 billion (€4.1 billion).

#### 6.6.5 Residual maturity structure of the credit portfolio

Fig. 23 shows the breakdown of the credit portfolio by residual maturity. The proportion accounted for by each maturity band as at the reporting date was largely unchanged compared with the corresponding figure as at December 31, 2019.

FIG. 23 – BANK SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
≤ 1 year	101.7	92.4	83.4	74.2
> 1 year to ≤ 5 years	103.8	104.0	64.0	63.2
> 5 years	217.2	201.9	91.4	79.2
<b>Total</b>	<b>422.6</b>	<b>398.3</b>	<b>238.8</b>	<b>216.5</b>

### 6.6.6 Rating structure of the credit portfolio

Fig. 24 shows the lending volume in the Bank sector and at DZ BANK by rating class according to the VR credit rating master scale.

FIG. 24 – BANK SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion	Bank sector		DZ BANK		
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	
Investment grade	1A	39.8	38.6	16.3	13.2
	1B	5.3	5.6	2.8	2.9
	1C	127.2	112.1	119.6	105.1
	1D	12.7	10.2	6.6	3.1
	1E	15.9	16.5	4.8	5.2
	2A	15.3	16.8	5.9	7.8
	2B	24.2	20.9	9.0	10.2
	2C	17.6	19.1	9.3	7.7
	2D	21.1	22.6	10.4	10.9
	2E	27.5	23.8	13.5	12.4
	3A	27.3	25.4	10.9	10.3
Non-investment grade	3B	25.4	26.3	7.6	8.6
	3C	22.2	22.0	5.0	5.6
	3D	14.5	13.8	6.1	4.7
	3E	7.4	6.2	2.9	2.3
	4A	4.6	3.5	2.1	1.3
	4B	3.5	3.3	1.5	0.4
	4C	1.5	1.8	0.5	0.6
	4D	0.7	0.5	0.3	0.1
4E	1.8	1.8	0.5	0.3	
Default	4.4	4.5	2.1	2.1	
Not rated	2.7	3.2	1.3	1.6	
<b>Total</b>	<b>422.6</b>	<b>398.3</b>	<b>238.8</b>	<b>216.5</b>	

In the **Bank sector**, the proportion of the total lending volume accounted for by rating classes 1A to 3A (investment grade) was 79 percent as at December 31, 2020 (December 31, 2019: 78 percent). Rating classes 3B to 4E (non-investment grade) represented 19 percent of the total lending volume as at the reporting date (December 31, 2019: 21 percent). Defaults, represented by rating classes 5A to 5E, accounted for 1.0 percent of the total lending volume in the Bank sector as at December 31, 2020 (December 31, 2019: 1.1 percent).

Rating classes 1A to 3A (investment grade) also dominated lending at **DZ BANK**, where they accounted for 88 percent of the total lending volume (December 31, 2019: 87 percent). Rating classes 3B to 4E (non-investment grade) represented 11 percent of the total lending volume as at the reporting date, which was unchanged compared with the end of 2019. Defaults (rating classes 5A to 5E) accounted for 0.9 percent of the total lending volume as at December 31, 2020 (December 31, 2019: 1.0 percent). This figure was also more or less unchanged compared with the corresponding prior-year figure.

As at December 31, 2020, the **ten counterparties associated with the largest lending volumes** accounted for 6 percent of total lending in the **Bank sector**, which was unchanged year on year. The equivalent proportion for **DZ BANK** was also 6 percent (December 31, 2019: 5 percent). In this case, these counterparties largely comprised borrowers from the financial sector (including the cooperative banks) and public sector with investment-grade ratings.

### 6.6.7 Collateralized lending volume

Fig. 25 shows the breakdown of the collateralized lending volume at overall portfolio level by type of collateral.

FIG. 25 – BANK SECTOR: COLLATERAL VALUE, BY TYPE OF COLLATERAL

€ billion	Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Guarantees, indemnities, risk subparticipation	7.4	7.0	1.9	1.6
Credit insurance	4.2	4.0	4.2	3.7
Land charges, mortgages, registered ship and aircraft mortgages	111.4	107.4	2.7	3.2
Pledged loans and advances, assignments, other pledged assets	2.8	3.5	1.8	1.7
Financial collateral	1.9	2.3	1.3	1.6
Other collateral	0.3	0.1	0.2	-
<b>Total collateral</b>	<b>128.0</b>	<b>124.3</b>	<b>12.1</b>	<b>11.9</b>
Lending volume	339.6	315.6	191.2	170.7
<b>Uncollateralized lending volume</b>	<b>211.6</b>	<b>191.3</b>	<b>179.1</b>	<b>158.8</b>
<b>Collateralization rate (%)</b>	<b>37.7</b>	<b>39.4</b>	<b>6.3</b>	<b>7.0</b>

In the case of **traditional lending business**, lending volume is generally reported as a gross figure before the application of any offsetting agreements, whereas the gross lending volume in the **derivatives and money market business** is shown on a netted basis. In the derivatives and money market business, collateral values are relatively low and are in the form of personal and financial collateral. In the **securities business**, there is generally no further collateralization to supplement the collateral already taken into account. For this reason, securities business is not included in the presentation of the collateralized lending volume.

Total collateral value in the **Bank sector** rose from €124.3 billion as at December 31, 2019 to €128.0 billion as at December 31, 2020. The collateralization rate was 37.7 percent as at the reporting date (December 31, 2019: 39.4 percent).

At €12.1 billion, **DZ BANK's** total collateral value as at December 31, 2020 was up year on year (December 31, 2019: €11.9 billion). The collateralization rate had declined to 6.3 percent as at the reporting date (December 31, 2019: 7.0 percent).

### 6.6.8 Securitizations

Within the securitizations business, the entities in the Bank sector act in different capacities, for example as investors in asset-backed security (ABS) portfolios, sponsors of ABCP programs, or sponsors of receivables purchasing programs.

The Bank sector's ABS portfolio, in which its entities act as **investors**, is predominantly held by DZ BANK and DZ HYP. This portfolio at **Bank sector** level had a nominal amount of €2,368 million as at the reporting date (December 31, 2019: €2,797 million). The nominal amount for **DZ BANK** was €1,973 million as at the reporting date (December 31, 2019: €2,323 million).

The significant fall in the nominal amount was mainly attributable to redemptions in the wind-down portfolio. The COVID-19 pandemic also led to a lower level of ABS trading.

In the Bank sector, the highest internal rating class 1A accounted for 60 percent of the nominal amount as at December 31, 2020 (December 31, 2019: 57 percent). The equivalent proportion for DZ BANK was 72 percent (December 31, 2019: 67 percent). One of the reasons for the improvement in credit quality was the reduction of the wind-down portfolio as a result of redemptions. New investments in unencumbered high-quality liquid assets (HQLAs) in accordance with the requirements of the credit risk strategy also helped to raise the quality of the securitization portfolio.

The above figures included the **wind-down portfolio** from the period before the financial crisis with a nominal amount of €918 million (December 31, 2019: €1,178 million) at **Bank sector** level and €523 million (December 31, 2019: €705 million) in respect of **DZ BANK**. As in the previous year, the volume of the wind-down portfolio contracted during the reporting year, primarily because of regular redemptions.

In addition, **DZ BANK acts as a sponsor in ABCP programs** that are funded by issuing money market-linked ABCP or liquidity lines. The ABCP programs are made available for DZ BANK customers who then securitize their own assets via these companies. As at December 31, 2020, the securitization exposures arising from DZ BANK's activities in which it acts as a sponsor amounted to €1,703 million (December 31, 2019: €1,442 million). The increase in these exposures was due to new business and to fluctuations in the drawdown of liquidity lines.

**DZ BANK also sponsors a program for the purchase of commercial customer receivables**, the aim of which is to generate fee and commission income. The purchased receivables predominantly consist of invoice receivables and receivables arising from agreements for payment by installment. The provisions in the master agreements for this purchase program are designed such that division of the credit risk into two or more tranches is agreed between the seller of the assets and DZ BANK at the time that the assets are purchased. As at December 31, 2020, DZ BANK's securitization exposure arising from the purchase of receivables amounted to €279 million (December 31, 2019: €320 million). The year-on-year decline in the exposure arose because the settlement of receivables in existing transactions exceeded the new business.

## 6.7 Exposures particularly affected by the COVID-19 pandemic

The following sections describe material lending exposures in which the effects of the COVID-19 pandemic were more noticeable than in the rest of the credit portfolio. However, no significant heightened risk was as yet evident in connection with these exposures as at the reporting date. They are described solely for reasons of transparency. The figures specified below are included in the disclosures for the lending volume as a whole (see section 0 of this risk report).

### 6.7.1 Sectors

The **automotive sector** is in a state of upheaval and faced with a number of issues, notably low margins and huge capital requirements. The COVID-19 pandemic is accelerating the transformation process. Overall, DZ BANK's automotive finance portfolio is still deemed to be stable despite rating downgrades for a few counterparties and a comparatively high NPL ratio. At the end of 2020, the credit quality of this subportfolio remained sound even though some ratings had been downgraded because of the COVID-19 pandemic. This was also attributable to the stabilization resulting from government support and buyers' incentives for individual segments of the automotive industry. The volume of lending in DZ BANK's automotive finance portfolio came to €4.5 billion as at December 31, 2020 (December 31, 2019: €4.4 billion). Automotive finance is assigned to the corporate segment. DZ BANK's corporate portfolio as at December 31, 2020 amounted to €71.2 billion (December 31, 2019: €66.4 billion).

DZ HYP's lending business with corporates includes financing for **hotels and department stores**. In view of the potential evolution of the pandemic and the safeguards that have been initiated, DZ HYP came to the conclusion at the end of 2020 that there was heightened uncertainty in relation to the operating activities of these businesses. Nevertheless, it did not identify any notable negative impact on individual exposures as at the reporting date. As at December 31, 2020, the volume of corporate loans extended by DZ HYP amounted to €46.4 billion (December 31, 2019: €44.6 billion). Of this total, €2.8 billion (December 31, 2019: €3.0 billion) related to hotel financing and €0.6 billion (December 31, 2019: €0.6 billion) to department store financing.

The **tourist cruise ship business** was also significantly impacted by the COVID-19 pandemic. The effects on DZ BANK's cruise ship financing operations are described in section 6.8.3.

### 6.7.2 Liquidity support, payment deferrals, and other credit contract modifications

By December 31, 2020, the entities in the Bank sector had granted existing customers **liquidity support** amounting to approximately €9 billion as part of the government support measures introduced to mitigate the

consequences of the COVID-19 pandemic for borrowers. This mainly concerned DZ BANK, although VR Smart Finanz was also involved to a lesser extent. At DZ BANK, these activities also included the provision of liquidity support under government financing programs; it worked together with the local cooperative banks to pass on this support to the customers of these banks.

In the Bank sector, relief measures in the form of **payment deferrals and other credit contract modifications** were also granted to borrowers to help them cope with the consequences of the pandemic. These measures included statutory requirements, banking federation measures, and voluntary assistance provided by the entities in the Bank sector. The lending volume involved amounted to €4.2 billion as at December 31, 2020. The relief measures were introduced mainly by DZ BANK, BSH, DVB, DZ HYP, and TeamBank.

### 6.8 Credit portfolios with increased risk content

The credit portfolios with increased risk content are analyzed separately because of their significance for the risk position. The figures presented below are included in the disclosures for the lending volume as a whole (see section 0 of this risk report).

The classification of credit portfolios as subject to heightened risk is based on the credit risk factors of material importance to individual credit portfolios described in section 6.3.2 'Credit risk factors of material importance to individual credit portfolios', as follows:

- The risk factor 'economic divergence in the eurozone' is relevant to the loans and advances to borrowers in the eurozone periphery countries.
- The risk factor 'challenging shipping and offshore markets' is relevant to the shipping and offshore financing activities.
- The risk factor 'COVID-19 pandemic' is significant for the cruise ship financing business.

#### 6.8.1 Loans and advances to borrowers in eurozone periphery countries

As at December 31, 2020, loans and advances to borrowers in the countries directly affected by the **economic divergence in the eurozone** attributable to the **Bank sector** and to **DZ BANK** amounted to €7,276 million (December 31, 2019: €7,505 million) and €1,956 million (December 31, 2019: €2,175 million) respectively. This mainly consisted of securities business.

Fig. 26 shows the borrower structures for the lending volume in the eurozone periphery countries.

FIG. 26 – BANK SECTOR: LOANS AND ADVANCES TO BORROWERS IN EUROZONE PERIPHERY COUNTRIES<sup>1</sup>

€ million	Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
<b>Portugal</b>	<b>1,150</b>	<b>1,146</b>	<b>144</b>	<b>153</b>
of which: public sector	1,057	1,030	67	67
of which: non-public sector	93	116	77	87
of which: financial sector	-	-	-	-
<b>Italy</b>	<b>3,181</b>	<b>3,256</b>	<b>888</b>	<b>965</b>
of which: public sector	2,929	2,856	649	609
of which: non-public sector	252	400	239	356
of which: financial sector	100	172	100	172
<b>Spain</b>	<b>2,945</b>	<b>3,104</b>	<b>923</b>	<b>1,057</b>
of which: public sector	2,022	2,012	323	300
of which: non-public sector	922	1,091	601	757
of which: financial sector	321	393	140	224
<b>Total</b>	<b>7,276</b>	<b>7,505</b>	<b>1,956</b>	<b>2,175</b>
of which: public sector	6,008	5,898	1,039	975
of which: non-public sector	1,268	1,607	917	1,200
of which: financial sector	421	566	240	397

<sup>1</sup> Unlike the other presentations of lending volume, traditional lending business in this case includes long-term equity investments.

## 6.8.2 Shipping finance

### Significance for the Bank sector

Within the DZ BANK Group's **Bank sector**, the business involving the financing of ships is mainly operated by DVB and, to a lesser degree, by DZ BANK. Shipping finance in the narrow sense refers to capital investment in mobile assets involving projects that are separately defined, both legally and in substance, in which the borrower is typically a special-purpose entity whose sole business purpose is the construction and operation of ships. In such arrangements, the debt is serviced from the cash flows generated by the ship. The assessment of the credit risk is therefore based not only on the recoverability of the asset, but also in particular on the capability of the ship to generate earnings. To reduce risk, the finance must be secured by a first mortgage on the vessel and the assignment of insurance claims and proceeds. A distinction is made between shipping finance in the narrow sense and finance provided for cruise liners (see section 6.8.3).

The non-core asset strategy initiated by **DVB** at the start of 2018 to wind down the shipping finance business, which was no longer a strategic priority, in a way that preserved value was replaced by a **run-off strategy** in January 2020. The aim of the run-off strategy is to scale back the entire shipping finance portfolio in an orderly way as the individual exposures mature. Key components of this strategy are the discontinuation of new business and a run-off plan designed to preserve value. Separately from the above, DVB will participate in necessary restructuring measures to improve the collection of outstanding loans and receivables.

As at December 31, 2020, the main segments of the shipping finance business at DVB included tankers, bulk carriers, and container ships, which accounted for 49 percent (December 31, 2019: 51 percent), 31 percent (December 31, 2019: 31 percent), and 10 percent (December 31, 2019: 10 percent) of the shipping finance portfolio respectively.

**DZ BANK** finances ships as part of its joint credit business with the local cooperative banks.

### Industry situation

The long-standing challenging conditions in shipping markets were exacerbated in 2020 by the COVID-19 pandemic. For a short time, collateral values in all the main segments fell sharply as a consequence of the pandemic. However, there were signs of recovery in individual shipping segments toward the end of the year. For example, a reduction in the oversupply of tonnage, which had still been at a high level at the start of the

COVID-19 pandemic, was evident, especially in the container and bulk carrier segments, and this relieved some of the pressure in freight markets. Tanker tonnage – previously frequently used as floating storage – is increasingly being switched to the transport of crude oil again. A recovery in demand for oil to the level prior to the onset of the pandemic is anticipated in the medium term. However, both asset values and customer credit quality remain under pressure to varying degrees, depending on the market segment. Despite some positive trends, the overall situation in shipping markets remains challenging.

#### Lending volume

As at December 31, 2020, the **Bank sector's** shipping finance portfolio had a total value of €3,698 million (December 31, 2019: €6,334 million). The breakdown of the lending volume between the two management units as at December 31, 2020 was as follows (corresponding figures as at December 31, 2019 in parentheses):

- **DVB:** €3,123 million (€5,648 million)
- **DZ BANK:** €575 million (€686 million).

The run-off strategy at **DVB** that has been in place since the start of 2020 has resulted in changes to the way in which DVB's portfolio is defined. Consequently, the shipping finance lending volume shown for DVB as at December 31, 2020 is not directly comparable with the figures as at December 31, 2019 disclosed in the 2019 opportunity and risk report. The figures as at December 31, 2019 given in this risk report have been restated accordingly. To improve comparability with the prior-year figures, the information below includes both the total shipping portfolio for DVB and the portfolio subject to close monitoring on the basis of watch and default lists. The non-core-asset portfolio, to which the disclosures in the 2019 opportunity and risk report related, had largely consisted of these closely monitored counterparties.

DVB's lending volume related to shipping finance amounted to €3,123 million as at December 31, 2020 (December 31, 2019: €5,648 million). Of this amount, €507 million was attributable to closely monitored exposures (December 31, 2019: €372 million). The sharp rise in the volume of closely monitored exposures was primarily due to the deterioration in customers' financial circumstances and a decrease in collateral values owing to the effects of the COVID-19 pandemic.

As at December 31, 2020, the closely monitored portion of DVB's shipping finance portfolio included 66 financed vessels (December 31, 2019: 38 vessels). The average exposure as at the reporting date was €23 million (December 31, 2019: €18 million) and the largest single exposure was €71 million (December 31, 2019: €66 million).

The lending volume in **DZ BANK's** entire shipping finance portfolio as at December 31, 2020 amounted to €575 million (December 31, 2019: €686 million).

Of this amount, €253 million was attributable to exposures closely monitored on the basis of watch and default lists (December 31, 2019: €415 million). These figures are not directly comparable with the figures as at December 31, 2019 disclosed in the 2019 opportunity and risk report, because the prior-year data was limited to rating classes 5A–5E on the VR credit rating master scale.

The contraction in lending volume was mainly attributable to the workout of individual exposures on the default list. As in 2019, DZ BANK's shipping finance portfolio in 2020 was mainly concentrated in Germany but broadly diversified by type of vessel, borrower, charterer, and shipping activity.

#### 6.8.3 Cruise ship finance

The COVID-19 pandemic paralyzed the tourist cruise ship business in 2020. Because of the adverse trend in the industry, borrower credit ratings were downgraded. The exposures are now subject to a further level of intensive monitoring as part of the early identification process for risk.

Cruise ship finance, which is brought together under **DZ BANK**, is predominantly covered by export credit insurance. The remaining risk arises mainly from working capital facilities and the underwriting provided for one acquisition finance transaction.

As at December 31, 2020, the volume of cruise ship finance amounted to €1,099 million (December 31, 2019: €722 million). The rise in the lending volume was attributable to an acquisition finance transaction and a KfW COVID-19 support loan. A further reason was that there were transactions posted in 2020 that had already been approved or were in the process of being approved in 2019.

A distinction is made between cruise ship finance and the financing of shipyards that construct cruise ships. This subsegment, which likewise only affects DZ BANK in the Bank sector, was not classified as a portfolio with increased risk content as at the reporting date, mainly because credit ratings remained good and capacity utilization was generally secured (with the option to make order books last longer). The lending volume related to shipyard finance stood at €410 million as at December 31, 2020 (December 31, 2019: €371 million).

#### 6.8.4 Offshore finance

Within the Bank sector, only **DVB** has offshore finance business in its maritime credit portfolio. This business consists of various financing arrangements with broad links to the shipping sector. The portfolio includes finance for drilling platforms, drill ships, offshore construction ships, and supply ships for oil platforms. No further new business has been taken on since 2017.

The low price of oil is adversely affecting global offshore oil production, leading to lower demand for supply ships and other floating offshore equipment. The dramatic fall in the oil price caused the already difficult situation in the offshore sector to deteriorate still further in the reporting year. Market volatility means that market values continue to be subject to significant fluctuation.

As at December 31, 2020, the lending volume related to offshore finance in the Bank sector was measured at €594 million (December 31, 2019: €921 million). The reason for the year-on-year decline was the further reduction in the size of the portfolio as part of DVB's run-off strategy.

#### 6.9 Volume of non-performing loans

As at December 31, 2020, the volume of non-performing loans in the **Bank sector** had fallen to €4.4 billion from €4.5 billion as at December 31, 2019. As a result of this decrease, the NPL ratio went down from 1.1 percent to 1.0 percent.

The volume of non-performing loans at **DZ BANK** came to €2.1 billion as at December 31, 2020. This was the same as the figure at the end of 2019. Combined with a rise in the total lending volume from €216.5 billion to €238.8 billion, this resulted in a lower NPL ratio of 0.9 percent (December 31, 2019: 1.0 percent).

Fig. 27 shows key figures relating to the volume of non-performing loans.

FIG. 27 – BANK SECTOR: KEY FIGURES FOR THE VOLUME OF NON-PERFORMING LOANS

	Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Total lending volume (€ billion)	422.6	398.3	238.8	216.5
Volume of non-performing loans (€ billion) <sup>1</sup>	4.4	4.5	2.1	2.1
Balance of loss allowances (€ billion) <sup>2</sup>	2.0	2.7	1.0	1.2
Coverage ratio (%) <sup>3</sup>	81	59	76	60
NPL ratio (%) <sup>4</sup>	1.0	1.1	0.9	1.0

1 Volume of non-performing loans excluding collateral.

2 IFRS specific loan loss allowances at stage 3, including provisions.

3 Loss allowances as specified in the footnote 2, plus collateral, as a proportion of the volume of non-performing loans.

4 Volume of non-performing loans as a proportion of total lending volume.



An adjustment has been made to the calculation of the coverage ratio to match the internal risk reporting. Only the loss allowances directly assignable to the NPLs (IFRS specific loan loss allowances at stage 3, including provisions) are now taken into account, instead of the total loss allowances. Collateral is also taken into account. As a result of these changes, the coverage ratios as at December 31, 2020 are not fully comparable with the corresponding figures as at December 31, 2019. The coverage ratios as at December 31, 2019 calculated using the new method would have been 82 percent for the Bank sector and 75 percent for DZ BANK.

## 6.10 Risk position

### 6.10.1 Risks in the entire credit portfolio

The risk capital requirement (including capital buffer requirement) for credit risk is based on a number of factors, including the size of single-borrower exposures, individual ratings, and the industry sector of each exposure.

As at December 31, 2020, the credit value-at-risk including capital buffer requirement in the **Bank sector** was €5,496 million (December 31, 2019: €5,484 million) with a limit of €6,978 million (December 31, 2019: €7,189 million).

As at December 31, 2020, the credit value-at-risk including capital buffer requirement at **DZ BANK** was €2,227 million (December 31, 2019: €2,297 million) with a limit of €2,730 million (December 31, 2019: €2,674 million).

Fig. 28 shows the credit value-at-risk together with the average probability of default and expected loss. Because of the breakdown by credit-risk-bearing instrument, the risk capital requirement is presented without the capital buffer requirement.

FIG. 28 – BANK SECTOR: FACTORS DETERMINING THE CREDIT VALUE-AT-RISK

	Average probability of default (%)				Expected loss (€ million)				Credit value-at-risk <sup>1</sup> (€ million)			
	Bank sector		DZ BANK		Bank sector		DZ BANK		Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Traditional lending business	0.5	0.5	0.2	0.2	430	418	142	138	2,547	2,493	1,118	1,168
Securities business	0.2	0.1	0.2	0.2	48	48	30	28	1,757	1,733	331	299
Derivatives and money market business	0.2	0.1	0.2	0.2	14	11	13	10	262	226	192	148
<b>Total</b>					<b>492</b>	<b>477</b>	<b>185</b>	<b>176</b>	<b>4,565</b>	<b>4,452</b>	<b>1,641</b>	<b>1,614</b>
<b>Average</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>								

Not relevant

<sup>1</sup> Excluding capital buffer requirement.

### 6.10.2 Risks in the credit portfolios with increased risk content

The risk capital required in the **Bank sector** and at **DZ BANK** for credit portfolios exposed to increased credit risk is shown in Fig. 29, again without the capital buffer requirement.

FIG. 29 – BANK SECTOR: CREDIT VALUE-AT-RISK<sup>1</sup> FOR CREDIT PORTFOLIOS WITH INCREASED RISK CONTENT

€ million	Bank sector		DZ BANK	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Eurozone periphery countries	1,255	1,288	22	21
Shipping finance <sup>2</sup>	248	132	26	50
Cruise ship finance	15	-	15	-
Offshore finance	25	73		

Not relevant

<sup>1</sup> Excluding capital buffer requirement.

<sup>2</sup> The reported figures relate to the entire shipping finance portfolio. In the 2019 opportunity and risk report, the disclosures were limited to the closely monitored shipping finance. For better comparability between the prior-year figures and the figures as at December 31, 2020, the figures as at December 31, 2019 have been restated to reflect the new broader definition of the portfolio. The figures disclosed for December 31, 2019 are therefore not directly comparable with the corresponding figures in the 2019 opportunity and risk report.

The decline in the credit value-at-risk for the Bank sector entities' exposure in the **peripheral countries of the eurozone** was in line with the change in the loans and advances to borrowers in these countries.

As at December 31, 2020, the Bank sector's credit value-at-risk for **shipping finance** amounted to €248 million (December 31, 2019: €132 million) and was mainly attributable to DVB. The rise was due to a decrease in collateral values, which in turn was attributable to adjustments to the useful life of ships to reflect the impact of the COVID-19 pandemic. The contraction in risk capital requirement at DZ BANK was mainly attributable to the workout of individual exposures on the default list.

As at December 31, 2020, the credit value-at-risk for the **cruise ship finance portfolio** in the Bank sector amounted to €15 million (December 31, 2019: under €1 million) and was attributable in full to DZ BANK.

The year-on-year decline in the credit value-at-risk for **offshore finance** was caused by the scaling back of this business operated by DVB in line with the strategy.

## 7 Equity investment risk

### 7.1 Definition and business background

Equity investment risk is defined as the risk of losses arising from negative changes in the fair value of that portion of the long-term equity investments portfolio for which the risks are not included in other types of risk. Equity investment risk also encompasses the risk of losses arising from negative changes in the fair value of the portfolio of real estate held by the entities in the Bank sector. The losses in value could be caused by a deterioration in the general real estate situation or specific factors relating to individual properties (such as a vacancy period, tenant default, loss of use).

In the Bank sector, equity investment risk arises primarily at DZ BANK, BSH, and DVB.

The entities in the Bank sector hold long-term equity investments largely for strategic reasons, especially to cover markets, market segments, or parts of the value chain in which they themselves or the cooperative banks are not active. These investments therefore support the sales activities of the cooperative banks or help reduce costs by bundling functions. The investment strategy is continuously aligned with the needs of cooperative financial network policy.

### 7.2 Risk strategy, responsibility, and reporting

**Risk strategy requirements** must be observed in the management of long-term equity investments. Such management is subject to the principle that equity investment risk (measured as risk capital requirement) may be taken on only if the risk remains below the existing limits.

Decisions on whether to acquire or dispose of **long-term equity investments** are made by the Board of Managing Directors of the entities in the Bank sector in consultation with the relevant committees.

At DZ BANK, the Group Finance division is responsible for **supporting these investments**, whereas at BSH the task falls within the scope of the Central Services/Policy/International division and the Financial Controlling division. At DVB, the investments are the responsibility of the Accounting and Legal Affairs departments.

Equity investment risk is **measured** and **monitored** at Bank sector level by DZ BANK. The Board of Managing Directors is kept up to date through the overall risk reports.

### 7.3 Risk factors

Key factors when determining equity investment risk are the equity investment's industry sector, the location of its registered office, and the nominal amount of the investment. The possibility cannot be ruled out that a future impairment test on the long-term equity investments held by the entities in the Bank sector could lead to a significant reduction in the carrying amounts of these investments reported on the balance sheet. In the case of non-controlling interests, there is also a risk that key information may not be available or cannot be obtained promptly by virtue of the fact that the investment is a minority stake and this could result in a need to recognize impairment losses.

### 7.4 Risk management

The carrying amounts of the long-term equity investments are regularly tested for possible impairment in the last quarter of the financial year. If there are any indications during the course of the year of possible impairment, more frequent impairment tests are also carried out. In the impairment tests, the carrying amounts of the long-term equity investments are compared against the amount that could be realized on the market on the same date.

The risk capital requirement for the vast majority of the long-term equity investments in the **Bank sector** is determined using a Monte Carlo simulation. In this method, portfolio concentrations in sectors and individual counterparties are taken into account by simulating industry-wide and individual investment-related risk factors.

The risk capital requirement is influenced, in particular, by the market values of the long-term equity investments, the volatility of the market values, and the correlations between the market values, with market price fluctuations mainly derived from reference prices listed on an exchange.

At **DVB**, the risk capital requirement for long-term equity investments in the transport sector is determined using an earnings-at-risk approach.

The measurement of equity investment risk takes into account both the equity-accounted investments and the fully consolidated investees. As part of acquisition accounting and during the course of preparing the consolidated financial statements, the investment carrying amounts for consolidated subsidiaries are offset against the relevant share of net assets. Consequently, the investment carrying amounts disclosed in the notes to the consolidated financial statements are considerably lower than the carrying amounts used for determining risk.

### 7.5 Risk position

The **carrying amounts of long-term equity investments** in the **Bank sector** relevant for the measurement of equity investment risk amounted to €2,893 million as at December 31, 2020 (December 31, 2019: €2,392 million). As at December 31, 2020, the carrying amounts of the long-term equity investments of **DZ BANK** came to €1,930 million (December 31, 2019: €1,509 million).

The **risk capital requirement (including capital buffer requirement)** for equity investment risk in the **Bank sector** was measured at €936 million as at the reporting date (December 31, 2019: €850 million). The limit was €1,090 million (December 31, 2019: €1,063 million).

As at December 31, 2020, the **risk capital requirement including capital buffer requirement** for equity investment risk at **DZ BANK** amounted to €634 million (December 31, 2019: €503 million). The limit as at December 31, 2020 was €725 million (December 31, 2019: €640 million).

The rise in the carrying amounts of the long-term equity investments, the equity investment risk, and the limit was largely attributable to the transfer of directly held real estate from market risk to equity investment risk.

## 8 Market risk

### 8.1 Definition

Market risk in the Bank sector comprises market risk in the narrow sense of the term, and market liquidity risk.

**Market risk in the narrow sense of the term** – referred to below as market risk – is the risk of losses arising from adverse movements in market prices or in the parameters that influence prices. Market risk in the Bank sector is broken down into general market risk, spread and migration risk, and asset-management risk. General market risk comprises the following components: interest-rate risk, equity risk, fund price risk, currency risk, and commodity risk.

**Market liquidity risk** is the risk of losses that could arise from adverse changes in market liquidity – for example, because of market disruption or a reduction in market depth – such that assets can only be liquidated in markets if they are discounted and that it is only possible to carry out active risk management on a limited basis.

### 8.2 Business background and risk strategy

#### 8.2.1 Business background

The DZ BANK Group is exposed to considerable market risk in the Bank sector. Market risk arises mainly in connection with BSH, DZ HYP, and UMH in addition to DZ BANK. The assumption of market risk by these entities in the Bank sector is primarily attributable to the DZ BANK Group's strategic focus on the cooperative financial network. This strategy means that each entity in the DZ BANK Group specializes in certain types of product with a corresponding impact on the respective entity's risk profile.

Market risk thus arises mainly from DZ BANK's own trading activities and its traditional lending business with non-retail customers, BSH's traditional lending business and building society operations aimed at financing privately owned real estate, DZ HYP's traditional lending business involving finance for real estate and local authorities, together with its portfolios of securities held to manage liquidity and cover assets, and UMH's own-account investing activities and its guarantee obligations to customers contained in Riester fund-linked savings plans and guarantee funds.

Liabilities and – where present in a group entity – assets related to direct pension commitments are a further source of market risk. Market liquidity risk arises primarily in connection with securities already held in the portfolio as well as funding and money market business.

#### 8.2.2 Risk strategy

The following principles for managing market risk apply to the entities in the **Bank sector**:

- Market risk is only taken on to the extent that it is necessary to facilitate attainment of business policy objectives.
- The assumption of market risk is only permitted within the existing limits.
- Statutory restrictions, provisions in the Articles of Association, or other limitations enshrined in the risk strategy that prohibit the assumption of certain types of market risk for individual management units are observed.

The entities in the Bank sector pursue the following strategies in relation to the individual **types of market risk**:

- Spread and migration risk is assumed.
- Interest-rate risk associated with the original business purpose of the management units is largely eliminated.
- In contrast, interest-rate risk from pension obligations is accepted and included in the calculation of risk-bearing capacity.
- Virtually all currency risk is eliminated.
- Commodity risk is assumed only to a very small degree.

**Market liquidity risk** is consciously assumed following an analysis that takes into account the prevailing liquidity.

### 8.3 Risk factors

#### 8.3.1 General market risk factors

Interest-rate risk, spread and migration risk, equity risk, fund price risk, and currency risk are caused by changes in the **yield curve, credit spreads, exchange rates, and share prices**. Credit spreads are the key risk factor for all the market risk in the Bank sector.

Spread risk, including migration risk, is the most significant type of market risk for the entities in the Bank sector. A proportion of the spread and migration risk is attributable to securities issued by southern eurozone periphery countries and held by the entities in the Bank sector. **Wider credit spreads** are an indication that markets believe credit quality has deteriorated. If credit spreads were to widen, this would therefore lead to a fall in the fair value of the government and corporate bonds affected. Fair value losses of this nature could have a temporary or permanent adverse impact on capital.

#### 8.3.2 Specific market risk factors

Because of the long period of **low interest rates**, the challenge faced by the asset management activities brought together under UMH is to ensure that the guarantee commitments given to customers in respect of individual products can actually be met from the investment instruments in those products. This particularly affects the pension products and the guarantee fund product group. The pension products mainly consist of UniProfiRente, a retirement pension solution certified and subsidized by the German government. The amounts paid in during the contributory phase and the contributions received from the government are guaranteed to be available to the investor at the pension start date. The pension is then paid out under a payment plan with a subsequent life annuity. Guarantee funds are products for which UMH guarantees that a minimum percentage of capital is preserved, depending on the precise product specification. If UMH is unable to draw some of the management fees, or has to inject fresh capital, so that it can meet its guarantee commitments, this could have a substantial detrimental impact on the financial performance of the DZ BANK Group. Information on the economic background to this risk factor can be found in chapter V.1.5 in the outlook.

The widening of credit spreads can be triggered by macroeconomic risk factors. These factors are currently the **risks to the global economy** from the COVID-19 pandemic (see chapters V.1.1 to V.1.4 in the outlook) and international trade disputes (see chapter V.1.2 in the outlook).

Another source of heightened risk is the **economic divergence in the eurozone**. The investments in Italian and Spanish bonds held by DZ BANK and DZ HYP, and in Portuguese bonds held by DZ HYP, mean that continued economic divergence in the eurozone, combined with the ECB's expansionary monetary policy, could lead to greater market risk in the Bank sector. The economic scenarios relevant to this risk factor are described in section 2.3.3 of this risk report.

### 8.4 Organization, responsibility, and reporting

Market risk in the **Bank sector** is managed on a decentralized basis by the individual management units within the centrally specified limits for the capital requirement for market risk. Each unit bears responsibility for the risk

and performance associated with each portfolio. Responsibility for managing risk within a management unit is normally brought together under a local treasury unit.

One exception is **DZ BANK**, where portfolios are managed at the level of subordinate organizational units (group, department, division). In this case, the relevant traders bear direct responsibility for risk and performance. The organizational units are structured in such a way that the responsibility for the marketing of certain types of product is assigned in each case to a trading division with product responsibility.

Key figures for market risk are reported at sector level and for DZ BANK to the **Group Risk and Finance Committee** in the quarterly overall risk report.

## 8.5 Management of market risk

### 8.5.1 Central market risk measurement

#### Central market risk measurement in the overall portfolio

Various components are used to quantify market risk in the Bank sector from a present value perspective. These components are combined to determine the aggregate risk capital requirement for market risk, taking into account the effects of concentration and diversification. The risks arising in connection with the assets and liabilities associated with direct pension commitments are also factored in. The models are operated centrally by DZ BANK and are fed with input data provided by the management units on each trading day. Sector-wide standards and rules are in place to ensure that the modeling is appropriate.

The first component of the measurement approach creates a spread and migration risk model based on a **Monte Carlo simulation**. It determines the combined spread and migration risk over a longer-term (strategic) horizon of one year with a confidence level of 99.9 percent. Whereas spread risk quantifies credit-risk-related losses from financial instruments in a short-term view of value-at-risk, this becomes the combined spread and migration risk in the risk capital requirement over a longer-term perspective. For this reason, migration risk is not shown in the table of values-at-risk in Fig. 30.

The second component is a value-at-risk model based on a **historical simulation** in which the general market risk is determined from a short-term (operational) perspective over 1 day and with a confidence level of 99.0 percent. The model calculated day by day is based on a historical observation period of 250 trading days and includes a number of risk factors. The most important risk factor groups include money market and swap interest rates, basis and credit spreads, share prices, exchange rates, and commodity prices. The model also includes implied volatility in the risk measurement. Drawing on the results of the value-at-risk measurement, a transformation model scales up the operational key risk indicators (also taking account of stress events) to a strategic perspective in which a one-year holding period and a confidence level of 99.9 percent are assumed.

In the last step, the results from the spread and migration risk model and from the transformation model are then combined to give the **aggregate risk capital requirement** for market risk.

#### Central market risk measurement for interest-rate risk in the banking book

For internal sector-wide management purposes, the banking book and trading book are treated in the same way in terms of the models used, key risk indicators, frequency of risk measurement, and main risk measurement parameters. To supplement this risk management approach in which the banking and trading books are analyzed holistically, interest-rate risk in the banking books of the entities in the Bank sector and at DZ BANK from a regulatory perspective is managed separately using a present-value approach.

On behalf of the other management units in the Bank sector, DZ BANK also operates a partially centralized model for quantifying periodic interest-rate risk. Overall, these methods are used to record the impact from changes in interest rates, both from an economic perspective (based on present value) and from the angle of net interest income.

#### Concentrations of market risk

Concentrations in the portfolio affected by market risk are identified by classifying the exposure in accordance with the risk factors associated with interest rates, spreads, migration, equities, currencies, and commodities. This incorporates the effects of correlation between these different risk factors, particularly in stress phases.

### 8.5.2 Decentralized market risk measurement

#### Decentralized measurement of general market risk and spread risk

In addition to the models specified in section 8.5.1 of this risk report, the main **management units** operate their own risk models to satisfy ICAAP requirements from the perspective of the individual institution. With the exception of asset-management risk at UMH, the results from these models are not used to manage market risk in the Bank sector and therefore do not form part of this risk report.

#### Decentralized measurement of asset-management risk

The risk capital requirement for asset-management risk is determined locally by **UMH** and then added to the risk capital requirement for general market risk and spread risk calculated centrally for the Bank sector. Following the approach used for the central measurement of market risk, the risk capital requirement for asset-management risk is calculated using a one-year holding period and a confidence level of 99.9 percent. The risk calculation makes a distinction between static guarantee fund, dynamic guarantee fund, and Riester pension products. In the case of the Riester pension product, which is the most significant product in terms of risk capital requirement, the measurement of the risk is based on a Monte Carlo simulation, taking into account the specific investment selections made in the customer investment account.

### 8.5.3 Backtesting and stress tests

The central value-at-risk model is subject to **backtesting**, the purpose of which is to verify the predictive quality of the model. Changes in the value of portfolios on each trading day are usually compared against the value-at-risk calculated using risk modeling.

Risks arising from extreme market situations are primarily recorded using **stress tests**. The crisis scenarios underlying the stress tests include the simulation of significant fluctuations in risk factors and serve to highlight potential losses not generally recognized in the value-at-risk approach. Stress tests are based on extreme market fluctuations that have actually occurred in the past together with crisis scenarios that – regardless of market data history – are considered to be economically relevant. The crisis scenarios used in this case are regularly reviewed to ensure they are appropriate. The following are deemed to be risk factors: interest-rate risk, spread risk, migration risk, equity risk, and currency risk.

### 8.5.4 Management of limits for market risk

The starting point for limiting market risk is a limit for the capital requirement for market risk in the **Bank sector** specified as part of operational planning. This limit is broken down into an individual limit for the market risk capital requirement in each management unit.

Within **DZ BANK**, this limit is then further subdivided into a system of limits for the divisions, departments, and groups to appropriately reflect the decentralized portfolio responsibility assigned to these units and the nature of the bank from a regulatory perspective as a trading book institution. Limits are monitored on every trading day.

### 8.5.5 Mitigating market risk

The entities in the Bank sector use various approaches to mitigate market risk. For example, some market risk from the assets-side business (such as traditional lending business) or from the liabilities-side business (such as home savings deposits) is offset by suitable countervailing liability or asset transactions (such as own issues or securities). These activities are carried out as part of asset/liability management. In other cases, financial derivatives are used for hedging purposes.

As the measurement of market risk is based on the inclusion of the individual items subject to market risk, there is no need to monitor the economic effectiveness of hedges.

### 8.5.6 Managing the different types of market risk

#### Management of spread risk and migration risk

Most of the spread and migration risk in the **Bank sector** arises from non-trading portfolios and is consciously assumed within the established limits in accordance with the associated long-term investment strategy. Hedging instruments are also used in carefully selected trading book portfolios. The central measurement of this risk means that the level of the risk on every trading day is transparent. If there is any indication that the ability to bear the spread and migration risk is in jeopardy, Group Treasury at DZ BANK will initiate corrective measures across the sector.

#### Management of interest-rate risk

**Interest-rate risk arising from operating activities** at **DZ BANK** and **DZ HYP** is mitigated primarily by means of hedging using interest-rate derivatives, on the basis of either individual transactions or portfolios. At **BSH**, an asset/liability management approach based on the maturities of the securities in the investment portfolio is used to manage interest-rate risk arising from the collective building society operations and the traditional lending business, including the interest-rate risk associated with direct pension commitments. Interest-rate derivatives are of minor significance.

**DZ BANK** is notably exposed to significant **interest-rate risk from direct pension commitments** in addition to the interest-rate risk arising from operating activities. This risk is consciously assumed within the existing limits.

#### Management of equity risk and fund price risk

Equity risk and fund price risk from the non-trading portfolios are managed first and foremost by directly changing the underlying exposure. Derivative products are also used within the trading portfolio to keep the type of risk involved within the allocated limits. Some funds are broken down into their constituent parts for the purposes of measuring the risk. In such cases, the risk is not treated as part of fund price risk, but is managed within the type of market risk determined for the constituent part concerned.

#### Management of asset-management risk

Asset-management risk arises from minimum payment commitments given by **UMH** and/or its subsidiaries for guarantee products. The risks from these guarantee products are managed mainly by using asset allocation. Asset-management risk is reported using a separate internal system and is monitored regularly by UMH.

### 8.6 Management of market liquidity risk

The calculation of general market risk in the Bank sector using the transformation model and the spread and migration risk model takes market liquidity risk into account.

Within the transformation model, stress events are expressly integrated into the analysis when market risk is transferred from an operating perspective to a strategic perspective. The change in risk factors in these events is based on the assumption that it is not possible to make changes to the exposures in the portfolio of the Bank sector over a specified period.

The spread and migration risk model implicitly factors in phases of diminishing market liquidity via the calibration of the credit spread volatility included in the model. The estimation of volatility based on market data from the recent past also uses a lower limit determined from longer-term data. This prevents any low level of credit spread volatility in a calm market environment with normal liquidity from being transferred directly into the model parameters.



## 8.7 Risk position

### 8.7.1 Value-at-risk

Fig. 30 shows the average, maximum, and minimum values-at-risk measured for the **Bank sector** and **DZ BANK** over the reporting year, including a further breakdown by type of market risk. In addition, Fig. 31 shows the change in market risk for the **Bank sector** by trading day in the reporting year.

FIG. 30 – BANK SECTOR: CHANGE IN MARKET RISK BY TYPE OF RISK<sup>1, 2, 3</sup>

€ million	Interest-rate risk		Spread risk		Equity risk <sup>4</sup>		Currency risk		Commodity risk		Diversification effect <sup>5</sup>		Total	
	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK
Dec. 31, 2020	17	12	283	93	29	4	3	2	3	2	-52	-21	282	92
Average	18	14	237	81	20	2	4	3	2	1	-43	-23	237	78
Maximum	30	22	288	105	31	5	6	6	3	3	-68	-41	289	99
Minimum	10	8	88	21	6	1	2	1	-	-	-18	-5	87	26
Dec. 31, 2019	11	9	88	21	6	2	4	4	-	-	-21	15	88	27

<sup>1</sup> The disclosures relate to general market risk and spread risk. A value-at-risk is not determined for asset-management risk.

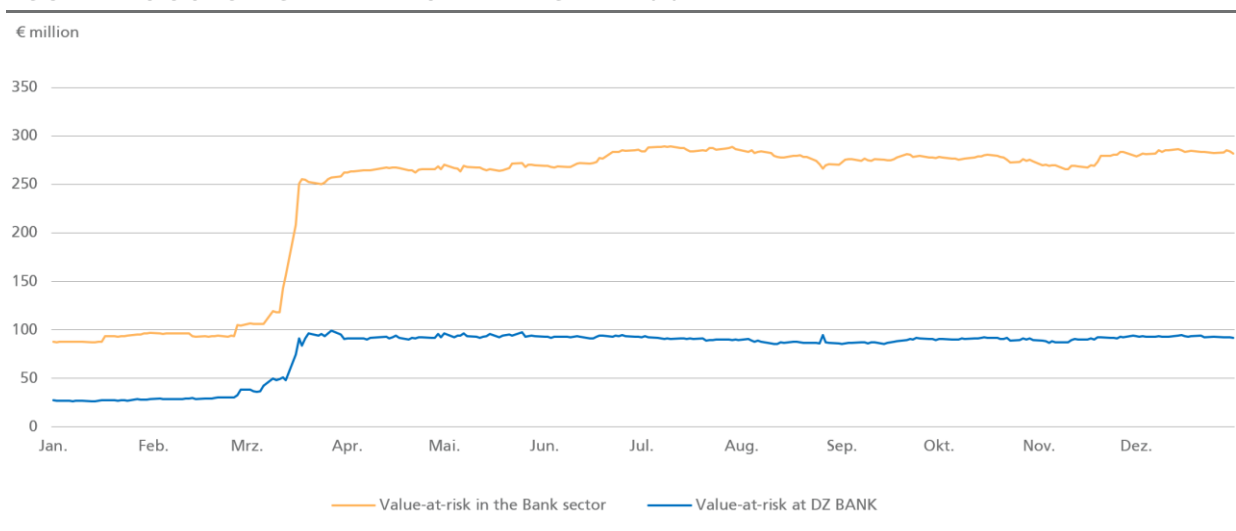
<sup>2</sup> Value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period, based on a central market risk model for the Bank sector. Concentrations and effects of diversification were taken fully into account when calculating the risks.

<sup>3</sup> The minimum and maximum amounts for the different subcategories of market risk may stem from different points in time during the reporting period. Consequently, they cannot be aggregated to produce the minimum or maximum aggregate risk due to the diversification effect.

<sup>4</sup> Including funds, if not broken down into constituent parts.

<sup>5</sup> Total effects of diversification between the types of market risk for all consolidated management units.

FIG. 31 – BANK SECTOR: CHANGE IN MARKET RISK BY TRADING DAY IN 2020<sup>1</sup>



<sup>1</sup> Value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period, based on a central market risk model for the Bank sector. Concentrations and effects of diversification were taken fully into account when calculating the risks.

The following value-at-risk figures were measured as at December 31, 2020 for the **interest-rate risk in the banking book for regulatory purposes** (corresponding figures as at December 31, 2019 in parentheses):

- **Bank sector:** €19 million (€11 million)
- **DZ BANK:** €12 million (€8 million).

The increase in market risk evident in all the presented figures primarily resulted from the rise in general market volatility in connection with the COVID-19 pandemic.

### 8.7.2 Risk capital requirement

As at December 31, 2020, the **risk capital requirement (including capital buffer requirement)** for market risk in the **Bank sector** and at **DZ BANK** amounted to €4,310 million (December 31, 2019: €3,860 million) and €1,908 million (December 31, 2019: €1,698 million) respectively, with **limits** of €5,725 million (December 31, 2019: €5,646 million) and €2,600 million (December 31, 2019: €2,220 million) respectively. The increase in both the risk and the limits was mainly due to the rise in general market volatility as a consequence of the COVID-19 pandemic.

The Bank sector's risk capital requirement (including capital buffer requirement) encompasses the **asset-management risk of UMH**. The asset-management risk of the Bank sector as at December 31, 2020 amounted to €319 million (December 31, 2019: €208 million). This increase was primarily due to capital market movements. DZ BANK is not exposed to any asset-management risk.

## 9 Technical risk of a home savings and loan company

### 9.1 Definition

Technical risk of a home savings and loan company is subdivided into two components: new business risk and collective risk. **New business risk** is the risk of a negative impact from possible variances compared with the planned new business volume. **Collective risk** refers to the risk of a negative impact that could arise from variances between the actual and forecast performance of the collective building society operations caused by significant long-term changes in customer behavior unrelated to changes in interest rates.

BSH's business risk and reputational risk are included within the technical risk of a home savings and loan company.

### 9.2 Business background and risk strategy

Technical risk of a home savings and loan company arises in the Bank sector in connection with the business activities of BSH. This risk represents the entity-specific business risk of BSH. A home savings arrangement is a system in which the customer accumulates savings earmarked for a specific purpose. The customer enters into a home savings contract with fixed credit balance and loan interest rates, so that when the savings phase (which may be subsidized under statutory arrangements) is completed at a later point and a loan is allocated under the contract, he/she can receive a home savings loan at a favorable interest rate. A home savings agreement is therefore a combined asset/liability product with a long maturity.

Technical risk of a home savings and loan company is closely linked with the BSH business model and cannot therefore be avoided. Against this backdrop, the **risk strategy** aims to prevent an uncontrolled increase in risk.

### 9.3 Risk factors

A variance between the actual and planned new business volume (**new business risk**) could lead to lower deposits from banks and customers over the short to medium term. Over the medium to long term, the lower level of new business could also lead to a decrease in loans and advances to banks and customers. Variances between the actual and forecast performance of the collective building society business caused by significant long-term changes in customer behavior unrelated to changes in interest rates (**collective risk**) could also lead to lower loans and advances to banks and customers and to lower deposits from banks and customers. Over the medium to long term, there is a risk that a lower level of new business and change in customer behavior could lead to a fall in earnings and therefore to a decline in capital.

### 9.4 Responsibility, reporting, and risk management

BSH is **responsible** for managing the technical risk of a home savings and loan company within the Bank sector. This includes measuring the risk and communicating risk information to the risk management committees at BSH

and to the Board of Managing Directors and Supervisory Board of BSH. Technical risk of a home savings and loan company forms an integral part of the DZ BANK Group's internal **risk reporting system**.

A special collective simulation, which includes the integrated effects of a (negative) change in customer behavior and a drop in new business, is used to **measure the technical risk of a home savings and loan company** on a quarterly basis. The results from the collective simulation for the technical risk of a home savings and loan company are fed into a long-term forecast of earnings. The variance between the actual earnings in the risk scenario and the earnings in a base forecast with the same reference date is used as a risk measure. The variance is discounted to produce a present value. The total present value of the variances represents the technical risk of a home savings and loan company and therefore the risk capital requirement for this type of risk.

**Concentrations** of this risk are most likely to arise from new business risks.

Technical risk of a home savings and loan company is **managed** in particular through a forward-looking policy for products and scales of rates and charges, and through appropriate marketing activities and sales management.

### 9.5 Risk position

As at December 31, 2020, the **capital requirement** for the technical risk of a home savings and loan company amounted to €545 million (December 31, 2019: €397 million) with a **limit** of €550 million (December 31, 2019: €706 million). A capital buffer requirement was not calculated for the technical risk of a home savings and loan company as at the reporting date. The greater level of risk was largely due to model parameter updates.

## 10 Business risk

### 10.1 Definition and business background

Business risk denotes the risk of losses arising from earnings volatility for a given business strategy and not covered by other types of risk. In particular, this comprises the risk that, as a result of changes in material circumstances (for example, the regulatory environment, economic conditions, product environment, customer behavior, market competitors) corrective action cannot be taken at an operational level to prevent the losses.

Business risk mainly affects DZ BANK. DZ BANK's core functions as a **central institution, corporate bank, and holding company** mean that it focuses closely on the local cooperative banks, which are its customers and owners. In this context, business risk can arise from corporate banking, retail banking, capital markets business, and transaction banking.

### 10.2 Risk strategy

The objective of the business risk strategy is to specify how business risk is to be managed, taking into account the relevant **business drivers**, and thus contribute to achieving the targets set out in the business strategy. The focus is on preventing both an unplanned increase in risk and potential losses arising from a slump in income or from increases in staff expenses or operating costs.

The following **instruments** are used to support the attainment of targets:

- Forward-looking assessment of success factors and specification of targets as part of the strategic planning process
- Groupwide coordination of risk management, capital allocation, and corporate strategy, together with the leveraging of synergies
- Setting of limits and monitoring.

## 10.3 Risk factors

### 10.3.1 Regulatory risk factors

DZ BANK is exposed to changes in the regulatory environment. This applies especially to regulation of the financial services sector, which is undergoing rapid change. The term 'regulation' refers to all aspects of intervention in the financial services industry involving the imposition of rules. Regulation may involve standards related to supervisory law, commercial law, capital markets law, company law, or tax law. Changes in the regulatory environment could have a negative impact on the business activities of DZ BANK.

#### Costs of regulation

Over the next few years, the DZ BANK Group is likely to continue to face increased costs, and thus reduced profits, in connection with implementing the requirements resulting from regulatory legislative initiatives.

#### Basel IV

In the next years, DZ BANK and the other management units subject to banking supervision must implement the European rules and regulations amended as a result of the international regulatory reforms referred to as Basel III finalization (also known as Basel IV). Overall, the implementation of Basel IV will represent a huge challenge for the DZ BANK banking group, although the first elements of the reforms have already been introduced in CRR II. In response to the COVID-19 pandemic, the Group of Central Bank Governors and Heads of Supervision of the BCBS decided in the reporting year to postpone the initial application date for the other components of Basel IV by one year until January 1, 2023. It is not yet known when the rules will be subject to mandatory application in the EU because no draft CRR III has been prepared yet.

The objective of the new regulations is to limit the use of internal models for determining regulatory capital adequacy and apply a higher degree of standardization to ensure that banks use uniform, comparable processes throughout the industry. One of the main aspects of the reforms is that they provide for a comprehensive revision of the procedures used to determine **credit risk exposures**, including credit valuation adjustments. As part of the reporting system, DZ BANK makes considerable use of methods approved by the supervisor to model credit risk using the IRB approach.

Following the implementation of Basel IV, the current benefits for the affected entities in the DZ BANK banking group from using internal models could diminish because capital adequacy would be based to a greater extent on the revised standardized approaches. A core component of this revision is the introduction of an output floor for the amount of risk-weighted assets determined with internal models. This **output floor** would restrict the benefit from using internal models to 72.5 percent of the risk-weighted assets computed using the credit risk standardized approaches. The schedule for the application of this requirement has also now been postponed by one year. According to the latest BCBS details, this rule is expected to be introduced in stages from January 1, 2023, the final target level of the output floor coming into force in full on January 1, 2028.

The capital requirements for market risk and operational risk are also affected by Basel IV in addition to those for credit risk. For example, DZ BANK has the status of an internal model bank and in the future will not only have to calculate and report the capital requirement for **market risk** on the basis of the internal model, but will also have to ensure that the reporting to the supervisor includes the capital requirement for market risk in the trading book calculated according to the new standardized approach. Implementation of the new rules entails extensive and time-consuming changes to the calculation of the capital requirement for market risk in the trading book at DZ BANK.

Under Basel IV, a new standardized approach will be introduced for measuring **operational risk** for regulatory purposes. The new approach will supersede all regulatory measurement methods previously used for this type of risk. The entities in the DZ BANK banking group will therefore have to convert the methods used to determine the capital requirement for operational risk to the new standardized approach for reporting purposes.

The planned new regulations could lead to a substantial rise in risk-weighted assets and capital requirements as well as to a fall in the capital ratios for the DZ BANK banking group and DZ BANK. There is a risk that DZ BANK would not be able to obtain the necessary additional own funds (or would only be able to obtain them at a higher cost) or would have to reduce its risk-weighted assets. This could limit the flexibility enjoyed by DZ BANK in the operation of its business.

#### Switch in interest-rate benchmarks

To implement Regulation (EU) No. 2016/1011 (Benchmarks Regulation) and to respond to international market developments, the German and European financial industry is currently pressing ahead with the replacement of the present interest-rate benchmarks (some of which do not comply with the EU Benchmarks Regulation) with (virtually) risk-free interest-rate benchmarks.

The reformed interest-rate benchmarks and the new risk-free interest-rate benchmarks are provided by central banks or administrators. Such administrators must be entered in the benchmarks register maintained by ESMA. This means that Euribor and – until its scheduled discontinuation at the end of 2021 – EONIA can continue to be used. In the case of Libor rates, which are already compliant with the EU benchmark requirements, the banks involved are expected to continue supplying the necessary data only up to the end of 2021. In these circumstances, market participants are assuming that Libor rates will no longer be published going forward.

The main reformed interest-rate benchmarks of significance for the entities in the Bank sector are Euribor, EONIA, and Libor; the new risk-free interest-rate benchmarks designated as the replacements under the IBOR reforms and of significance are €STR, SOFR, SONIA, and SARON. Assets and liabilities of entities in the Bank sector in national and international interbank and customer business are linked to these interest-rate benchmarks. There is a lack of clarity about numerous aspects of the switch in interest-rate benchmarks in the transition phase, particularly concerning new market practices and the establishment of the interest-rate benchmarks in the markets.

The transitional period for critical interest-rate benchmarks runs until December 31, 2021. If IT system upgrades and the changeover of the relevant contracts to the successor interest-rate benchmarks are not completed on time, there is a risk that the ability of the entities in the Bank sector to handle the transactions concerned may be constrained. The transactions affected are, for example, the issuance of floating-rate securities referencing a Libor rate or interest-rate derivatives. In addition to the acquisition of new business, the calculation and billing of interest payments in connection with securities already issued and the valuation of these securities could be adversely affected. This could give rise to business risks (such as withdrawal from profitable areas of business), legal risks (such as compensation claims), and reputational risks.

The risks described above also apply in relation to interest-rate benchmarks from administrators based in third countries, in respect of which the European Commission has not yet made any decision regarding equivalence. Such administrators have thus not yet been able to obtain approval or register as third-country administrators with the ESMA. In this regard, Libor is relevant for DZ BANK. For supervised entities such as DZ BANK, a reference to these third-country interest-rate benchmarks is only permitted in respect of financial instruments, financial contracts, and the measurement of the performance of investment funds if the reference to the interest-rate benchmark concerned has been completed by the end of the transitional period on December 31, 2023. If, as a result of Brexit, administrators based in the UK no longer have the necessary EU registration from January 1, 2021, the interest-rate benchmarks that they offer will be treated as third-country interest-rate benchmarks and the transitional period referred to above applies.

### 10.3.2 Competition-related risk factors

Business risk is affected by the competition-related factors described below. If these risks were to materialize, they could have a negative impact on DZ BANK's financial performance.

#### Competition based on pricing and terms

Fiercer competition in **retail and corporate banking** based on pricing and terms could give rise to margins that are economically unattractive for the entities in the Bank sector or that do not adequately cover the risk arising from the corresponding transactions.

#### Greater competition in capital markets business

DZ BANK's capital markets business is faced with the ongoing challenges presented by **low interest rates**, accompanied by a fall in market liquidity and historically low risk premiums (see chapter V.1.5 in the outlook). In DZ BANK's own-account investing activities with the local cooperative banks, there is an evident rise in price sensitivity caused by a contraction in operating profits and increases in the size of the banks resulting from mergers.

DZ BANK's customers have the option of conducting transactions in selected financial instruments using **electronic trading platforms**. For certain products, this is likely to lead to a shift in trading volume to such trading platforms. It is predicted that this will bring about a change in competitor structure, with competition becoming fiercer in the trading of certain financial instruments for customer account, resulting in the risk of a reduction in margins and revenue going forward.

#### New competitors in transaction banking

In transaction banking, DZ BANK is increasingly finding itself up against less regulated global competitors, often from **outside the banking sector** and offering innovative solutions to meet the changes in customer needs. These developments are changing the role played by the management units as product providers and are likely to affect fee and commission income from DZ BANK's transaction banking activities.

### 10.3.3 Rating downgrades

For the entities in the Bank sector, their own credit rating is an important element in any comparison with competitor banks. A downgrade or even just the possibility of a downgrade in the rating for a management unit could have a detrimental effect in all entities in the Bank sector on the relationship with customers and on the sale of products and services.

If **DZ BANK's credit rating** or the **network rating** for the cooperative financial network were to be downgraded, this would have a negative impact on DZ BANK's costs of raising equity and borrowing. In the event of a rating downgrade, new liabilities could also arise, or liabilities dependent on the maintenance of a specific credit rating could become due for immediate payment.

Furthermore, if a rating downgrade were to occur, the management units in the Bank sector could face a situation in which they had to furnish additional collateral in connection with rating-linked collateral agreements for derivatives (regulated by a credit support annex to an appropriate master agreement for financial futures) or in which they were no longer considered suitable counterparties for derivative transactions at all.

If the credit rating for a management unit were to fall out of the range covered by the top four rating categories (investment-grade ratings, disregarding rating subcategories), the operating businesses of all the entities in the Bank sector could be adversely affected. This could also lead to an increase in the liquidity requirement in relation to derivatives and to a rise in funding costs. There would be an additional risk that these negative effects could spread to the other entities in the DZ BANK Group. The effect from downgrades of long-term ratings are discussed in the section covering the measurement of liquidity risk (see section 4.2.5 of this risk report).

In 2020, the credit ratings for DZ BANK issued by rating agencies Standard & Poor's, Moody's, and Fitch Ratings were given a negative outlook. The reasons were the deteriorating economic conditions for German banks

owing to a number of factors, including the consequences of the COVID-19 pandemic, the low interest rates, and the accompanying decline in profitability. It is not possible to predict with any degree of certainty whether the negative outlook will actually result in a rating downgrade for DZ BANK.

#### 10.4 Organization, responsibility, and reporting

The management of business risk is a primary responsibility of the **Board of Managing Directors of DZ BANK** and is carried out in consultation with the senior management of the main subsidiaries and the heads of the DZ BANK divisions involved. Group management is integrated into a committee structure, headed by the **Group Coordination Committee**. The Group Finance division supports the Board of Managing Directors as part of its role in supervising the activities of the subsidiaries. Details of the committee structure and the supervision of subsidiaries can be found in chapter I.2.2 in 'DZ BANK Group fundamentals' in this (group) management report.

Business risk is **reported** to the Board of Managing Directors quarterly as part of the overall risk report. The Board of Managing Directors is also updated monthly about the income situation from an HGB perspective.

#### 10.5 Risk management

The management of business risk is closely linked with the tools used in the **strategic planning process**. It is based on setting targets for the subsidiaries involved in active management and for the divisions of DZ BANK. The strategic planning process is described in chapter I.2.4 in 'DZ BANK Group fundamentals' in this (group) management report.

To identify regulatory initiatives with a material impact on the DZ BANK Group and its entities, a centralized **regulation management** office has been set up at DZ BANK. This office establishes direct contact with the relevant units at DZ BANK and in the other management units, organizes regular bank-wide and groupwide dialog on identified and new strategic regulatory initiatives, and uses a 'regulatory map' to report to the responsible steering committees, the Board of Managing Directors, and the Supervisory Board of DZ BANK.

Business risk is **quantified** using a risk model based on an earnings-at-risk approach. Risk concentrations may arise if business activities are focused on a small number of areas. Concentrations of business risk are limited by using qualitative criteria in strategic management.

The broad diversification and sustainability of the business models used by the entities in the Bank sector are intended to prevent excessive **concentrations of income**. As part of a groupwide risk concentration analysis, which itself forms part of the risk inventory check, a review is carried out annually, and on an ad hoc basis as required, to identify concentrations of income and assess their materiality. This aims to ensure that income concentrations are appropriately taken into account in risk-bearing capacity.

#### 10.6 Risk position

As at December 31, 2020, the **risk capital requirement (including capital buffer requirement)** for business risk in the **Bank sector** and at **DZ BANK** amounted to €382 million (December 31, 2019: €837 million) and €356 million (December 31, 2019: €673 million) respectively. The **limits** as at the reporting date were €550 million (December 31, 2019: €1,016 million) and €500 million (December 31, 2019: €770 million) respectively. Reputational risk is included in the figures shown. The decrease in the risk and the limits was due to the introduction of the centralized business risk model.

## 11 Reputational risk

### 11.1 Definition and business background

Reputational risk refers to the risk of losses from events that damage confidence, mainly among customers (including the cooperative banks), shareholders, employees, the labor market, the general public, and the supervisory authorities, in the entities in the Bank sector or in the products and services that they offer.

Reputational risk can arise either as an independent risk (primary reputational risk) or as an indirect or direct consequence of other types of risk (secondary reputational risk).

Reputational risk can arise in connection with any of the business activities in the entities within the Bank sector.

### 11.2 Risk strategy

Reputational risk is incorporated into the risk strategy by pursuing the following **objectives**:

- Avoiding loss resulting from reputation-damaging incidents by taking preventive action
- Mitigating reputational risk by taking preventive and responsive action
- Raising awareness of reputational risk within the Bank sector, e.g. by defining the people responsible for risk and establishing a sector-wide reporting system and set of rules for reputational risk.

These objectives are applicable both at the Bank sector level and in the management units. The management units are responsible for complying with the rules and for deciding what suitable preventive and responsive action to take.

The reputational risk strategy is based on the **business strategies** in each management unit and to this end is reviewed at least once a year and adjusted as necessary.

### 11.3 Risk factors

If the Bank sector as a whole or the individual management units acquire a negative reputation, there is a risk that existing or potential customers will be unsettled with the result that existing **business relationships** might be terminated or it might not be possible to carry out planned transactions. There is also a risk that it will no longer be possible to guarantee the **backing** of stakeholders, such as shareholders and employees, necessary to conduct business operations.

### 11.4 Responsibility and risk management

Each management unit is responsible for managing its reputational risk and must comply with the requirements laid down in the set of rules for reputational risk. The principle of **decentralized** responsibility applies equally within all the management units. Based on this approach, responsibility for managing reputational risk lies with each division with the involvement of other functions such as communications & marketing, corporate security, and compliance.

Reputational risk in the Bank sector is generally taken into account within **business risk** and is therefore implicitly included in the measurement of risk and assessment of capital adequacy. At BSH, reputational risk is measured and the capital requirement determined mainly as part of the technical risk of a home savings and loan company. In addition, the risk that obtaining funding may become more difficult as a consequence of reputational damage is specifically taken into account in liquidity risk management.

**Crisis communications** aimed at mitigating reputational risk are designed to prevent greater damage to the entities in the Bank sector if a critical event occurs. The management units therefore follow a stakeholder-based approach in which reputational risk is identified and evaluated from a qualitative perspective depending on the stakeholder concerned.



## 12 Operational risk

### 12.1 Definition

Operational risk refers to the risk of losses from human behavior, technological failure, weaknesses in process or project management, or external events.

In 2020, the following subtypes of operational risk were material for the Bank sector:

- Compliance risk including conduct risk
- Legal risk
- Information risk including ICT risk
- Security risk
- Outsourcing risk
- Project risk.

Other subtypes of operational risk that are not material when viewed in isolation are brought together under 'Other operational risk'. Examples of these subtypes are HR risk and the risk of non-compliance with accounting requirements.

### 12.2 Business background and risk strategy

Operational risk can arise in any division of the entities in the Bank sector. DZ BANK as well as DZ HYP, DZ PRIVATBANK, and UMH are particularly subject to operational risk.

The Bank sector entities aim to manage operational risk efficiently. They apply the following principles:

- Reinforce risk awareness
- Handle operational risk openly and largely without penalties
- Avoid, reduce, transfer, or accept risk as optional courses of action
- Manage operational risk on a decentralized basis but within the limits set out in the framework for operational risk
- Ensure that the impact of corporate policy decisions on operational risk is taken into account.

### 12.3 Organization, responsibility, and reporting

Each management unit is responsible for managing its operational risk. The principle of **decentralized** responsibility applies equally within the management units.

One of the purposes of the **framework for operational risk** is to harmonize risk management throughout the sector. The sector-wide coordinated approach to operational risk is also managed by a **committee** assigned to the Group Risk Management working group.

A **DZ BANK** organizational unit responsible for controlling operational risk located within the Group Risk Controlling division develops the management and control methods based on regulatory requirements and business needs applicable to the Bank sector. This organizational unit ensures that operational risk is monitored independently and is responsible for central reporting on operational risk in the Bank sector and at DZ BANK. Similar organizational units are also in place at the other main entities in the **Bank sector**.

**Specialist divisions with central risk management functions** also manage some operational risk tasks. As part of their overarching responsibility, these specialist divisions also perform an advisory and guiding function for the matters within their remit in the relevant entities of the Bank sector.

Because operational risk can affect all divisions in the management units, **local operational risk coordinators** are located in each division and they liaise with Central Risk Controlling.

Regular **reports** on loss data, risk self-assessments, risk indicators, and risk capital are submitted to the Board of Managing Directors, the Group Risk and Finance Committee, the Risk Committee, and operational management with the aim of facilitating effective management of operational risk on a timely basis.

## 12.4 Central risk management

### 12.4.1 Identifying operational risk

The main tools used to manage and control operational risk in the DZ BANK Group's Bank sector are described below.

#### Loss database

The collation of loss data in a central database allows the Bank sector to identify, analyze, and evaluate loss events, highlighting patterns, trends, and concentrations of operational risk. In particular, data is recorded for operational risk that materializes and results in a gross loss of €1,000 or more.

#### Risk self-assessment

All management units assess operational risk using a scenario-supported risk self-assessment process in order to identify and evaluate all material operational risks and ensure maximum possible transparency regarding the risk position. The main potential risks for all first-level risk categories as defined by the CRR are calculated and described using risk scenarios. The scenarios also enable risk concentrations to be identified.

#### Risk indicators

In addition to the loss database and risk self-assessment, risk indicators help the Bank sector to identify risk trends and concentrations at an early stage and detect weaknesses in business processes. A system of warning lights is used to indicate risk situations based on specified threshold values. Risk indicators within the Bank sector are collected systematically and regularly on a wide scale.

### 12.4.2 Measurement of operational risk

An **economic portfolio model** that takes into account loss data and the results from the risk self-assessments is used to determine the risk capital requirement for operational risk in the Bank sector. The results from the model, combined with the tools used to identify risk, are used to manage operational risk centrally. Alongside the economic risk capital requirement, the model also calculates specific risk contributions for each management unit.

In addition, **risk concentrations** are identified by using separate model-based analyses, taking into account event categories and areas of business specified by regulatory requirements. These risk concentrations could occur in the different areas of business within the entities of the Bank sector.

In addition, a simplified procedure based on the allocation mechanism in the capital model is used to identify **risk drivers**. The risk driver analysis is carried out for all standard scenarios. The list of standard scenarios is maintained for use throughout the group and contains a list of general scenario descriptions that are relevant to operational risk in the Bank sector entities.

### 12.4.3 Limiting operational risk

The limits for operational risk are used as the basis for central monitoring of the risk capital requirement at the Bank sector level. The risk capital requirement for the Bank sector is broken down into risk contributions for each management unit using a risk-sensitive allocation procedure so that the management units in the Bank sector

can be monitored centrally. These risk contributions are then monitored centrally using limits for each management unit.

#### 12.4.4 Mitigating and avoiding operational risk

Continual improvement of business processes is one of the methods used with the aim of **mitigating** operational risk. The transfer of risk by means of insurance or outsourcing as permitted by liability regulations provides further protection.

Operational risk is **avoided**, for example, by rejecting products that can be identified during the new product process as entailing too much risk.

### 12.5 Operational risk subtypes

#### 12.5.1 Compliance risk including conduct risk

##### Risk factors

Compliance risk could arise if the compliance and risk management systems implemented in the Bank sector entities prove insufficient to completely prevent or detect breaches of obligations to third parties. Such obligations include legal requirements (laws, regulations) as well as both internal and external agreements. Examples are misuse of confidential information, failure to comply with sanctions or embargoes, data protection infringements, or support for money laundering, terrorist financing, or other criminal offenses. Wrongdoing by employees (conduct risk) forms part of compliance risk.

##### Effects if risk materializes

Violations of internal rules or legal provisions could render contracts null and void or have legal implications for the entity concerned, for the members of its decision-making bodies, or for its employees. They may give rise, for example, to fines, penalties, retrospective tax payments, or claims for damages by third parties. The reputation of individual entities in the Bank sector and the DZ BANK Group as a whole could also suffer as a result. These effects could reduce the Bank sector entities' appeal as partners in business transactions and consequently lead to losses in value.

##### Risk management

The basic principles for managing compliance risk are described in section 3.5.4 of this risk report. Details of the data protection measures in place and the code of conduct applicable for the entities in the Bank sector are also set out in the section referred to above. Measures such as the strict separation of functions, the requirement for verification by second person, restrictions on IT and building access authorizations, and a sustainability-oriented remuneration system aim to contain risk, in particular the risk of internal fraud.

#### 12.5.2 Legal risk

##### Risk factors

Legal risk can arise from legal violations or incorrect application of legal provisions. Legal risk can also arise from changes to the legal position (laws or judgments by the courts) relating to transactions completed in the past.

##### Effects if risk materializes

If legal risk were to materialize, this could result in official sanctions or the need to pay damages. It is also possible that existing contractual rights could be lost retrospectively or could otherwise not be enforced for legal reasons. These effects could lead to losses and reduce the Bank sector entities' appeal as partners in business transactions.

#### Risk management

The entities in the Bank sector pursue a strategy of avoiding legal risk. Identified risks are limited and mitigated by means of legal or procedural organizational measures. If the legal position is uncertain, the management units generally adopt a defensive approach.

In the entities of the Bank sector, responsibility for managing legal disputes normally lies with their organizational units responsible for dealing with legal issues. These units continuously monitor proposed legislation and regulatory requirements that are legally relevant, as well as developments in decisions by the courts. In the Bank sector entities, the legal affairs units are responsible for reviewing and assessing circumstances from a legal perspective and also for coordinating any legal proceedings. The latter consists of both defending claims pursued against the entities in the Bank sector and enforcing claims by the management units against third parties. If any legal risk is identified, the management unit concerned assesses the risk parameters in terms of their probability of occurrence and possible impact.

The legal affairs divisions in the Bank sector entities also submit reports on risk-related issues to the member(s) of the Board of Managing Directors with relevant responsibility, independently of the established regular reports on cases pending before the courts.

#### Provisions for risk

If identified legal risks cannot be fully excluded, the potential associated losses are accounted for by the recognition of provisions in the financial statements. The relevant (consolidated) financial reporting requirements apply. Disclosures covering the provisions recognized for risks arising from ongoing legal disputes, in particular in connection with capital market and credit products, are included in note 69 of the notes to the consolidated financial statements under 'Other provisions'.

### 12.5.3 Information risk including ICT risk

#### Risk factors

Information risk arises from a failure to maintain the confidentiality, integrity, availability, or authenticity of information or data. If the risk is in connection with the use of information or communication technology (data media), it is referred to as ICT risk.

#### Effects if risk materializes

Malfunctions or breakdowns in IT systems or in the programs used on these systems, or the misuse or manipulative use of IT systems (such as hacker attacks or malware installation), could have an adverse impact on the ability of the entities in the Bank sector to efficiently maintain the processes necessary to carry out operating activities, protect saved data, ensure sufficient control, or continue to develop products and services. Furthermore, such malfunctions or breakdowns could lead to the temporary or permanent loss of data or to unauthorized data access, modification, or publication. This could restrict operating activities and have a negative impact on reputation.

#### Risk management

The entities in the Bank sector use computers and IT systems to carry out their operating activities. Practically all business transactions and activities are processed electronically using appropriate IT systems. The supporting IT systems are networked with each other and are operationally interdependent.

Processes in the IT units of the entities in the Bank sector are designed with risk issues in mind and are monitored using a variety of control activities in order to ensure that information risk is appropriately managed. The starting point is to determine which risks are unavoidable in certain aspects of IT. Detailed requirements can then be specified. These requirements determine the extent to which checks need to be carried out and are intended to ensure that all activities are conducted in compliance with the previously defined risk appetite.

IT units apply comprehensive physical and logical precautionary measures to guarantee the security of data and applications and to ensure that day-to-day operations are maintained. Measures used by the Bank sector to counter the risk of a partial or complete loss of IT systems include segregated data processing centers in which the data and systems are mirrored, special access security, fire control systems, and an uninterruptible power supply supported by emergency power generators. Regular exercises are carried out to test defined restart procedures to be used in emergency or crisis situations with the aim of checking the efficacy of these procedures. Data is backed up and held within highly secure environments in different buildings.

DZ BANK's risk assessment methodology for information risk is made available centrally by information security management and applied locally by the managers responsible for the various IT systems using tool-supported control processes. All variances identified in these processes are assessed from the perspective of the associated risks. All information risks classified as material are included in regular information security reports to the Board of Managing Directors.

#### 12.5.4 Security risk

##### Risk factors

Security risk can arise from inadequate protection of individuals, premises, assets, or time-critical processes. Examples are epidemics or pandemics resulting from the spread of pathogens over a huge area, restrictions on access to workplaces caused by natural disasters or demonstrations, or limitations on the use of resources because of a power outage or other interruption to energy supply. Climate change could lead to more frequent and more severe natural disasters.

##### Effects if risk materializes

If security risk were to materialize, this could lead to a range of problems from staff shortages to restrictions, or even the loss, of the use of buildings and resources such as IT systems. In such eventualities, it is possible that mission-critical processes could not be carried out or could not be carried out on time, which could lead to loss of business and/or compensation claims from customers. Furthermore, such scenarios could also have a negative impact on reputation.

##### Risk management

The relevant organizational units in the management units prepare requirements for the protection of time-critical business processes, people, premises, and other assets. These requirements are implemented by the departments responsible in each case. In all relevant management units, a comprehensive contingency and crisis management system (with business continuity plans covering critical processes) has been established to ensure the continuation of business in the event of process disruption or IT system breakdown. These business continuity plans are regularly reviewed and simulated to ensure they are fully functional.

#### 12.5.5 Outsourcing risk

##### Risk factors

The entities in the Bank sector have outsourced activities and processes to third-party service providers to a considerable extent. Outsourcing risk can arise if the service provider fails to comply with the strategic principles established by the management units or the related operational requirements when carrying out the outsourced activities.

The reasons may be as follows:

- The relevant service provider fails to comply with regulatory requirements
- Lack of transparency regarding the delivery of the services and little opportunity for control over outsourcing outside the home market
- Highly complex outsourced processes that are far from a standard service
- Need to outsource core competencies or knowledge processes because of a loss of expertise
- Defective performance caused by service provider failures or the loss of service provider

- Inadequate management or monitoring of service providers, in particular as a result of a lack of transparency regarding service delivery.

#### Effects if risk materializes

If these risk factors were to materialize, they could lead to a loss of business and to claims for damages from customers. They could also result in a negative impact on reputation.

#### Risk management

The process of assessing the risk and determining the degree to which an outsourcing arrangement is material is carried out as part of the analysis of outsourcing risk by the division responsible for the outsourcing with the involvement of a number of corporate and reviewing units, including compliance, legal affairs, information security, and business continuity management, and in consultation with the local coordinators for operational risk. Internal audit is also involved as part of its auditing activities.

At DZ BANK, external service providers are managed by the department responsible for the outsourcing in accordance with the currently applicable policy for external procurement management. Service meetings are regularly held with service providers to facilitate communication and coordinate the IT services and other services to be provided by the third parties concerned. Compliance with contractually specified service level agreements is monitored by means of status reports and uptime statistics. The external service providers submit annual audit reports in which they evaluate and confirm the effectiveness of the general controls and procedures.

Business continuity plans, specific contractual liability provisions, and exit strategies are some of the approaches used to reduce outsourcing risk.

### 12.5.6 Project risk

#### Risk factors

Project risk refers to the risk that project requirements will not be completed on schedule. Project risk could arise, for example, from the inadequate clarification of project targets or orders, from deficiencies in subsequent implementation, from communication shortcomings both inside and outside the project, or from unexpected changes in the general parameters applicable to a project.

#### Effects if risk materializes

If project risk were to materialize, this could mean that the implementation of the project could require exceptional additional funds in excess of the budget (primary project risk). It could also give rise to further costs attributable to the failure to complete project requirements on schedule (secondary project risk). Examples of such costs are additional costs in the line organization, impairment losses on capital investment related to the project, and penalty payments.

#### Risk management

In accordance with the statutory requirements that need to be observed, the project organization serves as the framework for implementing projects. The projects as a whole are broken down into portfolios with shared characteristics to enable the projects to be managed in a focused, efficient manner. A committee structure with defined roles and responsibilities is designed to look after the detailed management of the portfolios and the projects assigned to them.

The management of project risk is an ongoing process over the lifecycle of a project and is a component of project portfolio management. Accepting a project risk is a valid option if the project customer believes that the measures to eliminate, reduce, or mitigate the risk are not reasonable in relation to their expected benefit.

### 12.6 Losses

Losses from operational risk do not follow a consistent pattern. Instead, the overall risk profile can be seen from the total losses incurred over the long term and is shaped by a small number of large losses. Over the course of

time, regular fluctuations are evident in the pattern of losses as the frequency of relatively large losses in each individual case is very low. Presenting the change in losses meaningfully therefore requires a sufficiently long and unchanging time horizon for reporting purposes. The data is therefore selected from the loss history for the past four quarters and on the basis of the date on which the expense is recognized in the income statement.

Fig. 32 shows the internal net losses from loss events reported in the last four quarters, i.e. in the period from January 1 to December 31, 2020, classified by operational risk subtype.

FIG. 32 – BANK SECTOR: NET LOSSES<sup>1</sup> BY OPERATIONAL RISK SUBTYPE

Proportion of total net losses (%)	Bank sector		DZ BANK	
	Jan. 1, 2020– Dec. 31, 2020	Long-term mean <sup>2</sup>	Jan. 1, 2020– Dec. 31, 2020	Long-term mean <sup>2</sup>
Compliance risk	11.8	46.6	1.8	47.6
Legal risk	5.0	35.3	5.0	39.7
Information risk including ICT risk	16.2	6.1	26.8	4.4
Security risk	5.2	1.6	6.5	0.5
Outsourcing risk	12.0	0.5	29.0	0.3
Project risk	-	0.4	-	0.5
Other operational risk	49.8	9.5	30.9	7.0

<sup>1</sup> Internal losses.

<sup>2</sup> The long-term mean is derived from loss data recorded since 2006.

In a long-term analysis, the compliance risk and legal risk subtypes account for the most significant components of internal net losses in the **Bank sector**. However, losses related to these risk subtypes were well below the long-term mean in the last four quarters.

In the four quarters of 2020, the largest proportion of net losses was attributable to other operational risk, which accounted for 49.8 percent of the total. This figure was therefore much higher than the long-term mean of 9.5 percent for this risk subtype. It was caused mainly by one loss event attributable to inconsistent parameterization.

With a proportion of 16.2 percent, net losses related to information risk including ICT risk were mainly attributable to loss events that resulted from failures in process implementation or in process design. Again, the losses recorded in the last four quarters in this case exceeded the long-term mean.

The same applied to outsourcing risk, which represented 12.0 percent of the total internal net losses in the last four quarters. These losses arose because service providers failed to perform as required or dropped out.

At **DZ BANK**, internal net losses in the last four quarters were also concentrated in other operational risk (30.9 percent of the total), although the proportions for outsourcing risk (29.0 percent) and information risk including ICT risk (26.8 percent) were significant.

Losses did not reach a critical level relative to the expected loss from operational risk at any point during 2020, either in the Bank sector or at DZ BANK.

## 12.7 Risk position

Using the internal portfolio model, the **Bank sector's** risk capital requirement (including capital buffer requirement) for operational risk as at December 31, 2020 was calculated at €844 million (December 31, 2019: €859 million) with a limit of €1,020 million (December 31, 2019: €926 million).

As at December 31, 2020, the corresponding requirement at **DZ BANK** was €467 million (December 31, 2019: €459 million). The limit as at December 31, 2020 was €547 million (December 31, 2019: €472 million).

## Insurance sector

### 13 Basic principles of risk management in the Insurance sector

#### 13.1 Risk strategy

The principles of risk management in the Insurance sector are based on the risk strategy of the DZ BANK Group for the Insurance sector, which is closely interlinked with the business strategy. Under its risk strategy, R+V aims to assume risk on a conscious, calculated basis within the constraints of the specified risk appetite.

**Life actuarial risk** is managed with the objectives of holding a broadly diversified product portfolio and of developing existing products while designing new ones. Pension, endowment and risk insurance, working life and semi-retirement products, index-linked products, and unit-linked products are underwritten in order to diversify the life insurance and pension provision portfolios.

The objectives of managing **health actuarial risk** are a risk-conscious underwriting policy, cost/benefit management, the development of existing products, and the design of new products.

The management of **non-life actuarial risk in direct business** aims to optimize portfolios in terms of risk and reward. R+V focuses on business in Germany, offering a full range of non-life insurance products.

In **inward non-life reinsurance business**, R+V also aims to achieve a broad balance of risk across all sectors, diversify geographically around the globe, and optimize the portfolio from a risk/reward perspective.

The management of **market risk** is connected with the following fundamental objectives of risk policy: ensuring competitive returns on investments taking into account individual risk-bearing capacities, achieving defined minimum investment returns in stress scenarios, and securing a certain hidden asset level to ensure consistent earnings. The aim is also to guarantee that there is a sufficient proportion of fungible investments.

In line with the risk strategy for **counterparty default risk**, R+V aims to maintain a high average credit rating for its portfolios, avoid concentrations of issuers at portfolio level, and comply with the limits that have been set for counterparties and debtors of insurance and reinsurance companies.

The risk strategy for **operational risk** aims to further raise awareness of operational risk.

The objective of the **reputational risk strategy** is to promote the image of the R+V brand with due regard to the need for transparency and credibility.

#### 13.2 Organization, responsibility, and reporting

As specified in the own risk and solvency assessment (ORSA), the risk management process encompasses all the steps involved in identifying, analyzing, assessing, managing, monitoring, reporting, and communicating risk. Risk-bearing capacity is reviewed and measured at least once a quarter and the process includes a review of binding key performance indicators and threshold values. Corrective action must be initiated if a specified index value is exceeded. Risk-bearing capacity and all material risks are then finally evaluated each quarter by the Risk Committee.



Reports are submitted to the Board of Managing Directors of R+V in the event of material changes in risk. Company information that has a bearing on risk exposure is passed to the relevant supervisory bodies at R+V, both quarterly and on an ad hoc basis.

## 14 Actuarial risk

### 14.1 Definition and business background

#### 14.1.1 Definition

Actuarial risk is the risk that the actual cost of claims and benefits deviates from the expected cost as a result of chance, error, or change. It is broken down into the following categories defined by Solvency II:

- Life actuarial risk
- Health actuarial risk
- Non-life actuarial risk.

##### Life actuarial risk

Life actuarial risk refers to the risk arising from the assumption of life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. Life actuarial risk is calculated as the combination of capital requirements for, as a minimum, the following sub-modules:

- **Mortality risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.
- **Longevity risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.
- **Disability-morbidity risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of disability, sickness, or morbidity rates.
- **Life catastrophe risk** describes the risk of loss or adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.
- **Lapse risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, cancellations, renewals, and surrenders.
- **Life expense risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.

##### Health actuarial risk

Health actuarial risk refers to the risk arising from the assumption of health and casualty insurance obligations, in relation to the risks covered and the processes used in the conduct of this business.

##### Non-life actuarial risk

Non-life actuarial risk refers to the risk arising from the assumption of non-life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. It is calculated as the combination of capital requirements for the following submodules:

- **Premium and reserve risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency, and severity of insured events, and in the timing and amount of claim settlements.
- **Non-life catastrophe risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.
- **Lapse risk** describes uncertainty about the continuation of the direct insurance and reinsurance contracts. It results from the fact that the lapse of contracts that are profitable for the insurance company will lead to a reduction in own funds.

#### 14.1.2 Business background

In the DZ BANK Group, considerable actuarial risk arises from the business activities of R+V. The risk arises from the direct life insurance and health insurance business, the direct non-life insurance business, and the inward reinsurance business.

#### 14.2 Risk factors

In the case of long-term products, which constitute the bulk of R+V's **direct life insurance business**, there is a risk of negative variances over the term of the contracts compared with calculation assumptions because of the length of time covered by the contracts. The relevant risk factors include changes in life expectancy, increasing rates of disability-morbidity, and disproportionately sharp cost increases. If the actual trends in life expectancy, disability-morbidity, and costs vary from the calculation assumptions, there is a risk over the medium to long term that the gross profit generated from life insurance will decline.

In **health insurance** at R+V, which accounts for a substantial proportion of health actuarial risk, there is a risk of higher claims caused by the behavior of the policyholders and service providers. Subject to certain legal requirements, there is a possibility of adjusting the premiums in the health insurance business, a process in which all actuarial assumptions can be reviewed and modified. Significant premium adjustments could have a negative impact on future new business if rate scales lose their appeal because of high premiums. The number of lapses in the portfolio could also increase as a result.

R+V's **direct non-life insurance and inward non-life reinsurance business** involves the provision of cover for a range of disasters. This includes both natural disasters, such as earthquakes, storms, and floods, and man-made disasters. These events cannot be predicted. Generally speaking, there is both the risk of particularly significant individual loss events and also the risk of a large number of loss events that are each not necessarily significant in themselves. As a result, in any one year, the actual impact from the size and frequency of losses could exceed the forecast impact. Climate change represents an additional risk factor in connection with the occurrence of natural disasters. It is reasonable to expect that climate change will lead to an increase in weather-related natural disasters over the long term.

#### 14.3 Management of life actuarial risk

##### 14.3.1 Risk measurement

The risk for insurance contracts subject to **mortality risk** is modeled as a permanent 15 percent increase in mortality.

The risk for insurance contracts subject to **longevity risk** is modeled as a 20 percent increase in longevity.

The overall solvency requirement for **disability-morbidity risk** is analyzed on the basis of a permanent 35 percent rise in the disability rates expected for the next 12 months, a permanent 25 percent rise in the disability rates expected for the period after those 12 months, and a permanent 20 percent decrease in all expected likely cases of policyholders being able to return to work.

The risk for insurance contracts affected by **life catastrophe risk** is modeled as an immediate increase of 0.15 percentage points in mortality rates in the next 12 months.

The risk for insurance contracts subject to **lapse risk** is modeled for the following scenarios: for an increase in lapses, a 50 percent rise in the lapse rate; for a decrease in lapses, a 50 percent reduction in the lapse rate; for a mass lapse event, lapse of 40 percent of the contracts.

The overall solvency requirement for **life expense risk** is based on the following stress scenarios: a permanent 10 percent rise in the costs reflected in the measurement of the insurance liabilities; an increase of 1 percentage point in the cost inflation rate.

#### 14.3.2 Risk management in direct life insurance business

Actuarial risk is taken into account by carrying out a prudent cost calculation while products are still in development. This applies to the development of existing products as well as the design of new types of insurance. Safety margins are included in the actuarial assumptions to achieve this. The assumptions are structured in such a way that they not only withstand the current risk situation, but should also accommodate potential changes in the risk position. Actuarial control systems are used to decide whether the cost calculation for future new business needs to be changed. The calculation is also adjusted on an ongoing basis in line with the latest actuarial findings. The appointed actuary carries out reviews as part of product development and during the course of the term of contracts to verify that the actuarial assumptions used are appropriate.

A number of measures are taken to prevent a concentration of risks in the portfolio. Before contracts are signed, extensive risk reviews are carried out to limit **mortality and disability-morbidity risks**. In general, risk is only assumed in compliance with fixed underwriting guidelines. High levels of individual or cumulative risk are limited by reinsurance.

Generally speaking, the risk is mitigated if the insured risks are diversified. For example, an increase in mortality has an adverse impact on endowment life and risk insurance policies, but at the same time has a positive impact on the **longevity risk** associated with pension insurance.

Cost control tools are used to manage **life expense risk**.

**Lapse risk** is mitigated by structuring life insurance contracts to provide maximum flexibility should policyholders' circumstances change. A range of different options during the term of an insurance contract enables customers to maintain their contract instead of canceling it. Appropriate design of policyholder participation and, in particular, the final bonus also counteracts lapse risk.

In addition, advance notice of **policyholder participation** in the form of declarations of future bonuses is also a key instrument with which to reduce actuarial risk relating to life insurance.

### 14.4 Management of health actuarial risk

#### 14.4.1 Risk measurement

Health actuarial risk is calculated by combining the capital requirements for the subcategories 'similar to life techniques, health actuarial risk' (risk on health insurance pursued on a similar technical basis to that of life insurance), 'non-similar to life techniques, health actuarial risk' (risk on health insurance pursued on a similar technical basis to that of non-life insurance), and 'health catastrophe risk'.

The methods described in the sections on life actuarial risk (section 14.3) and non-life actuarial risk (section 14.5) are used to measure risk in the subcategories.

Health actuarial risk also includes significant parts of the group's casualty insurance business as well as its health and occupational disability insurance business.

#### 14.4.2 Risk management in health and casualty insurance

##### Risk management in health insurance business

In the health insurance business, the Insurance sector aims to manage actuarial risk by means of an **underwriting policy**, the features of which are underwriting guidelines and selection of risk, and management of benefits and costs. The risk exposure in the case of large individual risks may be limited by taking out appropriate reinsurance. In many of the health insurance rate scales, deductibles are used to control the extent of claims. Provisions are recognized to ensure that all benefit obligations under insurance contracts can be met. The appointed actuary carries out monitoring as part of product development and over the course of time to verify that the actuarial assumptions used are appropriate.

In accordance with VAG provisions, R+V carries out an annual comparison of its calculations with the insurance benefits it is required to pay. If this comparison of claims for an observation unit within a particular scale of insurance rates reveals a variance that is other than temporary, the relevant **premiums** are adjusted. All actuarial assumptions are reviewed and specified in consultation with an independent trustee. A safety margin factored into premiums is also intended to ensure that obligations can be met if claims are higher than the level provided for in cost calculations.

In the health insurance business, the **decrement tables** include assumptions regarding mortality and the probability of other relevant withdrawal factors. Under the requirements set out in the German Health Insurance Supervision Regulation (KVAV), these assumptions must be specified and reviewed from the perspective of prudent risk assessment. It is for this reason that a new mortality table is developed annually by the Verband der privaten Krankenversicherung e.V. (PKV) [Association of German private healthcare insurers] in consultation with BaFin. In accordance with statutory provisions, R+V carries out an annual comparison of its calculations with the most recently published mortality tables.

When determining **lapse probabilities** for the purposes of its calculations, R+V uses both its own observations and the latest figures published by BaFin.

Where premiums were adjusted on January 1, 2020, R+V used the new PKV mortality table valid for 2020 to determine both new business premiums and those **premium adjustments** in existing business.

Unisex insurance rate scales are offered in R+V's **new business**. The cost calculation for these rates is not only based on the existing gender breakdown, but also takes into account the expected pattern of switching by existing policyholders to the new rates. The appropriateness of the composition of the portfolio resulting from the calculations is reviewed by actuaries using comparable calculations.

##### Risk management in casualty insurance business

The risk situation in the casualty insurance division is characterized by the fact that it is fixed-sum insurance and not indemnity insurance. Consequently, the maximum benefit per insured person is restricted to the sum insured.

A risk review also forms part of the underwriting policy in the case of casualty insurance. Premiums are reviewed on an ongoing basis to ensure that they remain appropriate. Claims are assessed on a case-by-case basis.

## 14.5 Management of non-life actuarial risk

### 14.5.1 Risk measurement

The capital requirements for **premium and reserve risk** are calculated on the basis of risk factors and volume measures for all branches of insurance in which business is conducted. The risk factors (e.g. the standard deviation as a percentage of the volume measure) describe the degree of threat posed by the risk. The volume measure for the **premium risk** is essentially the net premium income earned in the financial year and in the first and second years after that. The net claims provisions in the form of a best-estimate valuation constitute the volume measure for the **reserve risk**.

The capital requirement for **catastrophe risk** is calculated as an aggregation of four risk modules. These are natural catastrophe risk (broken down into the following natural hazards: hail, storm, flood, earthquake, and subsidence), the catastrophe risk of non-proportional reinsurance in non-life insurance, risk of man-made catastrophe, and other catastrophe risk in non-life insurance. Catastrophe risk is calculated using the volume measures of sums insured and premiums. Risk mitigation through reinsurance is taken into consideration.

To determine the overall solvency requirement as part of internal risk assessment, empirical distributions are generated for the relevant parameters for parts of the **direct insurance portfolio**, such as the claim amount and the number of claims per sector and claim type (e.g. basic claims, major claims, catastrophe claims). The value-at-risk can then be determined with the required confidence level directly from the underwriting result modeled in this way, recorded as a loss function. The parameters for the analyzed distributions are set using historical portfolio data and related planning data. They are therefore intended to reflect the actual risk position of the entity concerned.

The risk modeling for calculating basic claims relating to the natural hazard earthquake and basic claims and minor cumulative events relating to the natural hazards hail, storm, and flood is based on mathematical/statistical methods. The minimum and maximum claim amounts for minor cumulative events are derived from the group's own claims history. Modeling is based on the group's own claims data.

The risk modeling for major cumulative events relating to the natural hazards hail, storm, flood, and earthquake uses probability-based natural hazard models. This approach uses catastrophe claims that have been modeled by external providers for each natural hazard and take account of the specific risk profile.

In its **inward reinsurance business**, R+V deploys a simulation tool for stochastic modeling of catastrophe risk. To model the natural catastrophe risk on an individual contract basis, event catalogs from external providers containing predefined scenarios based on historical observations are used. The event catalogs cover the main countries and natural hazards related to the underwritten risk in the inward reinsurance concerned. In the case of countries and natural hazards for which there is no event catalog, modeling is based on R+V's own claims history. This involves generating scenarios for the current portfolio on the basis of historical major claims.

For inward reinsurance purposes, modeling based on the group's own claims history is also used to determine the overall solvency requirement for the risk of **man-made catastrophe**. This involves generating scenarios for the current portfolio on the basis of the historical major claims.

The overall solvency requirement for **lapse risk** is determined on the basis of a stress scenario involving the lapse of 40 percent of those insurance contracts whose lapse would lead to an increase in the best-estimate valuation for the premium provision.

#### 14.5.2 Risk management in direct non-life insurance business

**Premium and reserve risk** is managed through risk selection, risk-oriented premiums and products, and profit-oriented underwriting guidelines. In order to maintain a balanced risk profile, R+V ensures it has reinsurance cover for major individual risks. Managers use planning and control tools to ensure they are in a position at an early stage to identify unexpected or adverse portfolio or claim trends and to initiate appropriate corrective action in response to the changes in the risk situation. To make these risks manageable, pricing is based on a calculation that uses mathematical/statistical modeling.

The measurement of the overall solvency requirement for **natural catastrophe risk** is supplemented by analysis of the policy portfolio. This analysis carried out with the aid of tools such as the ZÜRS Geo information system (zoning system for flooding, backwater flooding, and heavy rainfall) investigates risk concentrations and changes in these concentrations over time. The use of geographical diversification and the deployment of underwriting guidelines form the basis for managing risks arising from natural disasters.

R+V uses a prospective limit system to verify whether prescribed limits for the risk from natural disasters will be adhered to. The risk exposure reached on the basis of projected business growth is compared against a limit determined from the allocated internal risk capital.

To reduce actuarial risk, R+V purchases facultative and obligatory reinsurance cover, formulates risk exclusions, and designs risk-appropriate deductible models. Risk-bearing capacity is reviewed as part of the reinsurance decision-making process. This is used as the basis for reinsurance structures and liability layers.

#### 14.5.3 Risk management in inward non-life business

R+V counters **premium and reserve risk** by continuously monitoring the market as well as the economic and political situation, by managing risk in accordance with its corporate strategy, and by setting insurance rates appropriate to the risk involved. The risk is managed on the basis of an earnings-driven underwriting policy. The assumption of risk is circumscribed by mandatory underwriting guidelines and limits that restrict potential liability arising from both individual and cumulative claims. R+V takes account of economic capital costs when underwriting risk. Compliance with these requirements is monitored.

The material actuarial risks in the inward reinsurance portfolio are **catastrophe risk**, long tail risk, reserve risk and also far-reaching changes in the trends underlying the main markets. The actual and potential losses arising from the level and frequency of claims under natural disaster insurance are recorded and assessed using industry-standard software and R+V's own additional verification systems. The portfolio is continuously monitored for possible concentrations of natural disaster risk.

Limits are set to support central management and limitation of cumulative risks arising from individual natural hazards. One of the mechanisms for managing risk is a systematic check on the cumulative authorized limits for natural disaster risks. The monitoring and management of limits may include the reallocation or adjustment of capacities. The modeled exposures remained within the authorized limits.

Action that can be taken to mitigate the risk includes management of deductibles and retrocession taking into account risk-bearing capacity and the effective costs of retrocession. Minimum requirements apply in relation to the credit rating of retrocessionaires. To minimize peak risk in connection with natural disasters in Europe, R+V has entered into a retrocession agreement as part of its inward reinsurance business.

R+V monitors the claims rate trend promptly and continuously, allowing it to initiate preventive measures so that it always has a sufficient level of reserves. The reserves position is monitored in a number of ways, including by means of an expert report, which is prepared once a year.

#### 14.6 Claims rate trend in non-life insurance

In **direct non-life insurance**, claims expenses remained within normal limits despite the COVID-19 pandemic, such that the claims rate fell below the prior-year level. Classes of insurance that were particularly affected by the pandemic included event cancellation insurance, business shutdown insurance, and guarantee insurance. The impact was offset by the effect of a significant fall in claims under vehicle insurance. The total charge for 2020 attributable to the COVID-19 pandemic was €58 million.

The claims rate in the **inward reinsurance business** went up year on year. The increase was largely due to the consequences of the COVID-19 pandemic and involved business shutdown insurance, guarantee insurance, and other classes of non-life insurance. In 2020, the total charge resulting from the COVID-19 pandemic came to €263 million.

Changes in claims rates and settlements (net of reinsurance) in direct non-life insurance and inward non-life reinsurance business are shown in Fig. 33.

FIG. 33 – INSURANCE SECTOR: CLAIMS RATE AND SETTLEMENTS (NET OF REINSURANCE)<sup>1</sup>

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<b>Claims rate (net) as percentage of premiums earned</b>										
Including major/natural disaster claims	76.5	76.3	76.2	76.6	76.1	76.2	75.5	78.2	75.6	77.7
Excluding major/natural disaster claims	70.4	72.7	71.1	72.8	72.3	74.0	73.8	69.1	72.7	71.4
<b>Settlements (net) as percentage of provision for incoming claims</b>										
Non-life	1.9	0.6	1.1	3.1	3.6	1.6	2.1	0.5	0.3	1.9

<sup>1</sup> Direct non-life insurance business and inward non-life reinsurance.

#### 14.7 Risk position

As at December 31, 2020, the overall solvency requirement for **life actuarial risk** amounted to €1,058 million (December 31, 2019: €1,049 million). As at the reporting date, the limit was set at €1,400 million (December 31, 2019: €1,200 million).

As at December 31, 2020, the overall solvency requirement for **health actuarial risk** was measured at €286 million (December 31, 2019: €245 million) with a **limit** of €700 million (December 31, 2019: €410 million).

As at December 31, 2020, the overall solvency requirement for **non-life actuarial risk** amounted to €3,979 million (December 31, 2019: €3,724 million). The increase arose primarily from the rise in premium and reserve risk in connection with the growth in business volume and from higher claims incurred attributable to the consequences of the COVID-19 pandemic. As at the reporting date, the limit was set at €4,500 million (December 31, 2019: €3,960 million).

## 15 Market risk

### 15.1 Definition and business background

#### 15.1.1 Definition

Market risk describes the risk arising from fluctuation in the level or volatility of market prices of assets, liabilities, and financial instruments that have an impact on the value of the assets and liabilities of the entity. It reflects the structural mismatch between assets and liabilities, in particular with respect to their maturities. In accordance with the breakdown specified in Solvency II, the bulk of credit risk within market risk is assigned to spread risk. The other parts of credit risk are measured within counterparty default risk and other risk types.

Market risk is broken down into the following subcategories:

- **Interest-rate risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the term structure of interest rates or to the volatility of interest rates.
- **Spread risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of credit spreads above the risk-free interest rate term structure. Default risk and migration risk are also included in this subcategory. The credit spread is the difference in interest rates between a high-risk and a risk-free fixed-income investment. Changes in the credit risk premiums lead to changes in the market value of the corresponding securities.
- **Equity risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of the market prices of equities. Equity investment risk is also a part of equity risk. Equity risk arises from existing equity exposures as a result of market volatility.
- **Currency risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of exchange rates. Currency risk arises as a result of exchange rate volatility either from investments held in a foreign currency or the existence of a currency imbalance between insurance liabilities and investments.
- **Real-estate risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of the market prices of real estate. Real-estate risk can arise as a result of negative changes in the fair value of real estate held directly or indirectly. This may be the result of a deterioration in the specific characteristics of the real estate or a general change in market prices (for example in connection with a real-estate crash).
- **Concentration risk** represents the additional risk for an insurance or reinsurance company stemming either from lack of diversification in the asset portfolio or from a large exposure to the risk of default by a single issuer of securities or a group of related issuers.

#### 15.1.2 Business background

Market risk arises in the insurance business as a result of investing activities. It is caused by the timing difference between the payment of premiums by the policyholder and the payments for claims and benefits by the insurance company, and by endowment-type business in personal insurance.



## 15.2 Risk factors

R+V could face additional challenges caused by the requirement to generate guaranteed returns in the life insurance business if **interest rates remain low over the long term** or turn negative and **spreads on investments remain narrow**. Whereas the low interest rates are largely caused by the ECB's expansionary monetary policy, lower spreads could reflect a number of factors, including a view in the markets that the credit quality of the issuers of investments has improved. Information on the anticipated trend in interest rates in 2021 can be found in chapter V.1.5 in the outlook.

On the other hand, if **interest rates were to rise sharply and rapidly** or **risk premiums on bonds widen**, this would lead to a substantial fall in the fair values of R+V's investments. The widening of spreads could be triggered by macroeconomic risk factors. These factors are currently the **risks to the global economy** from the COVID-19 pandemic (see chapters V.1.1 to V.1.4 in the outlook) and international trade disputes (see chapter V.1.2 in the outlook). Falls in fair value caused by a rapid rise in interest rates or the widening of spreads could have a temporary impact on operating profit at R+V, or a permanent impact if investments have to be sold. A negative change in the fair values of investments associated with a widening of spreads in isolation could also have an adverse impact on R+V's solvency situation.

Because of R+V's investments in Italian and Spanish bonds, the **economic divergence in the eurozone**, combined with the **ECB's expansionary monetary policy**, (see section 2.3.3 of this risk report) represents a risk to the recoverability of these investments. Details of R+V's investments in the eurozone periphery countries can be found in section 15.4.3.

## 15.3 Risk management

### 15.3.1 Market risk measurement

The measurement of market risk involves analyzing shock scenarios specified in **Solvency II** requirements, in some cases supplemented by the group's own parameterization.

The capital requirements for **interest-rate risk** are determined on the basis of shock scenarios calculated for an increase in interest rates and a decrease in interest rates. R+V uses the shock factors in the standard formula to calculate the overall solvency requirement for interest-rate risk. It also includes a capital buffer that takes into account changes in the direction of interest-rate trends.

The capital requirements for **spread risk** are calculated using a factor approach based on the relevant lending volume. The level of the shock factor is determined by the security's rating and the modified duration of the investment. With loan securitizations, a distinction is made between single, double, and multiple securitization structures. Depending on which is applicable, different rating-dependent shock factors are used. R+V uses its own shock factors, based on a portfolio model and with particular regard to concentration risk, to calculate the overall solvency requirement.

The capital requirements for **equity risk** are determined on the basis of stress scenarios calculated for a decrease in market value. The stress amounts depend on the equity type, e.g. whether it is listed on a regulated market in a member state of the European Economic Area or Organisation for Economic Co-operation and Development (OECD). The capital requirement for equity risk is based on the relevant equity exposure. It is determined using modeling and risk quantification based on observable data. The parameters are increased in order to take account of default risk and concentration risk. Default risk describes the risk of loss resulting from issuer insolvency.

**Currency risk** is calculated using a scenario approach that reflects the impact of a decrease or increase in the exchange rate for a foreign currency. The shock factor for determining the overall solvency requirement is based on the individual currency portfolio of R+V. Lower factors are applied for currencies that are pegged to the euro than for those that are not pegged to the euro.

The calculation of **real-estate risk** looks at both property held directly (e.g. land and buildings) and real-estate funds. The shock factor for determining the overall solvency requirement for real-estate risk is a stress scenario adapted from the standard formula and reflects the fact that direct holdings consist overwhelmingly of investments in German real estate and fund holdings consist primarily of European real estate.

The overall solvency requirement for **concentration risk** is not calculated separately because this risk is taken into account in the calculations for equity risk, spread risk, and counterparty default risk.

### 15.3.2 Principles of market risk management

The risk attaching to investments is managed in accordance with the guidelines specified by EIOPA, the stipulations in the VAG, the information provided in regulatory circulars, and internal investment guidelines (for details, see 'Market risk strategy' in section 13.1 of this risk report). R+V aims to ensure compliance with the internal provisions in the risk management guidelines for investment risk and with other regulatory investment principles and regulations by means of investment management, internal control procedures, a forward-looking investment policy, and organizational measures. The management of risk encompasses both economic and accounting aspects.

R+V counters investment risk by observing the principle of achieving the greatest possible security and profitability while safeguarding liquidity. By maintaining a mix and diversification of investments, R+V's investment policy aims to take into account the objective of mitigating risk.

In addition to natural diversification via maturity dates, issuers, countries, counterparties, and asset classes, limits are also applied in order to mitigate risk.

Asset/liability management investigations are carried out at R+V. The necessary capital requirement to maintain solvency is reviewed on an ongoing basis with the support of stress tests and scenario analyses. Specifically, reviews are carried out to assess the effects of a long period of low interest rates and volatile capital markets. R+V uses derivatives to manage market risk.

### 15.3.3 Management of individual market risk categories

In the management of **interest-rate risk**, R+V adheres to the principle of a mix and diversification of investments, combined with balanced risk-taking in selected asset classes and duration management that takes account of the structure of obligations. Furthermore, the use of pre-emptive purchases helps to provide a constant return from investments and to manage changes in interest rates and duration. A portion of the fixed-income investment portfolio has also been protected against a fall in prices.

In the management of **spread risk**, R+V pays particular attention to high credit ratings for investments, with the overwhelming majority of its fixed-income portfolio being held in investment-grade paper (see also Fig 39 in section 15.4.2 of this risk report). The use of third-party credit risk evaluations and internal expert assessments, which are often more rigorous than the credit ratings available in the market, serves to further minimize risk.

Mortgage lending is also subject to internal rules that help to limit default risk.

**Equity risk** is mitigated by diversifying holdings across different equity asset classes and regions. Asymmetric strategies are also used to reduce or increase equity exposure under a rules-based approach. At R+V, equities are used as part of a long-term investment strategy to guarantee that obligations to policyholders can be satisfied; generating profits by exploiting short-term fluctuations to sell shares is not its objective. The risk of having to sell equities at an inopportune moment is mitigated by the broadly diversified portfolio of investments. In the reporting year, short futures relating to the EURO STOXX 50 index were used for hedging purposes.

**Currency risk** is controlled by systematic foreign-exchange management. Virtually all reinsurance assets and liabilities are denominated in the same currency.

**Real-estate risk** is mitigated by diversifying holdings across different locations and types of use.

**Concentration risk** is reduced by mixing and diversifying investments. This is particularly apparent from the granular structure of the issuers in the portfolio.

#### 15.3.4 Distinctive features of managing market risk in personal insurance business

Due to the persistently low level of interest rates, there is a risk that the guaranteed minimum return agreed for certain products when contracts are signed cannot be generated on the capital markets over the long term. This particularly applies to life insurance contracts and casualty insurance contracts with premium refund clauses that guarantee minimum returns. In the case of products with long-term guarantees, there is a risk of negative variances over the term of the contracts compared with calculation assumptions because of the length of time covered by the contracts. The main reasons for variances are the change in the capital market environment and maturity mismatches between investments and insurance contracts. A protracted period of low interest rates increases the market risk arising from investments. Chapter V.1.5 in the outlook describes the anticipated trend in interest rates in 2021.

Market risk can be countered by writing new business that takes into account the current capital market situation and by taking the following action to boost the portfolio's risk-bearing capacity. It is crucial to ensure that there is enough free capital that can be made available even in adverse capital market scenarios. The necessary capital requirement to maintain solvency is reviewed on an ongoing basis with the aid of stress tests and scenario analyses as integral components of asset/liability management.

Risk is essentially mitigated by recognizing a supplementary change-in-discount-rate reserve as specified in the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) and adding to the discount rate reserves for existing contracts, thereby reducing the average interest liabilities. In 2020, R+V added a total of €738 million to these supplementary reserves in its life insurance business, bringing the overall amount to €4,658 million. The addition to these reserves for casualty insurance with premium refund was €3 million, bringing the total to €40 million. Following the amendment to the DeckRV at the end of 2018, there will be a further increase in the supplementary change-in-discount-rate reserve, although this will be in smaller steps over a longer period (using the 'corridor method').

Policyholder participation in the form of future declarations of bonuses is also a key instrument used to reduce market risk attaching to life insurance.

The breakdown of benefit reserves by discount rate for the main life and casualty insurance portfolios is shown in Fig. 34.

FIG. 34 – INSURANCE SECTOR: BENEFIT RESERVES BY DISCOUNT RATE FOR THE MAIN INSURANCE PORTFOLIOS<sup>1</sup>

Discount rate	Proportion of total benefit reserve in 2020 <sup>2</sup>		Proportion of total benefit reserve in 2019 <sup>2</sup>	
	€ million	%	€ million	%
0.00%	6,254	8.9	5,938	9.1
0.08%	4	-	2	-
0.10%	46	0.1	-	-
0.25%	928	1.3	891	1.4
0.30%	159	0.2	-	-
0.35%	308	0.4	23	-
0.40%	18	-	2	-
0.50%	163	0.2	118	0.2
0.75%	8	-	24	-
0.90%	7,555	10.7	4,850	7.4
1.00%	116	0.2	75	0.1
1.10%	59	0.1	-	-
1.25%	2,589	3.7	2,467	3.8
1.50%	31	-	24	-
1.55%	22	-	29	-
1.75%	5,999	8.5	5,723	8.7
1.80%	361	0.5	315	0.5
2.00%	765	1.1	654	1.0
2.25%	11,791	16.7	11,251	17.2
2.50%	92	0.1	88	0.1
2.75%	8,675	12.3	8,238	12.6
3.00%	2,004	2.8	2,326	3.5
3.25%	7,310	10.4	7,172	10.9
3.50%	3,321	4.7	3,564	5.4
3.75%	182	0.3	215	0.3
4.00%	7,233	10.3	7,294	11.1

<sup>1</sup> The table covers the following insurance products that include a guaranteed rate of return:

- Casualty insurance policies with premium refund
- Casualty insurance policies with premium refund as pension insurance
- Pension insurance policies
- Endowment insurance policies, including capital accumulation, risk and credit insurance policies, pension plans with guaranteed insurance-based benefits
- Capital deposit products.

<sup>2</sup> The share of the total benefit reserve attributable to supplementary insurance policies is listed under the relevant actuarial assumptions for the associated main insurance policy.

A summary of the actuarial assumptions for calculating the benefit reserves for the main life and casualty insurance portfolios is presented in note 11 of the notes to the consolidated financial statements. It forms part of the notes on the accounting policies applicable to the 'Benefit reserve' line item on the balance sheet.

The company actuarial discount rate calculated in accordance with the procedure developed by the Deutsche Aktuarvereinigung e.V. (DAV) [German Actuarial Association] is used in determining the health insurance discount rate. This procedure is based on a fundamental professional principle issued by the DAV for determining an appropriate discount rate. As a result of these calculations, the discount rate was reduced in 2020 for observation units with a premium adjustment effective January 1, 2020.

### 15.3.5 Managing risk arising from defined benefit pension obligations

The R+V entities have pension obligations (defined benefit obligations) to their current and former employees. By entering into such direct defined benefit obligations, they assume a number of risks, including risks associated with the measurement of the amounts recognized on the balance sheet, in particular risk arising from a change in the discount rate, risk of longevity, inflation risk, and risk in connection with salary and pension increases. A requirement may arise to adjust the existing provisions for pensions and other post-employment benefits as a result of decisions by the courts, legislation, or changes in the (consolidated) financial reporting. All the plan assets at R+V without exception are assets in reinsured pension schemes and are subject to interest-rate risk. The strategy adopted for the pension assets is predominantly driven by the defined benefit obligations.

## 15.4 Lending volume

### 15.4.1 Reconciliation of the lending volume

The amount and structure of the lending volume are key factors for the aspects of credit risk reflected in market risk and counterparty default risk. To identify possible risk concentrations, the volume liable to credit risk is broken down by rating class, industry sector, and country group.

Fig. 35 shows a reconciliation of the lending volume on which the risk management is based to individual balance sheet items in order to provide a transparent illustration of the link between the consolidated financial statements and risk management. There are discrepancies between the internal management and external consolidated financial reporting measurements for some portfolios owing to the focus on the risk content of the items. Other main reasons for the discrepancies between the two sets of figures are differences in the scope of consolidation, differences in the definition of lending volume, and various differences in recognition and measurement methods.

FIG. 35 – INSURANCE SECTOR: RECONCILIATION OF THE LENDING VOLUME

€ billion		Reconciliation				Lending volume for the consolidated financial statements				
Lending volume for internal management accounts		Scope of consolidation	Definition of the lending volume		Carrying amount and measurement		Investments held by insurance companies (note 57 to the consolidated financial statements)			
Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	
								10.9	9.7	of which: mortgage loans
								7.0	7.2	of which: promissory notes and loans
								9.1	9.1	of which: registered bonds
								0.9	0.7	of which: other loans
								11.6	11.3	of which: variable-yield securities
								61.5	55.8	of which: fixed-income securities
								0.6	0.4	of which: derivatives (positive fair values)
								0.6	0.4	of which: deposits with ceding insurers
103.0	98.0	-1.2	-1.2	0.5	0.4	-0.1	-2.4	102.2	94.8	<b>Total</b>
								-0.8	-0.8%	Balance as at Dec. 31, 2020
								-3.2	-3.2%	Balance as at Dec. 31, 2019

Not relevant

### 15.4.2 Change in lending volume

As at December 31, 2020, the total lending volume of R+V had increased by 5 percent to €103.0 billion (December 31, 2019: €98.0 billion). This increase was attributable to higher fair values because of changes in interest rates and to the expansion of the investment portfolios in connection with the growth in the insurance business.

The volume of lending in the **home finance** business totaled €11.9 billion as at December 31, 2020 (December 31, 2019: €10.8 billion). Of this amount, 88 percent was accounted for by loans for less than 60 percent of the value of the property (December 31, 2019: 89 percent).

The volume of home finance was broken down by finance type as at the reporting date as follows (figures as at December 31, 2019 shown in parentheses):

- Consumer home finance: €10.8 billion (€9.9 billion)
- Commercial home finance: €0.1 billion (€0.1 billion)
- Commercial finance: €1.0 billion (€0.7 billion).

In the home finance business, the entire volume disbursed is usually backed by traditional **loan collateral**.

The financial sector and the public sector, which are the dominant **sectors**, together accounted for 69 percent of the total lending volume as at December 31, 2020 (December 31, 2019: 71 percent). This lending mainly comprised loans and advances in the form of German and European Pfandbriefe backed by collateral in accordance with statutory requirements. Loans and advances to the public sector and consumer home finance (retail) highlight the safety of this investment. Fig. 36 shows the sectoral breakdown of the lending volume in the Insurance sector.

FIG. 36 – INSURANCE SECTOR: LENDING VOLUME, BY SECTOR

€ billion	Dec. 31, 2020	Dec. 31, 2019
Financial sector	47.2	47.2
Public sector	23.7	22.5
Corporates	20.0	17.3
Retail	10.8	9.9
Industry conglomerates	1.4	1.0
Other	-	-
<b>Total</b>	<b>103.0</b>	<b>98.0</b>

An analysis of the **geographical breakdown** of the lending volume in Fig. 37 reveals that Germany and other industrialized countries accounted for the lion's share – 91 percent – of the lending volume as at the balance sheet date (December 31, 2019: 90 percent).

FIG. 37 – INSURANCE SECTOR: LENDING VOLUME, BY COUNTRY GROUP

€ billion	Dec. 31, 2020	Dec. 31, 2019
Germany	37.8	35.7
Other industrialized countries	55.5	52.9
Advanced economies	1.3	1.2
Emerging markets	5.1	5.1
Supranational institutions	3.3	3.1
<b>Total</b>	<b>103.0</b>	<b>98.0</b>

Other than Germany, the following **industrialized countries** accounted for the largest exposures as at the reporting date (prior-year figures in parentheses):

- France: €12.6 billion (€11.9 billion)
- United States: €6.6 billion (€6.4 billion)
- Netherlands: €5.3 billion (€4.9 billion).

Obligations in connection with the life insurance business require investments with longer maturities. This is also reflected in the breakdown of **residual maturities** shown in Fig. 38.

FIG. 38 – INSURANCE SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Dec. 31, 2020	Dec. 31, 2019
≤ 1 year	2.7	2.6
> 1 year to ≤ 5 years	13.5	13.7
> 5 years	86.8	81.7
<b>Total</b>	<b>103.0</b>	<b>98.0</b>

As at December 31, 2020, 84 percent (December 31, 2019: 83 percent) of the total lending volume had a residual maturity of more than 5 years. By contrast, just 3 percent of the total lending volume was due to mature within one year as at the reporting date (unchanged on the value as at December 31, 2019).

The **rating structure** of the lending volume in the Insurance sector is shown in Fig 39. Of the total lending volume as at December 31, 2020, 80 percent continued to be attributable to investment-grade borrowers (December 31, 2019: 79 percent). The lending volume that is not rated, which made up 19 percent of the total lending volume (December 31, 2019: 18 percent), essentially comprised consumer home finance for which external ratings were not available. The unrated lending volume is deemed to be low-risk because the lending is based on a selective approach and the mortgageable value of the assets is limited.

FIG 39 – INSURANCE SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion	Dec. 31, 2020	Dec. 31, 2019	
Investment grade	1A	27.4	26.2
	1B	14.8	14.3
	1C	-	-
	1D	10.2	9.0
	1E	-	-
	2A	9.2	8.2
	2B	7.3	6.9
	2C	6.5	6.2
	2D	3.2	2.8
	2E	-	-
Non-investment grade	3A	3.7	4.0
	3B	0.4	1.0
	3C	0.3	0.7
	3D	-	-
	3E	0.4	0.4
	4A	0.1	0.2
	4B	0.3	0.2
	4C	0.1	0.1
	4D	-	-
	4E	-	-
Default	-	-	
Not rated	19.1	17.8	
<b>Total</b>	<b>103.0</b>	<b>98.0</b>	

To rate the creditworthiness of the lending volume, R+V uses external ratings that have received general approval. It also applies its own expert ratings in accordance with the provisions of Credit Rating Agency Regulation III to validate the external credit ratings. R+V has defined the external credit rating as the maximum, even in cases where its own rating is better. The ratings calculated in this way are matched to the DZ BANK credit rating master scale using the methodology shown in Fig. 19 (section 6.5.1 of this risk report).

As at the reporting date, the **ten counterparties associated with the largest lending volumes** continued to account for 18 percent of R+V's total lending volume.

#### 15.4.3 Credit portfolios with increased risk content

R+V's exposure in credit portfolios with increased risk content is analyzed separately because of its significance for the risk position in the Insurance sector. The figures presented here are included in the above analyses of the total lending volume.

Investments in **eurozone periphery countries** totaled €6,328 million as at December 31, 2020 (December 31, 2019: €6,812 million), which constituted a decrease of 7 percent. Fig. 40 shows the country breakdown of the exposure. In contrast to the situation as at the prior-year reporting date, R+V held exposures involving Portuguese counterparties as at December 31, 2020.

FIG. 40 – INSURANCE SECTOR: EXPOSURE IN EUROZONE PERIPHERY COUNTRIES

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Portugal</b>	<b>46</b>	-
of which: public sector	42	-
of which: non-public sector	4	-
of which: financial sector	4	-
<b>Italy</b>	<b>3,190</b>	<b>3,897</b>
of which: public sector	2,104	2,814
of which: non-public sector	1,086	1,083
of which: financial sector	826	782
<b>Spain</b>	<b>3,092</b>	<b>2,915</b>
of which: public sector	1,562	1,524
of which: non-public sector	1,529	1,391
of which: financial sector	1,295	1,128
<b>Total</b>	<b>6,328</b>	<b>6,812</b>
of which: public sector	3,708	4,338
of which: non-public sector	2,620	2,474
of which: financial sector	2,125	1,910

#### 15.5 Risk position

As at December 31, 2020, the **overall solvency requirement** for market risk amounted to €3,869 million (December 31, 2019: €3,789 million) with a **limit** of €5,750 million (December 31, 2019: €3,850 million). The change in market risk was caused by the market turmoil triggered by the COVID-19 pandemic, which affected interest rates, spreads, and share prices, and by the expansion of investment portfolios in line with the growth in the insurance business. It was also due to the fall in the potential for risk mitigation arising from the projection of lower future policyholder participation, which in turn was caused by the fall in interest rates in 2020.

Fig. 41 shows the overall solvency requirement for the various types of market risk.



FIG. 41 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR MARKET RISK

€ million	Dec. 31, 2020	Dec. 31, 2019
Interest-rate risk	890	1,223
Spread risk	1,812	1,473
Equity risk	2,177	2,025
Currency risk	247	207
Real-estate risk	442	397
<b>Total (after diversification)</b>	<b>3,869</b>	<b>3,789</b>

The overall solvency requirement includes a **capital buffer requirement** for market risk. This capital buffer requirement covers the spread and migration risk arising from subportfolios of Italian government bonds. Since the recalculation of the overall solvency requirement as at December 31, 2019, it has also taken account of the increase in market risk stemming from a further refinement of the method for measuring interest-rate risk. R+V is currently working in cooperation with DZ BANK to establish whether there is any need for changes in connection with the supervisory review process carried out by EIOPA under Commission Delegated Regulation (EU) 2015/35 (Solvency II Regulation). The capital buffer relating to the refinement of the measurement of interest-rate risk will be removed again once the new methodology has been implemented. As at December 31, 2020, the capital buffer requirement for market risk totaled €127 million (December 31, 2019: €393 million).

## 16 Counterparty default risk

### 16.1 Definition and business background

Counterparty default risk reflects losses that could arise from unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies over the following 12 months. It covers risk-mitigating contracts, such as reinsurance arrangements, securitizations and derivatives, and receivables from intermediaries, as well as any other credit risk that is not otherwise covered by risk measurement.

Counterparty default risk takes account of collateral or other security that is held by the insurance or reinsurance company and any associated risks.

### 16.2 Risk factors

Counterparty default risk can arise as a result of unexpected default or deterioration in the credit standing of mortgage loan borrowers, counterparties of derivatives, reinsurance counterparties or policyholders, or insurance brokers.

### 16.3 Risk management

#### 16.3.1 Measurement of counterparty default risk and management of limits

The capital requirements for counterparty default risk are determined on the basis of the relevant exposure and the expected losses per counterparty. R+V manages counterparty default risk at individual entity level.

Volume and counterparty limits apply to transactions involving derivatives. The various risks are monitored and transparently presented as part of the reporting system. Only economic hedges are used and they are not reported on a net basis in the consolidated financial statements.

R+V uses the views expressed by the international rating agencies in conjunction with its own credit ratings to help it to assess counterparty and issuer risk. Compliance with the limits for major counterparties is reviewed on an ongoing basis, with checks on limit utilization and compliance with investment guidelines.

### 16.3.2 Mitigating counterparty default risk

Default management mitigates the risks arising from defaults on receivables relating to direct insurance operations with policyholders and insurance brokers. The risk of default on receivables is also addressed by recognizing general loan loss allowances, which are calculated on the basis of past experience. The average ratio of defaults to gross premiums written over the past three years was 0.1 percent, which was unchanged on the figure as at December 31, 2019.

The default risk for receivables arising from inward and ceded reinsurance business is limited by constantly monitoring credit ratings and making use of other sources of information in the market.

### 16.4 Risk position

As at December 31, 2020, the **overall solvency requirement** for counterparty default risk was €188 million (December 31, 2019: €88 million) with a **limit** of €220 million (December 31, 2019: €100 million). The increase was primarily attributable to an adjustment of the calculation basis.

## 17 Reputational risk

### 17.1 Definition and business background

Reputational risk is defined as the risk of losses that could arise from damage to the reputation of R+V or of the entire industry as a result of a negative perception among the general public (for example, customers, business partners, shareholders, authorities, media).

Reputational risk can arise as an independent risk (primary reputational risk) or as an indirect or direct consequence of other types of risk, such as operational risk (secondary reputational risk).

### 17.2 Risk factors

If R+V acquires a negative reputation, there is a risk that existing or potential customers will be unsettled with the result that existing business relationships might be terminated or it might not be possible to carry out planned transactions. There is also a risk that R+V's adverse reputation is then transferred to the entities in the Bank sector and it may no longer be possible to guarantee the backing of stakeholders, such as network partners and employees, necessary to conduct business operations.

### 17.3 Risk management

R+V's corporate communications are coordinated centrally so that any inaccurate presentation of circumstances can be countered. Media reports about the insurance industry in general and R+V in particular are monitored and continuously analyzed across all R+V departments.

R+V's reputational risk is not specifically quantified within the Solvency II framework. However, it is implicitly included in the overall solvency requirement for life actuarial risk (lapse risk).

## 18 Operational risk

### 18.1 Definition and business background

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events.

Operational risk in the Insurance sector is broken down into the following components:

- Legal and compliance risk
- Information risk
- Security risk

- Outsourcing risk
- Project risk.

Operational risk could arise in any division of R+V.

## 18.2 Central risk management

The **risk capital requirement** for operational risk in the Insurance sector is determined in accordance with the standard formula in Solvency II. The risk calculation uses a factor approach, taking account of premiums, provisions and, in the case of unit-linked business, costs.

R+V uses scenario-based risk self-assessments and risk indicators to manage and control operational risk. In the **risk self-assessments**, operational risk is assessed in terms of the probability of occurrence and the level of loss. Qualitative assessments can be used in exceptional cases.

**Risk indicators** are intended to help the Insurance sector to identify risk trends and concentrations at an early stage and to detect weaknesses in business processes. A system of warning lights is used to indicate risk situations based on specified threshold values.

To support the management of operational risk, all R+V's business processes are structured in accordance with the requirements of the **framework guidelines** for employee authority and power of attorney in R+V companies. Divisions not covered by these guidelines are subject to other policy documents, including policies on new business and underwriting.

The **internal control system** is a key instrument used by R+V to **limit operational risk**. Rules and controls in each department and reviews of the use and effectiveness of the internal control system carried out by Group Audit at R+V aim to avert the risk of errors and fraud. Payments are largely automated. Powers of attorney and authorizations stored in user profiles, as well as automated submissions for approval based on a random generator, are also used. Manual payments are approved by a second member of staff.

## 18.3 Operational risk components

### 18.3.1 Legal and compliance risk

#### Risk factors

Legal risk may arise from changes in the legal environment, including changes in the way that the authorities or the courts interpret legal provisions. In particular, there is a risk that the implemented compliance and risk management systems could be inadequate for completely preventing or uncovering violations of legal provisions, for identifying and assessing all relevant risks, or for initiating appropriate corrective measures.

Violations of legal provisions may have legal implications for R+V, for the members of its decision-making bodies, or for its employees. They may give rise, for example, to fines, penalties, retrospective tax payments, or claims for damages by third parties. These effects could reduce R+V's appeal as a partner in business transactions and lead to losses in value.

#### Risk management

Legal disputes arising from the processing of insurance claims or benefit payments are covered by insurance liabilities, and therefore do not form part of operational risk. R+V monitors and analyzes relevant decisions by the courts with a view to mitigating legal risk by identifying any need for action in good time and implementing specific corrective measures. The compliance function has also implemented systems, processes, and controls in order to counter compliance risks.

### 18.3.2 Information risk

#### Risk factors

Malfunctions or breakdowns in data processing systems or in the programs used on these systems, including attacks from external sources – such as hackers or malware –, could have an adverse impact on the ability of the Insurance sector to efficiently maintain the processes necessary to carry out operating activities, protect saved data, ensure sufficient control, or continue to develop products and services. Furthermore, such malfunctions or breakdowns could lead to temporary or permanent loss of data.

#### Risk management

A core focus of R+V's IT risk strategy is to ensure that the operation of the information and communications infrastructures and application systems is stable, secure, and efficient. This is achieved through a high degree of inhouse input into the development and operation of IT solutions, systematic identification of protection requirements, appropriate security strategies based on defined IT security standards, and business continuity planning.

Quality assurance in IT follows best practice. A daily meeting is held to discuss current topics and assign people to work on them. In addition, measures relating to adherence to service level agreements (e.g. system availability) are decided upon at monthly meetings attended by the IT divisional managers.

Physical and logical precautionary measures have been established for the purpose of data and application security and to ensure that day-to-day operations are maintained. A particular risk would be a partial or total breakdown in data processing systems. R+V counters this risk by using two segregated data processing centers in which the data and systems are mirrored, special access security, fire control systems, and an uninterruptible power supply supported by emergency power generators. Exercises are carried out to test a defined restart procedure to be used in disaster situations with the aim of checking the efficacy of this procedure. Data is backed up and held within highly secure environments in different buildings. Furthermore, data is mirrored to a tape library at a remote, off-site location.

Various IT security management procedures are used to identify, assess, and document cyber risks and then to systematically allocate these risks for processing. The processing status and risk treatment are tracked and reported centrally each month.

### 18.3.3 Security risk

#### Risk factors

Business interruptions could mean that processes and workflows are disrupted over several days. Moreover, sensitive internal and external interfaces could be jeopardized by long-term business interruptions.

#### Risk management

To ensure that it is operational at all times, R+V has a business continuity management (BCM) system. This also includes the contingency and crisis management system and is documented in internal corporate guidelines. The R+V security and BCM conference with representatives from all divisions provides specialist support and is intended to ensure that activities within the R+V subgroup are coordinated. Reports on significant findings relevant to risk and on any exercises and tests that have been carried out are also submitted to the R+V Risk Committee.

The purpose of BCM is to ensure that R+V's operating activities can be maintained in the event of an emergency or crisis. To this end, (time-)critical business processes are recorded with the necessary resources. Any necessary documentation (such as business continuity planning) is prepared and reviewed. Special organizational structures, such as the R+V crisis management team and the individual business continuity teams in the divisions, have also been set up to deal with emergency and crisis situations.

### 18.3.4 Outsourcing risk

#### Risk factors

R+V aims to provide high-quality services at competitive terms and conditions based on efficient internal organization of its business activities. In this context, the outsourcing of activities to third-party service providers can bring benefits in terms of quality and costs. Outsourcing risk can arise if the service provider fails to comply with the strategic principles established by R+V or the related operational requirements when carrying out the outsourced activities. If a service provider is not suitable for the task or does not have the requisite financial stability, this could lead to defective performance or even loss of the service. Moreover, inappropriate management of operational risk by the service provider could have an adverse impact on business operations. This could also give rise to strategic and reputational risk.

#### Risk management

A number of approaches are used to provide protection against potential outsourcing risk, including a structured categorization of outsourced activities, identification of potential risk factors as part of risk analysis, the imposition of conditions on the service provider to mitigate risk, including contractually agreed standards, and integration into business continuity management.

### 18.3.5 Project risk

#### Risk factors

Project risk could arise from the inadequate clarification of project targets or orders, from deficiencies in subsequent implementation, from communication shortcomings both inside and outside the project, or from unexpected changes in the general parameters applicable to a project.

#### Risk management

To provide a regulating framework for secure, efficient execution of projects, R+V has set up a Capital Investment Committee, which submits proposals for decision or approval and provides support for large-scale projects. After projects have been approved, project managers of all large-scale projects must report to the Capital Investment Committee. This ensures that projects are then subject to independent, close monitoring and control. The Capital Investment Committee is kept informed of adjustments to project targets and can intervene to provide guidance by becoming involved in discussions on targets.

### 18.4 Risk position

As at December 31, 2020, the **overall solvency requirement** for operational risk amounted to €709 million (December 31, 2019: €637 million). The rise in the overall solvency requirement compared with the prior year resulted first and foremost from business growth. The **limit** applicable at the reporting date was set at €800 million (December 31, 2019: €680 million).

## 19 Risks from entities in other financial sectors

All entities that form part of the regulatory R+V Versicherung AG insurance group are generally included in the calculation of group solvency. This also applies to non-controlling interests in insurance companies and to entities in other financial sectors.

The **non-controlling interests in insurance companies** mainly relate to reinsurance and insurance companies over which R+V can exercise significant influence but without having complete control. The risk capital requirement for non-controlling interests in insurance companies is included on a pro-rata basis in accordance with Solvency II. As at December 31, 2020, no non-controlling interests in insurance companies were included in the risk measurement.

At R+V, the entities in other financial sectors mainly consist of pension funds and occupational pension schemes. Their **risk factors** generally correspond to the risk factors for risks backed by capital pursuant to Solvency II.

Risk is quantified for the pension funds and occupational pension schemes in accordance with the requirements currently specified by the insurance supervisor. This means applying the capital requirements in Solvency I, which are essentially calculated by applying a factor to the volume measures of benefit reserves and capital at risk.

**R+V Pensionskasse AG** is exposed to risks comparable with those faced by the life insurance entities in the R+V subgroup. The main risk management activities applicable in this case are those relating to life actuarial risk (see section 14.3.2 of this risk report), market risk (section 15.3), counterparty default risk (section 16.3), and operational risk (section 18.2). R+V Pensionskasse AG largely stopped taking on new business on January 1, 2021. It is continuing to manage existing contracts as before.

The risk situation in a **pension fund** is determined to a significant degree by the nature of the pension plans offered. In pension plans offered by R+V involving defined contributions with a minimum benefit, it must be ensured that at least the sum of the contributions paid into the plan (net of any contributions covering biometric risk assumed by R+V) is available on the agreed pension start date.

R+V also offers pension plans that include guaranteed insurance-based occupational incapacity cover as well as pension benefits and benefits for surviving dependants. Market risk and all the risk types covered by actuarial risk are relevant as far as occupational pension provision is concerned. Longevity risk is also important in relation to pensions because of the guaranteed benefits involved. Again, the risk management activities relating to life actuarial risk, market risk, counterparty default risk, and operational risk apply in this case. R+V aims to ensure that the ongoing pension plan contributions and the benefit reserve include sufficient amounts to cover the costs of managing pension fund contracts.

In the pension plans involving a benefit commitment without any insurance-based guarantees, R+V does not assume responsibility for any of the pension fund risk or investment risk because the benefits promised by the pension fund are subject to the proviso that the employer will also make up any difference required. This also applies to the period in which pensions are drawn. If the employer fails to make up the difference required, R+V's commitment is reduced to insurance-based guaranteed benefits based on the amount of capital still available.

As at December 31, 2020, the **overall solvency requirement** for risks in connection with entities in other financial sectors remained unchanged at €119 million. The **limit** was €140 million (December 31, 2019: €112 million).



# 2020 annual financial statements of DZ BANK AG

Balance sheet as at December 31, 2020	160	» 13 Trading assets and trading liabilities	175
Income statement		» 14 Statement of changes in fixed assets	175
for the period January 1 to December 31, 2020	162	» 15 Other assets	176
Notes	164	» 16 Prepaid expenses/accrued income and deferred income/accrued expenses	176
<hr/>			
<b>A General disclosures</b>		» 17 Deferred tax assets	176
» 01 Basis of preparation	164	» 18 Netting of assets and liabilities	177
» 02 Accounting policies	164	» 19 Other liabilities	177
» 03 Currency translation	170	» 20 Subordinated liabilities	177
<hr/>			
<b>B Balance sheet disclosures</b>		» 21 Profit-sharing rights	178
» 04 Maturity structure	171	» 22 Changes in equity	179
» 05 Affiliated companies and other long-term investees and investors	172	» 23 Disclosures on shareholders	180
» 06 Loans and advances to and deposits from affiliated banks	172	» 24 Disclosure pursuant to section 20 AktG	181
» 07 Subordinated assets	173	» 25 Amounts not allowed to be distributed as dividends	181
» 08 Trust activities	173	» 26 List of derivatives recognized at fair value by product area	182
» 09 Foreign currency	173	» 27 List of derivatives recognized at fair value by counterparty structure	183
» 10 Sale and repurchase agreements	174	» 28 List of derivatives not recognized at fair value by product area	183
» 11 Assets assigned as collateral	174	» 29 List of derivatives not recognized at fair value by counterparty structure	184
» 12 Marketable securities	174		



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<b>C Income statement disclosures</b>		
» 30	Breakdown of income by geographical market	185
» 31	Administration and agency services provided for third parties	185
» 32	Other operating income and expenses	185
» 33	Extraordinary expenses	185
» 34	Proposed appropriation of profits	185

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<b>D Other disclosures</b>		
» 35	Contingent liabilities and other obligations	186
» 36	Other financial obligations	186
» 37	Letters of comfort	186
» 38	Employees	187
» 39	Investment fund assets	187
» 40	Auditor fees	187
» 41	Cover statement	188
» 42	Trustees of cover assets	188
» 43	Related party disclosures	188
» 44	Decision-making bodies	188
» 45	Supervisory mandates held by members of the Board of Managing Directors and employees	191
» 46	List of shareholdings	194
» 47	Disclosures pursuant to section 285 no. 11a HGB	208
» 48	Events after the balance sheet date	208

## Balance sheet as at December 31, 2020

### ASSETS

€ million	(Notes)		Dec. 31, 2020	Dec. 31, 2019
<b>1. Cash and cash equivalents</b>				
a) Cash on hand			128	281
b) Balances with central banks			1,002	28,228
of which: with Deutsche Bundesbank		141		(27,858)
			<b>1,130</b>	<b>28,509</b>
<b>2. Debt instruments from public-sector entities and bills of exchange eligible for refinancing by central banks</b>				
a) Treasury bills, non-interest-bearing treasury notes and similar debt instruments from public-sector entities			273	204
			<b>273</b>	<b>204</b>
<b>3. Loans and advances to banks</b>	(02, 04, 05, 06, 07)			
a) Repayable on demand			62,027	18,727
b) Other loans and advances			123,300	114,224
			<b>185,327</b>	<b>132,951</b>
<b>4. Loans and advances to customers</b>	(02, 04, 05, 07)			
of which: secured by mortgages		187		(250)
local authority loans		762		(795)
<b>5. Bonds and other fixed-income securities</b>	(02, 04, 05, 07, 12, 14)			
a) Money market instruments			172	233
ab) from other issuers			172	233
b) Bonds			35,055	32,902
ba) from public-sector issuers		7,489		7,152
of which: eligible as collateral at Deutsche Bundesbank		6,853		(6,392)
bb) from other issuers		27,566		25,750
of which: eligible as collateral at Deutsche Bundesbank		18,899		(16,512)
c) Own bonds			687	364
Nominal value		680		(360)
			<b>35,914</b>	<b>33,499</b>
<b>6. Shares and other variable-yield securities</b>	(02, 07, 12, 14)			
			<b>53</b>	<b>60</b>
<b>6a. Trading assets</b>	(02, 07, 13)			
			<b>33,213</b>	<b>35,810</b>
<b>7. Long-term equity investments</b>	(02, 12, 14)			
of which: in banks		238		(226)
<b>8. Shares in affiliated companies</b>	(02, 12, 14)			
of which: in banks		6,059		(6,052)
in financial services institutions		245		(210)
<b>9. Trust assets</b>	(08)			
of which: trust loans		1,520		(45)
<b>10. Intangible assets</b>	(02, 14)			
b) Purchased concessions, industrial and similar rights and assets, including licenses for such rights and assets			68	61
d) Payments in advance			15	19
			<b>83</b>	<b>80</b>
<b>11. Property, plant and equipment</b>	(02, 14)			
			<b>410</b>	<b>420</b>
<b>12. Other assets</b>	(15)			
			<b>1,732</b>	<b>1,525</b>
<b>13. Prepaid expenses and accrued income</b>	(16)			
a) In connection with issuing and lending business			106	99
b) Other			31	20
			<b>137</b>	<b>119</b>
<b>14. Deferred tax assets</b>	(02, 17)			
			<b>907</b>	<b>1,025</b>
<b>15. Excess of plan assets over pension liabilities</b>	(18)			
			<b>7</b>	<b>58</b>
<b>Total assets</b>			<b>309,900</b>	<b>284,305</b>

EQUITY AND LIABILITIES

€ million	(Notes)		Dec. 31, 2020	Dec. 31, 2019
<b>1. Deposits from banks</b>	(02, 04, 05, 06)			
a) Repayable on demand			61,977	45,829
b) With agreed maturity or notice period			108,648	89,958
			<b>170,625</b>	<b>135,787</b>
<b>2. Deposits from customers</b>	(02, 04, 05)			
b) Other deposits			39,622	33,589
ba) Repayable on demand		26,829		20,532
bb) With agreed maturity or notice period		12,793		13,057
			<b>39,622</b>	<b>33,589</b>
<b>3. Debt certificates issued including bonds</b>	(02, 04, 05)			
a) Bonds issued			36,038	31,294
b) Other debt certificates issued			3,131	23,446
of which: commercial paper		3,131		(22,733)
			<b>39,169</b>	<b>54,740</b>
<b>3a. Trading liabilities</b>	(02, 13)		<b>35,274</b>	<b>37,864</b>
<b>4. Trust liabilities</b>	(08)		<b>2,031</b>	<b>654</b>
of which: trust loans		1,520		(45)
<b>5. Other liabilities</b>	(03, 19)		<b>770</b>	<b>666</b>
<b>6. Deferred income and accrued expenses</b>	(16)			
a) In connection with issuing and lending business			198	88
b) Other			14	15
			<b>212</b>	<b>103</b>
<b>7. Provisions</b>	(02)			
a) Provisions for pensions and other post-employment benefits			64	53
b) Provisions for taxes			139	125
c) Other provisions			836	842
			<b>1,039</b>	<b>1,020</b>
<b>8. Subordinated liabilities</b>	(02, 05, 20)		<b>6,515</b>	<b>5,426</b>
<b>9. Profit-sharing rights</b>	(21)		<b>-</b>	<b>68</b>
of which: maturing within two years		-		(68)
<b>10. Fund for general banking risks</b>	(02)		<b>3,812</b>	<b>3,812</b>
of which: special item in accordance with section 340e (4) HGB		240		(240)
<b>11. Equity</b>	(22, 23, 24)			
a) Subscribed capital			4,926	4,926
Contingent capital: €53 million (Dec. 31, 2019: €53 million)				
b) Capital reserve			3,784	3,784
c) Revenue reserves			1,542	1,542
ca) Statutory reserve		105		105
cd) Other revenue reserves		1,437		1,437
d) Distributable profit			579	324
			<b>10,831</b>	<b>10,576</b>
<b>Total equity and liabilities</b>			<b>309,900</b>	<b>284,305</b>
<b>1. Contingent liabilities</b>	(35)			
b) Liabilities under guarantees and indemnity agreements <sup>1</sup>			8,402	8,004
			<b>8,402</b>	<b>8,004</b>
<b>2. Other obligations</b>	(35)			
b) Placement and underwriting commitments			41	-
c) Irrevocable loan commitments			30,592	22,158
			<b>30,633</b>	<b>22,158</b>

<sup>1</sup> See also details under 'Other disclosures' in Notes 36 and 37.

## Income statement for the period January 1 to December 31, 2020

€ million	(Notes)		2020	2019
<b>1. Interest income from</b>	(02, 30)			
a) Lending and money market business		1,629		2,062
of which: negative interest rates on financial assets	158			(186)
b) Fixed-income securities and book-entry securities		401		489
of which: negative interest rates on financial assets	-			(-)
		2,030		2,551
<b>2. Interest expense</b>	(02)	1,299	<b>731</b>	1,871
of which: positive interest rates on financial liabilities	307			(195)
expenses incurred by the unwinding of discounts on provisions	2			(2)
<b>3. Current income from</b>	(02, 30)			
a) Shares and other variable-yield securities		0		0
b) Long-term equity investments		7		10
c) Shares in affiliated companies		218		185
			<b>225</b>	195
<b>4. Income from profit-pooling, profit-transfer and partial profit-transfer agreements</b>			<b>262</b>	283
<b>5. Fee and commission income</b>	(30, 31)	894		813
<b>6. Fee and commission expenses</b>		429		402
			<b>465</b>	411
<b>7. Net trading income</b>	(02, 30)		<b>372</b>	426
of which: income from the discounting of provisions		-		(0)
expenses incurred by the unwinding of discounts on provisions	0			(0)
<b>8. Other operating income</b>	(02, 30, 32)		<b>190</b>	129
of which: income from the discounting of provisions	0			(10)
<b>9. General and administrative expenses</b>				
a) Staff expenses		667		636
aa) Wages and salaries		556		549
ab) Social security, post-employment and other employee benefit expenses		111		87
of which: post-employment benefit expenses	40			(17)
b) Other administrative expenses		750		779
			<b>1,417</b>	1,415
<b>10. Amortization and write-downs on intangible assets, and depreciation and write-downs on property, plant and equipment</b>			<b>54</b>	50
<b>11. Other operating expenses</b>	(02, 32)		<b>194</b>	115
of which: expenses incurred by the unwinding of discounts on provisions	47			(7)
<b>12. Write-downs on and loss allowances for loans and advances and certain securities, and additions to provisions for losses on loans and advances</b>	(02)		<b>300</b>	169
<b>13. Income from the reversal of write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets</b>	(02)		<b>22</b>	115
<b>14. Expenses from the transfer of losses</b>			<b>30</b>	10
<b>15. Result from ordinary activities</b>			<b>272</b>	480
<b>16. Extraordinary expenses</b>	(33)		<b>4</b>	20
<b>17. Extraordinary result</b>			<b>-4</b>	-20

€ million	(Notes)			2020	2019
<b>18. Income taxes</b>			13		66
of which: from deferred taxes	118				(58)
<b>19. Other taxes not included under 'Other operating expenses'</b>			0		0
				<b>13</b>	66
<b>20. Net income for the year</b>	(34)			<b>255</b>	394
<b>21. Profit brought forward from 2019</b>				<b>324</b>	2
<b>22. Additions to revenue reserves</b>					
d) To other revenue reserves			-		72
				-	72
<b>23. Distributable profit</b>				<b>579</b>	324

# Notes

## A General disclosures

### >> 01 Basis of preparation

DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK), headquartered in Frankfurt am Main, is entered in the commercial register at the Frankfurt am Main local court under the number HRB 45651.

The annual financial statements of DZ BANK for the year ended December 31, 2020 have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the Statutory Order on the Accounts of Banks and Financial Services Institutions (RechKredV). At the same time, the annual financial statements comply with the provisions of the German Stock Corporation Act (AktG), the DG BANK Transformation Act, and the Articles of Association of DZ BANK.

DZ BANK has made use of available options to include disclosures in the notes to the financial statements rather than on the balance sheet and income statement. Unless stated otherwise, all amounts are shown in millions of euros (€ million). All figures are rounded to the nearest whole number. This may result in very small discrepancies in the calculation of totals and percentages.

The accounting policies applied in 2020 were essentially the same as those used in 2019. Any changes compared with 2019 are set forth in Note 02 'Accounting policies'.

### >> 02 Accounting policies

Assets and liabilities are measured in accordance with the general provisions in sections 252 et seq. HGB, taking account of the special provisions in sections 340 et seq. HGB applicable to banks.

#### Loans and advances to banks and customers

Loans and advances to banks and customers are carried at their principal amounts or at cost. The difference between the principal amount and the amount disbursed is recognized under deferred income and apportioned pro rata over the term of the loan. Promissory notes, registered bonds, and lease receivables acquired from third parties are recognized at cost. Loans and advances, which are classified as current assets, are measured strictly at the lower of cost and market.

Provisions for lending risks comprise valuation allowances and provisions for identifiable credit risk and latent credit risk for all portfolios of loans and advances on the balance sheet, for off-balance-sheet transactions, and for revocable loan commitments. DZ BANK also recognizes allowances for general banking risks as permitted by section 340f HGB.

The calculation of loss allowances under HGB is based on the IFRS 9 expected loss model, which divides loss allowances into three stages. The probability of default, the loss given default, and the expected loan amount at the time of default are factored into the calculation of the expected credit losses. Stages 1 and 2 (portfolio loan loss allowances) are recognized for deferred credit risks; stage 1 corresponds to the 12-month expected credit

loss and stage 2 to the lifetime expected credit loss. Use of the IFRS 9 expected loss model to calculate loss allowances under HGB complies with the general measurement principles of the HGB. The reason for using the expected loss model is to take account of expected losses at an earlier stage, which will produce a better true and fair view of net assets, financial position, and results of operations.

Loss allowances for identifiable credit risk (actual impairment losses) are calculated in stage 3 in the amount of the lifetime expected credit loss. The expected credit loss in stage 3 is generally calculated on the basis of individual expert appraisals of the achievable cash flows and probability-weighted scenarios.

Transactions for which loss allowances are to be recognized are assigned to stage 1 upon initial recognition. This is not the case for financial assets that are purchased or originated credit-impaired assets (POCI assets). They are initially recognized at their carrying amount adjusted for their lifetime expected credit losses (POCI asset adjustment). At the balance sheet date, the cumulative changes that exceed the lifetime expected credit loss since initial recognition (POCI asset adjustment) are recognized as an additional loss allowance. Reversals of the POCI asset adjustment as a result of reversals of impairment losses are not possible due to the cost restriction under HGB.

At each balance sheet date, assets are assigned to stage 2 if their credit risk has significantly increased since initial recognition but there is no objective evidence of impairment. The review of whether the credit risk has increased significantly since initial recognition is carried out on an ongoing basis using both quantitative and qualitative criteria.

As a result of the 3-stage model being used, whenever there is a significant increase in credit risk, a transfer to stage 2 takes place and a loss allowance is recognized in the amount of the lifetime expected credit loss.

During the COVID-19 pandemic, the established models and processes for calculating expected losses have generally been retained. Current economic conditions resulting from the COVID-19 pandemic are mainly taken into consideration by updating the macroeconomic forecasts. The basis for the inclusion of forward-looking macroeconomic assumptions when determining the shift factors applied as at the balance sheet date are the latest macroeconomic forecasts provided by DZ BANK's Economic Roundtable. In each case, two macroeconomic scenarios with an appropriate weighting are factored in. The shift factors were used to include current economic conditions (known as a point-in-time focus) and forecasts of future economic conditions for the years covered by the macroeconomic forecast period in these scenarios. The shift factors determined using statistical methods were adjusted in consultation with experts because of the extreme macroeconomic changes, which have not been seen on this scale before, and because of the extensive government support measures. This ensures that the shift factors used are in line both with experts' expectations and with the forecast changes in macroeconomic factors for the calculation of expected losses. The updating of the shift factors resulted in a €93 million increase in portfolio loan loss allowances as at December 31, 2020.

### **Bonds and other fixed-income securities, and shares and other variable-yield securities**

These line items on the balance sheet comprise long-term securities and securities in the liquidity reserve. Securities in the liquidity reserve are measured strictly in accordance with the principle of lower of cost and market. Long-term securities that are permanently impaired are written down to the lower of cost and market. In 2020, as in the previous year, temporarily impaired long-term securities were optionally measured at the lower of cost and market or their carrying amount was retained in accordance with section 340e (1) HGB. Under the item 'Bonds and other fixed-income securities', the carrying amount of marketable securities not measured at the lower of cost and market was €1,327 million. For further information on the impact on net assets, financial position, and results of operations, please refer to Note 14 'Statement of changes in fixed assets'.

The fair value of securities is largely determined by reference to current market prices or by using generally accepted valuation methods on the basis of parameters that are observable in the market, such as yield curves, spreads, volatility, or exchange rates. In the event that specific parameters relevant to the measurement cannot be observed or cannot be determined directly from market data, the bank's own internal estimated parameters are used.

DZ BANK individually measures securities that are held either as long-term investments or in the liquidity reserve.

Premiums and discounts on the fixed-income securities in the banking book are recognized in accordance with the effective interest method. This resulted in interest expense of €32 million in 2020 (2019: €38 million).

Dividend income from shares and other variable-yield securities that are held either as long-term investments or in the liquidity reserve is reported as current income from shares and other variable-yield securities.

### Trading assets and trading liabilities

Trading assets and trading liabilities comprise bonds and other fixed-income securities, shares and other variable-yield securities, promissory notes, registered bonds, sale and repurchase agreements, and derivatives (interest-rate, currency, credit, and equity derivatives). DZ BANK reports its own structured issues of credit-linked notes and share certificates – because they are held for trading purposes – as trading liabilities in accordance with the criteria specified in accounting guidance statement 2 issued by the banking committee of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Public Auditors in Germany].

Over-the-counter (OTC) derivatives held for trading purposes, for which variation margins have been agreed on the basis of bilateral master agreements in the Collateralization Annex and for which the variation margins have been paid daily, are netted and shown on the balance sheet on a net basis. For each master agreement, the netting covers the fair values of the OTC derivatives and the variation margin. As at December 31, 2020, this netting reduced loans and advances to banks by €3,142 million (December 31, 2019: €2,641 million), loans and advances to customers by €729 million (December 31, 2019: €593 million), the carrying amount of trading assets by €13,980 million (December 31, 2019: €12,920 million), deposits from banks by €2,539 million (December 31, 2019: €2,298 million), deposits from customers by €323 million (December 31, 2019: €414 million), and the carrying amount of trading liabilities by €14,989 million (December 31, 2019: €13,442 million). The amounts are presented on a gross basis in Note 26 'List of derivatives recognized at fair value by product area' and in Note 27 'List of derivatives recognized at fair value by counterparty structure'.

The fair values of OTC interest-rate derivatives that are traded through a central counterparty have also been netted with the carrying amounts of the underlying derivatives positions contained in the trading assets and trading liabilities line items on the balance sheet. As at December 31, 2020, this netting reduced the carrying amount of trading assets by €20,997 million (December 31, 2019: €24,348 million), the carrying amount of other assets by €2,882 million (December 31, 2019: €2,100 million), and the carrying amount of trading liabilities by €23,879 million (December 31, 2019: €26,448 million). The amounts are presented on a net basis in Note 26 'List of derivatives recognized at fair value by product area' and in Note 27 'List of derivatives recognized at fair value by counterparty structure'.

As part of the clearing service for customers of DZ BANK, the fair values of OTC interest-rate derivatives that are traded through a central counterparty are recognized and netted with the carrying amounts of the underlying derivatives positions contained in the trading assets and trading liabilities line items on the balance sheet.

Financial instruments held for trading purposes are measured at their fair value in accordance with section 255 (4) HGB in conjunction with section 340e (3) HGB. To ensure that the income statement only includes unrealized gains from positions that are substantially closed, a risk adjustment is applied to the net gains and losses. This adjustment comprises a value-at-risk adjustment, a mathematical calculation that describes the maximum potential loss that is considered to be highly probable. An internal model is used to calculate the value-at-risk adjustment based on regulatory requirements. It applies the 10-day value-at-risk adjustment required by the regulator. The calculation of the value-at-risk adjustment was based on an observation period of 250 trading days and a confidence level of 99 percent. The value-at-risk adjustment amounted to €54 million (December 31, 2019: €8 million).



Where markets are inactive, generally accepted discounted cash flow methods are used in the model-based measurement of the fair value of financial instruments without optionalities. Modeling of the yield curves is based on a multi-curve approach with collateral discounting. Simple products on which options exist are measured using customary standard models in which the inputs are quoted in active markets. For structured products on which options exist, a wide range of standard valuation techniques are used. Valuation models are calibrated to available market prices and validated regularly. In order to determine fair value reliably, measurement adjustments are also made for uncertain measurements.

Fair value gains and losses, current interest payments and dividend income from securities held for trading purposes, current payments arising from derivatives and from sale and repurchase agreements and securities lending transactions entered into for trading purposes, promissory notes and other receivables, foreign exchange, and precious metals – including any deferrals carried out – are all recognized as part of the net trading result. In addition, the funding costs attributable to trading assets and trading liabilities in the form of internal fixed-term deposits and imputed overnight rates are also reported as part of the net trading result.

### **Securities lending**

For securities involved in securities lending transactions, the accounting treatment of securities lending is the same as the accounting treatment for genuine sale and repurchase agreements (i.e. agreements in which the buyer is under an obligation to sell back the securities) in accordance with section 340b (2) HGB. The securities remain on the balance sheet. Borrowed securities are not recognized on the balance sheet.

### **Long-term equity investments and shares in affiliated companies**

Long-term equity investments and shares in affiliated companies are measured at amortized cost or, if expected to be permanently impaired, at the lower of cost and fair value. If the reasons for a previous write-down no longer exist, the write-down is reversed so that the asset is measured at fair value. However, the reversal must not result in a carrying amount higher than the original cost.

### **Property, plant and equipment, and intangible assets**

Property, plant and equipment is measured at cost and reduced by depreciation over its estimated useful life. Useful life is based on the depreciation tables published by the German tax authorities.

Low-value assets with an individual net value of up to €250 are written off in full in the year of acquisition and expensed. In the case of assets with an individual net value between €250 and €1,000, the aggregate item that needs to be recognized on an annual basis for tax purposes has been included in the HGB financial statements to simplify matters. In accordance with tax rules, annual aggregate items with overall carrying amounts that are not material are depreciated at a flat rate of 20 percent in the year of recognition and then in each of the 4 subsequent years.

Office furniture and equipment including operating equipment is depreciated on a straight-line basis.

Assets are written down if they are considered to be impaired on a permanent basis. If the reasons for a previous write-down no longer exist, the write-down is reversed.

Intangible fixed assets are measured at cost and amortized on a straight-line basis. A useful life of 3 to 15 years is used as the basis for the amortization.

## Deferred taxes

Using the option to recognize deferred tax assets provided for in section 274 (1) sentence 2 HGB, the bank recognized the excess of deferred tax assets after they had been offset against deferred tax liabilities. Deferred taxes are measured using the national and entity-specific tax rates expected to apply at the time of realization. The income tax group was subject to a standard tax rate of 31.26 percent (trade tax of 15.435 percent and corporation tax/solidarity surcharge of 15.825 percent). Deferred taxes at branches outside Germany were measured at the statutory rates applicable in the countries concerned, which range from 19.00 percent to 23.50 percent. The carrying amounts also included the deferred taxes from measurement differences at subsidiaries that form a tax group with the bank. Overall, this resulted in an excess of deferred tax assets recognized on DZ BANK's balance sheet, the bulk of which is attributable to subsidiaries. For its measurement of the excess of deferred tax assets, the bank assumes that the profit-and-loss transfer agreements with its subsidiaries will continue and bases its income planning on a 5-year planning horizon. In accordance with IAS 12.29(a), when calculating the expected future tax benefits from the measurement differences in existence at the balance sheet date, only those measurement differences are recognized that are likely to disappear again in this period and will not be replaced with new measurement differences. The calculation of deferred tax assets takes account of tax loss carryforwards in the amount of the losses expected to be offset within the next 5 years.

## Liabilities

Liabilities are carried at the settlement amount. The difference between the notional amount and the amount disbursed is recognized under prepaid expenses and apportioned pro rata over the term of the loan. Capital-related bonds, in which interest payments or repayments of principal are not solely subject to interest-rate risk, are recognized at their nominal amounts, with any related options being recognized and measured separately.

## Targeted longer-term refinancing operations (TLTRO III program)

The ECB made additional liquidity available under the TLTRO III program in order to support lending to households and companies during the COVID-19 pandemic. In June and September 2020, the joint bidder group of DZ BANK and TeamBank AG Nürnberg, Nuremberg, participated in this program in two tranches with a total drawdown amount of €14.8 billion. The entire volume of €14.8 billion is recognized on DZ BANK's balance sheet under deposits from banks. The term for each tranche is a maximum of 3 years. Early, voluntary partial or full repayment is possible at quarterly intervals from 12 months after disbursement, but not before September 2021.

The interest on the liquidity provided depends on the net lending volume in the specified reporting periods. The interest rate in the reporting-relevant months of 2020 was in any case minus 0.5 percent and was recognized pro rata in net interest income. In the best case, a 0.5 percentage point lower interest rate is achievable in the period June 24 2020 to June 23, 2021 if the net lending volume of the eligible loans (loans to the non-financial sector in the eurozone, excluding consumer home finance) remains at least constant in the period March 1, 2020 to March 31, 2021. Provided this condition is met, the interest rate would be minus 1.0 percent. In accordance with the ECB's decision on December 10, 2020, the more favorable funding conditions will also apply in the period June 24, 2021 to June 23, 2022 if the net lending volume in respect of the eligible loans remains at least constant in the reporting period October 1, 2020 to December 31, 2021. The possible interest-rate advantage is thus minus 0.5 percent and, under HGB, constitutes a partial waiver of the liability subject to a condition precedent. It may not be recognized until the condition has been satisfied or is almost certain to be satisfied. As at December 31, 2020, there was insufficient certainty about satisfying the condition for receiving the interest-rate advantage for 2020, so it was not recognized.

## Provisions

Defined benefit obligations are calculated in accordance with actuarial principles. Their computation is based on the projected unit credit method. The discount rate used was forecast on the basis of the interest rate published by Deutsche Bundesbank as at November 30, 2020. It corresponds to the average market interest rate over the past 10 years as at December 31, 2020 (2.30 percent) for a residual maturity of 15 years. In Germany, the biometric tables used in these calculations are the 2018 G mortality tables published by HEUBECK AG, Cologne. Measurement is based on anticipated annual rates of increase of 1.80 percent for salaries and 1.60 percent for pensions. In order to provide cover for its defined benefit obligations, DZ BANK has transferred assets to DZ BANK Pension Trust e. V., Frankfurt am Main, which acts as a trustee on behalf of the pension beneficiaries. The valuation of defined benefit obligations outside Germany is based on the applicable country-specific biometric factors and parameters. Pension plans and the bank's early-retirement obligations gave rise to provisions for pensions and other post-employment benefits of €64 million.

DZ BANK recognizes provisions for current taxes in accordance with German tax law.

It recognizes its other provisions at the amounts needed to settle contingent liabilities and/or anticipated losses as dictated by prudent business practice.

Provisions that are recognized for more than 1 year are discounted at the average market interest rate for the past 7 years that corresponds to their residual maturity. It is calculated and published by Deutsche Bundesbank.

Income from the discounting of provisions for banking business and expenses incurred by the unwinding of discounts on such provisions are reported as interest income and interest expenses respectively. If the provisions are related to trading activities, the income resulting from discounting and expenses incurred by the unwinding of discounts are shown in the net trading result. Income from the discounting of residual provisions and expenses incurred by the unwinding of discounts on such provisions are reported as other operating income and other operating expenses respectively.

## Additional regulatory Tier 1 capital instruments

Owing to their structure, the additional Tier 1 instruments (AT1 bonds) that have been issued are classified as debt. They are recognized at their settlement value under the subordinated liabilities line item on the balance sheet. The interest cost is accrued on the basis of the expected interest payments to the bond holders. The accrued interest is also recognized under the subordinated liabilities line item on the balance sheet.

## Interest-linked contracts of the banking book

In accordance with the principles of write-downs to anticipate identifiable expected losses, evidence was provided for all on-balance-sheet and off-balance-sheet interest-linked financial instruments of the banking book to show that no losses will be incurred on contracted interest-linked items in the future. This was done using the present value/carrying amount method. In this method, the carrying amounts of the interest-bearing transactions of the banking book are offset against the interest-rate-related present values, taking account of the associated costs of managing the risk and the portfolio. Any remaining shortfall after offsetting would require a corresponding provision to be recognized. As at December 31, 2020, there was no need to recognize a provision for anticipated losses pursuant to section 340a HGB in conjunction with section 249 (1) sentence 1 HGB.

## Miscellaneous

Expenses in connection with investments are offset against investment income in accordance with section 33 RechKredV in conjunction with section 340c (2) HGB. Fair value gains and losses on the measurement of loans and advances and the securities in the liquidity reserve are reported as a net figure in accordance with section 32 RechKredV in conjunction with section 340f (3) HGB.

The fund for general banking risks amounted to €3,812 million as at December 31, 2020 (December 31, 2019: €3,812 million). This fund for general banking risks includes a special item in accordance with section 340e (4) HGB.

The methods used to recognize and measure internal transactions are the same as those applied to external transactions. The internal transactions are shown as netted amounts in the respective line items on the balance sheet.

Non-trading credit derivatives in which DZ BANK is the protection buyer and for which hedge accounting is not applied, along with non-trading protection-seller transactions, are measured individually and in accordance with the HGB imparity principle as required by accounting guidance statement 1 issued by the banking committee of IDW. Like guarantees, non-trading protection-seller transactions in the banking book for individual exposures – where such transactions are held to maturity or until the credit event occurs and they only cover the credit risk – are subject to an evaluation of the necessity for loss allowances. The transactions are shown under contingent liabilities or, in the case of loss allowances being recognized, under other provisions.

## >> 03 Currency translation

Assets and liabilities denominated in foreign currencies as well as claims and delivery obligations under currency transactions are translated in compliance with section 256a HGB in conjunction with section 340h HGB. This legislation requires that foreign currencies be translated at the middle spot exchange rate on the balance sheet date.

All currency exposures arising in connection with trading assets and trading liabilities are recognized and measured in accordance with the rules governing trading assets and trading liabilities. The corresponding exchange gains and losses on foreign-currency transactions designated as trading assets and trading liabilities are reported as net trading income on the income statement.

Under the strategy for managing currency risk, DZ BANK's foreign currency exposures and foreign-currency transactions are deemed to be specifically covered in the same currency. Assets are deemed to be specifically covered in the same currency if they are matched by liability items, forward transactions, or options. The excess fair value measurement of these derivatives is reported as an offsetting item for currency translation under 'Other assets' on the balance sheet. The fair value gains and losses on non-trading transactions that are specifically covered in the same currency are shown on a net basis under other operating income. Where DZ BANK has entered into currency swaps in connection with the hedging of interest-bearing balance sheet items, the swap income and expenses are treated as interest income and expense in the financial year, reflecting the nature of the income and expense involved.

## B Balance sheet disclosures

### >> 04 Maturity structure

#### ASSET ITEMS

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Other loans and advances to banks</b>	<b>123,300</b>	<b>114,224</b>
up to 3 months	13,448	10,586
between 3 months and 1 year	15,418	15,743
between 1 year and 5 years	41,354	38,611
more than 5 years	53,080	49,284
<b>Loans and advances to customers</b>	<b>37,627</b>	<b>38,308</b>
up to 3 months	9,787	9,821
between 3 months and 1 year	3,855	3,390
between 1 year and 5 years	14,077	14,317
more than 5 years	7,676	7,664
no fixed maturity	2,232	3,116
<b>Bonds and other fixed-income securities</b>	<b>35,914</b>	<b>33,499</b>
of which: maturing in subsequent year	5,201	4,614

#### LIABILITY ITEMS

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Deposits from banks with agreed maturity or notice period</b>	<b>108,648</b>	<b>89,958</b>
up to 3 months	13,880	14,534
between 3 months and 1 year	7,165	7,356
between 1 year and 5 years	44,793	26,845
more than 5 years	42,810	41,223
<b>Deposits from customers</b>	<b>12,793</b>	<b>13,057</b>
<b>Other deposits from customers with agreed maturity or notice period</b>	<b>12,793</b>	<b>13,057</b>
up to 3 months	4,223	3,368
between 3 months and 1 year	1,555	3,019
between 1 year and 5 years	939	1,553
more than 5 years	6,076	5,117
<b>Debt certificates issued including bonds</b>		
<b>Bonds issued</b>	<b>36,038</b>	<b>31,294</b>
of which: maturing in subsequent year	4,666	11,506
<b>Other debt certificates issued</b>	<b>3,131</b>	<b>23,446</b>
up to 3 months	2,484	20,075
between 3 months and 1 year	420	3,371
between 1 year and 5 years	227	–

## >> 05 Affiliated companies and other long-term investees and investors

Loans and advances to and deposits from affiliated companies:

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans and advances to banks	35,620	34,390
Loans and advances to customers	4,785	5,125
Bonds and other fixed-income securities	3,820	4,121
Deposits from banks	10,684	12,656
Deposits from customers	3,357	3,532
Debt certificates issued including bonds	1,081	1,181
Subordinated liabilities	1,412	1,412

Loans and advances to and deposits from other long-term investees and investors:

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans and advances to banks	69,190	63,416
Loans and advances to customers	661	845
Bonds and other fixed-income securities	2,881	2,736
Deposits from banks	52,022	40,006
Deposits from customers	767	569
Debt certificates issued including bonds	26,455	17,652
Subordinated liabilities	3,440	2,536

The list of shareholdings compiled in accordance with section 285 no. 11 HGB is shown in Note 46.

## >> 06 Loans and advances to and deposits from affiliated banks

Loans and advances to and deposits from banks include the following amounts:

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans and advances to affiliated banks	85,488	78,110
Deposits from affiliated banks	69,878	51,898

## >> 07 Subordinated assets

The following balance sheet items include subordinated assets in the amounts stated:

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Loans and advances to banks</b>	<b>791</b>	<b>1,059</b>
of which: to affiliated companies	791	858
<b>Loans and advances to customers</b>	<b>106</b>	<b>111</b>
<b>Bonds and other fixed-income securities</b>	<b>297</b>	<b>328</b>
of which: to affiliated companies	227	247
to investees	5	5
<b>Shares and other variable-yield securities</b>	<b>2</b>	<b>2</b>
<b>Trading assets</b>	<b>216</b>	<b>177</b>
of which: to affiliated companies	32	6
to investees	2	2
<b>Total</b>	<b>1,412</b>	<b>1,677</b>

## >> 08 Trust activities

Total trust assets and trust liabilities are broken down as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Trust assets</b>		
Loans and advances to banks	1,518	45
Loans and advances to customers	2	0
Long-term equity investments	511	609
<b>Total</b>	<b>2,031</b>	<b>654</b>

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Trust liabilities</b>		
Deposits from banks	1,520	45
Deposits from customers	511	609
<b>Total</b>	<b>2,031</b>	<b>654</b>

## >> 09 Foreign currency

Assets and liabilities denominated in foreign currency are as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Assets	19,867	22,686
Liabilities	18,087	46,970

## >> 10 Sale and repurchase agreements

The carrying amount of assets subject to sale and repurchase agreements as at December 31, 2020 was €1,300 million (December 31, 2019: €1,800 million).

## >> 11 Assets assigned as collateral

The following table lists liabilities for which assets in the amount shown have been pledged as collateral:

€ million	Dec. 31, 2020	Dec. 31, 2019
Deposits from banks	79,914	56,627
Debt certificates issued including bonds	495	515
Trading liabilities	1,300	1,800
<b>Total</b>	<b>81,709</b>	<b>58,942</b>

The amount pledged as collateral for exchange-traded forward transactions, in connection with collateral agreements as part of OTC trading business, and for securities lending transactions was €16,527 million (December 31, 2019: €14,412 million).

## >> 12 Marketable securities

The following asset items include marketable securities in the amounts shown:

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Bonds and other fixed-income securities</b>	<b>35,914</b>	<b>33,499</b>
of which: listed on a stock exchange	28,807	27,088
<b>Shares and other variable-yield securities</b>	<b>2</b>	<b>2</b>
of which: listed on a stock exchange	2	2
<b>Long-term equity investments</b>	<b>17</b>	<b>32</b>
of which: listed on a stock exchange	–	–
<b>Shares in affiliated companies</b>	<b>3,411</b>	<b>3,469</b>
of which: listed on a stock exchange	–	–



## >> 13 Trading assets and trading liabilities

The table below shows a breakdown of trading assets and trading liabilities:

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Trading assets</b>		
Derivatives	8,576	7,276
Receivables	12,557	14,426
Bonds and other fixed-income securities	10,887	13,130
Shares and other variable-yield securities	1,445	1,210
Other (risk adjustments)	-252	-232
<b>Total</b>	<b>33,213</b>	<b>35,810</b>

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Trading liabilities</b>		
Derivatives	4,170	4,066
Liabilities	31,104	33,798
<b>Total</b>	<b>35,274</b>	<b>37,864</b>

## >> 14 Statement of changes in fixed assets

The changes in fixed assets were as follows:

### INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

€ million	Intangible assets	Land and buildings	Office furniture and equipment
Cost as at Jan. 1, 2020	520	460	207
Additions	31	0	17
Disposals	2	-	17
Changes in exchange rates	0	-	-1
<b>Cost as at Dec. 31, 2020</b>	<b>549</b>	<b>460</b>	<b>206</b>
Depreciation, amortization and write-downs as at Jan. 1, 2020	440	111	136
Additions	27	8	19
Disposals/reclassifications	1	-	17
Changes in exchange rates	0	-	-1
<b>Depreciation, amortization and write-downs as at Dec. 31, 2020</b>	<b>466</b>	<b>119</b>	<b>137</b>
<b>Carrying amount as at Dec. 31, 2020</b>	<b>83</b>	<b>341</b>	<b>69</b>
Carrying amount as at Dec. 31, 2019	80	349	71

The carrying amount of the land and buildings used by DZ BANK for its own operations as at December 31, 2020 was €193 million (December 31, 2019: €198 million).

## INVESTMENTS

€ million	Long-term securities	Long-term equity investments	Shares in affiliated companies
Change	-2,933	-3	-24
<b>Carrying amount as at Dec. 31, 2020</b>	<b>15,787</b>	<b>292</b>	<b>10,764</b>
Carrying amount as at Dec. 31, 2019	18,720	295	10,788

The fair value of financial instruments reported under investments for which write-downs have not been recognized in accordance with section 253 (3) sentence 6 HGB was €1,280 million (carrying amount: €1,327 million) for bonds and other fixed-income securities. These securities are tested to ascertain whether they are actually impaired. If they are, the impairment loss is calculated on the basis of parameters. In the case of asset-backed securities (ABSs), DZ BANK carried out detailed cash flow analyses related to the receivables in the securitization pool taking into account the waterfall structure of each ABS tranche. The assessment of impairment was also based on previous experience with the issuers in question and on the relevant economic forecasts.

### >> 15 Other assets

The other assets of €1,732 million (December 31, 2019: €1,525 million) largely include initial and variation margin payments arising from client clearing and self-clearing of interest-rate derivatives at London Clearing House and EUREX of €881 million (December 31, 2019: €666 million) and tax credits of €623 million (December 31, 2019: €460 million).

### >> 16 Prepaid expenses/accrued income and deferred income/accrued expenses

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Prepaid expenses/accrued income</b>		
Discount on deposits	64	44
Premium on loans and advances	42	55
Other prepaid expenses/accrued income	31	20
<b>Total</b>	<b>137</b>	<b>119</b>

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Deferred income/accrued expenses</b>		
Discount on loans and advances	8	8
Premium on issues business	190	80
Other deferred income/accrued expenses	14	15
<b>Total</b>	<b>212</b>	<b>103</b>

### >> 17 Deferred tax assets

This line item included deferred tax assets in accordance with section 274 HGB amounting to €907 million as at December 31, 2020 (December 31, 2019: €1,025 million). Deferred tax assets were recognized primarily in respect of the fund for home savings risk at Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, in respect of insurance liabilities at R+V Versicherung AG, Wiesbaden, and in respect of other temporary balance sheet differences at DZ BANK and the subsidiaries that form a tax group with it.

## >> 18 Netting of assets and liabilities

The table below shows the cost and the fair value of netted assets that are protected from the claims of all other creditors and are used solely to settle liabilities arising from defined benefit obligations; it also shows the amount needed to settle these netted liabilities. It also shows the pertinent netted income and expenses resulting from discounting and from the netted assets.

€ million	Dec. 31, 2020	Dec. 31, 2019
Cost of netted assets	1,121	1,157
Fair value of netted assets	1,292	1,280
Amount needed to settle the netted liabilities	1,285	1,222
Netted expenses	110	117
Netted income	69	126

Netting of the various pension plans led to surplus assets resulting from excess plan cover of €6 million in Germany as at December 31, 2020 (December 31, 2019: €58 million) and of €1 million at the foreign branch in New York (December 31, 2019: full plan cover).

## >> 19 Other liabilities

The other liabilities of €770 million (December 31, 2019: €666 million) include, in particular, initial and variation margins received arising from client clearing and self-clearing of interest-rate derivatives at London Clearing House and EUREX of €550 million (December 31, 2019: €423 million) and registered profit-participation certificates (including dividend distribution) of €68 million that matured at the end of 2020 and are due to be repaid in 2021 (December 31, 2019: no profit-participation certificates that matured at the end of 2019).

## >> 20 Subordinated liabilities

There are no early redemption obligations in respect of the subordinated capital. In the event of insolvency or liquidation, all rights in connection with these liabilities, including rights to interest, are subordinated to the claims of all non-subordinated creditors.

The subordinated liabilities carried an average interest rate of 2.39 percent (2019: 2.31 percent) and had initial maturities of between 5 and 30 years.

Subordinated liabilities are issued in the form of fixed-income and variable-yield securities, promissory notes, registered bonds, and a convertible bond.

The interest expense for the liabilities reported under this item amounted to €155 million in 2020 (2019: €130 million).

Accrued interest not yet due for payment amounting to €53 million (December 31, 2019: €42 million) is included within the subordinated liabilities balance sheet item.

To strengthen its regulatory Tier 1 capital, DZ BANK issued AT1 bonds with a total nominal value of €750 million on November 11, 2015 and AT1 bonds with a total nominal value of €1,400 million on November 19, 2019. The AT1 bonds are split into four types depending on their interest-rate arrangements (types A to D) and establish unsecured subordinated liabilities that meet the requirements in the Capital Requirements Regulation (CRR).

The bearer bonds are bound by the terms and conditions in the information memorandum, which include an indefinite term to maturity and a unilateral right of cancellation for the issuer. As a result, DZ BANK may call each tranche of the bond in its entirety, but not parts thereof, as it chooses, either at the first possible maturity date (August 1, 2021 / August 1, 2026 for the 2015 issue; August 1, 2025 / August 1, 2030 for the 2019 issue) or thereafter at any interest payment date. Furthermore, the issuer may exercise its call right prematurely if certain regulatory or tax reasons arise. In all instances, DZ BANK must obtain the consent of the competent supervisory authority in order to call the bonds.

If they are called, AT1 bonds are repaid at their nominal value. In some circumstances, the repayment amount may be lower than the original nominal value if the value had been written down due to a trigger event and the write-down had not subsequently been reversed in full. Such a trigger event occurs if the common equity Tier 1 capital ratio of DZ BANK and the DZ BANK Group falls below 7.00 percent. Under certain conditions, the write-downs on the instruments may be reversed to the full original nominal value in subsequent financial years.

Depending on their type, the AT1 bonds issued in 2015 have an annual floating or fixed interest rate from the day of issue until August 1, 2021 / August 1, 2026. Depending on their type, the AT1 bonds issued in 2019 have an annual floating or fixed interest rate from the day of issue until August 1, 2025 / August 1, 2030. In subsequent periods, the interest rate will be reset on the basis of 12-month Euribor / the 5-year euro mid-swap rate plus a margin.

Interest payments are generally at the discretion of the issuer. They may be canceled, either wholly or in part, depending on the items eligible for distribution or by order of the competent supervisory authority. Interest payments are not cumulative; canceled or reduced payments will not be made up in subsequent periods. Interest of €63 million was paid in 2020 (2019: €34 million).

The accrued (not yet due) interest for the AT1 bonds amounted to €31 million as at December 31, 2020 (December 31, 2019: €19 million).

In respect of the registered bond with a conversion right that was issued in 2014 with a nominal value of €128 million, there is an option of voluntary conversion by the creditors or mandatory conversion by the issuer after the end of December 3, 2019. The bond has a coupon of 5.0 percent and matures on December 3, 2021. Early redemption by the issuer is possible at any time if necessary for regulatory reasons. There are no other plans or agreements to convert these liabilities into equity; there are no other early redemption obligations.

## >> 21 Profit-sharing rights

The registered profit-participation certificates of €68 million that matured at the end of 2020 and are due to be repaid in 2021 are recognized (including dividend distribution) under other liabilities on the balance sheet. As a result of these certificates maturing, DZ BANK no longer had any profit-sharing rights as at December 31, 2020 (December 31, 2019: €68 million).

## >> 22 Changes in equity

The subscribed capital of DZ BANK consists of 1,791,344,757 registered non-par-value shares each with an imputed value of €2.75. All shares in issue are fully paid-up.

The changes in equity were as follows:

€ million	Jan. 1, 2020	Additions/ (-) Withdrawals	Dec. 31, 2020
<b>Subscribed capital</b>	4,926	–	<b>4,926</b>
<b>Capital reserve</b>	3,784	–	<b>3,784</b>
<b>Revenue reserves</b>	1,542	–	<b>1,542</b>
Statutory reserve	105	–	105
Other revenue reserves	1,437	–	1,437
<b>Distributable profit</b>	324	255	<b>579</b>
– Dividend	–	–	–
– Profit carried forward from 2019	324	–	324
– Net income for 2020	–	255	255
<b>Total equity</b>	<b>10,576</b>	<b>255</b>	<b>10,831</b>

The distributable profit recognized in 2020 amounted to €579 million. This included the distributable profit for 2019 of €324 million, in respect of which the Annual General Meeting in 2020 did not pass any profit appropriation resolution. This was in application of the ECB's recommendations on dividend policy at banks during the COVID-19 pandemic issued in March and July 2020 and which it reiterated in December 2020. Accordingly, the distributable profit for 2019 had to be carried forward to the next financial year. The distributable profit for 2020 thus comprises the distributable profit for 2019 of €324 million and the net income for 2020 of €255 million. No addition to revenue reserves was made.

### Authorized capital

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by May 31, 2021 on one or more occasions by up to a total of €100 million by way of issuing new registered non-par-value shares in return for cash or non-cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders both in the case of capital increases in return for non-cash contributions and in the case of capital increases in return for cash contributions if the capital is increased for the purpose of

- a) issuing new shares to employees of the corporation (employee shares),
- b) issuing new shares to one or more cooperative banks which, measured in terms of their total assets, directly and indirectly have a below-average stake in the corporation's share capital, i.e. less than 0.5 percent of their total assets (based on the nominal value of €2.75 per DZ BANK share),
- c) acquiring companies, equity investments in companies or for granting equity investments in the corporation in order to back strategic partnerships.

The Board of Managing Directors is also authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital I').

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by May 31, 2021 on one or more occasions by up to a total of €300 million by issuing new

registered non-par-value shares in return for cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital II').

The new shares issued on the basis of utilizing Authorized Capital I or Authorized Capital II can also be acquired by credit institutions determined by the Board of Managing Directors if aforesaid credit institutions agree to offer said shares to the shareholders (indirect subscription right).

The Board of Managing Directors did not make use of any of this authorized action in 2020.

### Contingent capital

The share capital is to be contingently raised by up to €52,859,413.75 by issuing up to 19,221,605 new, registered non-par-value shares (Contingent Capital). The increase in the Contingent Capital shall serve to grant registered non-par value shares (subscription shares) for the fulfillment of corresponding conversion rights and/or conversion obligations of creditors of convertible bonds or registered bonds, as the case may be, that were issued until June 24, 2015 in return for a cash contribution on the basis of the authorization resolution of the Annual General Meeting of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank of June 24, 2014. The increase in the Contingent Capital must only be carried out to the extent that the creditors of aforesaid convertible bonds or registered bonds, as the case may be, entitled or obliged to convert make use of their conversion right or fulfill their conversion obligation and that no own shares are used for aforesaid fulfillment. The subscription shares shall at all times be issued at a ratio of one registered bond to 7,435.824 subscription shares.

The subscription shares participate from the beginning of the financial year in which they come into existence in the profits of the current financial year as well as in the profits of previous years if a resolution of the appropriation of said profits has yet to be passed.

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to determine the further details pertaining to the execution of the increase in the Contingent Capital.

### >> 23 Disclosures on shareholders

At the end of 2020, 99.5 percent of shares were held by cooperative enterprises (December 31, 2019: 99.5 percent). These cooperative enterprises include the cooperative banks and other legal entities and trading companies economically associated with the cooperative movement or cooperative housing sector.

### >> 24 Disclosure pursuant to section 20 AktG

DZ Beteiligungs-GmbH & Co. KG Baden-Württemberg, Karlsruhe, and WGZ Beteiligungs GmbH & Co. KG, Düsseldorf, have notified us in accordance with section 20 (1) AktG that they each hold more than a quarter of the shares in DZ BANK.

## >> 25 Amounts not allowed to be distributed as dividends

The table below gives a breakdown of the total amount that is not allowed to be distributed as a dividend pursuant to section 268 (8) and section 253 (6) HGB:

€ million	Dec. 31, 2020	Dec. 31, 2019
Recognition of deferred taxes	907	1,025
Recognition of assets at fair value	171	123
Difference arising from using the average market interest rates for the past 10 years and the past 7 years to discount provisions for defined benefit obligations	142	138
<b>Total</b>	<b>1,220</b>	<b>1,286</b>

The total amounts of €1,220 million that were not allowed to be distributed as dividends were offset by sufficient distributable reserves. Consequently, the distributable profit of €579 million was not prohibited from being paid out as a dividend.

## >> 26 List of derivatives recognized at fair value by product area

The table below shows a list of the derivatives recognized at fair value by product area:

€ million	Nominal amount					Fair value			
	Time to maturity			Total amount		Positive		Negative	
	≤ 1 year	> 1–5 years	> 5 years	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
<b>INTEREST-LINKED CONTRACTS</b>	182,005	414,970	589,653	1,186,628	1,090,032	18,009	16,320	15,319	14,179
<b>OTC products</b>									
Forward rate agreements	22,515	–	–	22,515	5,624	0	0	0	0
Interest-rate swaps (same currency)	141,965	376,128	560,957	1,079,050	995,186	16,312	14,495	12,063	11,276
Interest-rate options – bought	7,320	18,399	13,409	39,128	41,184	1,462	1,532	77	105
Interest-rate options – written	7,255	20,318	15,287	42,860	45,540	235	293	3,179	2,798
<b>Exchange-traded products</b>									
Interest-rate futures	2,950	125	–	3,075	2,498	0	–	0	–
<b>CURRENCY-LINKED CONTRACTS</b>	35,218	22,889	8,436	66,543	65,227	1,066	945	1,211	959
<b>OTC products</b>									
Cross-currency swaps	6,731	18,477	8,397	33,605	41,647	589	586	715	691
Forward forex transactions	12,700	2,783	4	15,487	14,542	223	224	300	128
Forex options – bought	7,469	331	–	7,800	3,510	60	8	39	16
Forex options – written	8,107	1,298	8	9,413	5,204	146	33	105	23
<b>Exchange-traded products</b>									
Forex/gold futures	138	–	–	138	132	0	–	0	–
Forex/gold options	73	–	27	100	192	48	94	52	101
<b>SHARE-/INDEX-LINKED CONTRACTS</b>	12,202	13,051	2,553	27,806	29,817	1,621	1,554	2,452	2,181
<b>OTC products</b>									
Share/index options – bought	19	42	8	69	73	5	7	–	0
Share/index options – written	124	195	–	319	339	0	0	18	10
Other share/index contracts	477	3,567	2,052	6,096	6,497	56	66	378	208
<b>Exchange-traded products</b>									
Share/index futures	644	109	–	753	539	0	–	–	–
Share/index options	10,938	9,138	493	20,569	22,369	1,560	1,481	2,056	1,963
<b>OTHER CONTRACTS</b>	211	3	13	227	406	85	108	92	115
<b>OTC products</b>									
Commodities contracts	10	–	–	10	25	0	0	1	0
<b>Exchange-traded products</b>									
Futures (excl. gold futures)	105	1	–	106	120	0	0	0	0
Options (excl. gold options)	96	2	13	111	261	85	108	91	115
<b>CREDIT DERIVATIVES</b>	2,060	9,368	4,917	16,345	16,161	326	354	85	65
<b>Protection buyer</b>									
Credit default swaps	451	2,313	282	3,046	2,849	6	1	57	62
<b>Protection seller</b>									
Credit default swaps	1,609	7,055	4,635	13,299	13,312	320	353	28	3
<b>Total</b>	231,696	460,281	605,572	1,297,549	1,201,643	21,107	19,281	19,159	17,499

A substantial proportion of the transactions listed were entered into for the purposes of hedging interest-rate, exchange-rate, market, or credit risk.



## >> 27 List of derivatives recognized at fair value by counterparty structure

The table below shows a list of the derivatives recognized at fair value by counterparty structure:

€ million	Fair value			
	Positive		Negative	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
OECD central governments	1	0	–	1
OECD banks	17,017	15,374	15,356	14,149
OECD financial services institutions	101	98	140	137
Other companies, private individuals	3,969	3,807	3,570	3,094
Non-OECD central governments	0	0	–	–
Non-OECD banks	19	2	93	118
<b>Total</b>	<b>21,107</b>	<b>19,281</b>	<b>19,159</b>	<b>17,499</b>

## >> 28 List of derivatives not recognized at fair value by product area

The table below shows a list of the derivatives not recognized at fair value by product area:

€ million	Nominal amount				Fair value				
	Time to maturity			Total amount		Positive		Negative	
	≤ 1 year	> 1–5 years	> 5 years	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
<b>INTEREST-LINKED CONTRACTS</b>	1,328	1,267	2,838	5,433	4,887	533	593	280	284
<b>OTC products</b>									
Interest-rate swaps (same currency)	637	685	2,438	3,760	3,678	533	593	248	264
Interest-rate options – written	–	370	400	770	870	–	–	32	20
<b>Exchange-traded products</b>									
Interest-rate futures	691	212	–	903	339	0	–	0	–
<b>CURRENCY-LINKED CONTRACTS</b>	41,162	4,340	92	45,594	75,284	616	696	587	630
<b>OTC products</b>									
Cross-currency swaps	119	288	65	472	626	26	39	37	85
Forward forex transactions	41,043	4,052	27	45,122	74,658	590	657	550	545
<b>CREDIT DERIVATIVES</b>	334	757	–	1,091	1,378	11	20	6	10
<b>Protection buyer</b>									
Credit default swaps	72	249	–	321	356	0	–	6	10
<b>Protection seller</b>									
Credit default swaps	262	508	–	770	1,022	11	20	–	–
<b>Total</b>	<b>42,824</b>	<b>6,364</b>	<b>2,930</b>	<b>52,118</b>	<b>81,549</b>	<b>1,160</b>	<b>1,309</b>	<b>873</b>	<b>924</b>

The transactions listed were entered into for the purposes of hedging interest-rate, exchange-rate, market, or credit risk.

The carrying amounts of non-trading derivatives not recognized at fair value included premiums of €16 million (December 31, 2019: €22 million) under other assets, and premiums of €31 million (December 31, 2019: €31 million) under other liabilities.

Prepaid expenses and accrued income include upfront payments of €0 million (December 31, 2019: no upfront payments). Deferred income and accrued expenses include upfront payments of €6 million (December 31, 2019: €9 million). Accrued income from non-trading derivatives not recognized at fair value is reported in the amount of €28 million (December 31, 2019: €33 million) under loans and advances to banks and in the amount of €9 million (December 31, 2019: €9 million) under loans and advances to customers, while accrued expenses on non-trading derivatives not recognized at fair value are reported in the amount of €20 million (December 31, 2019:

€26 million) under deposits from banks and in the amount of €18 million (December 31, 2019: €18 million) under deposits from customers.

The carrying amounts of non-trading derivatives not recognized at fair value also included an asset of €38 million (December 31, 2019: liability of €121 million) relating to the offsetting item for currency translation. Accruals relating to forward forex transactions are netted and recognized in an amount of €2 million under other liabilities (December 31, 2019: €177 million under other assets).

### >> 29 List of derivatives not recognized at fair value by counterparty structure

The table below shows a list of the derivatives not recognized at fair value by counterparty structure:

€ million	Fair value			
	Positive		Negative	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
OECD banks	851	994	667	756
OECD financial services institutions	2	–	15	–
Other companies, private individuals	269	311	174	157
Non-OECD banks	38	4	17	11
<b>Total</b>	<b>1,160</b>	<b>1,309</b>	<b>873</b>	<b>924</b>

## C Income statement disclosures

### >> 30 Breakdown of income by geographical market

The table below shows the geographical breakdown of total interest income, current income from shares and other variable-yield securities, long-term equity investments and shares in affiliated companies, fee and commission income, net trading income, and other operating income:

€ million	2020	2019
Germany	3,479	3,837
International	232	278
<b>Total</b>	<b>3,711</b>	<b>4,115</b>

### >> 31 Administration and agency services provided for third parties

Administration and agency services provided for third parties relate primarily to custody services, securities brokerage, and the management of trust assets.

### >> 32 Other operating income and expenses

Other operating income amounted to €190 million. This amount largely comprised income of €84 million from the reversal of provisions, income of €24 million from options, and rental income of €11 million.

The other operating expenses of €194 million were mainly attributable to a net expense of €41 million in connection with the measurement of occupational pensions, expenses of €40 in connection with currency transactions, expenses of €23 million in connection with options, and operating costs and rental expenses of €10 million in connection with premises not used for banking operations.

### >> 33 Extraordinary expenses

The extraordinary expenses of €4 million resulted from an increase in the provisions for restructuring in connection with the 'Verbund First 4.0' program.

### >> 34 Proposed appropriation of profits

It will be proposed to the Annual General Meeting that the distributable profit for 2020 of €579 million, which includes the distributable profit carried forward from 2019 of €324 million, be appropriated for a dividend payment of €0.16 per non-par-value share. This would equate to a total distribution of €287 million. The remaining distributable profit of €292 million is to be carried forward.

## D Other disclosures

### >> 35 Contingent liabilities and other obligations

DZ BANK only assumes liabilities in the form of guarantees and indemnity agreements after it has carefully assessed the risks involved. Having constantly evaluated the risks attaching to the guarantees and indemnity agreements that it has entered into, the bank is currently of the view that the principal debtors concerned will be able to meet the obligations underlying these guarantees and indemnity agreements. DZ BANK believes that these guarantees and indemnity agreements are unlikely to be utilized.

In order to cover acute risks arising from guarantees, indemnity agreements and irrevocable loan commitments, the bank has recognized provisions of an appropriate amount and has reduced the relevant figures reported by a corresponding amount.

The irrevocable loan commitments include unused liquidity lines in connection with securitizations of €3,187 million (December 31, 2019: €2,635 million).

### >> 36 Other financial obligations

As at December 31, 2020, the total amount of other financial obligations for the following year was €117 million (December 31, 2019: €122 million). Most of them relate to obligations under existing rental agreements, leases, and maintenance agreements. This amount includes obligations to affiliated companies of €27 million (December 31, 2019: €27 million).

Other financial obligations will amount to €332 million for years from 2022 onward. This amount includes obligations to affiliated companies of €75 million.

There were also irrevocable payment obligations in connection with the bank levy of €44 million. Collateral of the same amount has been pledged. The pledged collateral is included in other assets on the balance sheet.

DZ BANK is a participant in the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR) [National Association of German Cooperative Banks], Berlin. This facility comprises a guarantee fund and a guarantee network. Under the terms of its statutes, DZ BANK has lodged a guarantee bond of up to €224 million with the BVR in support of the guarantee network in order to cover any eventualities.

### >> 37 Letters of comfort

Except in the event of political risk, DZ BANK has undertaken to ensure, in proportion to its shareholding for the consolidated entity DZ PRIVATBANK S.A., Strassen, Luxembourg, and in total for DZ HYP, Hamburg and Münster, that these companies are able to meet their contractual obligations. These entities are identified in the list of DZ BANK's shareholdings (Note 46) as being covered by a letter of comfort. DZ BANK has also issued subordinated letters of comfort in respect of DZ BANK Capital Funding LLC I, DZ BANK Capital Funding LLC II, and DZ BANK Capital Funding LLC III, all based in Wilmington, USA. In addition, DZ BANK has issued 5 subordinated letters of comfort in respect of DZ BANK Perpetual Funding (Jersey) Limited, St. Helier, Jersey, each relating to different classes of preferred shares.

## >> 38 Employees

Average number of employees by employee group:

	2020	2019
<b>Female employees</b>	<b>2,224</b>	<b>2,239</b>
Full-time employees	1,269	1,293
Part-time employees	955	946
<b>Male employees</b>	<b>3,067</b>	<b>3,049</b>
Full-time employees	2,856	2,867
Part-time employees	211	182
<b>Total employees</b>	<b>5,291</b>	<b>5,288</b>

## >> 39 Investment fund assets

DZ BANK owned the following holdings of more than 10 percent of the units in investment fund assets within the meaning of section 285 no. 26 HGB as at December 31, 2020:

### INVESTMENT FUND ASSETS BY INVESTMENT OBJECTIVE

	Carrying amount	Fair value	Difference between fair value and carrying amount	Distributions paid for 2020
€ million				
Mixed fund (pension funding)	1,260	1,260	0	3

The investment fund units are used to cover and fund DZ BANK's direct defined benefit obligations in Germany over the long term. They were able to be redeemed on any day without restriction.

## >> 40 Auditor fees

The total fees charged for 2020 by the independent auditors of the financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, are broken down as follows:

	2020	2019
€ million		
Auditing services	5.1	4.9
Other attestation services	0.5	0.5
Tax consultancy services	0.2	0.1
Other services	0.4	0.3
<b>Total</b>	<b>6.2</b>	<b>5.8</b>

The fees for auditing services comprise expenses relating to the audit of the consolidated financial statements and group management report, the audit of the annual financial statements and management report of DZ BANK, and the review by the auditor of the condensed interim consolidated financial statements and interim group management report. The fees for other attestation services comprise the fees charged for the audits in accordance with section 89 (1) of the German Securities Trading Act (WpHG) and section 68 (7) of the German Investment Code (KAGB). The fees for other services include fees for consultancy services.

## >> 41 Cover statement

The following cover is in place for outstanding covered bonds and derivatives:

€ million	Dec. 31, 2020	Dec. 31, 2019
<b>Total cover assets</b>	<b>19,839</b>	<b>19,044</b>
<b>Ordinary cover</b>	<b>19,839</b>	<b>19,044</b>
Loans and advances to banks	13,112	13,161
Loans and advances to customers	1,141	1,063
Securities	5,586	4,820
<b>Cover requirement</b>	<b>10,193</b>	<b>9,723</b>
Outstanding covered		
– bearer bonds	3,412	2,885
– registered bonds	6,781	6,838
<b>Excess cover</b>	<b>9,646</b>	<b>9,321</b>

## >> 42 Trustees of cover assets

The trustees are appointed by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] and have a duty under law to ensure that the issuance, administration, and collateralization of DZ BANK's covered bonds comply with statutory requirements, the provisions of the Articles of Association, and the terms and conditions of the bonds.

### Trustee

Klaus Wiens  
 Presiding Judge at the  
 Frankfurt am Main regional court (retired)

### Deputy trustee

Dr. Matthias Kögler  
 Presiding Judge at the  
 Frankfurt am Main regional court (retired)

## >> 43 Related party disclosures

The exercise of DZ BANK's normal business activities involves parties related to DZ BANK. Transactions with related parties within the meaning of section 285 no. 21 HGB are conducted on an arm's-length basis.

## >> 44 Decision-making bodies

The total remuneration for the members of the Board of Managing Directors of DZ BANK in 2020 was €10,709 thousand (2019: €10,139 thousand). The total remuneration for the Supervisory Board was €938 thousand (2019: €929 thousand). The total remuneration for the Board of Managing Directors in 2020 and 2019 includes the total bonus awarded to the Board of Managing Directors for the year in question. A sum of 20 percent of the total bonus determined on the basis of targets achieved is paid out in the subsequent year immediately after the annual financial statements have been formally adopted. Payment of the remaining 80 percent of the bonus of €1,654 thousand granted for 2020 (2019: €1,555 thousand) depends on the long-term performance of DZ BANK shares and is spread out over a period of up to 4 years in total.

A total amount of €9,871 thousand (2019: €10,226 thousand) was paid to former members of the Board of Managing Directors or their surviving dependants, for whom defined benefit obligations of €130,942 thousand (2019: €134,349 thousand) were also recognized.

## Board of Managing Directors of DZ BANK

Uwe Fröhlich

(Co-Chief Executive Officer)

Responsibilities: Cooperative Banks/Verbund;  
Communications & Marketing; Research and  
Economics; Strategy & Group Development;  
Structured Finance

Dr. Cornelius Riese

(Co-Chief Executive Officer)

Responsibilities: Group Audit; Legal;  
Strategy & Group Development

Uwe Berghaus

Responsibilities: Corporate Banking Baden-  
Württemberg; Corporate Banking Bavaria;  
Corporate Banking North and East;  
Corporate Banking West/Central; Investment  
Promotion; Central Corporate Banking

Dr. Christian Brauckmann

Responsibilities: IT; Services & Organisation

Ulrike Brouzi

Responsibilities: Bank Finance; Compliance;  
Group Finance; Group Financial Services

Wolfgang Köhler

Responsibilities: Capital Markets Trading;  
Capital Markets Institutional Clients;  
Capital Markets Retail Clients; Group Treasury

Michael Speth

Responsibilities: Group Risk Controlling;  
Credit; Credit Services

Thomas Ullrich

Responsibilities: Group Human Resources;  
Operations; Payments & Accounts;  
Transaction Management

## Supervisory Board of DZ BANK

Henning Deneke-Jöhrens

(Chairman of the Supervisory Board)

Chief Executive Officer

Volksbank eG Hildesheim-Lehrte-Pattensen

Martin Eul

(Deputy Chairman of the Supervisory Board)

Chief Executive Officer

Dortmunder Volksbank eG

Ulrich Birkenstock

(Deputy Chairman of the Supervisory Board)

Employee

R+V Allgemeine Versicherung AG

Hermann Buerstedde

Employee

Union Asset Management Holding AG

(Member of the Supervisory Board until May 27, 2020)

Heiner Beckmann

Senior manager

R+V Allgemeine Versicherung AG

Uwe Goldstein

Bank director (ret.)

(Member of the Supervisory Board until May 27, 2020)

Timm Häberle

Chief Executive Officer

VR-Bank Neckar-Enz eG

Dr. Peter Hanker

Spokesman of the Board of Managing Directors

Volksbank Mittelhessen eG

Andrea Hartmann

Employee

Bausparkasse Schwäbisch Hall AG

Pilar Herrero Lerma

Employee

DZ BANK AG

Deutsche Zentral-Genossenschaftsbank

Dr. Dierk Hirschel

Head of the Economic Policy Division

ver.di Bundesverwaltung

Marija Kolak

President

Bundesverband der Deutschen Volksbanken  
und Raiffeisenbanken e.V. (BVR)

Renate Mack

Employee

DZ BANK AG

Deutsche Zentral-Genossenschaftsbank

Rainer Mangels

Employee

R+V Rechtsschutz-Schadenregulierungs-GmbH

Sascha Monschauer

Chief Executive Officer

Volksbank RheinAhrEifel eG

(Member of the Supervisory Board since May 27, 2020)

Rolf Dieter Pogacar

Employee

R+V Allgemeine Versicherung AG

(Member of the Supervisory Board since May 27, 2020)

Stephan Schack

Chief Executive Officer

Volksbank Raiffeisenbank eG, Itzehoe

Gregor Scheller

Chief Executive Officer

VR Bank Bamberg-Forchheim eG

Uwe Spitzbarth

Departmental coordinator

ver.di Bundesverwaltung

Sigrid Stenzel

Labor union secretary

Social security department

ver.di Niedersachsen-Bremen

Ingo Stockhausen

Chief Executive Officer

Volksbank Oberberg eG

Dr. Wolfgang Thomasberger

Chief Executive Officer

VR Bank Rhein-Neckar eG



## >> 45 Supervisory mandates held by members of the Board of Managing Directors and employees

As at December 31, 2020, members of the Board of Managing Directors and employees also held mandates on the statutory supervisory bodies of major companies. These and other notable mandates are listed below. Companies included in the consolidation are indicated with an asterisk (\*).

### Members of the Board of Managing Directors

Uwe Fröhlich (Co-Chief Executive Officer)	DZ HYP AG, Hamburg and Münster (*) Chairman of the Supervisory Board
	DZ PRIVATBANK S.A., Strassen (*) Chairman of the Supervisory Board
	VR Smart Finanz AG, Eschborn (*) Chairman of the Supervisory Board
Dr. Cornelius Riese (Co-Chief Executive Officer)	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (*) Chairman of the Supervisory Board
	R+V Versicherung AG, Wiesbaden (*) Chairman of the Supervisory Board
	TeamBank AG Nürnberg, Nuremberg (*) Chairman of the Supervisory Board
	Union Asset Management Holding AG, Frankfurt am Main (*) Chairman of the Supervisory Board
Uwe Berghaus	DZ HYP AG, Hamburg and Münster (*) Member of the Supervisory Board
	EDEKABANK AG, Hamburg Member of the Supervisory Board
Dr. Christian Brauckmann	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board
	DZ PRIVATBANK S.A., Strassen (*) Deputy Chairman of the Supervisory Board
	Fiducia & GAD IT AG, Frankfurt am Main Member of the Supervisory Board

Ulrike Brouzi

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (\*)  
Member of the Supervisory Board

R+V Allgemeine Versicherung AG, Wiesbaden (\*)  
Member of the Supervisory Board

R+V Lebensversicherung AG, Wiesbaden (\*)  
Member of the Supervisory Board

Salzgitter AG, Salzgitter  
Member of the Supervisory Board

Union Asset Management Holding AG, Frankfurt am Main (\*)  
Member of the Supervisory Board

Wolfgang Köhler

DVB Bank SE, Frankfurt am Main (\*)  
Chairman of the Supervisory Board

R+V Lebensversicherung AG, Wiesbaden (\*)  
Member of the Supervisory Board

Michael Speth

BAG Bankaktiengesellschaft, Hamm  
Member of the Supervisory Board

DVB Bank SE, Frankfurt am Main (\*)  
Deputy Chairman of the Supervisory Board

DZ HYP AG, Hamburg and Münster (\*)  
Member of the Supervisory Board

R+V Versicherung AG, Wiesbaden (\*)  
Member of the Supervisory Board

VR Smart Finanz AG, Eschborn (\*)  
Deputy Chairman of the Supervisory Board

Thomas Ullrich

Deutsche WertpapierService Bank AG, Frankfurt am Main  
Deputy Chairman of the Supervisory Board

TeamBank AG Nürnberg, Nuremberg (\*)  
Deputy Chairman of the Supervisory Board

VR Payment GmbH, Frankfurt am Main (\*)  
Chairman of the Supervisory Board

## Employees

Arnd Volker Bernbeck	DVB Bank SE, Frankfurt am Main (*) Member of the Supervisory Board
Rolf Büscher	DVB Bank SE, Frankfurt am Main (*) Member of the Supervisory Board  ReiseBank AG, Frankfurt am Main (*) Member of the Supervisory Board
Johannes Koch	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board (since January 1, 2021)
Winfried Münch	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main Member of the Supervisory Board
Claudio Ramsperger	Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A., Trento Member of the Board of Directors
Gregor Roth	ReiseBank AG, Frankfurt am Main (*) Chairman of the Supervisory Board  VR Payment GmbH, Frankfurt am Main (*) Member of the Supervisory Board
Peter Tenbohlen	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board
Dr. Ulrich Walter	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board
Dagmar Werner	Banco Cooperativo Español S.A., Madrid Member of the Board of Directors

## >> 46 List of shareholdings

### SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
AER Holding N.V. 1)	Willemstad, Curaçao	100.00		19	-
AGIMA Aktiengesellschaft für Immobilien-Anlage 5)	Frankfurt am Main	100.00		84,025	-
APZ Beteiligungs GmbH 1)	Darmstadt	81.70		2,979	342
APZ CarMotion GmbH 1)	Fischamend, Austria	100.00		-82	-92
APZ GmbH 1)	Darmstadt	100.00		7,135	-
APZ Mobilty GmbH 1)	Darmstadt	100.00		n/a	n/a
Aquila Aircraft Leasing Ltd. 1)	Dublin, Ireland	-		-20	-
Assimoco S.p.A. 1)	Milan, Italy	68.94		239,230	28,280
Assimoco Vita S.p.A. 1)	Milan, Italy	82.14		185,884	18,605
attrax S.A. 1)	Luxembourg, Luxembourg	100.00		58,228	25,188
Aufbau und Handelsgesellschaft mbH 1)	Stuttgart	94.90		525	-
AXICA Kongress- und Tagungszentrum Pariser Platz 3 GmbH 5)	Berlin	100.00		26	-
BankingGuide GmbH	Düsseldorf	60.00		n/a	n/a
Bathgate Trading Opco LLC 1)	Majuro, Marshall Islands	-		1	-
BAUFINEX GmbH 1)	Schwäbisch Hall	70.00		1,856	197
BAUFINEX Service GmbH 1)	Berlin	50.00	75.00	n/a	n/a
Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken - 5)	Schwäbisch Hall	97.05		1,812,302	-
Berwick Shipping LLC 1)	Majuro, Marshall Islands	-		-97	-1
Beteiligungsgesellschaft Westend 1 mbH & Co. KG 1)	Frankfurt am Main	94.90		18,169	684
BGP Asset Management GmbH i.L. 1)	Berlin	100.00		n/a	n/a
BGP Hausverwaltung GmbH i.L. 1)	Berlin	100.00		n/a	n/a
BGP Immobilienservice GmbH i.L. 1)	Berlin	100.00		n/a	n/a
Braveheart Shipping Holdco LLC 1)	Majuro, Marshall Islands	-		-	-
Braveheart Shipping Opco LLC 1)	Majuro, Marshall Islands	-		-229	-120
BWG Baugesellschaft Württembergischer Genossenschaften mbH 1)	Stuttgart	94.78		9,965	-
Canadian Iron Ore Railcar Leasing LP 1)	Toronto, Canada	-		-4,928	-2,347
Canadian Iron Ore Railcar Partner Ltd 1)	Toronto, Canada	-		-4,928	-2,347
carexpert Kfz-Sachverständigen GmbH 1)	Walluf	60.00		4,485	14
CHEMIE Pensionsfonds AG 1)	Wiesbaden	100.00		30,318	2,000
Chiefs Aircraft Holding (Malta) Limited 1)	Floriana, Malta	-		2,238	-2,696
CI CONDOR Immobilien GmbH 1)	Hamburg	100.00		20,100	-
compertis Beratungsgesellschaft für betriebliches Vorsorgemanagement mbH 1)	Wiesbaden	100.00		4,724	969
COMPLINA GmbH 1)	Wiesbaden	100.00		140	25
Condor Allgemeine Versicherungs-Aktiengesellschaft 1) 5)	Hamburg	100.00		41,762	-
Condor Dienstleistungs GmbH 1)	Hamburg	100.00		405	49
Condor Lebensversicherungs-Aktiengesellschaft 1)	Hamburg	94.98		51,742	-
Container Investment Fund I LLC 1)	Majuro, Marshall Islands	-		-25,093	765
Cruise Ship InvestCo LLC 1)	Majuro, Marshall Islands	-		-	-
DCAL Aircraft Malta Ltd. 1)	Floriana, Malta	-		17,180	2,181
DEGEKONZEPT Grundstücksverwaltungsgesellschaft mbH 1)	Eschborn	100.00		90	14
Deucalion Capital I (UK) Ltd. 1)	London, UK	-		486	517
Deucalion Capital II (MALTA) Limited 1)	Valletta, Malta	-		1	23
Deucalion Capital II (UK) Ltd. 1)	London, UK	-		-	-
Deucalion Capital II Limited 1)	George Town, Cayman Islands	-		-2,128	-189
Deucalion Capital VI Limited 1)	George Town, Cayman Islands	-		-231	-
Deucalion Capital VIII Limited 1)	George Town, Cayman Islands	-		7,477	-2,964
Deucalion Ltd. 1)	George Town, Cayman Islands	-		29,782	6,168
DEVIF-Fonds Nr. 150 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	-		n/a	n/a
DEVIF-Fonds Nr. 2 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	-		n/a	n/a
DEVIF-Fonds Nr. 250 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	-		n/a	n/a
DEVIF-Fonds Nr. 500 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	-		n/a	n/a
DEVIF-Fonds Nr. 528 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	-		n/a	n/a
DEVIF-Fonds Nr. 60 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	-		n/a	n/a
DG Participacoes Ltda. 1)	São Paulo, Brazil	100.00		-	-

## SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Dilax Beteiligungs Verwaltungsgesellschaft mbH 1)	Berlin	100.00		25	-
Dilax Beteiligungsgesellschaft mbH & Co. KG 1)	Berlin	92.39		2,537	-156
Dilax France SAS 1)	Valence, France	100.00		506	174
Dilax Intelcom AG 1)	Ermatingen, Switzerland	100.00		441	137
Dilax Intelcom GmbH 1)	Berlin	72.01		-512	427
Dilax Intelcom Iberica S.L.U. 1)	Madrid, Spain	100.00		317	117
Dilax Management Investment Reserve GmbH 1)	Berlin	100.00		231	-3
Dilax Management Investment Verwaltungsgesellschaft mbH 1)	Berlin	100.00		19	-2
Dilax Management Investmentgesellschaft mbH & Co. KG 1)	Berlin	99.50		186	-9
Dilax Systems Inc. 1)	Saint Lambert, Canada	100.00		720	143
Dilax Systems UK Ltd. 1)	London, UK	100.00		-1,750	-196
DILAX Systems US Inc 1)	Wilmington, USA	100.00		7	2
DVB Bank America N.V. 1)	Willemstad, Curaçao	100.00		111,092	17,100
DVB Bank SE 5)	Frankfurt am Main	100.00		368,199	-
DVB Capital Markets LLC i.L. 1)	New York, USA	100.00		-	-424
DVB Group Merchant Bank (Asia) Ltd. 1)	Singapore, Singapore	100.00		180,009	-7,620
DVB Transport Finance Limited 1)	London, UK	100.00		45,524	553
DVG Deutsche Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung 5)	Frankfurt am Main	100.00		82	-
DZ BANK Capital Funding LLC I 2) 4)	Wilmington, USA	100.00		300,846	6,407
DZ BANK Capital Funding LLC II 2) 4)	Wilmington, USA	100.00		500,584	6,058
DZ BANK Capital Funding LLC III 2) 4)	Wilmington, USA	100.00		350,239	3,796
DZ BANK Capital Funding Trust I	Wilmington, USA	-	100.00	300,001	6,456
DZ BANK Capital Funding Trust II	Wilmington, USA	-	100.00	500,001	6,140
DZ BANK Capital Funding Trust III	Wilmington, USA	-	100.00	350,001	3,840
DZ BANK Perpetual Funding (Jersey) Limited 4)	St. Helier, Jersey	-	100.00	260,300	1,217
DZ BANK Perpetual Funding Issuer (Jersey) Limited	St. Helier, Jersey	-		-	-
DZ BANK Sao Paulo Representacao Ltda. 2)	São Paulo, Brazil	100.00		312	32
DZ Beteiligungsgesellschaft mbH Nr. 11 5)	Frankfurt am Main	100.00		6,620	-
DZ Beteiligungsgesellschaft mbH Nr. 14 5)	Frankfurt am Main	100.00		51	-
DZ Beteiligungsgesellschaft mbH Nr. 18 5)	Frankfurt am Main	100.00		64,726	-
DZ Beteiligungsgesellschaft mbH Nr. 21 5)	Frankfurt am Main	100.00		25	-
DZ Beteiligungsgesellschaft mbH Nr. 22	Frankfurt am Main	100.00		18	-2
DZ Beteiligungsgesellschaft mbH Nr. 23 5)	Frankfurt am Main	100.00		25	-
DZ Beteiligungsgesellschaft mbH Nr. 24	Frankfurt am Main	100.00		18	-2
DZ CompliancePartner GmbH 5)	Neu-Isenburg	100.00		5,548	-
DZ FINANCIAL MARKETS LLC	New York, USA	100.00		3,694	-212
DZ Gesellschaft für Grundstücke und Beteiligungen mbH 5)	Frankfurt am Main	100.00		1,461	-
DZ HYP AG 3) 5)	Hamburg/Münster	96.39		1,762,331	-
DZ Immobilien + Treuhand GmbH 5)	Münster	94.50		4,055	-
DZ PRIVATBANK (Schweiz) AG 1)	Zurich, Switzerland	100.00		164,631	692
DZ PRIVATBANK S.A. 3)	Strassen, Luxembourg	91.69		835,289	29,195
DZ Versicherungsvermittlung Gesellschaft mbH 5)	Frankfurt am Main	100.00		51	-
DZ Vierte Beteiligungsgesellschaft mbH 5)	Frankfurt am Main	100.00		249,687	-
e@syCredit Marketing und Vertriebs GmbH 1)	Nuremberg	100.00		25	-
Englische Strasse 5 GmbH 1)	Wiesbaden	90.00		16,129	469
Evolit Consulting GmbH 1)	Vienna, Austria	100.00		n/a	n/a
FKS-NAVIGIUM GmbH 1)	Eschborn	100.00		-3,167	-2,408
FPAC (Malta) Limited 1)	Floriana, Malta	100.00		3,993	212
fragWILHELM GmbH 1)	Wiesbaden	100.00		206	-1,328
Fundamenta Erteklanc Ingatlanközvetítő és Szolgáltató Kft. 1)	Budapest, Hungary	100.00		-700	-493
Fundamenta-Lakáskassa Lakás-takarékpénztár Zrt. 1)	Budapest, Hungary	51.25		142,735	7,786
Fundamenta-Lakáskassa Pénzügyi Közvetítő Kft. 1)	Budapest, Hungary	100.00		8,353	3,499
GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG 1)	Nidderau	96.56		65,354	7,616
GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG 1)	Nidderau	95.03		71,393	-4,377
Gartner, Keil & Co. Klima- und Kältetechnik GmbH 1)	Neulussheim	100.00		n/a	n/a
GENO Broker GmbH 5)	Frankfurt am Main	100.00		10,000	-
GENO-Beteiligungsgesellschaft mbH	Düsseldorf	100.00		1,134	-10
Genossenschaftlicher Informations Service GIS GmbH	Frankfurt am Main	100.00		4,465	89

## SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Glen Campbell Opco LLC 1)	Majuro, Marshall Islands	-		-180	-3
Glencoe Shipping Holdco LLC 1)	Majuro, Marshall Islands	-		-14	-
GMS Development - Gesellschaft für Softwareentwicklung m.b.H 1)	Paderborn	100.00		137	2,755
GMS Holding GmbH 1)	Paderborn	88.89	75.00	15,448	2,455
GMS Management und Service GmbH 1)	Nidderau	100.00		82	32
Günther Kältetechnik GmbH 1)	Plüderhausen	60.00		n/a	n/a
GWG 1. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		2,000	1,076
GWG 2. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		3,000	839
GWG 3. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		7,000	1,504
GWG 4. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		9,000	1,213
GWG Beteiligungsgesellschaft mbH 1)	Stuttgart	100.00		28	1
GWG Gesellschaft für Wohnungs- und Gewerbebau Baden- Württemberg AG 1)	Stuttgart	91.57		362,371	26,203
GWG Hausbau GmbH 1)	Stuttgart	94.48		2,750	-
GWG ImmoInvest GmbH 1)	Stuttgart	94.90		10,817	1,799
GWG Wohnpark Sendling GmbH 1)	Stuttgart	94.00		4,028	-
Hibiscus Aircraft Leasing Limited 1)	Floriana, Malta	-		-41	1
HMDV Hausmeisterservice GmbH i.L. 1)	Berlin	100.00		n/a	n/a
HMV GmbH 1)	Erlangen	100.00		n/a	n/a
Hollandse Scheepshypotheekbank N.V. i.L. 1)	Rotterdam, Netherlands	100.00		707	-
Hudson Services LLC 1)	Majuro, Marshall Islands	-		-97	648
HumanProtect Consulting GmbH 1)	Cologne	100.00		382	116
Ihr Autoputzmeister Service GmbH 1)	Graz, Austria	100.00		n/a	n/a
Immobilien-Gesellschaft 'DG Bank-Turm, Frankfurt am Main, Westend' mbH & Co. KG des genossenschaftlichen Verbundes 2)	Frankfurt am Main	95.97		193,655	22,423
Immobilien-Verwaltungsgesellschaft 'DG BANK-Turm, Frankfurt am Main, Westend' mbH	Frankfurt am Main	100.00		60	25
IMPETUS Bietergesellschaft mbH 5)	Düsseldorf	100.00		54,063	-
INFINDO Development GmbH 1)	Düsseldorf	100.00		n/a	n/a
Intermodal Investment Fund IX LLC 1)	Majuro, Marshall Islands	100.00		-6,621	7,217
IPConcept (Luxemburg) S.A. 1)	Strassen, Luxembourg	100.00		19,364	9,284
IPConcept (Schweiz) AG 1)	Zurich, Switzerland	100.00		6,488	398
Iron Maple Rail Ltd. 1)	Vancouver, Canada	100.00		-173	926
ITF International Transport Finance Suisse AG i.L. 1)	Zurich, Switzerland	100.00		332	-40,847
Ivanhoe Shipping Opco LLC 1)	Majuro, Marshall Islands	-		-	-248
IZD-Beteiligung S.à.r.l. 1)	Senningerberg, Luxembourg	100.00		50	-107
K2 Aircraft Malta Ltd 1)	Floriana, Malta	100.00		44	31
Kalsubai Shipping and Offshore Private Ltd. 1)	Mumbai, India	-		-	13,374
Kälte Eckert GmbH 1)	Markgröningen	70.00		6,958	-68
KBIH Beteiligungsgesellschaft für Industrie und Handel mbH	Frankfurt am Main	100.00		35,325	8,184
KRAVAG Umweltschutz und Sicherheitstechnik GmbH 1)	Hamburg	100.00		323	21
KRAVAG-ALLGEMEINE Versicherungs-Aktiengesellschaft 1)	Hamburg	100.00		159,007	26,396
KRAVAG-LOGISTIC Versicherungs-Aktiengesellschaft 1)	Hamburg	51.00		248,421	10,232
KV MSN 27602 Aircraft Ltd. 1)	Dublin, Ireland	-		-15	-5
Lantana Aircraft Leasing Limited 1)	Floriana, Malta	-		-3,253	13,124
Leith Shipping LLC 1)	Majuro, Marshall Islands	-		-	-207
Linton Shipping LLC 1)	Majuro, Marshall Islands	-		-	78
Maple Leaf Shipping Holdco LLC 1)	Majuro, Marshall Islands	-		-55	2
MD Aviation Capital Pte. Ltd. 1)	Singapore, Singapore	100.00		-24,815	-6,154
MDAC 1 Pte Ltd. 1)	Singapore, Singapore	100.00		1,570	3
MDAC 11 Pte Ltd. 1)	Singapore, Singapore	100.00		74	2,385
MDAC 2 Pte Ltd. 1)	Singapore, Singapore	100.00		336	165
MDAC 3 Pte Ltd. 1)	Singapore, Singapore	100.00		245	4
MDAC 4 Pte Ltd. 1)	Singapore, Singapore	100.00		-60	558
MDAC 5 Pte. Ltd. 1)	Singapore, Singapore	100.00		73	1,996
MDAC 6 Pte Ltd. 1)	Singapore, Singapore	100.00		401	602
MDAC 8 Pte Ltd. 1)	Singapore, Singapore	100.00		-106	3
MDAC 9 Pte Ltd. 1)	Singapore, Singapore	100.00		-42	510
MDAC Malta Ltd. 1)	Floriana, Malta	-		-	-

## SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
MI-Fonds 384 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds 388 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds 391 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds 392 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds F 57 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds F 59 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds F44 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds F45 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds F46 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds F47 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds J01 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MI-Fonds J03 Metzler Investment GmbH 1)	Frankfurt am Main	-		n/a	n/a
MIRADOR Development GmbH 1)	Düsseldorf	100.00		n/a	n/a
Mount Diamir LLC 1)	Majuro, Marshall Islands	-		-	-
Mount Rinjani Shipping Pte. Ltd. 1)	Singapore, Singapore	100.00		-8,882	765
Mount Ulriken LLC 1)	Majuro, Marshall Islands	100.00		-1,734	2,194
MSN1164 Freighter Ltd. 1)	Dublin, Ireland	-		-206	479
MSU Management-, Service- und Unternehmensberatung GmbH 1)	Landau in der Pfalz	74.00		861	154
NTK Immobilien GmbH 1)	Hamburg	100.00		43	-
NTK Immobilien GmbH & Co. Management KG 1)	Hamburg	100.00		648	-598
Ocean Giant LLC 1)	Majuro, Marshall Islands	-		-99	-2
Okoye Beteiligungsverwaltungs GmbH 1)	Vienna, Austria	80.00		n/a	n/a
Pascon GmbH 1)	Wiesbaden	100.00		36	4
PCAM Issuance II SA Issue RV AVL 001 1)	Luxembourg, Luxembourg	-		n/a	n/a
PDZ Personaldienste & Zeitarbeit GmbH 5)	Darmstadt	100.00		60	-
Pension Consult-Beratungsgesellschaft für Altersvorsorge mbH 1)	Wiesbaden	100.00		724	-883
Philip Trading Opco LLC 1)	Majuro, Marshall Islands	-		-78	1
Phoenix Beteiligungsgesellschaft mbH 5)	Düsseldorf	100.00		108,349	-
Quoniam Asset Management GmbH 1)	Frankfurt am Main	93.69	100.00	32,056	16,210
R+V AIFM S.à.r.l. 1)	Luxembourg, Luxembourg	100.00		506	-356
R+V Allgemeine Versicherung Aktiengesellschaft 1) 5)	Wiesbaden	95.00		774,177	-
R+V Deutschland Real (RDR) 1)	Hamburg	-		n/a	n/a
R+V Dienstleistungs GmbH 1)	Wiesbaden	100.00		650	8
R+V Direktversicherung AG 1) 5)	Wiesbaden	100.00		13,320	-
R+V Erste Anlage GmbH i.L. 1)	Wiesbaden	100.00		289	-14
R+V INTERNATIONAL BUSINESS SERVICES Ltd., Dublin 1)	Dublin, Ireland	100.00		1,347	115
R+V KOMPOSIT Holding GmbH 1) 5)	Wiesbaden	100.00		1,826,142	-
R+V Krankenversicherung AG 1)	Wiesbaden	100.00		124,485	20,000
R+V Kureck Immobilien GmbH i.L. 1)	Wiesbaden	100.00		24	-11
R+V Lebensversicherung Aktiengesellschaft 1)	Wiesbaden	100.00		744,981	-
R+V Luxembourg Lebensversicherung S.A. 1)	Strassen, Luxembourg	100.00		484,156	40,762
R+V Mannheim P2 GmbH 1)	Wiesbaden	94.00		57,343	1,855
R+V Pensionsfonds AG 1)	Wiesbaden	100.00		34,613	2,530
R+V Pensionskasse AG 1)	Wiesbaden	100.00		103,233	-
R+V Personen Holding GmbH 1)	Wiesbaden	100.00		1,119,261	179
R+V Rechtsschutz-Schadenregulierungs-GmbH 1)	Wiesbaden	100.00		326	49
R+V Service Center GmbH 1) 5)	Wiesbaden	100.00		2,869	-
R+V Service Holding GmbH 1) 5)	Wiesbaden	100.00		190,800	-
R+V Treuhand GmbH 1)	Wiesbaden	100.00		58	7
R+V Versicherung AG 5)	Wiesbaden	92.17		2,149,774	-
RC II S.a.r.l. 1)	Munsbach, Luxembourg	90.00		8,833	71
ReiseBank Aktiengesellschaft 1)	Frankfurt am Main	100.00		19,267	-
RUV Agenturberatungs GmbH 1)	Wiesbaden	100.00		333	67
RV AIP S.C.S. SICAV-SIF 1)	Luxembourg, Luxembourg	99.00		10	-
RV AIP S.C.S. SICAV-SIF - RV TF 2 Infra Debt 1)	Luxembourg, Luxembourg	100.00		459,266	-4,639
RV AIP S.C.S. SICAV-SIF - RV TF 6 Infra Debt II 1)	Luxembourg, Luxembourg	98.40		30,500	-
RV AIP S.C.S. SICAV-SIF - RV TF Acquisition Financing 1)	Luxembourg, Luxembourg	98.67		180,166	3,730
S2 Shipping and Offshore Ptd Ltd. 1)	Singapore, Singapore	100.00		-21,690	4,563
Scheepvaartmaatschappij Ewout B.V. 1)	Schiphol, Netherlands	100.00		-6,280	258

## SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Schwäbisch Hall Facility Management GmbH 1)	Schwäbisch Hall	51.00		6,820	-1,213
Schwäbisch Hall Kreditservice GmbH 1) 5)	Schwäbisch Hall	100.00		18,775	-
Schwäbisch Hall Wohnen GmbH 1)	Schwäbisch Hall	100.00		5,800	-1,302
Shamrock Trading Opco LLC 1)	Majuro, Marshall Islands	-		-18	-
Shipping and Intermodal Investment Management Fund I LLC 1)	Majuro, Marshall Islands	-		1,797	756
Shipping and Intermodal Investment Management Fund II LLC 1)	Majuro, Marshall Islands	-		22,510	18,398
SHT Schwäbisch Hall Training GmbH 1)	Schwäbisch Hall	100.00		4,671	362
SIIM Marlin Holdings LLC 1)	Majuro, Marshall Islands	72.04		-5,646	-1,777
SINALOA Aircraft Leasing Limited 1)	Floriana, Malta	-		-7	-
SOS Kältetechnik GmbH 1)	Königsdorf	100.00		n/a	n/a
Sprint Sanierung GmbH 1)	Cologne	100.00		29,973	-3,449
SRF I Ltd. 1)	Floriana, Malta	-		-96	-1,998
SRF III Ltd. 1)	Floriana, Malta	-		-1,055	-5,898
Stani Trading Opco LLC 1)	Majuro, Marshall Islands	-		-190	-4
Stephenson Capital Limited 1)	George Town, Cayman Islands	-		-1,043	16,457
TeamBank AG Nürnberg 2) 5)	Nuremberg	92.53		539,699	-
Terra Maris I LLC 1)	Majuro, Marshall Islands	100.00		-5,608	-1,545
Tiger Aircraft Leasing (UK) Limited 1)	London, UK	-		-	-
Twenty Holding Private Limited 1)	Singapore, Singapore	-		-462	-5
UI Infrastruktur Management SARL 1)	Luxembourg, Luxembourg	100.00		28	8
UI Management S.a.r.l. 1)	Luxembourg, Luxembourg	100.00		15	1
UI Vario: 2 issued by Union Investment Luxembourg S.A. 1)	Luxembourg, Luxembourg	-		n/a	n/a
UII Issy 3 Moulins SARL 1)	Paris, France	100.00		7	-
UII PSD KN ImmoInvest GP GmbH 1)	Hamburg	100.00		85	17
UII SCE Management GP GmbH 1)	Hamburg	100.00		62	19
UII Verwaltungsgesellschaft mbH 1)	Hamburg	100.00		20	-2
UIN Union Investment Institutional Fonds Nr. 560 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 578 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 635 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 669 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 715 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 716 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 772 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 817 1)	Frankfurt am Main	-		2,222,753	-477
UIN Union Investment Institutional Fonds Nr. 825 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 833 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 834 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 839 1)	Frankfurt am Main	-		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 913 1)	Frankfurt am Main	-		n/a	n/a
UIR FRANCE 1 S.a.r.l. 1)	Paris, France	100.00		-	-7
UIR FRANCE 2 S.a.r.l. 1)	Paris, France	100.00		5	-7
UIR Verwaltungsgesellschaft mbH 1)	Hamburg	100.00		96	-2
UIW Austria Verwaltungs GmbH 1)	Erlangen	100.00		n/a	n/a
UMB Unternehmens-Managementberatungs GmbH 1)	Wiesbaden	100.00		5,055	1,301
UniMultiAsset Chance I Nachhaltig 1)	Frankfurt am Main	-		n/a	n/a
UniMultiAsset Chance II Nachhaltig 1)	Frankfurt am Main	-		n/a	n/a
UniMultiAsset Chance III Nachhaltig 1)	Frankfurt am Main	-		n/a	n/a
UniMultiAsset Exklusiv Nachhaltig 1)	Frankfurt am Main	-		n/a	n/a
Union Asset Management Holding AG 2)	Frankfurt am Main	96.57		1,223,063	298,471
Union Investment Austria GmbH 1)	Vienna, Austria	100.00		17,949	1,399
Union Investment Financial Services S.A. 1)	Luxembourg, Luxembourg	100.00		21,732	1,434
Union Investment Institutional GmbH 1) 5) 6)	Frankfurt am Main	100.00		93,970	-
Union Investment Institutional Property GmbH 1) 6)	Hamburg	90.00		31,297	12,917
Union Investment Luxembourg S.A. 1)	Luxembourg, Luxembourg	100.00		216,991	54,784
Union Investment Privatfonds GmbH 1) 5) 6)	Frankfurt am Main	100.00		660,942	-
Union Investment Real Estate Asia Pacific Pte. Ltd. 1)	Singapore, Singapore	100.00		1,178	-130
Union Investment Real Estate Austria AG 1)	Vienna, Austria	94.50		9,167	2,475
Union Investment Real Estate Digital GmbH 1) 6)	Hamburg	100.00		10,225	-
Union Investment Real Estate France S.A.S. 1)	Paris, France	100.00		3,628	1,425



**SUBSIDIARIES**

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Union Investment Real Estate GmbH 2) 6)	Hamburg	94.50		183,026	66,931
Union Investment Service Bank AG 1) 5) 6)	Frankfurt am Main	100.00		88,115	-
Union IT-Services GmbH 1) 5) 6)	Frankfurt am Main	100.00		5,170	-
Union Service-Gesellschaft mbH 1) 5) 6)	Frankfurt am Main	100.00		9,554	-
Unterstützungskasse der Condor Versicherungsgesellschaften GmbH 1)	Hamburg	66.67		26	-
URA Verwaltung GmbH 1)	Vienna, Austria	100.00		41	1
VB A330 Leasing Ltd 1)	George Town, Cayman Islands	100.00		4,459	6,305
VisualVest GmbH 1) 5) 6)	Frankfurt am Main	100.00		15,525	-
VR Consultingpartner GmbH 1)	Frankfurt am Main	100.00		1,078	-
VR Equity Gesellschaft für regionale Entwicklung in Bayern mbH 1)	Frankfurt am Main	100.00		5,177	-34
VR Equitypartner Beteiligungskapital GmbH & Co. KG UBG 2)	Frankfurt am Main	100.00		36,021	3,643
VR Equitypartner GmbH 5)	Frankfurt am Main	100.00		69,070	-
VR Equitypartner Management GmbH 1)	Frankfurt am Main	100.00		355	-1
VR Factoring GmbH (VR FACTOREM GmbH until October 28, 2020)	Eschborn	100.00		39,906	521
VR GbR 2)	Frankfurt am Main	100.00		137,493	55,611
VR HYP GmbH 1)	Hamburg	100.00		25	-
VR Kreditservice GmbH 1) 5)	Hamburg	100.00		25	-
VR Makler GmbH 1)	Hannover	100.00		525	-362
VR Mittelstandskapital Unternehmensbeteiligungs GmbH 2)	Düsseldorf	100.00		6,913	592
VR Payment GmbH	Frankfurt am Main	90.00		55,671	4,415
VR Real Estate GmbH 1)	Hamburg	100.00		25	-
VR Smart Finanz AG 5)	Eschborn	100.00		211,070	-
VR Smart Finanz Bank GmbH 1) 5)	Eschborn	100.00		250,147	-
VR Smart Guide GmbH 1)	Eschborn	100.00		983	177
VR WERT Gesellschaft für Immobilienbewertung mbH 1) 5)	Hamburg	100.00		50	-
VR-Leasing Beteiligungs GmbH 1)	Eschborn	100.00		98,654	-14
VR-LEASING Hauptverwaltung GmbH & Co. KG 1) 6)	Eschborn	94.80	76.00	5,000	47,141
Waverley Shipping Opco LLC 1)	Majuro, Marshall Islands	-		14	-229
WBS Wohnwirtschaftliche Baubetreuungs- und Servicegesellschaft mbH 1)	Stuttgart	94.90		19,984	786
ZBI Beteiligungs GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Fondsmanagement AG 1)	Erlangen	100.00		19,401	14,334
ZBI Fondsverwaltungs GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Immobilien AG 1)	Erlangen	100.00		23,619	23,056
ZBI Partnerschafts-Holding GmbH 1)	Erlangen	94.90		15,163	24,174
ZBI Professional Fondsverwaltungs GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Projektentwicklungs GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Regiofonds Wohnen GF GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Regiofonds Wohnen GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Vertriebskoordinations GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Vorsorge - Plan Wohnen GF GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Vorsorge - Plan Wohnen GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI Wohnen Plus Verwaltungs GmbH 1)	Erlangen	100.00		n/a	n/a
ZBI WohnWert Verwaltungs GmbH 1)	Erlangen	100.00		n/a	n/a
ZBVV Zentral Boden Vermietung und Verwaltung GmbH 1)	Erlangen	100.00		61	-705

## JOINT VENTURES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
38321 & 38329 Aircraft Leasing (Cayman) Ltd. 1)	Grand Cayman, Cayman Islands	50.00	-	9,443	2,273
BAU + HAUS Management GmbH 1)	Wiesbaden	50.00		10,014	855
BEA Union Investment Management Limited 1)	Hong Kong, Hong Kong	49.00		58,137	12,371
BSP Bürgschaftsservice-Plattform GmbH 1)	Hamburg	50.00		n/a	n/a
D8 Product Tankers I LLC 1)	Majuro, Marshall Islands	50.00		7,593	-299
Deutsche WertpapierService Bank AG	Frankfurt am Main	50.00		211,436	15,656
DZ BANK Galerie im Städel Kunstverwaltungsgesellschaft mbH	Frankfurt am Main	50.00		24	-2
Global Offshore Services B.V. 1)	Shannon, Ireland	50.00		-	-
Hudson Chemical Tankers Ltd 1)	Majuro, Marshall Islands	50.00		n/a	n/a
IZD-Holding S.à.r.l. 1)	Senningerberg, Luxembourg	50.30	50.00	9	-61
KCM Bulkers Ltd. 1)	Majuro, Marshall Islands	50.00		12,220	2,602
Norafin Verwaltungs GmbH 1)	Mildenau	44.72		24,032	401
Prvá stavebná sporiteľ'na, a.s. 1)	Bratislava, Slovakia	32.50		266,198	8,277
R+V Kureck Immobilien GmbH Grundstücksverwaltung Braunschweig 1)	Wiesbaden	50.00		7,024	168
TrustBills GmbH	Hamburg	25.00		-1,125	-2,572
Versicherungs-Vermittlungsgesellschaft des Sächsischen Landesbauernverbandes mbH 1)	Dresden	50.00		215	-35
Versicherungs-Vermittlungsgesellschaft mbH des Bauernverbandes Mecklenburg-Vorpommern e.V. (VVB) 1)	Neubrandenburg	50.00		204	11
Versicherungs-Vermittlungsgesellschaft mbH des Landesbauernverbandes Brandenburg (VVB) 1)	Teltow	50.00		33	4
Versicherungs-Vermittlungsgesellschaft mbH des Landesbauernverbandes Sachsen-Anhalt e.V. (VVB) 1)	Magdeburg	50.00		70	9
Zhong De Zuh Fang Chu Xu Yin Hang (Sino-German-Bausparkasse) Ltd. 1)	Tianjin, China	24.90		375,019	7,726

## ASSOCIATES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
adorsys GmbH & Co. KG 1)	Nuremberg	25.89		1,741	1,542
adorsys Verwaltungs GmbH 1)	Nuremberg	25.90		28	1
aku.beteiligung GmbH 1)	Frankfurt am Main	46.04		n/a	n/a
Artemis Gas 1 Shipping Inc. 1)	Piraeus, Greece	20.00		61,948	765
Bankenkonsortium der Zenit GmbH, GbR	Düsseldorf	33.30		-	-
bbv-service Versicherungsmakler GmbH 1)	Munich	25.20		2,124	344
Bergina AS 1)	Grimstad, Norway	40.00		10	-926
Bookwire Holding GmbH 1)	Frankfurt am Main	49.00		13,060	-395
Danae Gas Shipping Inc 1)	Majuro, Marshall Islands	5.00		n/a	n/a
DITTRICH + CO Holding GmbH 1)	Frankfurt am Main	49.85		n/a	n/a
Dr. Förster Holding GmbH 1)	Neu-Isenburg	20.06		-12,858	-1,280
Dr. Neuberger Holding GmbH 1)	Wiesbaden	40.00		9,562	437
European Convenience Food GmbH 1)	Garrel	39.77	40.58	4,728	-3,103
GBS Beteiligungsgesellschaft mbH 1)	Bayreuth	42.33		5,037	1,865
GGB-Beratungsgruppe GmbH	Stuttgart	23.13		-1,123	-1,858
GHM Holding GmbH 1)	Erolzheim	40.00		17,182	-18
GHM MPP Reserve GmbH 1)	Regenstauf	50.00		349	-4
GHM MPP Verwaltungs GmbH 1)	Remscheid	50.00		18	-2
Global Asic GmbH 1)	Dresden	30.80		1,083	-35
Global Offshore Services B.V. 1)	Amsterdam, Netherlands	32.13		-	-
Goldeck Zetti Beteiligungsgesellschaft mbH 1)	Leipzig	39.23		19,050	597
Groneweg Verwaltungsgesellschaft mbH 1)	Greven	48.00		26,000	900
Hör Technologie GmbH 1)	Weiden i.d.OPf.	62.78	49.99	23,502	-1,029
Hudson Chemical Tankers Ltd 1)	Middlesex, UK	25.00		n/a	n/a
Informatik Consulting Systems Holding GmbH 1)	Stuttgart	49.83	49.43	n/a	n/a
Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in Nordrhein-Westfalen mbH - KBG -	Neuss	23.60		4,548	520
KCM Bulkers International Limited 1)	Tortola, Virgin Islands	49.00		n/a	n/a
KCM Bulkers Ltd. 1)	Tortola, Virgin Islands	49.00		-	-
KOTANI JV CO. BV 1)	Amsterdam, Netherlands	48.35		71,342	-6,112
KTP Holding GmbH 1)	Bous	37.36		41,573	758
Mandarin Containers Limited 1)	Tortola, Virgin Islands	17.01		58,795	1,741
MSEA Aframax Holdings LLC 1)	Majuro, Marshall Islands	48.00		23,532	-796
MSEA Marlin Holdings LLC 1)	Majuro, Marshall Islands	32.19		n/a	n/a
MSN 1272&1278 Aircraft Leasing 1)	Grand Cayman, Cayman Islands	20.00		n/a	n/a
N3K Informatik Holding GmbH 1)	Frankfurt am Main	25.10		n/a	n/a
Ostertag DeTeWe Group GmbH 1)	Walddorfhäslach	58.52	49.90	85	72
PI-SM GmbH 1)	Ehringshausen	40.80		24,217	369
Sanitärgruppe Stiller GmbH 1)	Cologne	45.00		38,991	49,308
SCL GmbH 1)	Butzbach	49.00		6,554	1,371
Signet Wohnmöbel GmbH 1)	Hochstadt am Main	49.80		n/a	n/a
TAP Ltd. 1)	Hamilton, Bermuda	38.05		41,021	960
Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung. Treufinanz	Düsseldorf	33.14		1,435	-266
TREVA Entertainment GmbH i. L. 1)	Hamburg	32.70		1,269	-529
United MedTec Holding GmbH 1)	Bückerburg	41.01		1,379	184
Votronic Elektronik-Systeme GmbH 1)	Lauterbach	49.80		2,290	1,496
Weisshaar Holding GmbH 1)	Deislingen	84.94	49.92	3,668	-582
Wessel-Werk Beteiligungsverwaltung GmbH i.L. 1)	Karlsruhe	45.00		-2,088	-1,527
ZT Finance GmbH i.L. 1)	Weilheim	26.67		2,278	-40

## SHAREHOLDINGS OF 20% OR MORE

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
AMP Capital Infrastructure Debt Fund IV (EUR), L.P. 1)	Luxembourg, Luxembourg	39.84		223,130	1,929
Assiconf S.r.l. 1)	Turin, Italy	20.00		88	2
ASSICRA Servizi Assicurativi Banche di Credito Cooperativo Abruzzo e Molise S.r.l. 1)	Pescara, Italy	25.00		516	29
BCC RISPARMIO & PREVIDENZA S.G.R.P.A. 1)	Milan, Italy	25.00		38,226	12,400
BRASIL FLOWERS S.A. 1)	Barbacena, Brazil	45.00		n/a	n/a
BREDS IV Aggregator SCSp 1)	Luxembourg, Luxembourg	90.91		n/a	n/a
Burghofspiele GmbH 1)	Eltville	20.00		-	-21
Bürgerschaftsbank Brandenburg GmbH	Potsdam	25.31		31,024	1,188
Bürgerschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	30.38		16,899	262
Bürgerschaftsbank Sachsen-Anhalt GmbH	Magdeburg	29.73		16,436	437
Bürgerschaftsbank Thüringen GmbH	Erfurt	22.13		27,219	637
Cheyne Real Estate Credit (CRECH) Fund IV Loans SCS SICAV-SIF 1)	Luxembourg, Luxembourg	20.83		314,225	7,255
Cheyne Real Estate Credit Holdings VII 1)	Luxembourg, Luxembourg	96.77		n/a	n/a
CMMT Partners L.P. 1)	Camden, USA	47.07		253,433	18,890
Credit Suisse Global Infrastructure SCA SICAR 1)	Luxembourg, Luxembourg	30.09		23,186	7,544
DEGEPROMO Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG 1)	Eschborn	95.00	33.34	n/a	n/a
DZ BANK Mikrofinanzfonds eG 2)	Frankfurt am Main	30.90	0.45	259	-
EIG Global Project Fund V-A, L.P. 1)	Wilmington, USA	51.28		n/a	n/a
Finateme II GmbH & Co. KG 1)	Frankfurt am Main	20.20		12,519	2,908
FREUNDE DER EINTRACHT FRANKFURT Aktiengesellschaft 1)	Frankfurt am Main	32.05	19.84	6,268	169
GENOPACE GmbH 1) 6)	Berlin	27.49		200	-
Global Energy & Power Infrastructure Fund III E, SCSp 1)	Luxembourg, Luxembourg	35.34		38,416	3,077
Global Infrastructure Partners III-C2, L.P. 1)	New York, USA	27.97		380,881	49,454
Golding Mezzanine SICAV IV 1)	Luxembourg, Luxembourg	49.98		3,342	526
GTIS Brazil II S-Feeder LP 1)	Edinburgh, UK	100.00		27,831	-76
Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH	Stuttgart	20.00		1,023	-
Macquarie Asia Infrastructure Fund 2 SCSp 1)	Luxembourg, Luxembourg	50.48		147,269	10,042
Macquarie Asia Infrastructure Fund EU Feeder L.P. 1)	London, UK	100.00		88,216	9,304
MB Asia Real Estate Feeder (Scot.) L.P. 1)	Edinburgh, UK	34.80		1,193	-312
Medico 12 GmbH & Co. KG 1)	Frankfurt am Main	99.98		648	-178
Nuveen Immobilien GmbH 1)	Frankfurt am Main	50.00		227	86
Nuveen Immobilien GmbH & Co. GB I KG 1)	Frankfurt am Main	73.91	73.21	1,943	-73
Partners Group Direct Infrastructure 2020 (EUR), L.P.S.C.Sp. 1)	Luxembourg, Luxembourg	33.68		n/a	n/a
paydirekt GmbH	Frankfurt am Main	33.33		18,019	-2,684
RV-CVIII Holdings, LLC 1)	Camden, USA	100.00		66,857	-7,255
Schroder Italien Fonds GmbH & Co. KG 1)	Frankfurt am Main	23.08	19.74	728	28
Schroder Property Services B.V. S.à.r.l. 1)	Senningerberg, Luxembourg	30.00		341	25
Sprint Italia S.r.l. 1)	Bolzano, Italy	51.00		n/a	n/a
Swiss Life Health Care Deutschland V S.C.S., SICAV-SIF 1)	Luxembourg, Luxembourg	41.33		n/a	n/a
Swiss Life Health Care III SICAV-FIS 1)	Luxembourg, Luxembourg	33.33		117,445	15,652
Swiss Life Health Care IV SICAV-FIS 1)	Luxembourg, Luxembourg	46.51		53,509	4,337
Technology DZ Venture Capital Fund I GmbH & Co. KG i.L. 1)	Munich	34.33		4,952	-51
TF H III Technologiefonds Hessen Gesellschaft mit beschränkter Haftung	Wiesbaden	25.00		6,618	-2,306
TF H Technologie-Finanzierungsfonds Hessen Gesellschaft mit beschränkter Haftung (TF H GmbH) i.L.	Wiesbaden	33.33		553	10
Tishman Speyer Brazil Feeder (Scots/D), L.P. 1)	Edinburgh, UK	100.00		6,897	-5,977
Tishman Speyer European Real Estate Venture VIII Parallel SCSp 1)	Luxembourg, Luxembourg	55.88		-9,205	-6,708
Tishman Speyer European Strategic Office Fund Feeder, L.P. 1)	London, UK	97.18		1,177	471
TXS GmbH 1)	Hamburg	24.50		200	500
VBI Beteiligungs GmbH 1)	Vienna, Austria	24.50		421	-163
VR-LEASING OPHIR GmbH & Co. Immobilien KG 1)	Eschborn	94.80	16.33	n/a	n/a

**MORE THAN 5% OF VOTING RIGHTS (LARGE CORPORATIONS)**

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Banco Cooperativo Español S.A.	Madrid, Spain	12.02		571,612	32,009
EDEKABANK Aktiengesellschaft	Hamburg	8.35		160,869	6,073
EURO Kartensysteme GmbH	Frankfurt am Main	19.60		12,187	151
PANELLINIA BANK SOCIETE ANONYME (under special liquidation)	Athens, Greece	8.42	5.28	50,143	-12,637
Protector Lebensversicherungs-AG 1)	Berlin	5.27		7,851	7
Raiffeisendruckerei GmbH 1)	Neuwied	7.88		36,656	2,738
SCHUFA Holding AG 1)	Wiesbaden	17.94		118,321	41,120

#### SHAREHOLDINGS OF LESS THAN 20%

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
'Hotel Wagramerstrasse 8' Errichtungs- und BetriebsgmbH & Co KG 1)	Vienna, Austria	-		21,243	1,533
ABE Clearing S.A.S a Capital Variable	Paris, France	1.92		31,181	3,267
AERS Consortio AG 1)	Stuttgart	16.50		114	-18
AgroRisk Polska Spółka z ograniczona odpowiedzialnoscia 1)	Poznań, Poland	15.00		n/a	n/a
Airport Garden Services and Business Center S.A. 1)	Brussels-Zaventem, Belgium	0.33		273	182
AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung	Frankfurt am Main	0.31		253,193	10,621
Akademie Badischer Volksbanken und Raiffeisenbanken GmbH 1)	Karlsruhe	0.03		n/a	-
Anlegerentschädigung von Wertpapierfirmen GmbH 1)	Vienna, Austria	0.57	1.61	n/a	n/a
Architrave GmbH 1)	Berlin	12.04		n/a	n/a
ARDIAN Infrastructure Fund V B S.C.S., SICAV-RAIF 1)	Luxembourg, Luxembourg	13.58		55,128	-10,738
Assicoop-Assicurazioni Cooperative S.r.l. 1)	Catania, Italy	0.41		n/a	n/a
assistance partner GmbH & Co. KG 1)	Munich	5.01		1,102	102
Bank Polskiej Spoldzielczosci Spolka Akcyjna	Warsaw, Poland	1.00		176,142	5,153
Baro Beteiligungs-GmbH & Co. KG 1)	Münster	5.10		82,501	4,749
BayBG Bayerische Beteiligungsgesellschaft mbH	Munich	9.38		242,372	5,160
Bayerische Raiffeisen- Beteiligungs-Aktiengesellschaft 2)	Beilngries	1.85		856,018	35,290
Berliner Volksbank eG 1)	Berlin	-	0.10	1,029,942	19,628
Beteiligungs-Aktiengesellschaft der bayerischen Volksbanken 1)	Pöcking	1.14		232,001	6,569
BFL Gesellschaft des Bürofachhandels mbH & Co. KG i.L. 1)	Eschborn	0.07	0.05	2,364	139
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen	Munich	13.15		55,374	2,023
Blackrock Renewable Income Europe Fund 1)	Dublin, Ireland	7.69		474,768	34,794
Blackstone Real Estate Partners Europe III L.P. 1)	New York, USA	1.62		579,252	5,229
Blackstone Real Estate Partners International I.E. L.P. 1)	New York, USA	9.77		-26,468	30,572
BLHV Versicherungs-Service GmbH 1)	Freiburg	9.00		124	99
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	10.00		5,141	495
Bürgerschaftsbank Bremen GmbH	Bremen	4.86		8,258	364
Bürgerschaftsbank Hessen GmbH	Wiesbaden	15.87		21,824	985
Bürgerschaftsbank Nordrhein-Westfalen GmbH Kreditgarantiegemeinschaft	Neuss	15.75		38,223	1,463
Bürgerschaftsbank Rheinland-Pfalz GmbH	Mainz	14.31		17,184	358
Bürgerschaftsbank Sachsen GmbH	Dresden	14.66	16.59	44,085	489
Bürgerschaftsbank Schleswig-Holstein Gesellschaft mit beschränkter Haftung	Kiel	11.79		41,825	651
Bürgerschaftsgemeinschaft Hamburg GmbH	Hamburg	6.36		26,783	505
Caprese S.A. 1)	Brussels-Zaventem, Belgium	-		3,748	-423
Cash Logistik Security AG 1)	Düsseldorf	4.10		5,190	1,064
CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	Trento, Italy	3.69		1,133,251	30,896
CLS Group Holdings AG	Lucerne, Switzerland	0.69		375,865	-31,443
Coop System S.p.A. 1)	Rome, Italy	1.97		n/a	n/a
Copenhagen Infrastructure III K/S 1)	Copenhagen K, Denmark	5.77		n/a	n/a
Copenhagen Infrastructure IV K/S 1)	Copenhagen K, Denmark	7.97		n/a	n/a
Crown Secondaries Special Opportunities II S.C.S. 1)	Luxembourg, Luxembourg	9.69		n/a	n/a
Curzon Capital Partners III LP 1)	London, UK	11.99		n/a	n/a
Curzon Capital Partners IV LP 1)	London, UK	10.73		287,011	40,641
Deutsche Bauernsiedlung - Deutsche Gesellschaft für Landentwicklung (DGL) mbH 1)	Frankfurt am Main	16.26		-	-
Deutsche Börse Commodities GmbH	Frankfurt am Main	16.20	14.48	8,915	7,915
Deutscher Genossenschafts-Verlag eG 2)	Wiesbaden	1.54	1.58	67,825	1,927
DG ANLAGE Holland-Fonds 'Nieuwegein, 's-Hertogenbosch' GmbH & Co. KG (DGI 48) i.L.	Frankfurt am Main	0.57		1,030	-253
DG IMMOBILIEN MANAGEMENT Gesellschaft mbH	Frankfurt am Main	5.01		19,389	3,209
DG Immobilien-Anlagegesellschaft Nr. 35 'Berlin, Frankfurt' Prüske & Dr. Neumann KG i.L.	Frankfurt am Main	0.07		3,039	-75
DG IMMOBILIEN-Objektgesellschaft 'Stuttgart, Industriestrasse' Kreft & Dr. Neumann KG (DGI 49) i.L.	Frankfurt am Main	0.98		-	-
DI Rathaus-Center Pankow Nr.35 KG 1)	Düren	3.86		27,574	2,303
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH Berlin 1)	Berlin	14.13		32	-4

SHAREHOLDINGS OF LESS THAN 20%

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
EDD AG i.L. 2)	Düsseldorf	9.99		21,601	-
EIG Energy Fund XVI (Scotland) L.P. 1)	Edinburgh, UK	14.02		395,913	6,536
EIG Energy Fund XVII (Scotland) L.P. 1)	Edinburgh, UK	15.61		276,748	25,928
EPI Interim Company SE	Sint-Jans Molenbeek, Belgium	6.25		n/a	n/a
Euro Capital S.A.S. 1)	Metz, France	4.44		23,020	1,663
European Property Investors Special Opportunities, L.P. 1)	London, UK	6.35		136,153	-56,671
European Property Investors, L. P. 1)	London, UK	6.50		5,349	-80
EXTREMUS Versicherungs-Aktiengesellschaft 1)	Cologne	5.00		64,058	118
Fiducia & GAD IT AG 2)	Frankfurt am Main	0.35		431,556	-114
FIDUCIA Mailing Services eG 2)	Karlsruhe	0.13		78	-
Flugplatz Schwäbisch Hall GmbH 1)	Schwäbisch Hall	2.00		49	-
GAD Beteiligungs GmbH & Co. KG 2)	Münster	2.25		119,597	3,008
GBK Holding GmbH & Co. KG 1)	Kassel	0.02		468,549	11,365
GDV Dienstleistungs-GmbH 1)	Hamburg	2.82		28,941	1,511
GI Data Infrastructure Fund-A LP 1)	Wilmington, USA	13.60		n/a	n/a
GIP Capital Solutions Feeder Fund II (EEA) 1)	Luxembourg, Luxembourg	15.00		-1,523	-994
GLADBACHER BANK Aktiengesellschaft von 1922	Mönchengladbach	17.53		39,878	1,498
Global Infrastructure Partners IV-C2, L.P. 1)	Luxembourg, Luxembourg	17.17		-2,715	-44,769
Global Renewable Power Infrastructure Fund III (C), SCSp 1)	Luxembourg, Luxembourg	4.48		n/a	n/a
GMS Mitarbeiter Beteiligungsgesellschaft UG & Co.KG 1)	Paderborn	4.00		986	-8
Golding Mezzanine SICAV III 1)	Luxembourg, Luxembourg	1.30		50,330	6,222
Grand Hotel Heiligendamm GmbH & Co. KG Fundus Fonds Nr. 34 1)	Disternich	1.90		-9,257	-31
Gründerfonds Ruhr GmbH & Co. KG 1)	Essen	7.25		4,882	-783
HANDWERKSBAU NIEDERRHEIN AKTIENGESELLSCHAFT	Düsseldorf	10.15		26,718	1,744
heal.capital I GmbH & Co. KG 1)	Berlin	0.99		-	-1,010
Hines European Value Fund SCSp 1)	Luxembourg, Luxembourg	13.87		488,081	27,341
Immigon portfolioabbau ag i.A.	Vienna, Austria	3.79		722,784	8,897
Immo Feest en Cultuurpaleis Oostende SA 1)	Brussels, Belgium	-		16,641	102
Interessengemeinschaft Frankfurter Kreditinstitute GmbH	Frankfurt am Main	7.01		26,301	9,656
IVS Immobilien GmbH 1)	Schiffweiler	6.00		26	-
K in Kortrijk S.A. 1)	Brussels, Belgium	-		87,440	-3,081
KLAAS MESSTECHNIK GmbH 1)	Seelze-Harenberg	15.00		28	-
KLV BAKO Vermittlungs-GmbH	Karlsruhe	10.00		242	9
Konsortium der Absatzfinanzierungsinstitute plettac-asso GbR	Wuppertal	-	7.08	n/a	n/a
Kreditgarantiegemeinschaft der Freien Berufe Baden-Württemberg Verwaltungs GmbH	Stuttgart	4.76		153	-
Kreditgarantiegemeinschaft der Industrie, des Verkehrsgewerbes und des Gastgewerbes Baden-Württemberg Verwaltungs-GmbH	Stuttgart	15.28		1,300	-
Kreditgarantiegemeinschaft des bayerischen Gartenbaues GmbH	Munich	9.07		649	-
Kredit-Garantiegemeinschaft des bayerischen Handwerks Gesellschaft mit beschränkter Haftung	Munich	12.00		4,846	-
Kreditgarantiegemeinschaft des Gartenbaues Baden-Württemberg Verwaltungs-GmbH	Stuttgart	12.00		138	-
Kreditgarantiegemeinschaft des Handels Baden-Württemberg Verwaltungs-GmbH	Stuttgart	10.05		1,022	-
Kreditgarantiegemeinschaft des Handwerks Baden-Württemberg Verwaltungs-GmbH	Stuttgart	10.05		1,001	-
Kreditgarantiegemeinschaft des Hotel- und Gaststättengewerbes in Bayern GmbH	Munich	9.66		4,359	-
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH	Munich	7.19		6,317	-
Kunststiftung Baden-Württemberg GmbH 1)	Stuttgart	0.50		2,899	-17
Les Grands Pres S.A. 1)	Brussels-Zaventem, Belgium	-	0.11	51,931	4,276
Lucrezia GmbH & Co. KG 1)	Berlin	0.10		5,097	-8
Macquarie European Infrastructure Fund 6 SCSp 1)	Luxembourg, Luxembourg	4.15		-19,959	-19,961
Macquarie European Infrastructure Fund 4 L.P. 1)	St. Peter, Guernsey	5.70		2,765,494	405,131
MBG H Mittelständische Beteiligungsgesellschaft Hessen GmbH	Wiesbaden	16.26		10,488	-855
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg Gesellschaft mit beschränkter Haftung	Stuttgart	9.94	8.33	81,296	4,303
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH	Mainz	9.80	11.11	15,991	664

#### SHAREHOLDINGS OF LESS THAN 20%

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
MBG Mittelständische Beteiligungsgesellschaft Schleswig-Holstein mbH	Kiel	14.59	15.22	43,486	2,193
Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg mbH	Potsdam	8.89		22,891	1,056
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH	Schwerin	16.00		16,618	668
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung	Hannover	19.92		14,731	422
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	9.38		49,169	1,567
Mittelständische Beteiligungsgesellschaft Sachsen-Anhalt (MBG) mbH	Magdeburg	19.84		24,249	217
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	10.28		26,842	928
Münchener Hypothekbank eG 2)	Munich	1.18		1,428,457	35,697
Munster S.A. 1)	Luxembourg, Luxembourg	0.11		2,428	-236
Niedersächsische Bürgschaftsbank (NBB) Gesellschaft mit beschränkter Haftung	Hannover	17.68		30,102	1,818
Norddeutsche Genossenschaftliche Beteiligungs-Aktiengesellschaft 1)	Hannover	0.55		1,379,444	47,754
North Haven Infrastructure Partners III Feeder A L.P. 1)	Kitchener, Canada	3.05		n/a	n/a
North Haven Infrastructure Partners III SCSp 1)	Luxembourg, Luxembourg	0.61		n/a	n/a
Opción Jamantab S. A. DE C. V. 1)	Mexico City, Mexico	-		9,675	492
Partners Group Global Mezzanine 2007 S.C.A., SICAR 1)	Luxembourg, Luxembourg	2.24		45,799	1,580
PRIVATE EQUITY SCS SICAV-SIF 1)	Luxembourg, Luxembourg	-		n/a	n/a
Prosa Beteiligungs GmbH & Co. KG 1)	Frankfurt am Main	15.63		587	-408
Prosolis GmbH The Solution House i.L. 1)	Fulda	6.00		n/a	n/a
Raiffeisen Waren-Zentrale Rhein-Main eG	Cologne	2.00		123,919	-2,155
Raiffeisen-Kassel A-Beteiligungs GmbH & Co. KG	Kassel	8.22		40,415	-
Raiffeisen-Kassel B-Beteiligungs GmbH & Co. KG	Kassel	8.22		40,415	-
Royale 120 New Building S.A. 1)	Brussels-Zaventem, Belgium	-		43,789	910
Royale 120 S.A. 1)	Brussels-Zaventem, Belgium	0.01		849	-44
RPD Real Property Development GmbH 1)	Langenwang, Austria	10.00		662	120
RREEF Pan-European Infrastructure Feeder GmbH & Co. KG 1)	Eschborn	17.70		348,880	-116
Rund Vier GmbH & Co. KG 1)	Vienna, Austria	-		46,016	3,444
S.W.I.F.T. Society for Worldwide International Financial Telecommunication 2)	La Hulpe, Belgium	0.26		469,588	53,208
Saarländische Wagnisfinanzierungsgesellschaft mbH	Saarbrücken	2.59		8,157	381
SALEG Sachsen-Anhaltinische Landesentwicklungs GmbH 1)	Magdeburg	1.15		13,940	367
Sana Kliniken AG 1)	Ismaning	0.69		1,017,094	66,685
Schulze-Delitzsch-Haus, eingetragene Genossenschaft 1)	Bonn	0.95		541	167
Sechzehnte Gamma Trans Leasing Verwaltungs-GmbH & Co. Finanzierungs-Management KG i.L. 1)	Nidderau	16.51		n/a	n/a
SGB-Bank Spółka Akcyjna	Poznań Poland	0.28		143,324	5,584
SIGNA Development Selection AG 1)	Innsbruck, Austria	5.00		674,359	125,995
SIGNA Prime Selection AG 1)	Innsbruck, Austria	5.00		3,283,737	497,973
SIGNA Sports United GmbH 1)	Munich	11.59		373,800	-33,300
Société de la Bourse de Luxembourg S.A. 1)	Luxembourg, Luxembourg	0.06		129,565	10,630
Strategie Invest SICAV 1)	Zurich, Switzerland	0.09		n/a	n/a
Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG	Ochsenfurt	4.44	4.55	194,143	5,569
Target Partners Capital GmbH & Co. KG 1)	Munich	10.00	10.01	278	-7
Technologiezentrum Schwäbisch Hall GmbH 1)	Schwäbisch Hall	4.17	5.56	569	62
Teko - Technisches Kontor für Versicherungen Gesellschaft mit beschränkter Haftung 1)	Düsseldorf	10.00		111	30
True Sale International GmbH	Frankfurt am Main	7.69		4,864	248
Ufficio Centrale Italiano di Assistenza Assicurativa Automobilisti in Circolazione Internazionale -U.C.I. Societe consortie a R.L. 1)	Milan, Italy	0.09		1,330	16
UIR Belgique 1 S.A. 1)	Brussels, Belgium	0.13		733	-55
UIR Le Président 1 1)	Brussels-Zaventem, Belgium	-	0.06	3,714	-486
UIR MU III S.A. de C.V. 1)	Mexico City, Mexico	-		12,121	678
Uninstitutional Sachwerte SCS SICAV-SIF 1)	Luxembourg, Luxembourg	-		n/a	n/a
Visa Inc.	San Francisco, USA	-		28,251,201	9,839,537
VNT Automotive GmbH 1)	Langenwang, Austria	10.00		11,148	846
VR-Bank Schwäbisch Hall eG 1)	Schwäbisch Hall	0.01		119,256	4,721
VR-IMMOBILIEN-LEASING GmbH 1)	Eschborn	6.00		n/a	n/a



**SHAREHOLDINGS OF LESS THAN 20%**

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
WESTFLEISCH Finanz AG 1)	Münster	0.36		65,691	5,706
WRW Wohnungswirtschaftliche Treuhand Rheinland-Westfalen Gesellschaft mit beschränkter Haftung i.L.	Düsseldorf	2.73		n/a	n/a
ZBI Zentral Boden Immobilien GmbH & Co. KG WohnWert 1 Geschlossene Investmentkommanditgesellschaft 1)	Erlangen	-		n/a	n/a
ZG Raiffeisen eG	Karlsruhe	1.01	0.02	29,005	-3,971

1) Held indirectly.

2) Including shares held indirectly.

3) A letter of comfort exists.

4) A subordinated letter of comfort exists.

5) Profit-and-loss transfer agreement with DZ BANK (direct or indirect).

6) Section 264 (3) HGB and section 264b HGB have been applied.

n/a = no figures available.

#### >> 47 Disclosures pursuant to section 285 no. 11a HGB

As at the balance sheet date, DZ BANK was a shareholder with unlimited liability in the following entities:

- Bankenkonsortium der Zenit GmbH, GbR, Düsseldorf
- Konsortium der Absatzfinanzierungsinstitute plettac-assco GbR, Wuppertal
- VR GbR, Frankfurt am Main.

#### >> 48 Events after the balance sheet date

There were no events of particular importance after the end of the financial year.



# Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements of DZ BANK give a true and fair view of the assets, liabilities, financial position and profit or loss of DZ BANK, and the management report of DZ BANK includes a fair review of the development and performance of the business and the position of DZ BANK, together with a description of the principal opportunities and risks associated with the expected development of DZ BANK.

Frankfurt am Main, March 2, 2021

DZ BANK AG  
Deutsche Zentral-Genossenschaftsbank

The Board of Managing Directors



Fröhlich



Dr. Riese



Berghaus



Dr. Brauckmann



Brouzi



Köhler



Speth



Ullrich

# Independent auditor's report

To DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

Report on the audit of the annual financial statements and of the management report

## Opinions

We have audited the annual financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, which comprise the balance sheet as at 31 December 2020, and the income statement for the financial year from 1 January 2020 to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, for the financial year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sec. 289f (4) HGB [“Handelsgesetzbuch”: German Commercial Code] contained in section IV.1 of the management report. We have not audited the content of the sustainability report 2020 that is cross-referenced in section IV of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

## Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor's responsibilities for the audit of the annual financial statements and of the management report” section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law,

and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

## Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

### 1. Measurement of equity investments and shares in affiliates

#### Reasons why the matter was determined to be a key audit matter

The determination of the fair values of equity investments and shares in affiliates is generally based on business plans which are drawn up separately for each entity. These business plans are based on assumptions which require the use of judgement by the Board of Managing Directors or estimates. In particular, the current uncertainty surrounding the future economic development of the investees and affiliates influences the derivation of these assumptions, also in light of the prevailing low interest rates and the COVID-19 pandemic. Furthermore, in determining the net realisable value based on recognised valuation methods (especially the discounted cash flow method), assumptions must be made in order to derive the discount rate to apply to the cash flows of the forecast regarding, in particular, the derivation of the return on an alternative investment with the same risk and maturity profile using capital market models (Capital Asset Pricing Model).

As the calculation of the net realisable value of equity investments and shares in affiliates is based to a high degree on assumptions involving the use of estimates or judgement, and these items are material in amount, this was a key audit matter. Our focus was on the measurement of the shares in affiliates (Bausparkasse Schwäbisch Hall AG, DZ PRIVATBANK AG, DVB Bank SE, VR Smart Finanz AG) whose business model is currently particularly affected by the prevailing low interest rates and the general economic development.

#### Auditor's response

To assess the recoverability of the carrying amounts of the equity investments and shares in affiliates, we examined the design of the process for valuing shareholdings to determine whether the methods defined therein are consistent with the professional pronouncements of the Institut der Wirtschaftsprüfer (IDW) on the valuation of companies and equity investments (IDW AcP HFA 10 in conjunction with IDW S1).

Based on the Bank's capitalised earnings valuations or other recognised valuation methods (e. g., liquidation value method), we assessed the recoverability of the carrying amounts of the equity investments for a risk-based sample of affiliates and equity investments.

For the audit of the recoverability of the carrying amounts of the equity investments, we used specialists in the audit team who have special expertise in the area of business valuation.

We reviewed the arithmetical accuracy of the valuation model developed by DZ BANK and we assessed the significant planning assumptions (e.g., new business and margin planning), taking the results achieved in the past and the quality of the entities' planning into account. We analysed the appropriateness of the significant planning assumptions based on our knowledge of the business activities and forecast industry development and, where available, compared specific data and assumptions with external market data. During our audit, we also

obtained an understanding of how the sustainable earnings at the respective entities and the capitalisation rate were derived.

Our procedures did not lead to any reservations relating to the measurement of the equity investments and shares in affiliates.

#### Reference to related disclosures

Information on the principles applied for measuring equity investments and shares in affiliates is contained in section A, note 02 of the notes to the financial statements. Information on the development of equity investments and shares in affiliates is provided in section B, note 14, while the list of shareholdings is provided in section D, note 46.

## 2. Recoverability of deferred tax assets

#### Reasons why the matter was determined to be a key audit matter

The Board of Managing Directors of DZ BANK exercised the option under Sec. 274 (1) Sentence 2 HGB to recognise deferred tax assets.

DZ BANK estimates whether the differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts underlying the deferred taxes are likely to reverse in subsequent financial years on the basis of a forecast of tax earnings for the next five financial years, which in turn is derived from the internal planning for the entities in the tax group. In light of the material significance and use of the judgement in relation to the assumptions used in the forecast, the assessment of the recoverability of deferred tax assets was a key audit matter.

#### Auditor's response

We examined the design of the process for recognising deferred tax assets and assessing the recoverability of such assets to determine whether deferred tax differences are identified and measured in accordance with the provisions of tax and commercial law governing the recognition of deferred taxes.

Furthermore, we examined whether existing tax group relationships were correctly taken into account in the tax planning and assessed the underlying planning horizon and the tax rates used for the tax group.

In addition, we reconciled the tax forecasts for the tax group with internal planning documents in accordance with German commercial law and obtained an understanding of the amount and cause of differences in taxable profit in light of the requirements of tax law. We assessed the commercial law forecasts of the entities in the income tax group, taking into account our knowledge of the entities' business activities and our assumptions as to the development of the respective industry, with regard to the underlying planning assumptions (e.g., interest rate trends) and planning inputs (e.g., new business and margin planning) and the quality of past forecasts.

Our procedures did not lead to any reservations relating to the assessment of the recoverability of deferred tax assets.

#### Reference to related disclosures

Information on the recognition and measurement of deferred tax assets is contained in section A, note 02 and in section B, note 17 of the notes to the financial statements.

## 3. Inclusion of forward-looking information in the parameter-based calculation of loss allowances for general counterparty credit risk in the lending business

#### Reasons why the matter was determined to be a key audit matter

The estimated probability of default used in calculating the general bad debt allowance is based in part on historical information. It is also based on current economic developments and forward-looking macroeconomic assumptions

in the form of shift factors in the statistical probabilities of default in the rating models. Significant allocations to loss allowances arose in connection with the updated shift factors as of the reporting date.

As, from the Bank's point of view, the statistical shift factors do not adequately reflect the macroeconomic repercussions of the COVID-19 pandemic (due, among other things, to moratoria on payments and government aid) on borrowers' probabilities of default as of the reporting date, the Bank made expert-based adjustments to the statistical shift factors for the portfolio segments impacted by the pandemic. These adjusted input parameters were considered in the parameter-based calculation of the loss allowance.

In light of the significance of the portfolios subject to the general bad debt allowance as well as the increased uncertainty due to the COVID-19 pandemic regarding macroeconomic forecasts and the increased use of judgement regarding the applied shift factors, we determined the inclusion of forward-looking information in calculating the general bad debt allowance, taking particular account of the impact of the COVID-19 pandemic, to be a key audit matter.

#### Auditor's response

During our audit, we obtained an understanding of the process for calculating the general bad debt allowance applied by DZ BANK. Our focus was on the conceptual inclusion of forward-looking information and their key assumptions.

We assessed the appropriateness of the calculation of DZ BANK's macroeconomic forecasts underlying the shift factors by comparing them with macroeconomic forecasts by leading economic research institutes and, with the assistance of internal specialists, we recalculated the model-based shift factors derived from the macroeconomic forecasts.

Furthermore, we obtained an understanding of the method used in the expert-based adjustments to the statistical shift factors for the portfolio segments impacted by the COVID-19 pandemic and assessed their appropriateness. In this connection, we analysed whether the adjustments to the shift factors duly reflect the impact of COVID-19 in substance and amount. In addition, we verified that the adjusted shift factors were appropriately considered in the parameter-based calculation of the loss allowances. Lastly, we performed sensitivity analyses to assess the effects of changes in shift factors on the amounts of parameter-based loss allowances.

Our audit procedures did not give rise to any reservations regarding the inclusion of forward-looking information in the parameter-based calculation of general bad debt allowance, taking particular account of the impact of the COVID-19 pandemic.

#### Reference to related disclosures

Information on the inclusion of forward-looking information in the parameter-based calculation of general bad debt allowance, taking particular account of the impact of the COVID-19 pandemic, is provided in Note 02 of the notes to the financial statements.

### Other information

The executive directors are responsible for the other information. The other information comprises the combined separate non-financial report pursuant to Sec. 340a in conjunction with Sec. 289b HGB and Sec. 340i in conjunction with Sec. 315b HGB, of which we received a version before issuing this auditor's report, the declaration on corporate governance pursuant to Sec. 289f (4) HGB and the responsibility statement pursuant to Sec. 264 (2) Sentence 3 HGB and Sec. 289 (1) Sentence 5 HGB.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.



In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report**

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

### **Auditor's responsibilities for the audit of the annual financial statements and of the management report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a

material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

### Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes

#### Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file "DZ BANK\_AG\_JA+LB\_ESEF\_20201231.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the annual financial statements and of the management report" above.

#### Basis for the opinion

We conducted our assurance work on the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for the quality assurance system set forth in the IDW Standard on Quality Control: "Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis" [Requirements for Quality Control in Audit Firms] (IDW QS 1).

#### Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Institution are responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the Institution are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Institution are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and the audited management report as well as other documents to be published to the operator of the *Bundesanzeiger* [German Federal Gazette].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

#### Auditor's responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgement and maintain professional scepticism throughout the engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and to the audited management report.

#### Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 27 May 2020. We were engaged by the Supervisory Board on 13 August 2020. We have been the auditor of DZ BANK AG Deutsche Zentral-Genossenschaftsbank without interruption since financial year 2002.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Institution or entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report: reviews of interim financial statements, voluntary audits of the annual financial statements of controlled entities, project-based reviews and audit of reporting requirements and rules of conduct pursuant to Sec. 89 (1) WpHG [“Wertpapierhandelsgesetz“: German Securities Trading Act], including the audit of custody operations and the depositary function pursuant to Sec. 68 (7) KAGB [“Kapitalanlagegesetzbuch“: German Investment Code], issuance of comfort letters, certificates pursuant to Sec. 5 InvStG [“Investmentsteuergesetz“: German Investment Tax Act], agreed-upon procedures pursuant to ISRS 4400, reviews pursuant to ISRE 2410 and IDW AuS 900, assurance engagements relating to the internal control system at service organisations pursuant to IDW AsS 951 and ISAE 3402, audits of single financial statements or elements thereof in accordance with IDW AuS 490, other assurance engagements pursuant to ISAE 3000. In addition, permitted non-audit services in the form of tax and other advisory services for DZ BANK and its controlled entities (organisational or professional support for quantitative and qualitative data requests from supervisory authorities and in connection with regulatory reports, provision of information in connection with current and planned legislative amendments and events for employees of DZ BANK Group, preparation of certificates for foreign tax purposes, support with regard to new or amended tax reporting or documentation requirements, review of tax returns and tax brochures, tax due diligence services).

### German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Christian Mai.

Eschborn/Frankfurt am Main, March 5, 2021

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft



Mai  
Wirtschaftsprüfer  
[German Public Auditor]



Meier  
Wirtschaftsprüfer  
[German Public Auditor]

*The copy of the auditor's report also includes a Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the financial statements and the management report prepared for publication purposes (separate report on ESEF compliance). As the subject of the assurance engagement (ESEF documents) covered by the ESEF report has an electronic format, it is not possible to enclose it in a paper-based format. The audited ESEF documents can be inspected in or downloaded from the Bundesanzeiger [German Federal Gazette].*

## Editorial information

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Dr. Christian Brauckmann  
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Wolfgang Köhler  
Michael Speth  
Thomas Ullrich

Chairman of the Supervisory Board:  
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