

# I DZ BANK Group fundamentals

## 1 Business model

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) focuses closely on the local cooperative banks, which are its customers and owners. The DZ BANK Group makes a significant contribution to helping the cooperative banks strengthen their market position by providing them with competitive products and services on a decentralized basis for incorporation into their end-customer business.

The focus on network-based business is always given priority, especially in times when resources are in short supply. In its role as a corporate bank, DZ BANK offers complementary services using existing products, platforms, and support activities. These services are constantly reviewed both from a strategic perspective (for example, so that there is no direct competition with the cooperative banks) and from an economic perspective (for example, so that the returns are appropriate and the risk acceptable).

## 2 Strategic focus of the DZ BANK Group as a network-oriented central institution and financial services group

Strengthening the market position of the cooperative banks is a key factor for the success of the Volksbanken Raiffeisenbanken cooperative financial network. The DZ BANK Group supports the pursuit of this objective within the framework of its network-focused corporate strategy based on the principles of subsidiarity, decentralization, and regional market responsibility. It is guided by its overarching mission as a network-oriented central institution and financial services group, within which its activities are shaped by a three-pronged strategy with a systematic focus on growth in accordance with the needs of the cooperative financial network, a continuation of the focusing of business activities, and integration within the network and with the cooperative banks.

Against a backdrop of advancing digitalization, the DZ BANK Group is working in collaboration with all the other players in the cooperative financial network to help reinforce the competitiveness of the cooperative banks as part of the major KundenFokus Privatkunden (retail customer focus) project led by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V., Berlin, (BVR) [National Association of German Cooperative Banks]. In this project, the various partners are jointly designing and implementing a target omnichannel structure. Product development closely involves the central IT service provider Fiducia & GAD IT AG, Karlsruhe and Münster, (Fiducia & GAD), which is making the necessary technical infrastructure available. However, the DZ BANK Group is also providing individual solutions such as VR-AltersvorsorgeCockpit, a pensions-related app that is currently unique in the market. Retail customers can use this app to calculate gaps in their individual pension provision quickly and easily. The implementation of the omnichannel strategy will be extended in 2018 to include the KundenFokus Firmenkunden (corporate customer focus) project.

### 2.1 DZ BANK

The technical aspects of the merger of DZ BANK and WGZ BANK into one cooperative central institution were completed in the year under review, accompanied by the successful conclusion of the migration to a uniform IT environment. Data relating to corporate

customers, payment transactions, capital markets, and other internal systems was gradually integrated into the systems at DZ BANK over a period of twelve months. The implementation of the target organizational structure also made great progress, to the extent that all 28 departments of DZ BANK had been reorganized into the target structure by the end of the final stage of the implementation on January 1, 2018.

In the next step, DZ BANK aims to refine the governance structure along the lines of a holding company model. During the course of 2018, it will firstly set up a central advisory council – as specified in the merger agreement – to ensure that the primary banks' involvement in, and influence over, strategic decisions is safeguarded and expanded over the long term. Over the next two years, the responsibilities for the holding company activities and those for the corporate bank activities within DZ BANK will be separated from each other as far as possible. The configuration from a legal perspective requires further extensive preparations and checks to be carried out, particularly with regard to separating DZ BANK's individual functions into two legal entities. Decisions on this will need to be made from 2020 onward once the aforementioned measures have been implemented.

DZ BANK has also maintained its network-oriented corporate strategy in its business lines, as described below.

#### 2.1.1 Cooperative Banks/Verbund

Support for the local cooperative banks provided by Regionaldirektoren [regional directors] and the consultancy and other services delivered in connection with strategic bank management are the responsibility of the Cooperative Banks/Verbund division. The Regionaldirektoren serve as a central strategic point of contact for the cooperative banks' business relationship with the DZ BANK Group to strengthen the financial products and services they provide.

DZ BANK also offers the local cooperative banks consulting services on regulatory issues and at every stage of the strategic bank management process, from defining the strategy to managing risk and implementing the strategy. These services, together with the tools that DZ BANK offers the local cooperative banks to help them with their own-account investing, reporting and accounting, are continuously refined.

A new offering from DZ BANK in the year under review was the own-account-investing advisory mandate. This amounts to a comprehensive treasury management service for cooperative banks, facilitating integration between cooperative banks' own-account investing strategy and strategic bank management, coupled with the simultaneous implementation of regulatory requirements.

### 2.1.2 Corporate Banking

In the corporate banking market, DZ BANK operates both directly and on a decentralized basis through the local cooperative banks. It rigorously pursues a policy of regional focus, guaranteeing proximity to the local cooperative banks and the shared customers. In collaboration with its subsidiaries and international branches, DZ BANK offers its customers the entire range of corporate banking services. This relationship management approach has enabled the cooperative financial network to expand its share of the corporate lending market to 21 percent despite the fierce competition in a persistently challenging market environment. The aim is to increase this figure to 25 percent over the medium term.

DZ BANK, in partnership with the local cooperative banks, is increasingly turning to new technologies to help support this growth in its corporate banking business. For example, a target structure for the expansion of the omnichannel strategy was developed during the reporting year as part of the BVR-led KundenFokus Firmenkunden project. This project is addressing the challenges in the Corporate Banking business line and involves setting out and launching initiatives for the next few years.

DZ BANK is already offering some digital services for its corporate banking customers. For instance, it continued to develop the VR BusinessOnline channel during the year under review. This service enables online financing or investment inquiries from businesses to be passed to companies in the cooperative financial network, allowing the requests to be dealt with quickly and efficiently with a seamless transition between media. In the joint corporate banking business with the local cooperative banks, DZ BANK offers other digital solutions for the banks' relationship managers and their customers. One example is VR-GeschäftsNavigator, which has been designed by DZ BANK's Innovation LAB.

Through an equity investment in fintech company TrustBills GmbH, DZ BANK has, since the end of 2017, also offered corporate customers of the cooperative financial network access to an online auction platform that enables registered participants to buy or sell trade receivables.

The internationalization of the German economy and the rise in the associated demand for international business services is presenting further opportunities for growth in corporate banking. With this in mind, DZ BANK opened a representative office in Jakarta in February 2017, facilitating an even more comprehensive range of support for corporate customers in the Indonesian market, particularly in terms of trade and export finance. In the year under review, DZ BANK entered into a strategic partnership with China Development Bank, the largest state-owned development bank in the People's Republic of China. The agreement encompasses the financing of businesses in each other's market, trade and project finance business, and collaboration in capital markets business.

### 2.1.3 Retail Banking

DZ BANK offers the cooperative banks and carefully selected partner or third-party banks end-to-end services (generally platform- and process-driven) in the securities business, focusing on personal investments. These include a comprehensive range of investment services, intelligent liability products to strengthen and support the cooperative banks' market presence and balance sheets, as well as consulting services, market data, research, and trading/advisory/e-business platforms.

To leverage income synergies following the merger of the cooperative central institutions, DZ BANK stepped up marketing in the West sales region in the reporting year by extending the range of products and services in the local cooperative banks' securities business for customer account. It also focused on tapping into further potential income from business for customer account through a greater level of collaboration with DZ PRIVATBANK S.A., Strassen, (DZ PRIVATBANK S.A.; subgroup abbreviated to DZ PRIVATBANK).

DZ BANK is steadily expanding its digital options for providing information and generating sales in order to support the omnichannel approach of the cooperative

financial network. It is enabling customers to benefit not only from conventional banking but also from digital access to their bank via mobile login, online tools (such as VR-ProfiBroker and VR-ProfiTrader), and the DZ BANK derivatives portal.

#### 2.1.4 Capital Markets

DZ BANK's expertise in capital markets business encompasses sales and advisory services in relation to investment and risk management products covering the interest rate, credit, equities, and currency asset classes. These services are provided for cooperative banks, institutional clients in Germany and abroad, and corporate customers in both primary and secondary markets. Research services round off the comprehensive offering.

On behalf of the cooperative financial network, Group Treasury also carries out the cash-pooling function and ensures access to global liquidity 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.

DZ BANK is steadily expanding its capital markets products and services to respond to changing customer demand and to make better use of both the existing customer base and the broader range of customers resulting from the merger of the central institutions. The implementation of regulatory requirements is also becoming increasingly important, for example in view of the provisions introduced under Directive 2014/65/EU on markets in financial instruments (MiFID II).

#### 2.1.5 Transaction Banking

In the Transaction Banking business line, DZ BANK provides efficient, high-performance platforms that boost the competitiveness of the cooperative financial network. As the center of excellence for transaction banking, DZ BANK has the objective of helping the cooperative banks and the entities in the DZ BANK Group to exploit the potential offered by the market. To this end, it offers products and services covering payments, payments services, and acquiring, together with securities processing, depositary, and settlement services in connection with capital market products.

The present market circumstances – shaped by shifts in customer needs, innovative technologies, changes in legal requirements, and new market players – are increasingly transforming transaction banking and the role of banks. DZ BANK constantly analyzes the trends, assessing how it can benefit from the changes and position itself in the new market environment. In this context, a key requirement is to continuously expand the range of products and services.

Besides refining the functions of the paydirekt payments system, the inhouse Innovation LAB has recently developed and brought to market two payments-related value-added products: VR-FinanzGuide and VR-ExtraPlus, aimed at corporate customers and retail customers respectively. Further initiatives are concerned with the development of mobile payments using smartphones and with the expansion of the acquirer business. DZ BANK is also preparing to sign up to the pan-European instant payment system.

The focus in the securities, capital markets, and depositary services business in the year under review was on implementing regulatory requirements. DZ BANK supported the local cooperative banks in this regard, mainly by extending the range of services in relation to transaction-based reporting. It also continued to expand the depositary business, with assets under depositary reaching a record level.

Economies of scale and ongoing efficiency optimization also continued to be of great significance in the other segments. In this context, DZ BANK is undertaking further expansion of its network of strategic partnerships.

## 2.2 BSH

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (Bausparkasse Schwäbisch Hall; subgroup abbreviated to BSH) is the competence center for consumer home finance in the DZ BANK Group and focuses on the core businesses of home savings and home finance. The strategic objective of BSH is to safeguard its position as profitable market leader in building society operations in Germany, working in close collaboration with the cooperative banks on a decentralized basis. With this objective in mind, BSH strives constantly to develop innovative, customer-oriented home savings products and solutions. The persistently low interest rates mean that home finance has continued to gain

importance as a second pillar of the business alongside home savings, allowing BSH to further diversify its sources of income. The home finance business includes building loans granted directly by BSH and its activities as an intermediary on behalf of cooperative banks in connection with real estate loans.

BSH has successfully implemented a cost-cutting program over the last two years and is using the savings to finance action plans aimed at enhancing productivity and profitability. These plans include the targeted upgrading of the IT environment and the digitalization of the BSH business.

### 2.3 DG HYP/WL BANK

Commercial real estate finance is a cornerstone of the banking industry and represents a core business of the cooperative financial network.

Deutsche Genossenschafts-Hypothekbank AG, Hamburg, (DG HYP) and WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, (WL BANK) provide support for the local cooperative banks as specialists in this area of business in the DZ BANK Group.

In March 2017, the DZ BANK Group announced that it was planning to reorganize its real estate activities following the merger of the central institutions. In this context, DG HYP and WL BANK entered into merger discussions and signed a joint memorandum of understanding on June 22, 2017. The strategic objectives of this move are to pool existing expertise and eliminate the duplication of work, to ensure customers are served by a single organization and, above all, to create greater benefits for the cooperative banks.

It is planned to operate the joint real estate bank under the brand name DZ HYP within the DZ BANK family of brands and ensure it continues to serve all four of the current customer segments – small business and self-employed customers, the housing industry, local authorities, and retail customers. The new entity is to have registered offices in both Hamburg and Münster, and be headed up by the current Chief Executive Officers of the two banks, who will be appointed as Co-Chief Executive Officers. The aim is to complete the merger by the middle of 2018 following resolutions by the necessary Annual General Meetings.

The purpose of merging the two entities into a joint real estate bank under the DZ HYP brand is to bolster the existing position of the cooperative financial network in the real estate market.

### 2.4 DVB

DVB Bank SE, Frankfurt am Main, (DVB Bank; subgroup abbreviated to DVB) is a specialist niche provider in the area of transport finance, focusing on the international transport market, which can be broken down into shipping, aviation, offshore, and land transport segments.

In view of the challenges currently presented by the shipping and offshore markets, DVB is continuing to devote a great deal of time and energy to managing risk in these segments. Its diversified credit portfolio is a key component of the risk policy.

In the year under review, the tough market conditions were reflected in a requirement for significantly higher allowances for losses on loans and advances. Against this backdrop, DZ BANK and DVB also entered into a control and profit transfer agreement in the second half of 2017; the agreement applied retroactively from January 1, 2017. In addition, DZ BANK completed its previously advised squeeze-out at DVB with the entry of the transaction in the commercial register on August 17, 2017, thereby increasing its flexibility when implementing strategic options.

### 2.5 DZ PRIVATBANK

DZ PRIVATBANK S.A. headquartered in Luxembourg, together with its wholly owned subsidiaries DZ PRIVATBANK (Schweiz) AG, Zurich, (DZ PRIVATBANK Schweiz), IPConcept (Luxemburg) S.A., (IPC LU), and IPConcept (Schweiz) AG, (IPC CH), is the center of excellence and solutions provider for the private banking, lending and fund services, and treasury/brokerage businesses. The services that it provides complement those of the other entities in the cooperative financial network.

With sales employees based at ten locations, DZ PRIVATBANK has a presence across the whole of the German market so that it can provide sales support locally for the cooperative banks.

It is addressing the changing requirements of customers and partner banks arising from the low interest rates, regulation, and digitalization by

implementing a comprehensive package of measures focused on enhancing efficiency and productivity, further advancing advisor specialization, expanding attractive investment and credit solutions, and introducing even greater integration between the range of services and sales activities at cooperative banks.

Based on its complementary, high-quality expertise in asset management, funds, and financing, DZ PRIVATBANK aims to steadily increase the market share of the cooperative financial network in the high-net-worth segment, covering both retail and corporate customers.

## 2.6 R+V

R+V Versicherung AG, Wiesbaden, (R+V Versicherung; subgroup abbreviated to R+V) offers its customers a comprehensive range of insurance and pension products, and is one of the leading providers in the German market. It operates in the life, non-life, health, and reinsurance sectors.

In the year under review, R+V launched an ambitious modernization and growth program referred to as 'Wachstum durch Wandel' (growth through change) with the goal of lifting premium income in Germany (including reinsurance) from the most recent figure of €15 billion per year to €20 billion per year by the firm's centenary in 2022. To this end, R+V is focusing increasingly on leveraging business potential in the cooperative financial network, expanding cross-selling, and accelerating the development of multichannel sales.

It is also carrying out detailed work on forward-looking projects and on transposing its successful business model to a digital environment. In this context, R+V participated in a driverless-cars research project at Frankfurt Airport in the reporting year. It aimed to use this project to gather initial information on future transportation and assemble data to be used as a sound basis for developing new approaches to vehicle insurance.

## 2.7 TeamBank

TeamBank AG Nürnberg, Nuremberg, (TeamBank) is a consumer finance provider working in close collaboration with around 85 percent of cooperative banks. TeamBank is firmly focused on the customer with its easyCredit product, positioning itself over the long term as a fair consumer finance expert in the German market. Its overarching strategic aim is to

secure new customers for the cooperative financial network. In addition, TeamBank operates in collaboration with the cooperative banks in the Austrian market, where it also offers consumer finance.

By providing and networking innovative products and services in a digital ecosystem, TeamBank is helping to develop the presence of the cooperative financial network in a dynamic market environment. A key component is the seamless cross-media payment process 'Ratenkauf by easyCredit', which offers customers a simple and uniformly designed installment purchase function, both in e-commerce and at the point of sale. TeamBank has also developed the finance app fymio, a service for retail customers that uses a projection to warn of a potential financial squeeze at an early stage and automatically offer intelligent solutions.

## 2.8 UMH

Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding; subgroup abbreviated to UMH) is the central asset manager in the cooperative financial network and offers investment solutions for retail customers and institutional clients. In both areas of business, it is aiming for further, sustainable expansion in the volume of assets under management.

In terms of business with retail clients, UMH is one of the two largest and most successful asset managers in Germany. It is targeting further growth in this business, for example by maintaining its focus area strategy in relevant segments of demand.

As far as institutional clients are concerned, UMH is the central asset manager for the entities in the cooperative financial network and at the same time one of the leading providers in the non-cooperative sector. It is also aiming to generate further growth in this area of business by improving its positioning as an active risks/returns manager, consolidating its positioning as a sustainability manager, and developing new product solutions tailored to the changing regulatory environment.

## 2.9 VR LEASING

VR-LEASING Aktiengesellschaft, Eschborn, (VR-LEASING AG; subgroup abbreviated to VR LEASING) launched a program in mid-2017 to transform itself into a digital provider of finance for

the self-employed and small businesses. As a result of this change, VR LEASING will focus its business activities in the future entirely on the cooperative banks and on the provision of finance for the self-employed and small business customer segment.

It offers its customers leasing, hire purchase, and credit solutions, together with digital services and intelligent data analysis, thereby supporting the omnichannel sales of the local cooperative banks. Current examples of such solutions and services are the online ordering channel, in which business customers of the cooperative banks can take out a loan of up to €60,000 in a process that is entirely online, and SmartBuchhalter, a web-based accounting application that enables self-employed individuals, freelancers, and small businesses to obtain a simple overview of their financial position. Further projects, such as the launch of a new facility running in real time for the financing of assets with a value of up to €200,000, are already being planned.

Changes in the other areas of business also form part of this transformation process. For example, henceforward, VR LEASING will aim to work in collaboration with a partner in any business involving the financing of individual assets with a value of more than €750,000. Where VR LEASING is involved in business activities other than sales via banks – centralized settlement and the subsidiary BFL Leasing GmbH – it will start negotiations to sell off these activities because they have no connection with the cooperative financial network.

The change in VR LEASING's corporate strategy, especially the decision to dispose of certain areas of business, will be accompanied by a reduction in the number of employees.

## 3 Management of the DZ BANK Group

### 3.1 Management units

The DZ BANK Group comprises DZ BANK as the parent company, the DZ BANK Group's fully consolidated subsidiaries in which DZ BANK directly or indirectly exercises control, and other long-term equity investments that are not fully consolidated.

All entities in the DZ BANK Group are integrated into groupwide management. In the case of subgroups, the disclosures in the group management report on management units relate to the entire subgroup comprising the parent company of the subgroup plus its subsidiaries and second-tier subsidiaries. The management units are managed by the parent company in the subgroup, which is responsible for compliance with management directions in the subsidiaries and second-tier subsidiaries. The following management units are each managed as a separate operating segment:

- DZ BANK
- BSH
- DG HYP
- DVB
- DZ PRIVATBANK
- R+V
- TeamBank
- UMH
- VR LEASING
- WL BANK.

These fully consolidated entities are management units and form the core of the financial services group. DZ BANK forms a separate management unit from a higher-level perspective.

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.

### 3.2 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.

#### 3.2.1 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. Given the particular nature of the group, the Board of Managing Directors of DZ BANK consciously manages the group with a balanced centralized and decentralized approach with clearly defined interfaces and taking into account business policy requirements.

#### 3.2.2 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).

#### 3.2.3 Corporate management committees

Figure 1 provides an overview of the committees of particular importance in the management of the DZ BANK Group.

The **Group Coordination Committee** is the highest-level management and coordination committee in the DZ BANK Group. The objectives of this committee are to strengthen the competitiveness of the DZ BANK Group and to coordinate fundamental product and sales issues.

FIG. 1 – MANAGEMENT COMMITTEES IN THE DZ BANK GROUP



The committee ensures 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, the General Executive Manager of DZ BANK, and the chief executive officers of BSH, DG HYP, DZ PRIVATBANK, R+V, TeamBank, UMH, VR LEASING, and WL BANK.

Various committees consisting of representatives from all strategic business lines and group functions assist the Group Coordination Committee's decision-making by preparing proposals. . These are the following committees: the Group Risk and Finance Committee, the Group IT Committee, the Group HR Committee, the product and sales committees for retail customers, corporate customers, and institutional customers, the Heads of Internal Audit working group, the Heads of Compliance working group, the Economic Roundtable, and the Innovation Roundtable.

The **Group Risk and Finance Committee** is the central committee in the DZ BANK Group responsible for proper operational organization and, in particular, risk management in accordance with section 25 (1) of the German Supervision of Financial Conglomerates Act (FKAG) and section 25a (1) in conjunction with section 25a (3) of the German Banking Act (KWG). It assists DZ BANK with groupwide financial and liquidity management and provides support for risk capital management throughout the group. The Group Risk and Finance Committee also assists the Group Coordination Committee in matters of principle. The members of this committee include the relevant executives at DZ BANK responsible for Group Finance, Group Strategy and Controlling, Group Risk Controlling,

Credit, Credit Special, and Group Treasury. The committee members also include representatives of the executives of various group companies. The Group Risk and Finance Committee has set up the following working groups to prepare proposals for decision-making and to implement management action plans relating to financial and risk management at group level:

- The **Group Risk Management working group** supports the Group Risk and Finance Committee in all matters concerning risk and the management of risk capital and market risk in the DZ BANK Group, and in matters relating to external risk reporting. At DZ BANK level, the monitoring and control of the aggregate risks to the bank is coordinated by the **Risk Committee**. The Risk Committee makes recommendations to the entire Board of Managing Directors in matters relating to risk management, risk methodology, risk policies, risk processes, and the management of operational risk.
- The **Architecture and Processes Finance/Risk working group** assists the Group Risk and Finance Committee with the further development of the integrated finance and risk architecture in the DZ BANK Group. In terms of the corporate management of the DZ BANK Group, this committee works on refining the blueprint for the business, process, and data architecture, ensuring a coordinated roadmap and a transparent project portfolio, and establishing overarching data governance.
- The management of credit risk throughout the group is the responsibility of the **Group Credit Management working group** of the Group Risk and Finance Committee. The limitation and monitoring of credit risk is based on agreed and binding group standards and procedures, taking

into account the business policy concerns of the entities involved. The Group Credit Management working group is responsible for the further development of the group credit risk strategy and the group credit guidelines and 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 credit portfolio is coordinated by the **Credit Committee**. This committee normally meets every two weeks and makes decisions on material lending exposures at DZ BANK, taking into account the credit risk strategy of both the bank and the group. The Credit Committee is also responsible for managing credit risk at DZ BANK and country risk throughout the DZ BANK Group.

- The Group Risk and Finance Committee's **Market working group** is responsible for providing implementation support throughout the group in the following areas: liquidity management, funding activities, balance sheet structure management, and capital management. This body also focuses on coordinating and dovetailing funding strategies and liquidity reserve policies, as well as on planning the funding within the DZ BANK Group. In addition, the Market working group is responsible for refining the management of centrally measured market risk. At DZ BANK level, the **Asset Liability Committee/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, and regulatory law. It discusses new statutory requirements and works out possible implementation options.

The **Group IT Committee**, comprising the members of the boards of managing directors of the main group entities with responsibility for IT, supports the Group Coordination Committee in matters relating to IT strategy. This committee manages all overarching IT activities in the DZ BANK Group. In particular, the Group IT Committee makes decisions on collaboration issues, identifies and realizes synergies, and initiates joint projects.

The members of the **Group HR Committee** comprise the members of the boards of managing directors with responsibility for HR and the HR directors from the main entities in the DZ BANK Group. This committee helps the Group Coordination Committee address HR issues of strategic relevance. The Group HR Committee initiates and coordinates activities relating to overarching HR issues while at the same time exploiting potential synergies. It also coordinates the groupwide implementation of regulatory requirements concerning HR systems and facilitates the sharing of HR policy information within the DZ BANK Group.

The **product and sales committees** have 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 **institutional clients** product and sales committee helps to 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 audits – and for developing best practice in internal audit activities. The working group reports to the Chief Executive Officer of DZ BANK and, where appropriate, to the Group Coordination Committee.

The **Heads of Compliance working group**, whose members comprise the heads of compliance in the management units and at ReiseBank and GENO Broker GmbH, assists DZ BANK with compliance management across the group if this is legally required. It also advises the DZ BANK Group's Group Coordination Committee on fundamental compliance-related issues. The Heads of Compliance working group is also responsible, in particular, for drawing up certain compliance standards in the DZ BANK Group that are discretionary under a comply-or-explain approach; in addition, it serves as a platform enabling specialists to share information across the group. When fulfilling its responsibilities, the Heads of Compliance working group must respect the individual responsibility of the heads of compliance in the group entities and ensure specific regulatory requirements are observed. The working group reports to the member of the DZ BANK Board of Managing Directors responsible for compliance and, where appropriate, to the Group Coordination Committee.

The **Economic Roundtable**, the members of which comprise the economists from the main group companies, helps the Group Coordination Committee to assess economic and capital market trends, providing a uniform basis for consistent planning scenarios throughout the group, and to prepare risk scenarios required by regulators.

The members of the **Innovation Roundtable** comprise specialists, executive managers, and innovation managers from the various divisions of

DZ BANK and the group companies. The Innovation Roundtable is therefore the Group Coordination Committee's key point of contact for information on innovations and trends relevant to the group. The objectives of the Innovation Roundtable are to systematically examine innovative topics with group relevance on an ongoing basis, to bring together the divisions involved in innovation projects and to ensure that innovation activities in the DZ BANK Group are transparent. Innovation topics are broadly based throughout the DZ BANK Group and are promoted in the relevant DZ BANK departments and subsidiaries via the product and sales committees.

### 3.3 Key performance indicators

The DZ BANK Group's KPIs for profitability, volume, productivity, liquidity adequacy, and capital adequacy, as well as the regulatory return on risk-adjusted capital (RORAC), are presented below.

- **Profitability figures in accordance with International Financial Reporting Standards (IFRS):**  
The profitability figures (primarily allowances for losses on loans and advances, profit/loss before taxes, net profit/loss) are presented in chapter II, sections 3.1 and 3.2 of this group management report as well as in note 33 of the notes to the consolidated financial statements.
- **IFRS volume figures:**  
The main volume-related KPIs include equity and total assets. These are set out in chapter II, section 3.2 (figure 3) and section 4 of the group management report, in the consolidated financial statements (balance sheet as at December 31, 2017), and in note 33 of the notes to the consolidated financial statements.
- **Productivity:**  
One of the most significant productivity KPIs is the cost/income ratio. This KPI is described in chapter II, sections 3.1 and 3.2 of this group management report and in note 33 of the notes to the consolidated financial statements.
- **Liquidity adequacy:**  
Appropriate levels of liquidity reserves in relation to the risks associated with future payment obligations are demonstrated using the ratios for economic and regulatory liquidity adequacy

presented in chapter VI, section 6.2 and section 6.3 of this group management report. The minimum liquidity surplus reflects economic liquidity adequacy. Regulatory liquidity adequacy is expressed in terms of the liquidity coverage ratio (LCR).

– **Capital adequacy:**

The KPIs and the calculation method for economic capital adequacy are described in chapter VI, section 7.2 of this group management report. The KPIs for regulatory capital adequacy (coverage ratio for the financial conglomerate, total capital ratio, Tier 1 capital ratio, common equity Tier 1 capital ratio, and leverage ratio) are included in chapter VI, section 7.3.

– **Regulatory RORAC:**

Regulatory RORAC is a risk-adjusted performance measure. In the year under review, it reflected the relationship between adjusted profit (profit before taxes largely taking into account performance-related income and capital structure effects) and the average own funds/solvency capital requirement for the year (determined quarterly). It therefore shows the return on the regulatory risk capital employed. This is described in chapter II, section 3.2 of this group management report and in note 33 of the notes to the consolidated financial statements.

Forecasts for the core KPIs in the DZ BANK Group are set out in the Outlook section of the group management report.

### 3.4 Management process

In the annual strategic planning process, the entities in the DZ BANK Group produce a business strategy (objectives, strategic direction, and initiatives), a finance and capital requirements plan, and risk strategies derived from the business strategy.

The planning by the management units is then validated and the plans are also discussed in strategy meetings. When the individual entity planning has been completed, the process then moves on to consolidated group planning, allowing 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 review meetings with DZ BANK's divisions.

Groupwide initiatives are implemented in order to unlock identified marketing potential. These include the development of new, innovative products and sales methods for the business lines – Corporate Banking, Retail Banking, Transaction Banking, and Capital Markets – in order to further strengthen sales by the DZ BANK Group and the local cooperative banks. Regular reports on the individual initiatives are submitted to the relevant product and sales committee. On a case-by-case basis, certain aspects of the initiatives may be handled by the Group Coordination Committee. This results in more efficient cooperation in the cooperative financial network.

At DZ BANK level, the main divisions involved in the strategic planning process are Group Strategy and Controlling, Group Risk Controlling, Group 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 Group Strategy and Controlling division is responsible for overall coordination, including strategic financial planning as part of the strategic planning process.