

I DZ BANK Group fundamentals

1 Business model and strategic focus

The strategic focus in the DZ BANK Group follows the guiding principle of fulfilling the role of a network-oriented central institution and financial services group. Business activities are centered on the local cooperative banks and their customers. The objective of this strategic approach is to consolidate the positioning of the cooperative financial network as one of the leading financial services providers in Germany on a long-term basis.

1.1 DZ BANK

In 2018, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) launched 'Verbund First 4.0', a strategic program designed to ensure the organization's resilience for the future. The program is aimed at improvements in three key areas: market offering (network orientation, customer focus, and a digital experience), control and production processes (efficient, effective, and focused), and corporate culture (performance-driven and integrative).

At the same time, DZ BANK is aiming to significantly increase earnings from operating activities in the central institution and corporate bank each year between now and 2022, while remaining risk-conscious. This applies to the Corporate Banking, Capital Markets, and Transaction Banking business lines. The plan is to step up capital expenditure on market- and sales-related matters, with a focus on the primary banks. Examples include investment in products and platforms in the capital markets business, acquisition of further customers and expansion of portal solutions in corporate banking, and investment in transaction banking.

Measures to reduce costs are also planned in order to secure the growth and future viability of DZ BANK. As well as reducing the costs for external service providers, this includes the loss of 485 jobs by the end of 2023 – on top of the job losses in connection with synergies from the 2016 merger that are yet to be harnessed. This is because fewer employees are

required as a result of advancing digitalization and the simplification of processes. The restructuring is to be implemented with the minimum possible social impact.

DZ BANK has also maintained its strategic focus in the individual business lines, as described below.

1.1.1 Cooperative Banks/Verbund

The Cooperative Banks/Verbund division is responsible for providing end-to-end support for the cooperative banks, which are the most important customer group and shareholders of DZ BANK. The Regionaldirektoren [regional directors] are the first port of call and customer relationship manager for the cooperative banks and they assist them with their business in the regional markets.

In this context, DZ BANK offers consultancy and other services at every stage of the strategic bank management process as well as regarding regulatory matters. This is particularly important to the cooperative banks, both from an earnings and risk perspective and from a regulatory perspective. DZ BANK helps the local cooperative banks with all 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. These services, along with the systems offered (including GENO-SAVE and EGon) that support own-account investing, reporting, and accounting, are enhanced on an ongoing basis.

1.1.2 Corporate Banking

In the corporate banking market, DZ BANK operates both on a decentralized basis through the local cooperative banks and directly in the market. 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.

DZ BANK's clear strategic priority is its joint corporate banking business with the cooperative banks (joint lending business). In view of the crucial importance of this business for the shared success and positioning of the cooperative financial network in the market, DZ BANK carefully examined how to strengthen and

improve this business. On the back of this, it is working on various initiatives aimed at significant process improvements – including standardized rating systems – and greater transparency in the product range.

DZ BANK offers comprehensive advisory services and expertise to customers in its international business. In June 2018, it signed a cooperation agreement with PT Bank Central Asia Tbk in order to strengthen its range of products and services in key markets. This partnership – supported by DZ BANK's representative office in Jakarta, which opened in 2017 – enables better support for customers doing business in Indonesia. The fast-growing Indonesian market is gaining in importance, especially for German small and medium-sized enterprises (SMEs). DZ BANK plans to enter into further partnerships with Asian banks over the next few years.

DZ BANK constantly works on further developing innovative ideas and using new technologies. The many different activities being carried out in this context include VR BusinessOnline, an online service that enables corporate customers' business inquiries to be processed seamlessly, and VR GeschäftsNavigator, which strengthens collaboration with the local cooperative banks in joint corporate banking business. DZ BANK is also increasingly working on the deployment of new technologies and digitalized processes in the development lending business, for example in connection with the integrated GENO-STAR application for development loans.

1.1.3 Retail Banking

DZ BANK offers the cooperative banks and carefully selected partners 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 offering and balance sheets, as well as consulting services, market data, research, and trading/advisory/e-business platforms.

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.

1.1.4 Capital Markets

In the Capital Markets business line, DZ BANK offers its customers comprehensive research services along with advisory and sales services in relation to investment and risk management products covering the interest rate, credit, equities, and currency asset classes in both primary and secondary markets.

DZ BANK is optimizing its sales approach and giving it a clear edge as well as expanding digital trading activities for its customers. It constantly adapts its range of products and services to customers' evolving needs. In 2018, within just a few days of German lawmakers creating the necessary legal framework, DZ BANK helped its customers to enter the market for a new type of unsecured senior bank bond, responding to the new regulatory environment in collaboration with its customers.

On behalf of the cooperative financial network, the Group Treasury division at DZ BANK 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.

In 2018, DZ BANK successfully placed the first green bond of its own on the market. The senior preferred green bond, which had a volume of €250 million, was significantly oversubscribed and attracted particularly strong interest from cooperative banks and institutional investors. By issuing its own bond, DZ BANK also gained additional expertise that will help it to advise customers in this segment.

1.1.5 Transaction Banking

In the Transaction Banking business line, DZ BANK provides efficient, high-performance platforms and services, helping cooperative banks and the entities in the DZ BANK Group to exploit the potential available in the market. To this end, it offers products and services covering payments, payments services, and acquiring, together with securities processing, depository, and settlement services in connection with capital market products.

The current market environment presents major challenges for transaction banking. Customers have higher expectations regarding speed, security, and personal service, while regulatory requirements are forcing DZ BANK to adjust the processes, infrastructure, and range of services in this business line. 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 adapt the range of products and services to customer needs.

In the payments processing business, the implementation of instant payments reflects the continuing trend for making payments anytime and anywhere. Instant payments cater to liquidity requirements, particularly those of corporate customers, and are increasingly taking precedence over traditional bank transfers. Tapping into this trend, the banks in the cooperative financial network have been able to receive instant transfers since November 2018 and, in spring 2019, will also enable their customers to make instant payments.

The focus in the securities and capital markets services business continues to be on implementing regulatory requirements. DZ BANK supports the cooperative banks in this regard, mainly by enhancing 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.

DZ BANK is maintaining its omnichannel approach when it comes to payment services. The bank is among the pioneers of contactless mobile payments by credit card. Customers of the cooperative financial network can now use both their debit card and their credit card to make payments via their smartphone. The optimization and better positioning of paydirekt, an e-commerce payment method, remains particularly important. Supplementary services are becoming increasingly attractive. Initiatives to expand the cooperative banks' merchant customer business and the introduction of VR Smart Guide paved the way for extending the range of solutions for SMEs. DZ BANK is also playing a major part in strengthening the competitiveness and positioning of the cooperative financial network in the market for transaction banking products by adding value-added products such as VR-ExtraPlus to its range. Going forward, these support services for the cooperative banks will

be a key element of long-standing and stable customer relationships.

1.2 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 offers tailored solutions that enable customers to make private provision for the future, build up savings, and own their own home or obtain home finance. The strategic objective is to safeguard its position as market leader in Germany with its profitable building society operations, working in close collaboration with the cooperative banks on a decentralized basis. With this objective in mind, BSH strives constantly to enhance its products and innovative solutions.

The persistently low interest rates mean that home finance is important 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 also remains active in its international business, focusing on maintaining the existing approach to business through investee companies in the Czech Republic, Slovakia, Hungary, and China.

In 2018, BSH continued to restructure its IT environment, digitalize its existing customer channels, and prepare its internal processes for the issuance of its own Pfandbriefe from 2019 onward.

1.3 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 the shipping, aviation, and land transport segments.

In view of the persistent challenges presented by overcapacity in a number of shipping sectors, DVB is continuing to devote a great deal of time and energy to managing risk. As part of the restructuring of the business lines that was initiated in 2017, DVB brought together the assets that are no longer part of the core business to form a non-core assets portfolio in 2018.

The objective is to dispose of these assets within the next few years.

Strategic options, in particular substantial portfolio sales, continue to be examined, the aim being to find a lasting solution that preserves value. In this context, DVB signed a contract on December 21, 2018 to sell and transfer the land transport finance business to Landesbank Hessen-Thüringen. Under this contract, the employees and the entire customer credit portfolio in the land transport finance business are to be transferred to Landesbank Hessen-Thüringen. Subject to antitrust approvals and other conditions typical for the market, the sale is expected to be completed in the first half of 2019.

Furthermore, DVB and Volkswagen Financial Services AG signed a contract of sale on February 26, 2019 for all of the shares in LogPay Financial Services GmbH.

On March 1, 2019, a contract was signed with MUFG Bank, Ltd. and BOT Lease, Co., Ltd. for the sale and transfer of DVB's aviation finance business. Execution of the contract of sale is subject to antitrust approvals and other conditions. The sale is expected to be completed in the second half of 2019. Under this contract, the employees, the entire customer credit portfolio in the aviation finance business, further parts of the company's infrastructure, and the aviation investment management and aviation asset management business activities are to be transferred to the two contract partners.

1.4 DZ HYP

The entry of the merger in the commercial register on July 27, 2018 marked the successful completion of the process of merging the former DG HYP and WL BANK to create DZ HYP AG, Hamburg and Münster, (DZ HYP). DZ HYP is a leading real estate finance bank and one of Germany's largest Pfandbrief issuers. It serves commercial real estate investors, the housing sector, public-sector customers, and retail customers.

As the center of excellence and all-round specialist for real estate finance and local authority funding within the cooperative financial network, DZ HYP offers its customers a complete range of products and services focused on individual rather than standardized solutions. It has local offices throughout its core

market of Germany and, moreover, supports its customers in selected international markets.

1.5 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 private banking, fund services, and lending in all currencies. The services that it provides complement those of the other entities in the cooperative financial network.

DZ PRIVATBANK's products and services encompass not only tailored private banking solutions for high-net-worth individuals, business people, foundations, and semi-institutional customers but also bespoke service packages for professional fund initiators and flexible financing solutions denominated in euros and all other common currencies for retail and corporate customers.

Based on its expertise in asset management, funds, and financing, DZ PRIVATBANK aims to increase the market share of the cooperative financial network in the high-net-worth customer business, private banking, and the SME business.

DZ PRIVATBANK has built up extensive advisory, solution, and process expertise at its offices in Luxembourg and Zurich. It has also had a presence in the German market since 2010 and is now based at ten locations across Germany so that it can provide sales support locally for the cooperative banks.

Market conditions and interest rates remain challenging, characterized by the expansionary monetary policy of the European Central Bank (ECB), fierce competition, and the huge amount of time and resources taken up by implementing regulatory requirements. That is why DZ PRIVATBANK is also focused on measures to boost efficiency and productivity in its sales, production, and management units.

1.6 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.

Under its ‘Wachstum durch Wandel’ (growth through change) program, R+V is focusing on improving the management of productivity and costs and, in particular, on gaining market share by exploiting existing potential within the cooperative financial network, expanding cross-selling, and digitalizing its business.

It is working on numerous projects for the future in this context. In 2018, for example, R+V and Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding; subgroup abbreviated to UMH) together became the first provider in Germany to unveil a concept for the ‘defined ambition’ arrangement made possible under German legislation aimed at strengthening occupational pensions. The concept offers a solution for all partners under the social partnership model for occupational pension provision.

R+V is also exploring the innovative ‘smart home’ market with regard to future products and services. In 2018, it launched a project in collaboration with the Malteser Hilfsdienst charitable organization and IBM in which 25 homes – mainly single-person households – were fitted with highly sensitive sensors that enable help to be provided without delay in an emergency. This might be offered as a new assistance service from R+V or as a component of an insurance policy, such as for long-term care, health, or casualty insurance, in the future.

To help it develop suitable motor vehicle insurance concepts for the future, R+V is gathering initial findings from trials with its own autonomous minibuses. In this context, it has teamed up with public transportation provider Mainzer Mobilität to launch an innovative project involving a self-driving electric minibus.

1.7 TeamBank

TeamBank AG Nürnberg, Nuremberg, (TeamBank) together with its easyCredit product family is the consumer loan expert in the cooperative financial network. It is firmly focused on the customer with its products, 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. TeamBank also operates as the consumer finance specialist for the cooperative banks in Austria, where it offers its ‘der faire Credit’ product.

A major focus of TeamBank’s ongoing strategic development continues to be digital transformation. In September 2018, for example, it began offering ‘easyCredit mit Kontoblick’ (easyCredit with an account overview) to customers of the local cooperative banks. This is an even more straightforward process for handling loans up to a maximum of €15,000 that runs through the entire loan application online – including the lending decision – within just ten minutes.

TeamBank continues to offer installment purchase solutions under the ‘ratenkauf by easyCredit’ brand name that combine a simple and uniformly designed installment purchase function both online and in-store. In this context, it is working intensely to increase its market penetration by bringing more partners on board.

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.

1.8 UMH

UMH is the central asset manager in the cooperative financial network and offers investment solutions for retail and institutional clients. In both areas of business, it is aiming for further, sustainable expansion in the volume of assets under management.

In terms of business with retail clients, UMH is among the largest and most successful asset managers in Germany and offers solutions for wealth accumulation, asset structuring, wealth preservation, and pension provision. To generate further growth, it is focusing on segments relevant to customers’ needs.

In the institutional client business, UMH is the central asset manager for the cooperative financial network and, at the same time, one of the leading providers of asset management for institutional clients outside the cooperative sector. It operates as a proactive risk manager and solutions provider that offers an integrated range of products across all asset classes, taking sustainability criteria into account.

1.9 VR LEASING

VR-LEASING Aktiengesellschaft, Eschborn, (VR-LEASING AG; subgroup abbreviated to VR LEASING) launched a program in 2017 to transform itself into a digital provider of finance for the self-employed and small businesses. As part of this, it has been operating in the market under the VR Smart Finanz brand name since mid-July 2018. This underlines the clear focus of its business on assisting the cooperative banks with the provision of finance to self-employed and small-business customers and the lower end of the SME segment. It offers its customers simple leasing, hire purchase, and credit solutions, together with digital services for day-to-day finances and smart data analysis. In connection with the transformation of its business, VR LEASING is exiting the factoring, centralized settlement, and IT leasing segments. On December 14, 2018, the BAWAG Group announced that it had signed a binding agreement to acquire all of the shares in BFL Leasing GmbH, VR LEASING's subsidiary for IT leasing. AKTIVBANK AG signed a contract of sale on December 20, 2018 to purchase the centralized settlement business of VR LEASING.

Under its new corporate identity, VR LEASING introduced the 'VR Smart express' product in 2018, which offers asset finance in a volume of up to €250,000. Thanks to an automated process using an online system, a binding financing decision can be given within just a few minutes.

In 2018, the existing products VR-FinanzGuide and SmartBuchhalter were combined to create VR Smart Guide. VR LEASING thus offers a comprehensive accounting solution that customers can use to keep track of spending, issue invoices, manage customers and suppliers, and get help with the preparation of financial statements.

2 Management of the DZ BANK Group

2.1 Management units

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

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

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

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.

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. 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.

2.2.2 Appointments to key posts in the subsidiaries

For the purposes of managing the subsidiaries through appointments to key posts, a representative of DZ BANK is appointed in each case as the chairman of the supervisory body and generally also as the chairman of any associated committees (risk and investment committee, audit committee, human resources committee).

2.2.3 Corporate management committees

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

The **Group Coordination Committee** is the highest-level management and coordination committee in the DZ BANK Group.

FIG. 1 – MANAGEMENT COMMITTEES 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 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 and the chief executive officers of BSH, DZ HYP, DZ PRIVATBANK, R+V, TeamBank, UMH, and VR LEASING.

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 finance, strategy and group development, 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 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. 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 default 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**. 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 **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 groupwide management framework (definitions, nomenclature, methods) is constantly updated, including in light of inquiries from the regulator.

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** 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 **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 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 **Heads of Compliance working group**, whose members comprise the heads of compliance in the management units and at ReiseBank AG, Frankfurt am Main (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.

2.3 Key performance indicators

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

– Profitability figures in accordance with International Financial Reporting Standards (IFRS):

The profitability figures (primarily loss allowances for loans and advances, profit/loss before taxes, net profit/loss) are presented in 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, 2018), and in note 33 of the notes to the consolidated financial statements.

– **Productivity:**

The KPI for productivity is the cost/income ratio. This KPI is described in 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 core KPIs in the DZ BANK Group are set out in the Outlook section of the group management report.

2.4 Management process

In the annual strategic planning process, the entities in the DZ BANK Group produce a business strategy (objectives, strategic direction, and action plan), a 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.

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.