
Report of the Supervisory Board



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

In 2018, the Supervisory Board carried out the tasks assigned to it by law, the Articles of Association, and rules of procedure. As part of this remit, the Supervisory Board advised the Board of Managing Directors and monitored its management activities. In particular, the Supervisory Board focused on the capital situation of DZ BANK and its strategy as the network-oriented central institution and holding company of a financial services group. It also studied current regulatory challenges, such as issues of strategic significance to the DZ BANK Group arising from the EU's ongoing legislative process for the EU banking package.

The Supervisory Board thoroughly examined the risk position of the bank and the group as well as the development of systems and procedures used to manage the main risks in the Bank sector and Insurance sector. The Supervisory Board was always involved in decisions of fundamental importance. The Board of Managing Directors provided the Supervisory Board with regular, timely, and comprehensive reports on all matters relevant to the company, in particular the strategy, planning, business performance, risk situation, risk management, and compliance.

DZ BANK's overarching strategy is characterized by a high degree of continuity. As in previous years, the Supervisory Board held its special strategy meeting, at which it discussed the strategy and its ongoing implementation in detail and unanimously gave its support. The DZ BANK Group's success in pursuing its strategy was again reflected in its generally strong business performance in 2018, further building on the achievements of previous years. However, this strategy was put to the test in the challenging market conditions that arose toward the end of the reporting year.

In the year under review, the entire banking industry was faced with persistently low interest rates and growing uncertainty in financial markets, which led to greater volatility. The DAX reached a record high at the start of

2018. However, the recovery in Europe then came up against a surprisingly firm euro, with the exchange rate climbing to a four-year high of around US\$ 1.25. As well as the short-lived effects attributable to US interest rates, more serious negative factors emerged, while the economy in Europe was held back by the trade disputes that escalated from the spring onward. There was also an impact from developments in Italy, where uncertainty was fueled firstly by the unclear outcome of the election and subsequently by the budgetary policy of the populist government. As the year reached its end, the Brexit question increasingly took center stage. Germany's leading index closed around 18 percent weaker at the end of 2018 than it had been at the start of the year. Yields on ten-year Bunds also went down, especially in the fourth quarter. Political uncertainties and the more sluggish pace of the economy caused them to fall to 0.25 percent, having risen to almost 0.80 percent at times in the early part of the year.

The macroeconomic climate and the political climate will remain key determinants for the business model of the DZ BANK Group going forward. The main challenges are the performance of the economy and its heavy dependence on the level of interest rates, uncertainty surrounding (economic) policy and trade, and the cohesion of the eurozone. There are also challenges in the market and within the DZ BANK Group, requiring a shift in DZ BANK's role as the central institution and corporate bank on the one hand and as the holding company on the other. In 2018, the Supervisory Board focused on the refinement of the strategy under the 'Verbund First 4.0' banner, building on the successful 'Verbund First' strategic program implemented in previous years. The emphasis of the program lies in three areas: a more intensive market offering (network orientation, customer focus, and a digital experience), optimized control and production processes (effective and focused), and the evolution of the workforce and corporate culture.

Meetings of the Supervisory Board

The Supervisory Board held five meetings in 2018. Its members attended the meetings of the Supervisory Board and its committees regularly. At its meetings in the reporting year, the Supervisory Board received and discussed reports from the Board of Managing Directors on current business performance and the capital situation of DZ BANK and the DZ BANK Group. It examined the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report for the year ended December 31, 2017 and approved them in line with the Audit Committee's resolution recommendation. The Supervisory Board also discussed the report on profitability in 2017 and, in accordance with the Audit Committee's recommendations, approved the report of the Supervisory Board to the Annual General Meeting as well as the agenda for the Annual General Meeting on May 30, 2018. Other deliberations of the Supervisory Board focused on the requirement for the DZ BANK Group to report on non-financial issues (corporate social responsibility (CSR) reporting requirement). Furthermore, it held discussions with representatives from the European Central Bank on the supervisory priorities of the Single Supervisory Mechanism (SSM) in 2018, other matters of importance to the supervisory authorities, and the supervisory planning of the Joint Supervisory Team (JST) for 2018.

Under items scheduled for regular discussion, the Supervisory Board examined the strategic and operational planning at DZ BANK and in the DZ BANK Group in the third and fourth quarters of 2018. This included discussing the recovery plan. The Supervisory Board also adopted various resolutions in connection with transactions requiring its consent, such as long-term equity investments and loans. In this context, there were also discussions on the risk situation, changes to the structure of DVB Bank, the reorganization of real estate finance in connection with the merger of the two mortgage banks to form DZ HYP, changes at DZ PRIVATBANK, and the transformation of VR Leasing / VR Smart Finanz into a digital provider of finance for the self-employed and small businesses. Moreover, the Supervisory Board studied the results of the EBA stress test that was carried out and the findings of the ECB's 2018 Supervisory Review and Evaluation Process (SREP). Finally, the Supervisory Board regularly received and discussed reports on the work of the committees from their Chairs.

Meetings of the Supervisory Board committees

Each Supervisory Board committee also met on a number of occasions in 2018. During this period, the Nominations Committee and Remuneration Control Committee each held three meetings, the Audit Committee four meetings, and the Risk Committee five meetings. The Mediation Committee did not need to meet in 2018.

In the year under review, the **Nominations Committee** focused on the appraisal of the Board of Managing Directors and the Supervisory Board and on implementation of the EBA suitability guidelines. It also updated the current job description and applicant requirements profile for members of the Supervisory Board in preparation for any submission of proposed names in elections for new members. Furthermore, the Nominations Committee adopted resolutions on personnel changes on the Board of Managing Directors in order to implement the medium-term HR strategy approved in 2017. The Nominations Committee proposed resolutions to the Supervisory Board on all of these matters.

At its meetings in 2018, the **Remuneration Control Committee** focused on remuneration issues and contractual matters relating to individual members of the Board of Managing Directors. Where necessary, it proposed resolutions to the Supervisory Board. One such resolution related to the variable remuneration of the members of the Board of Managing Directors that was set for 2017. Company targets and individual targets were defined for 2018, and the total sum of variable remuneration at DZ BANK was set. The Remuneration Control Committee reviewed and confirmed the appropriateness of the remuneration of the DZ BANK Board of Managing Directors. It also examined the structure of the remuneration systems for employees and the remuneration officer's remuneration control report. Finally, the Remuneration Control Committee received and discussed the report from the remuneration officer about new regulatory requirements, their impact on DZ BANK, and progress with their implementation at DZ BANK. The Remuneration Control Committee proposed individual resolutions to the Supervisory Board on all of these matters.

In 2018, the **Audit Committee** studied the findings of the audit of the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report for the year ended December 31, 2017 by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart (EY). It proposed a related resolution to the Supervisory Board. The committee also examined the auditor's reports on the half-year financial report of the DZ BANK Group and on the audit of the securities and investment services business in 2017/2018. Furthermore, the Audit Committee discussed the auditor's areas of focus for 2018 and key findings from the current audit. It also monitored the financial reporting process. A particular focus of discussion was the implementation of the IFRS 9 accounting standard and its quantitative impact on loss allowances in connection with the ECB's backstop criteria in the asset quality review.

Furthermore, the committee discussed the appointment of the auditor of the single-entity financial statements and the auditor of the consolidated financial statements for 2018 as well as the auditor for the review of the group's half-year financial report and other interim financial statements. In this context, the Audit Committee proposed a resolution to the Supervisory Board on the quality and independence of the auditor and recommended that EY again be engaged as auditor. The committee also deliberated on the fee to be paid to EY.

In 2018, the Audit Committee prepared the review of the non-financial statement for the Supervisory Board for the first time. This also involved studying the findings of the review of the non-financial statement conducted by the auditor EY.

Furthermore, the Audit Committee examined and discussed the business performance and capital/profitability situation in the DZ BANK Group. It also focused on supervisory audits carried out in the DZ BANK Group and on the latest regulatory developments and their implementation in the project portfolio. In this context, it took a close look at the findings of the ECB's on-site audit of IT risk at DZ BANK AG.

Other matters addressed by the committee included internal audit reports for the periods ended December 31, 2017 and June 30, 2018, the annual compliance report for 2017, and the IT strategy of DZ BANK and the DZ BANK Group. In this context, the committee monitored the effectiveness of the internal control system, risk management system, and internal audit. It also signed off updated guidelines on approving non-audit services provided by the auditor. Individual non-audit services performed by the auditor were approved on a case-by-case basis. The Audit Committee also took a general look at non-audit services, including utilization of the upper limit on fees and any measures necessary to maintain the independence of the auditor. In addition, it made preparations for the change of auditor planned for the 2021 financial year.

The **Risk Committee** advised the Supervisory Board on current and future aggregate risk appetite and strategy in the DZ BANK Group. It also helped the Supervisory Board to monitor implementation of this strategy. In particular, this involved examining the recovery indicators, the reports on aggregate risk and credit risk, and the risk strategies as well as monitoring the effectiveness of the risk management system. The committee also focused on the review of the lending business, which had been brought forward, regulatory and organizational matters in connection with the audit of the annual financial statements for the year ended December 31, 2017, and the change in specific loan loss allowances in 2017. Moreover, the Risk Committee acknowledged and discussed the results of internal stress tests in the DZ BANK Group, the results of the EBA stress test, and the findings of the ECB's 2018 Supervisory Review and Evaluation Process (SREP). It also dealt with various matters relating to long-term equity investments and loans before adopting resolutions on them. In addition, it discussed terms and conditions in the customer business, the methods for determining credit risk, the structural and country limits, and limit lists for banks and insurers. In line with its remit, it examined and monitored these limits. The committee reviewed DZ BANK's remuneration systems. It recommended to the Supervisory Board that the requirements of section 7 of the German Regulation Governing Remuneration at Institutions (InstitutsVergV) be recognized as satisfied in terms of the current overall amount of variable remuneration. Finally, the Risk Committee studied the report on updating the remit of the member of the Board of Managing Directors who has responsibility for risk. This update is aimed at improving how the group is managed.

Corporate governance

In line with the requirements of the German Banking Act, the Supervisory Board conducted a self-evaluation on February 21, 2018. It found that the structure, size, composition, and performance of the Supervisory Board and the knowledge, skills, and experience of the individual Supervisory Board members and the Supervisory Board as a whole fulfilled the requirements laid down by law and in the Articles of Association. On November 29, 2018, the Supervisory Board signed off a framework policy comprising a suitability evaluation policy concerning the individual and collective suitability of the Board of Managing Directors and Supervisory Board, a diversity policy, and an induction and training policy covering the members of both boards.

In its view, the Supervisory Board had adequate financial and personnel resources at its disposal in 2018 to be able to support new members in becoming familiar with their role and to provide the training that is necessary to maintain members' required level of expertise. DZ BANK offered and offers to cover the costs of a modular training program that is run by an external provider and tailored specifically to the needs of Supervisory Board members. Each Supervisory Board member can select modules depending on their individual requirements.

There were no indications of fundamental and far-reaching conflicts of interests affecting Supervisory Board members. Where indications of conflicts of interests arose in individual cases, the affected members of the Supervisory Board refrained from voting.

Cooperation with the auditor

The auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, confirmed that the single-entity financial statements – together with the bookkeeping system – and the management report of DZ BANK as well as the consolidated financial statements and the group management report submitted by the Board of Managing Directors for the year ended December 31, 2018 complied with the applicable legal provisions. EY issued an unqualified opinion for each of these sets of financial statements. The audit reports were submitted to the members of the Supervisory Board, who discussed them in detail at their meetings. In addition, the Chairman of the Supervisory Board and the Chairs of the Supervisory Board committees maintained a regular, intensive dialog with the auditor. This dialog also covered the new independent auditor's report pursuant to section 322 HGB (including the key audit matters). The Supervisory Board agrees with the findings of the audit.

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

The Board of Managing Directors of DZ BANK issued a non-financial statement for 2018. The Supervisory Board decided to submit the report for a voluntary external audit, for which it engaged DZ BANK's auditor. EY did not become aware of any facts that would lead it to believe that the combined non-financial statement of the DZ BANK Group for the period January 1 to December 31, 2018 had not been prepared, in all material respects, in accordance with the statutory requirements. On this basis and in accordance with the Audit Committee's recommendation, the Supervisory Board concluded, having conducted its own review, that the non-financial statement complies with the statutory requirements. At its meeting on March 28, 2019, the Supervisory Board therefore approved the 2018 non-financial statement prepared by DZ BANK.

Adoption of the financial statements

At their meetings, the Supervisory Board and its Audit Committee scrutinized the single-entity financial statements and management report of DZ BANK (including the Board of Managing Directors' proposal for the appropriation of profits) as well as the consolidated financial statements and group management report for the year ended December 31, 2018. The Chairman of the Audit Committee provided the Supervisory Board with detailed information about the committee's extensive deliberations on the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report. Representatives of the auditor attended the Supervisory Board meeting convened to adopt the financial statements as well as the preparatory meetings held by the Audit Committee and by the Risk Committee so that they could report in detail on the material findings of their audit. They were also available to answer questions from the members of the Supervisory Board. The Supervisory Board did not express any reservations following the concluding findings of its review. The Supervisory Board approved the single-entity financial statements of DZ BANK and the consolidated financial statements prepared by the Board of Managing Directors for the year ended December 31, 2018 at its meeting on March 28, 2019 in line with the Audit Committee's resolution recommendation. The financial statements have therefore been adopted. The Supervisory Board approved the Board of Managing Directors' proposal for the appropriation of profits.

Personnel changes on the Supervisory Board and Board of Managing Directors

At its meeting on May 30, 2018, the Supervisory Board elected Henning Deneke-Jöhrens as its new Chairman. He succeeded Helmut Gottschalk, who had been Spokesman of the Board of Managing Directors of Volksbank Herrenberg-Nagold-Rottenburg for many years. Mr. Gottschalk stepped down from the Supervisory Board at the end of the Annual General Meeting, following fifteen years of service that included two years as Deputy Chairman and eight years as Chairman. Werner Böhnke also left the Supervisory Board at the end of the Annual General Meeting. He had previously been a member of DZ BANK's Supervisory Board from August 2000 until May 2014. From May 20, 2014 until June 22, 2016, he was Chairman of the Supervisory Board of the former WGZ BANK. He then became a Deputy Chairman of the Supervisory Board of the merged central institution. Both Mr. Gottschalk and Mr. Böhnke played a crucial role in guiding the bank through the many strategic changes that have taken place over recent years. First and foremost among these were the successful merger of WGZ BANK and DZ BANK in 2016 and DZ BANK's firm strategic focus on 'Verbund First', which is a key factor in ensuring the stability of the business model. The Supervisory Board is deeply grateful to Mr. Gottschalk and Mr. Böhnke for their outstanding contributions that have benefited the cooperative organization for so many years. On May 30, 2018, Martin Eul was elected to succeed Mr. Böhnke as a Deputy Chairman of the Supervisory Board. Timm Häberle and Ingo Stockhausen were elected as new members of the Supervisory Board with effect from the end of the 2018 Annual General Meeting.

Wolfgang Kirsch retired with effect from January 1, 2019 after almost sixteen years on the Board of Managing Directors, including approximately one year as Deputy Chief Executive Officer and around twelve years as Chief Executive Officer. Under the 'Verbund First' strategy, Mr. Kirsch succeeded in strengthening DZ BANK's focus on the needs of the cooperative banks. At the same time, he laid the foundations that would ensure that the DZ BANK Group was able to survive the financial crisis largely unscathed by drawing on its own resources. Mr. Kirsch also played a significant part in the success of the merger of DZ BANK and WGZ BANK. The Supervisory Board would like to thank Mr. Kirsch for his successful and crucial contributions through his work on the DZ BANK Board of Managing Directors.

Before that, on March 31, 2018, Stefan Zeidler left the Board of Managing Directors of DZ BANK at his own request after a successful five years in office. Mr. Zeidler was a driving force of direct customer contact in Corporate Banking and of the strategic development of this business line, playing an important part in ensuring its sustained success.

Ulrike Brouzi joined the Board of Managing Directors on September 1, 2018, taking charge of the Compliance division. At the start of 2019, she also became the member of the Board of Managing Directors responsible for finance.

Uwe Fröhlich was appointed to the Board of Managing Directors with effect from January 1, 2019. On that same date, Mr. Fröhlich and Dr. Cornelius Riese became the Co-Chief Executive Officers. Under this dual arrangement, Mr. Fröhlich is primarily responsible for activities relating to the cooperative financial network and the corporate bank, while Dr. Riese is primarily responsible for DZ BANK's activities as the holding company.

The Supervisory Board wishes to thank the Board of Managing Directors and all employees of the DZ BANK Group for their valuable contribution in 2018.

Frankfurt am Main, March 28, 2019

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main



Henning Deneke-Jöhrens
Chairman of the Supervisory Board