

2019
Annual Financial
Statements and
Management Report
of DZ BANK AG

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Note

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

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

I DZ BANK AG fundamentals

1 Business model and strategic focus

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

In 2018, DZ BANK launched 'Verbund First 4.0', a strategic program designed to ensure the bank's resilience for the future. The program is aimed at improvements in three key areas: market offering, control and production processes, and corporate culture. Under the program, DZ BANK is working on various action plans based on 28 defined action areas.

DZ BANK is applying its strategic focus in the various business lines, as described below.

1.1 Cooperative Banks/Verbund

The Cooperative Banks/Verbund division is responsible for providing support for the German cooperative banks, which are both a customer group and the shareholders of DZ BANK. The Regionaldirektoren [regional directors] of DZ BANK are the first port of call and customer relationship manager for the cooperative banks, with the aim of assisting them with their business activities in the regional markets.

DZ BANK offers the cooperative banks consultancy and other services at every stage of the strategic bank management process and advises them on regulatory matters. In addition, DZ BANK assists the local cooperative banks with treasury and controlling aspects of bank management, such as planning and risk management, as well as with optimization for strategic bank management purposes and with own-account investing activities. DZ BANK offers the cooperative banks systems such as GENO-SAVE and EGo that help them to meet requirements in the

areas of own-account investing, reporting, and accounting.

1.2 Corporate Banking

In the corporate banking market, DZ BANK supports the marketing of the local cooperative banks. This support concept is geared to the needs of corporate customers and the individual market situation of the cooperative banks and is closely integrated with the activities of the cooperative financial network.

In 2019, DZ BANK modified its organizational structure in the Corporate Banking business line in order to ensure targeted marketing. Four regional divisions now look after not only DZ BANK's direct customers but also customers in the joint business with the cooperative banks. As a result of the activities to update corporate banking, customer relationship management for multinationals, the healthcare sector, and cooperative financial network customers has been grouped together in the Central Corporate Banking division.

Under the 'Verbund First 4.0' strategic program, DZ BANK has defined four action areas for corporate banking: corporate customer market approach for direct business, joint lending business with the cooperative banks, international business, and development lending. It has also developed action plans for these areas.

The existing customer relationship management model has been revised both in direct business and in joint business with the cooperative banks, product specialists have been assigned to specific regions, and product delivery capability has been adjusted. Existing processes in corporate banking have also been updated, for example the 'GP direkt' process for setting up new customers was overhauled in 2019.

In April 2019, DZ BANK launched VR International, a digital platform for the cooperative banks and their corporate customers that makes country-specific and product information for international business available on the websites of the cooperative banks and in an app. A guided process directs customer inquiries straight to a point of contact in the relevant cooperative bank.

DZ BANK maintains international branches and representative offices to enable the corporate

customers of the cooperative financial network to access major markets outside Germany. It has operated internationally for many years, particularly in the areas of trade finance, export finance, and the local provision of banking products and services in the local currency. In 2019, it celebrated the 40th anniversary of its international branch in Hong Kong and the 30th anniversary of its representative office in Moscow.

Also last year, DZ BANK signed cooperation agreements with Brazil's Banco Bradesco S. A., Poland's PKO Bank Polski, and Belarusbank in order to widen its market coverage. It has already entered into similar agreements with banks in China, India, and Indonesia.

In the development lending business, DZ BANK provides the cooperative banks, their corporate customers, the group entities, and third-party banks with advice on public-sector development loans, subsidies, and guarantees. In this context, it primarily works with Kreditanstalt für Wiederaufbau (KfW) [Germany's KfW development bank], the federal states' own development banks, and Landwirtschaftliche Rentenbank.

1.3 Retail Banking

In the Retail Banking business line, DZ BANK offers platform- and process-driven services for the cooperative banks' and partner banks' securities business with retail customers, focusing on personal investments. As well as securities, this includes liability products, advisory services, market data, research, and trading/advisory/e-business platforms.

DZ BANK enables its customers to benefit not only from conventional banking but also from digital access to their bank via mobile login, online tools, and the DZ BANK derivatives portal.

In 2019, DZ BANK launched the online platform meinGIS, an enhancement of the GIS market data application that had previously been used. The platform was introduced as part of the 'Verbund First 4.0' strategic program and is intended to assist the local cooperative banks with the provision of securities investment advice.

1.4 Capital Markets

Alongside advisory and sales services in relation to investment and risk management products covering the interest-rate, credit, equities, and currency asset

classes, DZ BANK also offers advisory and sales services in fixed-income and equities business and in secondary and primary market business to its institutional clients in Germany and abroad, to the cooperative banks in their own-account investing activities, and to their corporate customers. It also offers research services.

In 2019, DZ BANK undertook a range of activities in the Capital Markets business line as part of the 'Verbund First 4.0' strategic program. For example, it rolled out an information and analysis platform for private placements. Moreover, local cooperative banks can use a web portal that gives them access to information on their customers' interest-rate and currency management transactions.

On behalf of the cooperative financial network, the Group Treasury division at DZ BANK carries out the cash-pooling function and ensures access to money markets and capital markets as well as to liquidity provided by central banks. In addition, Treasury acts as the product portfolio manager for secured and unsecured money market business, currency swaps and forwards, and the issue of short-term commercial paper.

1.5 Transaction Banking

In the Transaction Banking business line, DZ BANK provides its customers with payments processing, card processing, and capital markets services. It also offers depositary and advisory services. In addition, DZ BANK makes platforms available in order to improve the competitiveness of the companies within the cooperative financial network with regard to transaction banking.

Under the 'Verbund First 4.0' strategic program, DZ BANK is further expanding its instant payments infrastructure for the cooperative financial network with the aim of establishing it as a standard payments processing technology. It has been possible to receive instant payments since November 2018. And since May 2019, the cooperative financial network's customers have been able to initiate instant payments too.

To help Germany's small and medium-sized enterprises (SMEs) to internationalize, DZ BANK has expanded its range of cash management and international payments processing services. This should not only

raise awareness of the cooperative financial network's capabilities in this regard but also increase market share in international business going forward.

DZ BANK also gained new customers in the depositary business by using new technologies and stepping up sales activities.

In capital markets business, DZ BANK is responsible for the regulatory reporting of its own trading activities and those of the cooperative banks. Moreover, it has formed a multi-institutional team with DekaBank Deutsche Girozentrale, dwpbank Deutsche WertpapierService Bank AG, and Landesbank Hessen-Thüringen Girozentrale to develop finledger, a blockchain platform for the digital execution of promissory note transactions. The first transactions were executed on the platform in 2019.

In view of changes to the regulatory environment for banking infrastructure and payments processing infrastructure, as well as the arrival of new competitors in the market, DZ BANK plays an active role in both national and international payment systems initiatives. In Germany, for example, it is participating in the #DK initiative of the Digitale Kreditwirtschaft (DK) [German Banking Industry Committee] and, in the European market, in the European Payments Initiative (EPI). As part of these initiatives, DZ BANK and the other banks involved are developing a cross-channel payment solution that builds on the reach of the current account to ensure that the payments processing business is fit for the future.

In 2019, DZ BANK began to design and implement a payment system for Apple Pay. The related services are to be offered to the customers of the local cooperative banks as soon as possible.

Furthermore, the focus of work to establish supplementary payments processing products is being sharpened by expanding existing value-added solutions and integrating payment solutions for other areas of customers' lives, for example by connecting to third-party providers' platforms.

2 Management of DZ BANK

2.1 Management units

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

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

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

The management units are each managed as a separate operating segment. DZ BANK – holding function is also presented separately, although it does not constitute an operating segment within the meaning of IFRS 8.5.

From the reporting year, the previous DZ BANK management unit has been broken down into central institution and corporate bank (DZ BANK – CICB) and the group management function (DZ BANK –

holding function) because of changes to the internal business management structure and the associated modification of the internal financial reporting system. The related reorganization of the management units in the internal financial reporting system has been adopted for the presentation of the operating segments. The DZ BANK – CICB operating segment comprises both the cooperative central institution function, which supports the operating activities of the local cooperative banks, and the corporate bank function. DZ BANK – holding function is used to pool a range of responsibilities, notably tasks carried out on behalf of the DZ BANK Group in relation to commercial law, tax, and prudential supervision.

All risks at DZ BANK, and therefore arising in connection with the CICB segment and the holding function, are determined, reported and, managed for DZ BANK on an integrated basis. The aim of this approach is to satisfy the regulatory requirements under Basel Pillar 1 and Pillar 2 whereby DZ BANK must be treated as one bank overall. This also meets the German Minimum Requirements for Risk Management for Banks and Financial Services Institutions (MaRisk BA), which is a generally accepted framework for risk management that DZ BANK is under an obligation to apply. The operating segments presented in the combined opportunity and risk report (chapter VI) are not inconsistent with the operating segments in the consolidated financial statements, because the CICB segment accounts for the main risks at DZ BANK. These risks are credit risk, market risk, equity investment risk, and most of the business risk, reputational risk, and operational risk.

The terms DZ BANK Group and DZ BANK financial conglomerate are synonymous and refer to all the management units together. The context dictates the choice of term. For example, in the case of disclosures relating to economic management, the focus is on the DZ BANK Group, whereas in the case of regulatory issues relating to all the management units in the DZ BANK Group, the term DZ BANK financial conglomerate is used.

The DZ BANK financial conglomerate largely comprises the DZ BANK banking group and R+V. DZ BANK acts as the financial conglomerate's parent company.

2.2 Governance

Governance in the DZ BANK Group is characterized by the general management approach of the DZ BANK Group, appointments to key posts in the subsidiaries, and the committee structure.

2.2.1 General management approach

The general management approach consists of a combination of centralized and decentralized management tools. It is aligned with the business model and risks of the DZ BANK Group as a diversified financial services group that is integrated into the Volksbanken Raiffeisenbanken cooperative financial network and that provides this network with a comprehensive range of financial products.

The DZ BANK Group is a financial services group comprising entities whose task as product specialists is to supply the Volksbanken Raiffeisenbanken cooperative financial network with an entire range of financial services. Because of the particular nature of the DZ BANK Group, it is managed both centrally and locally with clearly defined interfaces and taking into account business policy requirements.

2.2.2 Appointments to key posts in the subsidiaries

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

2.2.3 Corporate management committees

The **Group Coordination Committee** is the highest-level management and coordination committee in the DZ BANK Group. The objectives of this committee are to strengthen the competitiveness of the DZ BANK Group and to coordinate fundamental product and sales issues. The committee also aims to ensure coordination between the key entities in the DZ BANK Group to achieve consistent management of opportunities and risks, allocate capital, deal with strategic issues, and leverage synergies. The members of this committee comprise the Board of Managing Directors of DZ BANK and the chief executive officers of BSH, DZ HYP, DZ PRIVATBANK, R+V, TeamBank, UMH, and VR Smart Finanz.

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

The **Group Risk and Finance Committee** is the central committee in the DZ BANK Group responsible for proper operational organization and, in particular, risk management in accordance with section 25 (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, 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 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 objective of the Finance working group is to continually update the uniform management framework used throughout the group (definitions, nomenclature, methodologies), particularly taking into account requests made by the supervisory authorities.

The **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 aim of the **institutional clients** product and sales committee is to help strengthen the position of the DZ BANK Group in the institutional clients market.

The DZ BANK Group **Heads of Internal Audit working group**, which is led by DZ BANK, coordinates group-relevant audit issues and the planning of cross-company audits and activities based on a jointly developed framework approved by the relevant members of the Board of Managing Directors. This working group also serves as a platform for sharing specialist information across the group – especially information on current trends in internal audit – and for refining group audit activities. On behalf of this working group, the Head of Group Audit reports to the member of the Board of Managing Directors responsible for group audit and, where appropriate, to the Group Coordination Committee.

The **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. One of the primary tasks of the Heads of Compliance working group is to draw up a compliance standard for the DZ BANK Group; 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.

The **Group Corporate Responsibility Committee**, which is coordinated by DZ BANK and whose members include the sustainability coordinators in the management units and at ReiseBank, is a platform for sharing specialist information throughout the group about the latest sustainability-related trends and activities. The committee identifies key issues relevant to the whole of the group and initiates joint projects. The head of the Group Corporate Responsibility Committee reports to the DZ BANK Co-Chief Executive Officer responsible for sustainability.

He or she also reports annually and on an ad hoc basis to the Group Coordination Committee.

2.3 Key performance indicators

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

– Profitability figures:

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

– Volume figures:

The main volume-related KPIs include equity and total assets, which are presented in chapter II, section 4 of this management report and in the annual financial statements (balance sheet as at December 31, 2019).

– Productivity:

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

– Liquidity adequacy:

Appropriate levels of liquidity reserves in relation to the risks associated with future payment obligations are demonstrated using the ratios for economic and regulatory liquidity adequacy presented in chapter VI, section 6.2 and section 6.3 of this 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 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.

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

2.4 Management process

In the annual strategic planning process, the entities in the DZ BANK Group produce a business strategy (objectives, strategic direction, and action plan), a 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, which aims to facilitate active management of the DZ BANK Group's economic and regulatory capital adequacy.

The action plans to attain the targets are discussed in a number of ways, notably in quarterly meetings with the subsidiaries and in steering committees with DZ BANK's divisions.

At DZ BANK level, the main divisions involved in the strategic planning process are Strategy & Corporate 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 & Corporate Development division is responsible for overall coordination of the strategic planning process.

II Business report

Economic conditions

Economic growth in 2019 was weaker than in the previous year. Average inflation-adjusted gross domestic product (GDP) in Germany rose by 0.6 percent year on year. This contrasts with the growth rate of 1.5 percent in 2018.

Domestic economic output in the first quarter of 2019 was up by 0.5 percent compared with the preceding quarter. This was followed by a contraction in GDP of 0.2 percent in the second quarter, primarily because of an adverse impact from foreign trade. German economic output then went up by 0.2 percent in the third quarter before stagnating in the fourth quarter of the reporting year.

Once again, higher consumer and government spending compared with the previous year provided a boost to the German economy in the reporting year. Consumer demand rose by 1.6 percent year on year, aided by an unemployment rate of 5.0 percent and no improvement in the returns available on consumer investments, which remained extremely low compared with those over the previous 10 years. The expansion in construction investment continued to accelerate with growth of 3.8 percent in 2019 (2018: 2.5 percent). Trade disputes during the year led to a negative trade balance, resulting in an adverse impact on the economy as a whole. This gave rise to ongoing uncertainty, as a consequence of which spending on capital equipment by businesses only saw a marginal increase of 0.4 percent in the reporting year (2018: 4.4 percent).

Despite the weaker economic growth, the surplus in German public finances continued to increase, primarily because of the further rise in tax receipts. Germany thus benefited from a budget surplus of 1.5 percent of GDP for the reporting year.

In the year under review, economic output in the eurozone grew by 1.2 percent year on year, the economic recovery being sustained in the first quarter of 2019 with a growth rate of 0.4 percent (compared with the previous quarter). In the second and third quarters, the economy grew at a rate of 0.2 percent and 0.3 percent respectively, falling to a rate of 0.1 percent in the final quarter of 2019.

In the eurozone too, consumer spending again made a positive contribution to economic growth in the reporting year. Geopolitical crises, various conflicts, and above all the uncertainty arising from the Brexit negotiations and from current US trade policy did have some impact on the economic climate during the year. The growth in spending by businesses on capital equipment was correspondingly subdued. Foreign trade also acted as a drag on economic expansion because of declining export growth in the eurozone.

In the United States, economic output in the reporting year went up by 2.3 percent. The growth rate therefore fell back by 0.6 percentage points compared with the 2.9 percent rate of expansion achieved in 2018. Overall, the principal driver behind the growth in the US economy was consumer spending, which was bolstered by further improvements in the labor market, specifically a lower unemployment rate and a rise in recruitment. However, the rates of expansion for investment by businesses in plant and machinery, and also for residential construction, declined.

Economic growth slowed in the key emerging markets in 2019. In China, growth rates continued to fall as the nation's economy was adversely impacted by the trade dispute with the US. India was also unable to sustain the growth rates achieved in previous years. In Latin America, countries such as Argentina and Venezuela are suffering prolonged and rampant economic crises. Low commodity prices are hitting the economies in these countries, and also the Russian economy, for example. Overall, growth in global economic output in 2019 fell to its lowest level since 2009, a year badly affected by the financial crisis.

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

Key trends in the year under review were the slowdown in the global economy, the maintenance of expansionary monetary policy at the ECB, uncertainty in connection with the Brexit negotiations, and growing political concerns around the globe. In Europe, the focus was on efforts to further stabilize economic conditions in the eurozone and to bring about a shift toward joint European economic policy following the recent return in some countries of a trend toward economic policy driven first and foremost by national interests.

The policy of ‘America first’ introduced by the US government with the imposition of customs duties on products from China, Canada, Mexico, and even the EU was maintained in the reporting year, with Chinese goods bearing the brunt of the punitive tariffs. The US government changed its stance toward Mexico and Canada in May 2019, when it abolished the special tariffs that it had introduced in 2018. After months of negotiations, US President Donald Trump and Chinese Vice Premier Liu He signed a trade agreement on January 15, 2020. Under this deal, there will be no further punitive tariffs for the time being. China has also given assurances that it will significantly increase its demand for US export goods, and also for services. In December 2019, the US president indicated that he was in favor of introducing special customs tariffs on French goods in response to the ‘digital tax’ introduced by France in the reporting year, which particularly affects US internet companies. A proposal for the imposition of tariffs of up to 25 percent on car imports from the EU, first mooted by the US government in April 2019, is still being floated. This demonstrates that the developments in the trade disputes described above are somewhat erratic overall, creating uncertainty for global trade. The Bundesverband der Industrie (BDI) [Federation of German Industries] is of the view that the international disputes are unsettling companies and are having an adverse impact on the German economy with its focus on foreign trade. These uncertainties are not only taking their toll on the real economy but also affecting the financial markets.

The United Kingdom’s arrangements for leaving the EU are still unknown. Theresa May resigned as her party’s leader in spring 2019, with Boris Johnson emerging as the winner in the subsequent ballot for a new leader. On July 24, 2019, May stepped down as prime minister of the UK and Johnson took over from her. From that point, Johnson worked toward a rapid withdrawal of the UK from the EU. As he did not enjoy a parliamentary majority, he called an early general election, which was held on December 12, 2019. The Conservative Party led by Johnson emerged victorious, with a majority of 80 seats. With the backing of this majority, Johnson pressed ahead with his efforts to bring about a swift UK exit from the EU and signed an agreement with the presidents of the European Commission and European Council on January 24, 2020 taking the UK out of the EU on January 31, 2020.

In view of past crises in the eurozone, the countries of the EU continued to work on overhauling and strengthening the European Monetary Union (EMU) in the reporting year. For example, a fundamental agreement on strengthening the European Stability Mechanism (ESM) has been reached, in particular with regard to the backstop for the European Single Resolution Fund (SRF). However, plans drawn up in the summer of 2019 for amendments to agreements were not approved when the Eurogroup met in December 2019.

This meeting of the Eurogroup also failed to reach agreement on the controversial European deposit insurance scheme (EDIS), which has been under discussion for a number of years. This was welcomed by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks].

In 2019, some EU countries came no closer to meeting the target for reducing new and overall indebtedness in compliance with the stability criteria specified in the Fiscal Compact agreed by the EU member states at the beginning of 2012. In the Fiscal Compact, the signatory countries committed to reducing their debt (as a proportion of GDP) each year by one twentieth of the difference between the debt level and the Maastricht limit of 60 percent of GDP. In November 2019, the European Commission declared that the draft budgets produced by Belgium, Spain, France, Italy, Finland, Portugal, Slovenia, and Slovakia for 2020 breached the rules of the Stability and Growth Pact. At the end of the third quarter of 2019, the total borrowing of the 19 eurozone countries equated to 86.1 percent of their GDP, a decrease of 1.0 percentage points compared with the figure of 87.1 percent as at September 30, 2018.

Greece’s public debt as a percentage of GDP stood at 178.2 percent in the third quarter of 2019 (third quarter of 2018: 182.3 percent) and the country continued on its path of economic recovery in 2019 compared with the prior year. In the country’s parliamentary elections in July 2019, the conservative Nea Dimokratia (ND) party secured an absolute majority. The policies of the ND encompass reforms to stimulate growth, such as cuts in both direct and indirect taxes as well as in social security contributions.

Italy remained beset with economic and fiscal challenges in 2019. Its public debt as a percentage of GDP stood at 137.3 percent in the third quarter of

2019 (third quarter of 2018: 136.1 percent), which is the highest in the eurozone after that of Greece. Italy's economy continues to underperform those of the other member states. The banking sector is also being weighed down by the proportion of non-performing loans on the balance sheets of Italy's banks, even though this proportion is falling.

Portugal's public debt as a percentage of GDP stood at 120.5 percent in the third quarter of 2019 (third quarter of 2018: 125.5 percent) and the country made further progress on stabilizing its economy during the reporting year. Its GDP grew by 2.0 percent year on year in 2019. The rate of expansion in economic output in the previous year was 2.4 percent. The Portuguese economy was boosted in particular by steady consumer demand and a fall in unemployment. Although the banking sector continues to have significant legacy issues in the form of non-performing loans, their volume has recently declined.

In Spain, public debt as a percentage of GDP was 97.9 percent in the third quarter of 2019 (third quarter of 2018: 98.9 percent). Spain was once again able to achieve growth in its economy in the reporting year, GDP rising by 2.0 percent year on year. The rate of expansion in economic output in the previous year was 2.4 percent. At the beginning of 2019, the minority government headed up by the socialist Prime Minister Pedro Sánchez collapsed after just eight months as a result of the budget dispute. In February 2019, a snap election was called for April 28, 2019, in which the PSOE, the socialist workers' party, won the most seats. However, the sitting Prime Minister, Pedro Sánchez, failed in his attempt to form a government and called yet another election, which was held on November 10, 2019. This time, the socialists suffered losses but nevertheless remained the strongest grouping, garnering 28 percent of votes. Sánchez was able to form a new minority government on January 7, 2020. The political instability continues to hamper the reforms needed by the country.

France's public debt as a percentage of GDP stood at 100.5 percent in the third quarter of 2019 (third quarter of 2018: 99.4 percent). The French President Emmanuel Macron has proposed a range of pro-business reforms and has already pushed through a law designed to make the labor market more flexible. The reforms proposed by the French government came up against public resistance in December 2019, when labor unions organized strikes in protest against the planned pensions overhaul. The government's

policies continue to face public opposition. Despite these protests, consumer spending remains one of the main growth drivers. Nonetheless, the budget deficit, combined with a slowing economy, is hindering efforts to reduce government debt.

The trends in the eurozone described above show that the ECB with its policy of quantitative easing has created the necessary time for the EMU countries burdened with significant debt to reduce their fundamental budget deficits. Nonetheless, the countries specified above have for the most part made only limited efforts to reduce their high levels of indebtedness and bring in the necessary structural reforms. The benefit from the current low level of interest rates is reducing the impact from the debt burden and having the effect of decreasing various EMU countries' efforts to implement austerity measures.

The ECB's present policy of zero and negative interest rates is making it harder for savers to build up capital and, therefore, to ensure they have adequate provision for old age. Although the weakness of the euro resulting from low interest rates is boosting companies' exports, it is also diminishing their efforts to lower costs and improve productivity. The ECB's policy of maintaining extremely low interest rates boosts the risk of misallocations and even the formation of bubbles in real estate and equities markets, which could jeopardize the stability of financial markets.

At the meeting of the ECB on September 12, 2019, it was decided to lower the rate for the deposit facility by 10 basis points to minus 0.50 percent. Banks are therefore paying a higher negative interest rate on their deposits with the ECB. To mitigate the adverse impact on banks, the ECB introduced a two-tier system for remunerating excess reserve holdings, under which some of banks' excess liquidity is exempted from the negative deposit rate. The main refinancing rate remained the same at 0.00 percent, while the rate for the marginal lending facility was also unchanged at 0.25 percent. The ECB Governing Council let it be known that the ECB's key interest rates would remain at their current or a lower level until the inflation outlook clearly approaches a level that is sufficiently close to, but below, 2 percent. The Council also decided that net purchases under the asset purchase program would be restarted from November 1 with a monthly volume of €20.0 billion. On November 1, 2019, Christine Lagarde took over from Mario Draghi as president of the ECB. In a statement made on

December 12, 2019, she announced that she would not be deviating from her predecessor's expansionary monetary policy for the time being.

Having already cut interest rates on July 31, 2019, the US Federal Reserve (Fed) announced a further cut of 25 basis points in its key interest rate on October 30, 2019, which means that the federal funds rate is in the range of 1.5 to 1.75 percent.

There was a significant difference in financial performance between Germany's two largest banks in 2019. Whereas one reported a net profit, albeit lower than before due to the challenging market conditions, the other recorded a loss in the billions of euros. The loss allowances for loans and advances recognized by the major banks were higher than in 2018. The major banks presented a mixed picture regarding administrative expenses, ranging from a 2 percent decrease to a 1 percent increase.

3 Financial performance

3.1 Financial performance at a glance

DZ BANK successfully consolidated its position in the year under review in challenging market conditions influenced primarily by the extremely low level of interest rates. Its financial performance in 2019 was influenced by significant items of income and expense in relation to long-term equity investments. Overall, the performance of the operating business had a positive impact on the bank's results. There were no adjusting events after the balance sheet date.

The year-on-year changes in the key figures that made up the operating profit generated by DZ BANK in 2019 were as described below.

Operating income amounted to €2,010 million, a year-on-year rise of €288 million (2018: €1,722 million). It is made up of net interest income, net fee and commission income, net trading income, and other net operating income/expense.

Administrative expenses went up by €14 million, or 1.0 percent, to €1,466 million (2018: €1,452 million).

The **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) improved to 72.9 percent in 2019 (2018: 84.3 percent).

Operating profit before loss allowances increased by €274 million to €544 million (2018: €270 million).

Loss allowances amounted to a net addition of €169 million (2018: net reversal of €229 million).

The **operating profit** amounted to €375 million (2018: €499 million), a year-on-year decrease of €124 million.

The details on the financial performance of DZ BANK set out above and below (section 3.2) include the following variances compared with the information provided in the outlook in chapter V of the 2018 management report.

The operating profit before loss allowances achieved in the reporting year was €69 million higher than the forecast for 2019. Firstly, this was due to net interest income coming in above budget thanks to higher income in the Corporates and Capital Markets business segment and lower expenses in connection with subordinated capital. Secondly, other net operating income exceeded expectations due to income from pensions that resulted from fair value gains on plan assets.

By contrast, net income from long-term equity investments fell short of expectations. The balance of income from long-term equity investments, write-downs on long-term equity investments, and gains on the disposal of long-term equity investments was lower than the budgeted figure. The figure budgeted for net trading income was also not reached.

3.2 Financial performance in detail

The individual year-on-year changes in the financial performance of DZ BANK in 2019 are described in detail below.

FIG. 1 – INCOME STATEMENT

€ million	2019	2018	Change (%)
Net interest income¹	1,158	1,071	8.1
of which: income from long-term equity investments²	478	498	-4.0
Net fee and commission income³	411	388	5.9
Net trading income	426	363	17.4
Administrative expenses	-1,466	-1,452	1.0
Staff expenses	-636	-636	0.0
Other administrative expenses ⁴	-830	-816	1.7
Other net operating income/expense	15	-100	>100.0
Operating profit before loss allowances	544	270	>100.0
Loss allowances⁵	-169	229	>100.0
Operating profit	375	499	-24.8
Other net income/expense⁶	85	-189	>100.0
of which: reversal of reserves required by section 340g HGB	0	425	>100.0
Profit before taxes	460	310	48.4
Income taxes⁷	-66	12	>100.0
Net income for the year	394	322	22.4

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

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

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

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

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

6 See annual financial statements, income statement, total of nos. 14. to 17. and nos. 19. and 20.

7 See annual financial statements, income statement, total of nos. 22. and 23.

Net interest income rose by 8.1 percent to €1,158 million (2018: €1,071 million).

Net interest income (excluding income from long-term equity investments) is primarily attributable to the lending business portfolios (Corporate Banking business line and a separately managed real estate lending portfolio) and the capital markets business.

Net interest income also includes the interest expense and income relating to issued subordinated bonds and those purchased by group entities. The amounts of the individual items and the effects on the change in net interest income are described below.

Net interest income (excluding income from long-term equity investments) rose by 18.7 percent to €680 million (2018: €573 million).

In the Corporate Banking business line, net interest income rose by 3.7 percent to €446 million (2018: €430 million).

The net interest income in the four regional corporate customer divisions plus Central Corporate Banking rose by 6.1 percent to €245 million (2018: €231 million). This was attributable to the growth in the lending volume and, in particular, loan drawdowns in the domestic corporate customer segment.

Net interest income in the Structured Finance and Investment Promotion divisions amounted to €201 million, an increase of 1.0 percent compared with the prior-year figure of €199 million. The main drivers behind this growth in the Structured Finance division were project finance and foreign trade business. The acquisition of further new business consolidated the expansion of international trade and export finance business over the last few years. One of the notable developments in project finance was growth in international renewable energies finance business.

Net interest income from the separately managed real estate lending portfolio was up year on year at €46 million (2018: €36 million). This was attributable to higher early-redemption fees.

Net interest income from capital markets business went up by 34.4 percent to €258 million (2018: €192 million) due to various factors, including the scaling back of group finance with DVB and the resulting early-redemption fees, other early-redemption fees received (up by €22 million), and higher income from money market business (up by €8 million).

The adverse impact of subordinated capital (balance of subordinated own issues and subordinated securities purchased by group entities) on net interest income declined by 17.6 percent to €70 million in 2019 (2018: €85 million) as a consequence of a contraction in the liability portfolios.

DZ BANK's reported income from long-term equity investments went down by 4.0 percent to €478 million (2018: €498 million).

This decrease was primarily explained by a year-on-year fall of €40 million in income from long-term equity investments at UMH and corresponding falls of €15 million and €10 million at VR Equitypartner GmbH and DZ PRIVATBANK respectively. However, income from long-term equity investments went up by €39 million at R+V and by €10 million at TeamBank.

Net fee and commission income rose by 5.9 percent to €411 million (2018: €388 million).

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

In the Corporate Banking business line, net fee and commission income went up by 17.1 percent to €123 million (2018: €105 million). Of this increase, €8 million was attributable to commission on loans and €6 million to guarantees/indemnities.

In the Capital Markets business line, the contribution to net fee and commission income grew by 7.2 percent to €163 million (2018: €152 million). Of particular note was the income from fund sales commissions, which went up by 20.6 percent to €41 million (2018: €34 million) on the back of higher volumes.

In addition, net fee and commission income in the Transaction Banking business line was also up on the previous year at €127 million, an increase of €7 million or 5.8 percent (2018: €120 million). This rise was attributable in particular to higher income from the securities safe custody business.

As part of service procurement arrangements, DZ BANK has transferred processing services in the lending business to Schwäbisch Hall Kreditservice, in the payments processing business to equensWorldline SE, and in capital markets business/transaction banking to Deutsche WertpapierService Bank AG. The expenses arising in connection with obtaining services from the above external processing companies amounted to a total of €169 million (2018: €167 million) and are reported under net fee and commission income for the individual Corporate Banking (€9 million) and Capital Markets/Transaction Banking (€160 million) business lines.

Net fee and commission income from other financial services fell by €13 million to a net expense of €2 million in the reporting year (2018: net income of €11 million).

Net trading income rose by 17.4 percent to €426 million (2018: €363 million).

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

Gains and losses on trading activities in the Capital Markets business line amounted to a net gain of €430 million, a year-on-year rise of 36.5 percent (2018: net gain of €315 million). One of the reasons for this was a higher level of sales with institutional and corporate customers and the associated boost to income. The rise in sales was evident in all asset classes. The increase in derivatives business, the expansion of the structured products business, and the foreign-exchange business all made a particular contribution to the improvement in the net gains. On the other hand, the margins in fixed-income business declined because more deals were being entered into via electronic trading platforms. However, it was possible to offset the fall in margins with an increase in sales volume and sales in other asset classes.

The liabilities recognized at fair value gave rise to a positive effect on earnings of €24 million in 2019 (2018: €13 million) that was largely attributable to DZ BANK's own issues.

In 2018, the special reserve pursuant to section 340e (4) HGB had been reduced by €35 million due to the required minimum funding being exceeded. This reversal was recognized in the income statement.

Administrative expenses at DZ BANK amounted to €1,466 million, an increase of €14 million or 1.0 percent on the comparable figure in 2018 (€1,452 million).

At €636 million, staff expenses were on a par with the prior year (2018: €636 million).

Other administrative expenses rose by €14 million to €830 million in 2019 (2018: €816 million). Whereas consultancy expenses fell by €34 million, expenses for the BVR deposit guarantee fund were up by €16 million to €48 million in 2019 (2018: €32 million) and expenses for the bank levy were €4 million higher at €40 million (2018: €36 million). IT expenses also rose year on year, by €16 million, to €183 million.

Other net operating income/expense at

DZ BANK amounted to net income of €15 million in 2019 (2018: net expense of €100 million).

This included net income of €9 million (2018: net expense of €128 million) that resulted from the measurement of the occupational pension plan and primarily comprised the cost of €117 million from the unwinding of discounts reported in 2019 (2018: €115 million) in connection with the measurement of defined benefit obligations and the income resulting from plan assets in 2019 of €127 million (2018: expense of €13 million).

Other net operating income for 2019 contained income of €32 million from the reversal of provisions (2018: €54 million). This item also included interest expense of €14 million on retrospective tax liabilities (2018: €7 million) and start-up costs of €12 million for the cross-bank payment system paydirekt (2018: €10 million).

Loss allowances amounted to a net addition of €169 million (2018: net reversal of €229 million). This item includes not only the income/expense from loss allowances for loans and advances but also gains and losses on securities in the liquidity reserve.

In 2019, loss allowances for loans and advances amounted to an expense of €87 million (2018: income of €219 million). Some of the net additions in respect of the lending business (€128 million) and direct write-downs (€2 million) were offset by other income of €43 million (including recoveries on loans and advances previously impaired).

In 2018, loss allowances for loans and advances had been influenced by reversals resulting from the continued success of efforts to aid the recovery of non-performing loans and by receipts from loans and advances previously impaired. Also in 2018, adjustments had been made to the risk parameters applied. This change had resulted in income of €88 million (effect of initial application) that was largely attributable to portfolio loan loss allowances (use of individual rates of loss given default and different credit conversion factor (CCF) parameters).

Further detailed disclosures regarding the measurement of loss allowances for loans and advances can be found in note 02 in the notes to the 2019 annual financial statements.

Gains and losses on securities in the liquidity reserve amounted to a loss of €82 million in 2019 (2018: gain of €10 million). This was predominantly due to write-downs in 2019 caused by market interest rates.

In the year under review, DZ BANK's **other net income and expense** amounted to income of €85 million (2018: expense of €189 million).

Within this figure, gains on investments of €115 million (2018: losses of €384 million) included both gains from long-term equity investments of €83 million (2018: losses of €421 million) and gains on long-term securities of €32 million (2018: gains of €37 million).

Gains from long-term equity investments included, in particular, gains on the disposal of the long-term equity investment in equensWorldline of €277 million and write-downs of €200 million on the carrying amount of DZ BANK's direct investment in BSH.

In the reporting year, the net gain on long-term securities primarily comprised income of €28 million (2018: €37 million) from the disposal of non-group securities, from repurchases of DVB paper, and from the closing out of derivatives used for hedging.

The expense in respect of the transfer of losses amounted to €10 million (2018: €159 million). In 2018, the expense in respect of the transfer of losses had mainly been due to an expense of €150 million resulting from the transfer of losses from DVB Bank.

In 2019, the extraordinary result amounted to an expense of €20 million (2018: expense of €71 million) and included an expense of €20 million from the addition to the provisions for restructuring as part of the 'Verbund First 4.0' strategic program (2018: expense of €79 million).

Profit before taxes amounted to €460 million (2018: €310 million).

The net **tax expense** for 2019 of €66 million (2018: net income of €12 million) included income from group tax levies of €363 million (2018: €386 million), an expense resulting from the measurement of deferred taxes of €58 million (2018: income of €22 million), and a tax expense of €371 million (2018: €396 million).

Net income for the year came to €394 million (2018: €322 million).

As a result of the net income for the year of €394 million, and taking account of an addition to revenue reserves of €72 million, DZ BANK will propose a dividend of €0.18 per share to the Annual General Meeting. This would equate to a total distribution of €322 million.

3.3 Number of branches

As at December 31, 2019, as had been the case a year earlier, DZ BANK had 7 German branches in Berlin, Düsseldorf, Hannover, Koblenz, Munich, Münster, and Stuttgart as well as 4 international branches situated in London, New York, Hong Kong, and Singapore.

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

4 Net assets

As at December 31, 2019, DZ BANK's total assets had increased by €25.8 billion, or 10.0 percent, to €284.3 billion (December 31, 2018: €258.5 billion).

DZ BANK's international branches accounted for €38.7 billion, or around 13.6 percent, of the total assets of DZ BANK as at December 31, 2019. New York (€10.0 billion) and London (€22.7 billion) together accounted for around 84.5 percent of the €38.7 billion. The remaining €6.0 billion was attributable to the branches in Singapore (€3.4 billion) and Hong Kong (€2.6 billion).

The **return on assets**, which was calculated by dividing the net income for the year by the total assets at December 31, 2019, was 0.1 percent (2018: 0.1 percent).

As at December 31, 2019, the **volume of business** amounted to €314.5 billion (December 31, 2018: €287.4 billion). This figure comprises not only total equity and liabilities but also the contingent liabilities of €8.0 billion (December 31, 2018: €7.9 billion) and DZ BANK's other obligations of €22.2 billion (December 31, 2018: €21.0 billion).

FIG. 2 – TOTAL ASSETS



The derivatives recognized at fair value of €1,201.6 billion (December 31, 2018: €1,174.9 billion) and **the derivatives not recognized at fair value** of €81.6 billion (December 31, 2018: €62.7 billion) came to a notional amount of €1,283.2 billion as at December 31, 2019 (December 31, 2018: €1,237.6 billion). Of this total amount, €20.6 billion was accounted for by positive fair values (December 31, 2018: €17.3 billion).

Cash and cash equivalents rose by €25.8 billion to €28.5 billion owing to increased balances with central banks (December 31, 2018: €2.7 billion).

Loans and advances to banks had fallen by €12.2 billion to €132.9 billion as at December 31, 2019, compared with €145.1 billion as at December 31, 2018. Loans and advances to affiliated banks had increased by €4.8 billion, or 6.6 percent, to €78.1 billion. Loans and advances to other banks had decreased by €17.0 billion, or 23.7 percent, to €54.8 billion.

Loans and advances to customers had gone up by €3.6 billion to €38.3 billion as at December 31, 2019 (December 31, 2018: €34.7 billion). Within this amount, loans had grown by €1.6 billion and overnight money by €1.6 billion.

As at December 31, 2019, the value of **bonds, shares, and other securities** had risen by €5.5 billion to €33.8 billion (December 31, 2018: €28.3 billion). This change was attributable almost exclusively to holdings of bonds, the value of which amounted to €33.7 billion as at December 31, 2019 (December 31, 2018: €28.2 billion). The value of shares and other variable-yield securities was unchanged year on year at €0.1 billion (December 31, 2018: €0.1 billion).

The **trading assets** line item was €35.8 billion as at December 31, 2019, a rise of €3.4 billion compared with December 31, 2018 (€32.4 billion). This was mainly the result of an increase of €1.3 billion for derivatives, €0.6 billion for bonds, and €0.9 billion for repurchase agreements (repos).

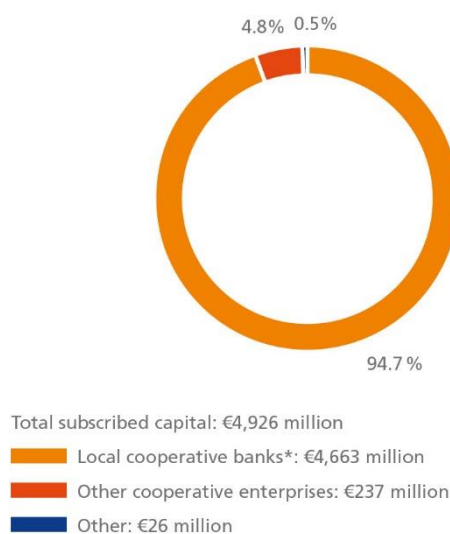
Deposits from banks had advanced by €3.2 billion to €135.8 billion as at December 31, 2019 (December 31, 2018: €132.6 billion). Deposits from affiliated banks had fallen by €1.2 billion to €51.9 billion, whereas deposits from other banks had gone up by €4.4 billion to €83.9 billion.

Deposits from customers as at December 31, 2018 had declined by €2.0 billion to €33.6 billion (December 31, 2018: €35.6 billion). This change was predominantly attributable to a decrease in current account credit balances (down by €0.7 billion), overnight deposits (down by €0.9 billion), and registered bonds (down by €0.6 billion).

Debt certificates issued including bonds stood at €54.7 billion. This equates to a climb of €20.5 billion compared with the figure at December 31, 2018 of €34.2 billion. The reasons for this were a €21.1 billion increase in the portfolio of commercial paper and a €0.6 billion decrease in the portfolio of bonds (excluding German commercial paper).

The **trading liabilities** line item had increased by €3.5 billion to €37.9 billion (December 31, 2018: €34.4 billion). Within this amount, repurchase agreements were up by €2.2 billion, bearer bonds by €1.1 billion, and investment certificates issued by €0.5 billion, whereas derivatives were down by €0.3 billion.

FIG. 3 – SHAREHOLDERS AS AT DECEMBER 31, 2019



* Directly and indirectly.

The **fund for general banking risks** in accordance with section 340g HGB stood at €3,812 million, which was unchanged on the figure of €3,812 million as at December 31, 2018.

The **equity** of €10,576 million reported on the balance sheet as at December 31, 2019 was higher than the equivalent figure of 10,504 as at December 31, 2018 owing to an addition to revenue reserves of €72 million.

DZ BANK's capital and solvency situation is described in this management report in chapter VI (Combined opportunity and risk report), section 7.3.3 (DZ BANK banking group).

5 Financial position

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

In the context of liquidity management, the DZ BANK Group distinguishes between operational liquidity (liquidity in the maturity band of up to one year) and structural liquidity (liquidity in the maturity band of more than one year). Dedicated steering committees have been established for both types of liquidity.

The DZ BANK Group has a diversified funding base for **operational liquidity**. A considerable portion is accounted for by money market activities resulting from the cash-pooling function with the cooperative banks. This enables cooperative banks with available liquidity to invest it with DZ BANK, while cooperative banks requiring liquidity can obtain it from DZ BANK. Traditionally, this results in a liquidity surplus, which provides the main basis for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for operational liquidity requirements. Funding on the interbank market is not strategically important to the DZ BANK Group. The DZ BANK Group issues money market products based on debt certificates through its main branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. DZ BANK has initiated a standardized groupwide multi-issuer euro commercial paper program, which DZ BANK and DZ PRIVATBANK S.A. can draw on.

Money market funding also includes collateralized money market activities, which form the basis for diversified funding on money markets. To this end, key repo and securities lending activities, together with the collateral management process, are managed centrally in DZ BANK's Group Treasury division. The Group Treasury division also has at its disposal a portfolio of investment-grade liquid securities. These securities can be used as collateral in monetary policy

funding transactions with central banks, in bilateral repos, or in the tri-party repo market.

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

For both the DZ BANK Group and each individual group entity, structural liquidity is measured daily on the basis of total cash flows.

DZ BANK secures its long-term funding for structural liquidity by using structured and non-structured capital market products that are mainly utilized for the cooperative banks' own-account and customer-account securities business and marketed to institutional clients. Long-term funding that is not covered is secured through systematic integration between the entities in the DZ BANK Group. Options for obtaining covered liquidity through Pfandbriefe or DZ BANK BRIEFER are used on a decentralized basis, in other words based on the different cover assets at DZ BANK, DZ HYP, DVB, and, since 2019, also at BSH.

Long-term funding requirements in foreign currencies are covered through the basis swap market, ensuring matching maturities.

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

Monthly **structural analyses** of the various resources available on the liabilities side of DZ BANK's balance sheet are also conducted. The purpose of these analyses is to provide senior management with information that can then be used as the basis for actively managing the liability profile.

To complement the description of the funding structure, further information on **liquidity risk** can be found in this group management report in chapter VI (Opportunity and risk report), section 6.2 (Economic perspective).

III Events after the balance sheet date

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

IV Human resources report and sustainability

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

The separate combined non-financial statement is contained in the Non-financial statement section of the DZ BANK Group's 2019 Annual Report. It is available in German at www.berichte2019.dzbank.de and in English at www.reports2019.dzbank.com

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

Target for the Supervisory Board: 25 percent
Target for the Board of Managing Directors: 12.5 percent.

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

1 Declaration on corporate governance

Equal participation of women and men in managerial positions

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

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

Target for first-level management: 10 percent
Target for second-level management: 20 percent.

V Outlook

1 Economic conditions

1.1 Global economic trends

A marked slowdown was evident in the global economy in 2019. Numerous political risks and escalation of the trade disputes between the US and China during the year subdued the economic climate around the globe considerably, contributing to a widespread slump in growth.

However, the weakening of growth rates across all countries is likely to have bottomed out at the end of 2019. The 'phase 1' trade deal agreed between the US and China following months of negotiations is the first important step toward de-escalating the trade dispute, which has been smoldering since 2018. The deal between the US and China will probably also have a positive impact on the global economy and international trade. Nevertheless, it would be premature to expect a comprehensive recovery.

Furthermore, a new factor, the coronavirus outbreak, has emerged since the start of this year. It has not yet had any significant adverse effect on the DZ BANK Group, but its implications for the global economy are not yet known.

In the US, the economic stimulus from the 2018 tax reforms is tailing off. It is therefore anticipated that growth rates will continue to ease over the coming years. Currently, it is clear that the financial markets do not consider the rising government debt in the US to be a serious problem for the time being. In 2019, the Fed instigated a cycle of interest-rate cuts because of the uncertain economic outlook. Monetary policy will probably remain unchanged in the current year, although it is quite conceivable that there could be a further slight fall in the federal funds rate.

In Europe, growth rates dropped more sharply than in the US in 2019. They are likely to remain low in 2020 and only gradually return to something close to the trend growth rates. This is because the fallout from the trade dispute between the US and China, concerns that the conflict in the Middle East will worsen, and uncertainty surrounding the withdrawal of the UK from the EU single market without a free trade agreement all remain in the air, at least for the time being, even if a serious deterioration is not currently anticipated.

The ECB will also probably continue to maintain its extremely expansionary monetary policy. No improvement in the deposit rate is likely to be on the agenda for the foreseeable future. This prediction is supported by a number of factors. Firstly, it is undeniable that monetary policy is already very expansionary, because the ECB took the deposit rate further into negative territory in September 2019 and decided to restart bond-buying. In addition, sentiment indicators are currently pointing to stabilization of the economy, which means that the ECB is unlikely to feel inclined to adopt additional corrective measures. Furthermore, as the waters become calmer in terms of geopolitical risks, this could allow the ECB more time to maintain its existing monetary policy.

No significant upward pressure on consumer prices is expected in 2020. Inflation rates are therefore unlikely to reach a level that could be considered a cause for concern by central banks.

1.2 Trends in the USA

Although economic growth in the US is forecast to slacken from the rate of 2.3 percent in 2019 to a rate of 1.9 percent in 2020, few people share the worries about a recession that are aired now and again. The unemployment rate will remain around the historic low and the prospects for housebuilding are looking brighter once more, although manufacturing is unlikely to become the motor of growth again for a while.

The economic climate in the US at the start of 2020 did not suggest that there would be a significant economic acceleration. Purchasing manager surveys at the end of 2019 presented a mixed picture. Among service providers, sentiment indicators lay well above the growth threshold, whereas the manufacturing climate remained muted despite the emerging signs of a deal with China. On the other hand, consumer surveys indicated that spending would continue unabated. It is thus likely that household consumption will continue to play the role of growth driver in the current year.

It is still anticipated that the inflation rate will not rise beyond the 2 percent mark for any length of time because there is hardly any wage pressure, which would have to be passed on through prices, despite the high level of employment. US inflation is therefore forecast to remain more or less unchanged at 2.0 percent in 2020. Ultimately, price pressure in the US will thus remain very subdued in spite of the prolonged economic upturn.

1.3 Trends in the eurozone

At the beginning of 2020, there has not yet been any real improvement in the economic prospects for the eurozone. The emerging de-escalation of the trade dispute between the US and China based on the 'phase 1' trade deal is likely to ease some of the international economic risks, at the very least. On the other hand, the threat of a trade dispute between the US and Europe has not yet been eliminated. This could inflict further damage on export-oriented industries in the eurozone, which are already suffering from a persistent drop in demand.

The UK left the EU on January 31, 2020. Initially, not much will change as regards the direct economic relationships between the UK and the EU because there is an agreed transition period until the end of 2020. In the intervening period, the aim is to negotiate a free trade agreement that will govern the future relationship.

Economic momentum in the eurozone remained modest at the beginning of 2020. Because of this, economic growth of just 0.9 percent is forecast for 2020, compared with 1.2 percent in 2019. There was little strong economic stimulus at the start of the year, for example in terms of fiscal policy.

The inflation rate in the eurozone will probably be more moderate over the course of 2020. Assuming the above, the inflation rate for the whole of 2020 is projected at 1.6 percent, compared with 1.2 percent in 2019.

1.4 Trends in Germany

Expansion of economic output in the past year was at its weakest since 2013, the growth rate in real terms being just 0.6 percent. Therefore, the pace of growth more than halved compared with the 2018 figure. Official figures confirm, however, that Germany did not slip into the feared technical recession (two consecutive quarters of decline in GDP) over the course of 2019. Following the contraction of economic output of 0.2 percent in the second quarter, the country posted marginally positive growth figures for the second half of the year. The slowdown in the pace of growth in the domestic economy was primarily attributable to the industrial sector. Over the last year, global demand for German manufacturing products has lost much of its momentum because of the detrimental impact of various political problems.

Looking forward to 2020, it appears that there will not be a recession after all because the downturn in the economy bottomed out at the end of 2019. Assuming that global economic growth has rallied and that there will be no further escalation of the various political crises, a growth rate of around 1 percent can be expected in Germany in 2020. However, more than one third of this growth rate can be attributed solely to the effect of the number of working days in the year and is not related to the economy. Thus, a genuine economic recovery in Germany cannot yet be anticipated in 2020; at best, the projections are for stabilization of growth at a low level.

The average rate of inflation in Germany for 2020 will probably be only slightly higher than in the previous year at 1.8 percent (2019: 1.4 percent). There are no predictions of higher inflationary pressure over the longer term in Germany either.

1.5 Trends in the financial sector

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

The regulatory measures introduced since the financial crisis have had a range of objectives, including restructuring of the supervisory architecture and improved capital and liquidity adequacy in order to make the financial sector more resilient in the event of a crisis. A further objective is to ensure that the risks arising from the business activities in the financial industry are not borne by the public sector and thus the taxpayer.

Further information on the regulatory environment can be found in section 5.1 of the opportunity and risk report.

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

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

industry before the anticipated profitability gains can be realized.

Efforts to address the challenges described above will be made more difficult in 2020 by what is expected, from the current perspective, to remain a comparatively low level of nominal interest rates. This will be accompanied by a relatively flat yield curve and will prevent any significant increase in margins in interest-related business.

The statements are based on a current assessment of the ECB's monetary policy, which will remain expansionary because of low inflation rates in the eurozone. Interest rates are not expected to return to normal levels in 2020.

Following a period of gradual interest-rate hikes, the Fed changed course in January 2019 and lowered the target range for the federal funds rate three times with the objective of keeping the US economy on a growth trajectory while ensuring price stability. Currently, the Fed is initially expected to pursue a wait-and-see monetary policy in 2020 with the option of implementing further interest-rate cuts if necessary.

Despite the expansionary monetary policy, the economic outlook remains subdued, particularly for the eurozone, with the result that there are no expectations of any overly positive boost for the financial performance of the European financial sector.

In this regard, the potential impact of uncertain political developments on the economic position of banks and insurance companies should also not be ignored. Further information on macroeconomic risk factors can be found in section 5.2 of the opportunity and risk report.

2 Changes in financial position and financial performance

2.1 Financial performance

The persistently low level of interest rates is presenting a challenge for the banking industry. In addition, the German banking market, which had previously consisted of three pillars, has now been extended to include a fourth pillar, which consists of entities such as fintechs and foreign banks. This fourth pillar is significantly ratcheting up the competitive pressure in the industry.

Advancing digitalization will determine future development, creating both opportunities and risks for the financial sector. Greater use of digital technologies is enhancing transparency in the market. At the same time, banks can themselves benefit from the use of digital technologies to respond to changes in customer requirements.

Because of this market environment, **profit before taxes** is expected to fall sharply in 2020. Some of the year-on-year decrease can also be explained by one-off items in 2019.

Variations in economic performance within the eurozone, combined with protectionist leanings that restrict growth and increasing geopolitical tensions, could lead to volatility in the global capital and financial markets in 2020. This would be detrimental to the expected financial performance. The forecasts for 2020 are generally subject to uncertainty owing to complex interdependencies.

It continues to be difficult to assess the economic effects of US economic and monetary policy and of Brexit, and these may also have an influence on the budgeted potential growth.

Net interest income (excluding income from long-term equity investments) in 2020 is predicted to fall well below the 2019 level. It is anticipated that net interest income from customer business will be affected, notably, by an anticipated rise in the margin contribution from interest-bearing business and a fall in other net interest income. In terms of planning, a positive contribution is expected from the interest-bearing business, particularly with corporate customers in Germany and abroad, and from the development lending business and money market business.

It is anticipated that the growth in corporate banking will be driven by further increases in volume. The projected growth and the stepping up of corporate banking business are linked to the systematic implementation of activities under the 'Verbund First 4.0' strategic program. The target for 2020 is to maintain the margin at an almost constant level despite a market environment that is expected to remain highly competitive and an interest-rate environment that is currently very challenging. The anticipated growth delivering a boost for net interest income is likely to be derived from a continuing expansion of volume.

Net interest income from the separately managed real estate lending portfolio will fall sharply year on year owing to the gradual transfer of the portfolio to DZ HYP and the planned wind down. The transfer and wind down are expected to be completed by the end of 2020.

Net interest income also includes operating income from money market business outside the cooperative financial network, promissory notes, and securities. The anticipated decline in net interest income in the planning period is mainly due to the fact that margins are expected to fall while portfolio volumes remain broadly unchanged.

Higher expenses for subordinated capital are likely to take their toll on net interest income in 2020.

Income from long-term equity investments is projected to increase significantly in 2020 based on positive planning assessments. Despite the muted economic conditions, these assessments are positive because of the very good market position of the main management units.

Net fee and commission income is projected to rise slightly in 2020, primarily as a result of the planned growth in income from individual operating units. This growth will boost net fee and commission income. Growth opportunities are likely to be exploited, particularly in the Transaction Banking business line as a consequence of the comprehensive digitalization strategy combined with efficiency optimization in payments processing and depositary services. Furthermore, commitment fees for loans, structuring fees, fees and commissions in connection with loan processing, and agents' fees are expected to be generated in the Corporate Banking business line. The budgeted increase in service contributions is in line with the planned volume.

Net trading income is forecast to increase significantly in 2020, provided there is no substantial market turmoil. Gains on trading activities at DZ BANK will be generated from margins in customer business involving investment and risk management products and from the related customer-initiated trading contributions.

In this context, key income drivers in the customer business are likely to include the exploitation of cross-selling potential in corporate banking and the

expansion of the range of products via targeted product initiatives.

Specific measures are to be taken to harness potential in the securities business at cooperative banks and to step up collaboration with these banks in customer business. There are also plans to expand institutional customer business on e-trading platforms.

These activities have been defined as part of various implementation packages within individual action areas for 2020 under the 'Verbund First 4.0' strategic program.

A deterioration in macroeconomic conditions and the economic policy environment, particularly in the eurozone, could adversely affect net trading income.

In all probability, **administrative expenses** will rise again slightly in 2020. Despite the continuing plans for implementation of the 'Verbund First 4.0' strategic program aimed at leveraging specific efficiencies, cutting the number of full-time equivalents, and reducing the number of external employees in project and line activities, there are likely to be additional countervailing general and administrative expenses arising from strategic investment in the digitalization of market access and in IT.

IT costs will also rise as a result of the planned insourcing in connection with VR Smart Finanz and VR Factorem. However, some of these costs will be offset by corresponding income under these contractual arrangements that will be recognized under other net operating income.

Higher contributions to the BVR protection scheme and for banking supervision are also expected.

Other net operating income/expense will probably deteriorate sharply in 2020. Within this figure, higher expenses for occupational pension provision are predicted because income from the investment of CTA assets is likely to fall substantially in view of the macroeconomic assumptions for 2020.

Loss allowances are predicted to decrease significantly in 2020. This is because write-downs that were recognized on securities in the liquidity reserve in 2019 due to market interest rates are unlikely to be repeated in 2020.

Reversals recognized in 2019 of loss allowances for loans and advances are not included in the planning for 2020. In 2019, additions were also partly offset by income from recoveries on loans and advances previously impaired.

The planning for loss allowances for loans and advances in 2020 is based on the expected loss from the lending business, particularly in corporate banking. They are expected to increase substantially in 2020, returning to their normal level. They will thus change in line with the lending portfolio, the targeted volume of new business, and the long-term standard risk costs.

A possible downturn in the economy combined with uncertainties in the financial markets and rising protectionist leanings could have an adverse effect on loss allowances.

Other net income and expense will deteriorate sharply in 2020, because the figure for 2019 included a one-off item resulting in net income from long-term equity investments.

Current assessments show that the **cost/income ratio** will worsen slightly in 2020, partly as a result of the conservative projection of financial performance compared with 2019, the one-off items recognized in 2019, and higher administrative expenses.

2.2 Liquidity

Based on the position in the year under review and the funding measures planned for 2020, the DZ BANK Group predicts that it will be able to continue maintaining economic and regulatory **liquidity adequacy** in 2020.

Further information on liquidity adequacy can be found in section 2.2 of the opportunity and risk report.

As matters currently stand, the DZ BANK Group's **capital adequacy** will continue to be assured for 2020 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital necessary to cover the risks associated with the finance business and other risks arising from the group's business operations.

Further information on capital adequacy can be found in section 10 of the opportunity and risk report.

Over the last few years, the DZ BANK Group has strengthened its capital base from its own resources – by retaining profits and reducing risk – and by taking corporate action. In 2020, a high priority will once again be given to strengthening the capital base.

VI Combined opportunity and risk report

1 Disclosure principles

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

This report also implements the applicable international risk reporting requirements, specifically those set out in the following legal standards:

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

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

- Accounting-related credit disclosures in accordance with **IFRS 7.35F(a)–36(b)**: note 85
- Maturity analysis in respect of financial assets and financial liabilities in accordance with **IFRS 7.39(a) and (b)**: note 86
- Maturity analysis in respect of financial assets and financial liabilities in accordance with **IFRS 4.39(d)(i)**: note 86

- Claims rate trend for direct non-life insurance business and for the inward reinsurance business in accordance with **IFRS 4.39(c)(iii)**: note 42.

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

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

The quantitative disclosures in this opportunity and risk report are based on information that is presented to the Board of Managing Directors and used for internal management purposes (known as the **management approach**). This is designed to ensure the usefulness of the disclosures in the decision-making process.

The opportunity and risk report of the DZ BANK Group includes disclosures relating to **DZ BANK**. It is therefore a **combined opportunity and risk report** in accordance with section 315 (5) HGB in conjunction with GAS 20.22. A separate opportunity and risk report is not prepared for DZ BANK. Unless stated otherwise, the disclosures relating to the DZ BANK Group and the Bank sector also apply to DZ BANK.

Detailed information on individual **management units** is only provided in the opportunity and risk report if the units are of material significance to opportunity and risk management, potential opportunities, risk factors or the risk position, and if the situation in the subsidiaries differs substantially from the overall descriptions applicable to the DZ BANK Group. However, management units are always specifically mentioned where this is necessary

to explain the amount, structure, and management of the risks in the DZ BANK Group, and the changes in these risks.

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

The DZ BANK Group and DZ BANK treat reputational risk and operational risk as non-financial risks subject to regulatory standards. Details on the management of these risks are included in sections 13 and 19 (Reputational risk) and in sections 14 and 20 (Operational risk).

DZ BANK Group

2 Summary

2.1 Material changes

2.1.1 Risk factors

As part of the annual appropriateness test relating to risk disclosure in the DZ BANK Group, the following risk factors that had been included in the 2018 opportunity and risk report were removed because they were found to be not material.

- Commercial-law environment
- UK exit from the EU (Brexit)
- Instability in Turkey
- Catalanian independence.

The risk factor relating to the capital requirement for market risk was assigned to the risk factor Basel IV.

2.1.2 ECB guides to the ILAAP and ICAAP

Since the start of 2019, the DZ BANK Group has applied the guides to the internal liquidity adequacy assessment process (ILAAP) and the internal capital adequacy assessment process (ICAAP) that were published by the ECB as part of the Single Supervisory Mechanism (SSM) in November 2018. In accordance with these guides, the DZ BANK Group manages both its liquidity adequacy and its capital adequacy from an economic perspective and from a normative internal perspective. This includes integration of the economic and normative internal perspectives within the ILAAP and within the ICAAP as well as integration between the ICAAP and the ILAAP.

Management of **liquidity adequacy** from an **economic perspective** is closely based on the method that was used until 2018. In this approach, a purely internal view is used to manage liquidity adequacy. This supports the aim of ensuring that all material risks in the DZ BANK Group and at DZ BANK affecting liquidity are covered by full liquidity adequacy. An internally specified management buffer is also held. The **normative internal perspective** is based on the liquidity ratios required under Pillar 1. Its objective is to assess the DZ BANK banking group's ability to comply with regulatory minimum requirements (plus an internally specified management buffer).

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

The **economic perspective** is purely an internal perspective for managing **capital adequacy** with the aim of ensuring that all of the DZ BANK Group's material capital risks are fully backed by capital plus an internally specified management buffer. According to the ICAAP guide, the economic perspective is based on the assumption of an institution's continuity. Consequently, a notable change is that subordinated liabilities have not been included in the calculation of the DZ BANK Group's available internal capital since the beginning of 2019. The new method therefore means that the level of economic capital adequacy is significantly lower than under the previous method. The assessment of current economic capital adequacy

is supplemented by **stress tests** that analyze economic losses in scenarios covering all types of risk and in scenarios for specific risk types.

The **normative internal perspective** is based on the capital ratios in Pillar 1. Its objective is to ensure that the DZ BANK financial conglomerate and the DZ BANK banking group comply with regulatory minimum capital requirements (plus an internally specified management buffer), both in the current circumstances and in forward-looking scenarios. The normative internal perspective comprises three management dimensions: monitoring of actual regulatory KPIs, capital planning, and adverse stress tests.

2.1.3 Central market risk model

Also since the beginning of 2019, the aggregate risk capital requirement for market risk in the Bank sector has been determined centrally at DZ BANK, taking into account concentration and diversification effects. The procedures for determining market risk at sector level previously used locally in the management units have thus been superseded.

2.2 Opportunity and risk management system

2.2.1 Fundamental features

The DZ BANK Group and DZ BANK define **opportunities** as unexpected positive variances from the forecast financial performance. **Risks** result from adverse developments affecting financial position or financial performance, and essentially comprise the risk of an unexpected future liquidity shortfall or unexpected future losses. A distinction is made between liquidity and capital. Risks that materialize can affect both of these resources.

The **management of opportunities** in the DZ BANK Group and at DZ BANK is integrated into the annual strategic planning process. Strategic planning is designed to enable the group to identify and analyze market discontinuities based on different macroeconomic scenarios, trends, and changes in the markets, and forms the basis for evaluating opportunities. Opportunities that the management units identify as adding value are fed into the relevant business strategies.

Reports on future business development opportunities are based on the business strategies. As part of the general communication of the business

strategies, employees are kept up to date about potential opportunities that have been identified.

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

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

DZ BANK and its subsidiaries have a **risk management system** that covers all material risks and is updated on an ongoing basis in line with changes to the business and regulatory environment. The organizational arrangements, methods, and IT systems that have been implemented – especially the limit system based on risk-bearing capacity, stress testing of all material risk types, and internal reporting – are designed to enable the DZ BANK Group and DZ BANK to identify material risks at an early stage and initiate the necessary control measures. This particularly applies to **risks that could affect the group's survival as a going concern**.

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

The risk management system is more detailed than the system for the **management of opportunities** because risk management is subject to comprehensive statutory requirements and is also of critical importance to the continued existence of DZ BANK and the DZ BANK Group as going concerns. The management of opportunities and risks is an integral part of the strategic planning process.

2.2.2 KPIs

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

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

The **minimum liquidity surplus**, which reflects economic liquidity adequacy, and **economic capital adequacy** are calculated using the methods developed by DZ BANK. Disclosures on the method used to calculate these key figures can be found in sections 6.2.5 and 7.2.1. Information on the relationship between these figures and the balance sheet can be found in sections 6.2.6 and 7.2.1. The other KPIs mentioned above are calculated in accordance with the methods stipulated by the supervisory authorities.

The minimum liquidity surplus and economic capital adequacy cannot be reconciled directly to individual line items in the consolidated financial statements because they are forward-looking considerations. Although these key figures are based on the consolidated financial statements, a number of other factors are used in their calculation. The disclosure of these figures in the opportunity and risk report is in accordance with the financial reporting standards to be applied in external risk reporting.

2.2.3 Management units

All DZ BANK Group entities are integrated into the groupwide opportunity and risk management system. DZ BANK and its main subsidiaries – also referred to as management units – form the core of the financial services group. The DZ BANK Group largely comprises the regulatory DZ BANK banking group and R+V.

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

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

Bank sector:

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

Insurance sector:

- R+V.

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

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

The management units are deemed to be material in terms of their contribution to the DZ BANK Group's aggregate risk and are therefore directly incorporated into the group's risk management system. The other subsidiaries and investee entities are included in the system indirectly as part of equity investment risk.

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

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

2.3 Potential opportunities and risk factors

The DZ BANK Group and DZ BANK have the benefit of significant **potential opportunities** from the strategic focus on the cooperative banks and from increasing digitalization, especially in the payments processing business. In addition, the funding opportunities in money and capital markets derived from the credit ratings enjoyed by DZ BANK and its subsidiaries enable the entities in the DZ BANK Group to pursue a wider range of business options.

The DZ BANK Group and DZ BANK are exposed to risk factors that could have an adverse impact on liquidity adequacy and capital adequacy. For example, the **regulatory framework** for the banking industry remains characterized by ever tighter regulatory requirements. These developments particularly have an impact on business risk.

The DZ BANK Group and DZ BANK are also exposed to the following **macroeconomic risk factors**:

- Low interest rates
- Global trade disputes
- Economic divergence in the eurozone
- Challenging shipping and offshore markets
- Climate change.

A potential **rating downgrade** for DZ BANK or its subsidiaries represents a further risk factor across all risk types for the DZ BANK Group and DZ BANK.

Risk factors specific to each type of risk also determine the extent of risk exposure in the DZ BANK Group and at DZ BANK. Detailed disclosures in this regard are provided in sections 8 to 20, in each case under the header 'Specific risk factors'.

2.4 Risk

2.4.1 Features of managed risks

The main **features of the directly managed risks** and their significance for the operating segments in the Bank and Insurance sectors are shown in Fig. 4 and Fig. 5. The risks shown correspond to the outcome of the risk inventory check carried out for 2019 and reflect the risks that are material to the DZ BANK Group and DZ BANK.

To ensure that the presentation of the disclosures remains clear, the risk management system disclosures included in the opportunity and risk report are limited to the main material entities in the group (indicated in Fig. 4 by a dot on a dark gray background). This selection is based on a materiality assessment, which takes into account the contribution of each management unit to the DZ BANK Group's overall risk for each type of risk. However, the figures presented in the opportunity and risk report cover all the management units included in the internal reporting system (indicated additionally in Fig. 4 by a dot on a light gray background).

The following risks have been identified as not material:

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

FIG. 4 – RISKS AND OPERATING SEGMENTS IN THE BANK SECTOR¹

Risk			
Risk type	Definition	Specific risk factors	
RISK NOT COVERED BY CAPITAL			
Liquidity risk	Risk that cash and cash equivalents will not be available in sufficient amounts to ensure that payment obligations can be met (insolvency risk)	<ul style="list-style-type: none"> – Withdrawal of funding – Greater collateral requirements – Changes in the fair value of financial instruments – Exercise of drawing rights – Exercise of termination rights – Conclusion of new business to uphold reputation – Repurchase of products to uphold reputation – Increased liquidity requirement for intraday payments – Restrictions on currency-related liquidity generation via currency swaps 	
RISK COVERED BY CAPITAL			
Financial risks	Credit risk – Traditional credit risk – Issuer risk – Replacement risk	Risk of losses arising from the default of counterparties (borrowers, issuers, other counterparties) and from the migration of the credit ratings of these counterparties	<ul style="list-style-type: none"> – Increase in the concentration of volume in counterparties, industries, or countries – Accumulation of exposures with longer terms to maturity
	Equity investment risk	Risk of losses arising from negative changes in the fair value of that portion of the long-term equity investments portfolio for which the risks are not included in other types of risk	<ul style="list-style-type: none"> – Increased requirement for the recognition of impairment losses on the carrying amounts of investments – as a result of impaired carrying amounts – as a result of a lack of information in the case of non-controlling interests
	Market risk – Interest-rate risk – Equity risk – Fund price risk – Currency risk – Commodity risk – Spread risk and migration risk – Asset-management risk – Market liquidity risk	<ul style="list-style-type: none"> – Risk of losses that could arise from adverse changes in market prices or in the parameters that influence prices (market risk in the narrow sense of the term) – Risk of losses that could arise from adverse changes in market liquidity (market liquidity risk) 	<ul style="list-style-type: none"> – Widening of credit spreads on government and corporate bonds – Shortages of market liquidity
	Technical risk of a home savings and loan company² – New business risk – Collective risk	<ul style="list-style-type: none"> – Risk of a negative impact from possible variances compared with the planned new business volume (new business risk) – Risk of a negative impact that could arise from variances between the actual and forecast performance of the collective building society operations caused by significant long-term changes in customer behavior unrelated to changes in interest rates (collective risk) 	<ul style="list-style-type: none"> – Decline in new business – Changed customer behavior (unrelated to changes in interest rates)
	Business risk	Risk of losses arising from earnings volatility for a given business strategy and not covered by other types of risk	<ul style="list-style-type: none"> – Costs of regulation – Competition based on pricing and terms – Greater competition in capital markets business – New competitors in transaction banking
	Reputational risk³	Risk of losses from events that damage confidence, mainly among customers (including the cooperative banks), shareholders, employees, the labor market, the general public, and the supervisory authorities, in the entities in the Bank sector or in the products and services that they offer	<ul style="list-style-type: none"> – Decrease in new and existing business – Backing of stakeholders is no longer guaranteed
Non-financial risks	Operational risk	Risk of losses from human behavior, technological failure, weaknesses in process or project management, or external events	<ul style="list-style-type: none"> HR risk: <ul style="list-style-type: none"> – Business interruption caused by strikes – Insufficient availability of employees and skills IT risk: Malfunctions or breakdowns in data processing systems Outsourcing risk: Disruptions to outsourced processes and services Legal risk: Adverse changes in the legal environment Tax risk: <ul style="list-style-type: none"> – Adverse changes in the tax framework – Adverse changes in the interpretation by tax authorities of the existing tax framework – Adverse changes in non-tax rules – Retrospective tax liabilities Compliance risk: Violations of legal provisions Risks in connection with the (consolidated) financial reporting process: deficiencies in external financial reporting

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

² Including business risk and reputational risk of BSH.

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

Risks		Operating segments (management units)							
		DZ BANK	BSH	DVB	DZ HYP	DZ PRIVAT BANK	TeamBank	UMH	VR Smart Finanz
Risk management KPIs disclosed									
– Liquid securities	Section 6.2.6								
– Unsecured short-term and medium-term funding	Section 6.2.6								
– Minimum liquidity surplus	Section 6.2.7								
– LCR	Section 6.3.3	•	•	•	•	•			•
– Lending volume	Sections 8.6, 8.7, and 8.8	•	•	•	•	•			•
– Risk capital requirement	Section 8.10	•	•	•	•	•			•
– Carrying amounts of investments	Section 9.5	•	•	•	•		•	•	•
– Risk capital requirement		•	•	•	•		•	•	•
– Value-at-risk	Section 10.7.1	•	•	•	•	•	•	•	•
– Risk capital requirement	Section 10.7.2	•	•	•	•	•	•	•	•
Risk capital requirement	Section 11.5		•						
Risk capital requirement	Section 12.4	•	•	•	•	•	•	•	•
		•	•	•	•	•	•	•	•
– Loss events and losses	Section 14.12	•	•	•	•	•	•	•	•
– Risk capital requirement	Section 14.13	•	•	•	•	•	•	•	•

Management unit disclosures in the opportunity and risk report:

Quantitative and qualitative disclosures
 Quantitative disclosures
 disclosures
 Not relevant

FIG. 5 – RISKS IN THE INSURANCE OPERATING SEGMENT AND SECTOR

	Risk type	Definition	Specific risk factors	Risk management KPIs disclosed	
RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY II					
Financial risks	Actuarial risk – Life actuarial risk – Health actuarial risk – Non-life actuarial risk	– Life actuarial risk: Risk arising from the assumption of life insurance obligations in relation to the risks covered and the processes used in the conduct of this business – Health actuarial risk: Risk arising from the assumption of health and casualty insurance obligations in relation to the risks covered and the processes used in the conduct of this business – Non-life actuarial risk: Risk arising from the assumption of non-life insurance obligations in relation to the risks covered and the processes used in the conduct of this business	– Life actuarial risk: Adverse change in the calculation assumptions for life insurance over the lifetime of the contract – Health actuarial risk: Higher drawdown of benefits by health insurance policyholders – Non-life actuarial risk: Unexpected rise in claims incurred	– Claims rate trend in non-life insurance – Overall solvency requirement	Section 16.6 Section 16.7
	Market risk – Interest-rate risk – Spread risk – Equity risk – Currency risk – Real-estate risk – Concentration risk	Risk arising from fluctuation in the level or volatility of market prices of financial instruments that have an impact on the value of the assets and liabilities of the entity	– Rise in interest rates or widening of credit spreads – Deterioration of the financial circumstances of issuers or debtors	– Lending volume – Overall solvency requirement	Section 17.4 Section 17.5
	Counterparty default risk	Risk of possible losses due to unexpected default or deterioration in the credit standing of counterparties or debtors of insurance or reinsurance companies over the subsequent 12 months	Deterioration of counterparties' financial circumstances	– Lending volume – Overall solvency requirement	Section 17.4 Section 18.4
	Reputational risk ¹	Risk of losses that could arise from possible damage to the reputation of R+V or of the entire industry as a result of a negative perception among the general public	– Decrease in new and existing business – Backing of stakeholders is no longer guaranteed		
Non-financial risks	Operational risk	Risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events (including legal risk)	HR risk: Insufficient availability of employees and skills IT risk: Malfunctions or breakdowns in data processing systems Legal risk: Adverse changes in the legal environment Tax risk: – Adverse changes in the tax framework – Changes in the interpretation by tax authorities of the existing tax framework – Retrospective tax liabilities	Overall solvency requirement	Section 20.7
RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY I					
	Risks from entities in other financial sectors	The entities in other financial sectors mainly consist of pension funds and occupational pension schemes	Generally corresponding to the risk factors for risks backed by capital pursuant to Solvency II	Overall solvency requirement	Section 21

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

2.4.2 Risk profile

The DZ BANK Group's **business model** and the associated business models used by the management units (see section I.1 of the (group) management report) shape the risk profile of the group. The main risks associated with the business models of the management units are shown in Fig. 4 and Fig. 5. The businesses operated by the DZ BANK Group and DZ BANK that have a significant impact on the risk profile are described under 'Business background and risk strategy' within the sections of the opportunity and risk report covering the different risk types.

The values for the **risk-related KPIs** presented in Fig. 6 reflect the liquidity risks and the risks backed by

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

The interaction between the risk profile and risk appetite is explained in section 6 in connection with liquidity adequacy, and in section 7 in connection with capital adequacy.

FIG. 6 – RISK-RELATED KPIS

	Measured figure		Internal minimum threshold value ¹		External minimum target	
	Dec. 31, 2019	Dec. 31, 2018	2019	2018	2019	2018
LIQUIDITY ADEQUACY						
DZ BANK Group (economic perspective)						
Economic liquidity adequacy (€ billion) ²	12.5	12.0	4.0	4.0	0.0	0.0
DZ BANK banking group						
Liquidity coverage ratio (%)	144.6	141.4	110.0	110.0	100.0	100.0
CAPITAL ADEQUACY						
DZ BANK Group (economic perspective)						
Economic capital adequacy (%) ³	159.3	170.3	120.0	120.0	100.0	100.0
DZ BANK financial conglomerate (normative internal perspective)						
Coverage ratio for the financial conglomerate (%) ^{4 5}	171.9	174.0	120.0	120.0	100.0	100.0
DZ BANK banking group (normative internal perspective)						
Common equity Tier 1 capital ratio (%) ^{5 6}	14.4	13.7	11.5	11.0	9.8	8.8
Tier 1 capital ratio (%) ^{5 6}	15.9	14.3	13.0	12.5	11.3	10.3
Total capital ratio (%) ^{5 6}	17.9	16.8	15.0	14.5	13.3	12.3
Leverage ratio (%) ⁵	4.9	4.3	3.5	3.5		
MREL ratio (%) ⁷	11.4	14.4	8.5		8.2	8.2

1 As specified by the Board of Managing Directors.

2 The measured value relates to the stress scenario with the lowest minimum liquidity surplus. The internal threshold value relates to the observation threshold.

3 The internal threshold value is the amber threshold in the traffic light system for managing and monitoring economic capital adequacy. The value originally measured as at December 31, 2018 was 167.8 percent and has been adjusted due to the scheduled recalculation of the overall solvency requirement for the insurance sector.

4 Figure measured as at December 31, 2019: Preliminary coverage ratio. Figure measured as at December 31, 2018: Final coverage ratio.

5 Measured values based on full application of the CRR.

6 The external minimum targets are the binding regulatory minimum capital requirements. Details on the minimum capital requirements can be found in section 7.3.3.

7 Measured value as at September 30, 2019 rather than as at December 31, 2019.

Not available

The DZ BANK Group met the internal threshold values and external minimum targets on every measurement date/every reporting date in 2019. The **solvency** of DZ BANK or its subsidiaries was never in jeopardy on any risk measurement date during the reporting period. By holding liquidity reserves, the DZ BANK Group and DZ BANK are able to protect their liquidity against any potential crisis-related threats. They also complied with regulatory requirements for liquidity adequacy on every reporting date.

In addition, the DZ BANK Group remained within its economic **risk-bearing capacity** in 2019 and also complied with regulatory requirements for capital adequacy on every reporting date.

3 Fundamental principles of managing opportunities and risks

3.1 Regulatory framework for risk management

The **conglomerate-wide risk management system** takes into account the statutory requirements specified in section 25 (1) of the German Supervision of Financial Conglomerates Act (FKAG) in conjunction with section 25a KWG and the German Minimum

Requirements for Risk Management for Banks and Financial Services Institutions (MaRisk BA). In respect of risk management for the relevant management units, the DZ BANK Group also observes the requirements specified in sections 26 and 27 of the German Act on the Supervision of Insurance Undertakings (VAG) and section 28 of the German Capital Investment Code (KAGB) in conjunction with the German Minimum Requirements for Risk Management for Investment Management Companies (KAMaRisk).

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

In the year under review, DZ BANK updated its **recovery plan** in accordance with the requirements specified by banking supervisors. The recovery plan is based on the requirements specified in the German Bank Recovery and Resolution Act (SAG) and in

other legal sources, especially Commission Delegated Regulation (EU) No. 2016/1075, which implements various EBA guidelines and also includes specific national stipulations. The German Minimum Requirements for the Design of Recovery Plans (MaSan) contains further relevant provisions. An updated recovery plan was prepared during the reporting year and submitted to the ECB.

In accordance with article 7 (2) of Regulation (EU) No. 806/2014, the Single Resolution Board (SRB) is the European regulator responsible under the Single Resolution Mechanism (SRM) for the preparation of resolution plans and for all decisions in connection with the resolution of all institutions that are under the direct supervision of the ECB. A group resolution plan is drawn up for institutions that are subject to supervision at consolidated level. The SRB works closely with the national resolution authorities (in 2019 in Germany, this was the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [German Federal Financial Supervisory Authority]). The **resolution plan** is aimed at ensuring the resolvability of the banking group. In accordance with section 42 (1) SAG, the resolution authority (BaFin) can demand that the institution provide it with comprehensive assistance in connection with drawing up and updating the resolution plan. For this reason, as in prior years, DZ BANK once again in 2019 supported the ongoing preparation of the resolution plan for the DZ BANK Group. It supplied the resolution authority with numerous analyses related to DZ BANK and completed standardized questionnaires.

3.2 Risk culture

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

The following principles apply in respect of employee conduct:

- Leadership culture: The management must set out clear expectations regarding the handling of risk and lead by example.
- Risk appetite: Employees must understand their roles and their part in the risk management system; they must assume responsibility for their decisions.

- Communications: Internal communications must be open and consensus-based. Alternative opinions must be respected and employees encouraged to analyze risk transparently.
- Employees and expertise: Employees must bear responsibility for conscious handling of risk. They must use the available expertise and undertake continuing professional development in a changing environment.
- Change management: Employees must learn from past experience and ensure the business model is sustainable by managing change proactively.

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

3.3 Risk strategies

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

In all their activities, the DZ BANK Group and DZ BANK therefore observe a risk culture in which they only take on risk to the extent necessary to achieve their business objectives – taking account of the guiding principle of a ‘network-oriented central institution and financial services group’ – and to the extent that they have an adequate understanding of, and expertise in, measuring and managing the risk. The focus is on all material risks from the perspectives of capital/income and liquidity and on avoiding the aggressive assumption of risk.

In order to implement this principle, the Board of Managing Directors of DZ BANK has drawn up risk strategies for each of the material risks using the business strategies as a basis. The risk strategies each encompass the main risk-bearing business activities, the objectives of risk management (including the requirements for accepting or preventing risk), and the action to be taken to attain the objectives. The risk strategies are each valid for one calendar year. The annual updating of the risk strategies is integrated with the strategic planning process and is carried out

by the Group Risk Controlling, Credit, Credit Services, and Strategy & Group Development divisions in consultation with other relevant divisions at DZ BANK and the subsidiaries concerned.

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

3.4 Risk appetite

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

The risk appetite statement formulates risk policy principles on risk tolerance in the DZ BANK Group. The principles are overarching statements that are consistent with the business model and the risk strategies. The qualitative principles are supplemented by quantitative key figures, for which threshold values are set internally. These key figures constitute the DZ BANK Group's risk-oriented KPIs. The values for the KPIs and the internal threshold values are shown in Fig. 6. The monthly overall risk report is used to monitor the internal threshold values.

Disclosures on the business model and the business strategies can be found in section I.1 (Business model and strategic focus) of the (group) management report.

3.5 Opportunity and risk-oriented corporate governance

3.5.1 Governance structure

The **risk management system** in the DZ BANK Group and at DZ BANK builds on the risk strategies adopted by the Board of Managing Directors of DZ BANK. It is based on three lines of defense that are interlinked and well established in the monitoring and control environment. Fig. 7 shows the governance structure for risk management.

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

The interaction between the three functional areas, or lines of defense, is intended to provide the basis for

effective groupwide risk management. The tasks of the individual lines of defense are as follows:

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

Second line of defense:

- Establishment and enhancement of a framework for risk management
- Monitoring of compliance with the framework in the first line of defense
- Related reporting to the Supervisory Board and Board of Managing Directors
- Second vote in credit decisions as defined in MaRisk
- Structuring and monitoring of compliance, data protection, and corporate security

Third line of defense:

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

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

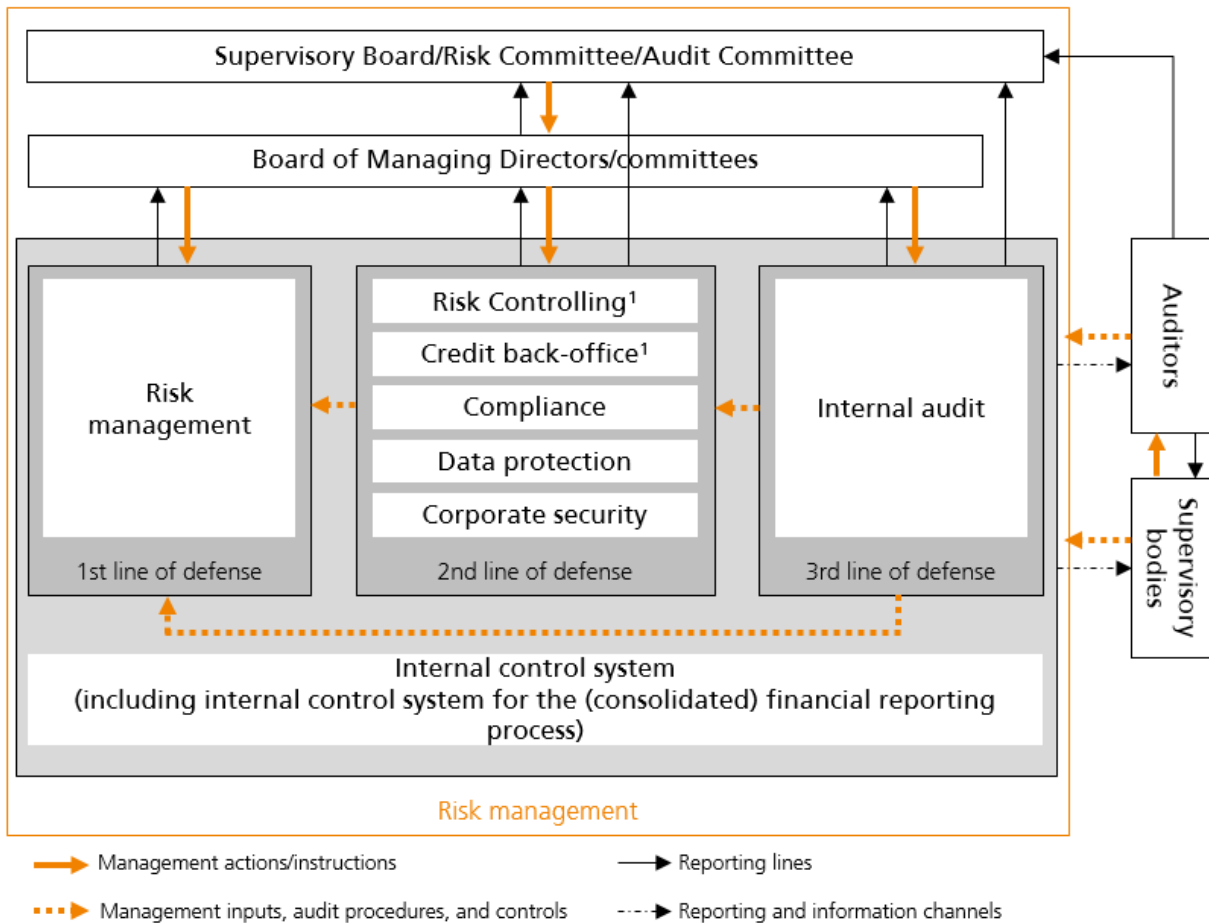
The role of the opportunity and risk management **committees** in the corporate governance structure is presented in section I.2.2.3 (Corporate management committees), which can be found in the 'DZ BANK Group fundamentals' chapter of the (group) management report.

3.5.2 Risk management

Risk management refers to the operational implementation of the risk strategies in the risk-bearing business units based on standards applicable throughout the group.

The management units make conscious decisions on whether to assume or avoid risks. They must observe guidelines and risk limits specified by the head office.

FIG. 7 – GOVERNANCE STRUCTURE OF RISK MANAGEMENT IN THE DZ BANK GROUP AND AT DZ BANK (SCHEMATIC DIAGRAM)



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

The divisions responsible for risk management in the first line of defense are separated in terms of both organization and function from the divisions in the second and third lines of defense.

3.5.3 Risk control

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

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

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

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

3.5.4 Credit back-office division

The Credit divisions of the entities in the Bank sector form the back office within the meaning of MaRisk. They are responsible for aspects of identifying, measuring, monitoring, and managing credit risk. These aspects include analyzing the risk (including

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

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

3.5.5 Compliance

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

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

In accordance with the requirements of the Supervisory Review and Evaluation Process for Basel Pillar 2 (SREP), a single compliance framework must be established for the main entities in the DZ BANK Group. This framework must lay down rules on cooperation between the individual

compliance functions and set out their authority and responsibilities.

The DZ BANK Group's compliance framework comprises the compliance policy. The policy includes requirements for establishing and organizing the compliance functions and details of their duties. It is supplemented by compliance standards, which specify how to implement these requirements at an operational level.

If individual requirements in the compliance standards cannot be fulfilled by a management unit, for example because they conflict with local rules or special legal requirements, the affected management unit must provide an explanation.

The DZ BANK Group's compliance framework is reviewed annually to check that it is up to date.

3.5.6 Data protection

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

In the management units, independent data protection officers report to the relevant Board of Managing Directors. At the invitation of DZ BANK's data protection officer, the data protection officers in the management units meet at least once a year to share information on current data protection issues and discuss potential joint data protection activities.

3.5.7 Corporate security

DZ BANK and the other management units take into account the relevant regulatory requirements in the following areas of corporate security:

- Information security
- Business continuity management
- Outsourcing management.

In some management units, these areas of activity are not assigned to corporate security from an organizational perspective. The regulatory requirements are implemented in all of the group's subsidiaries by means of written specifications and compliance is monitored by DZ BANK.

Information security

The DZ BANK Group understands information security to be the operational security of processes, IT applications, and IT infrastructures.

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

Business continuity management

At DZ BANK, business continuity management provides structures and methodologies that will enable time-critical business processes to be maintained should an emergency arise (dealing with emergencies). Measures to prevent such emergencies are also developed and implemented (preventing emergencies). In this way, DZ BANK aims to ensure that it can maintain its operations in the event of emergencies, even though the level of activity may have to be reduced. This applies particularly if there are situations in which whole groups of individuals or significant parts of the buildings or IT infrastructure are affected.

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

Outsourcing management

At DZ BANK, the central outsourcing management unit acts as the central point of contact for all issues relating to the management of external procurement. This includes outsourcing and management-relevant external procurement (external procurement of IT services and other purchases from third parties). The Central Outsourcing Management (COM) unit is

responsible for developing, introducing, and monitoring the framework specifications as well as for appropriately implementing the statutory requirements in respect of regulated external procurement at DZ BANK.

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

Further disclosures on outsourcing risk can be found in section 14.7.

3.5.8 Control functions

Internal audit

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

The internal audit departments at DZ BANK and the other management units report to the chief executive officer or other senior managers of the unit concerned.

DZ BANK's internal audit department is responsible for internal audit tasks at group level. These tasks include, in particular, the coordination of audits involving multiple entities, the implementation of which lies within the remit of the individual internal audit departments in the management units concerned, and the evaluation of individual management unit audit reports of relevance to the group as a whole. Cooperation between internal audit departments in the DZ BANK Group is governed by a separate set of rules and arrangements.

Supervisory Board

The Board of Managing Directors reports to the Supervisory Board of DZ BANK four times a year about the risk situation, the risk strategies, and the status and further development of the risk

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

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

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

External control functions

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

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

3.5.9 General internal control system

The objective of DZ BANK's internal control system and the corresponding control systems in other management units is to ensure the effectiveness and efficiency of the risk management activities within the DZ BANK Group and at DZ BANK by means of basic principles, action plans, and procedures.

Organizational structures and controls built into work processes serve to ensure that the monitoring of risk management activity is integrated into processes. IT systems are systematically protected by authority-

dependent management of authorizations and by technical security measures, the aim of which is to prevent unauthorized access both within and outside management units.

3.5.10 Internal control system for the (consolidated) financial reporting process

Objective and responsibilities

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

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

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

Instructions and rules

The methods to be applied within the DZ BANK Group in the preparation of the consolidated financial statements are set out in writing in a group manual. The methods to be applied within DZ BANK in the preparation of the separate financial statements are documented in a written set of procedural rules. Both of these internal documents are updated on an ongoing basis. The basis for external risk reporting is the disclosure policy approved by the Board of

Managing Directors. This policy sets out the principles and fundamental decisions for the methods, organizational structure, and IT systems to be used in risk disclosure in the DZ BANK Group and at DZ BANK. The instructions and rules are audited to assess whether they remain appropriate and are amended in line with changes to internal and external requirements.

Resources and methods

The processes set up at DZ BANK and its subsidiaries aim to facilitate (using suitable IT systems) efficient risk management in respect of financial reporting, based on the guidelines set by the Finance working group and taking into account the rules in the risk manual and the policy on risk disclosure.

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

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

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

Consolidated financial reporting is based on mandatory workflow plans agreed between DZ BANK's Group Finance division and the individual accounting

departments of the organizational units within the DZ BANK Group. These plans set out the procedures for collating and generating the quantitative and qualitative information required for the preparation of statutory company reports and which are necessary for the internal management of the operating units within the DZ BANK Group.

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

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

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

Information technology

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

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

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

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

Ensuring and improving effectiveness

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

3.6 Risk management tools

3.6.1 Accounting basis

Accounting basis for risk measurement

The transaction data that is used to prepare the DZ BANK consolidated financial statements forms the basis for the measurement of risk throughout the group. The same applies to the separate financial statements of DZ BANK. A wide range of other factors are also taken into account in the calculation of risk. These factors are explained in more detail during the course of this opportunity and risk report.

The line items in the consolidated financial statements significant to risk measurement are shown in Fig. 8. The information presented is also applicable to the measurement of risk for the separate financial statements of DZ BANK and the measurement of its risk, which does not include the technical risk of a home savings and loan company or the risks incurred by the Insurance sector.

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

A further breakdown of the line items in the consolidated financial statements used to determine **credit risk** is given in section 8.7.1.

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

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

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

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

Operational risk, business risk, and reputational risk are measured independently of the balance sheet items reported in the consolidated financial statements.

The calculation of **liquidity risk** is derived from future cash flows, which in general terms are determined

FIG. 8 – RISK-BEARING LINE ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS¹

	BANK SECTOR										INSURANCE SECTOR													
	Credit risk			Market risk							Actuarial risk			Market risk										
	Traditional credit risk	Issuer risk	Replacement risk	Equity investment risk	Interest-rate risk	Spread risk and migration risk	Equity risk	Currency risk	Fund price risk	Asset management risk	Trading portfolios	Non-trading portfolios	Portfolio assignment ²	Technical risk of a home savings and loan company	Life	Health	Non-life	Interest-rate risk	Spread risk	Equity risk	Currency risk	Real-estate risk	Counterparty default risk	
Consolidated financial statements																								
Risk-bearing assets																								
Loans and advances to banks	•		•		•	•		•			•	•	•											
Loans and advances to customers	•				•	•		•			•	•	•											
Derivatives used for hedging (positive fair values)			•		•	•	•	•	•		•	•												
Financial assets held for trading		•	•		•	•	•	•	•		•													
Investments		•	•	•	•	•	•	•	•			•												
Investments held by insurance companies																		•	•	•	•	•	•	•
Other assets															•	•	•						•	
Financial guarantee contracts and loan commitments	•				•			•				•												
Risk-bearing liabilities																								
Deposits from banks					•	•		•			•	•	•											
Deposits from customers					•	•		•			•	•	•											
Debt certificates issued including bonds					•	•	•	•	•		•	•												
Derivatives used for hedging (negative fair values)			•		•	•	•	•	•	•	•	•												
Financial liabilities held for trading			•		•	•	•	•	•		•													
Insurance liabilities															•	•	•	•						

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

² Disclosures for the banking business.

from all of the balance sheet items in the consolidated financial statements.

Accounting basis for risk coverage

The link between available liquidity reserves, which are used to determine economic liquidity adequacy, and the consolidated balance sheet is described in section 6.2.6.

The link between available internal capital, which is used to determine economic capital adequacy, and the consolidated balance sheet is covered in section 7.2.1.

3.6.2 Measurement of risk and risk concentrations

Framework

Risk management in the DZ BANK Group is based on a **resource-oriented perspective of liquidity and capital**. The group uses this approach to implement the regulatory requirements for the internal liquidity

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

Economic liquidity adequacy

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

Concentrations of liquidity risk can occur primarily due to the accumulation of outgoing payments at particular times of the day or on particular days

(concentrations of maturities), the distribution of funding across particular currencies, markets, products, and liquidity providers (concentrations of funding sources), and the distribution of liquidity reserves across particular currencies, ratings, and issuers (concentrations of reserves). There is no capital requirement in connection with liquidity risk.

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

Economic capital adequacy

In the **Bank sector**, **economic capital** (risk capital requirement) is calculated for credit risk, equity investment risk, market risk, the technical risk of a home savings and loan company, operational risk, and business risk in order to ascertain economic capital adequacy. This risk capital requirement is generally calculated as value-at-risk with a holding period of 1 year and a unilateral confidence level of 99.90 percent.

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

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

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

Based on an analysis of portfolios, the management of **risk concentrations** aims to identify potential downside risks that may arise from the accumulation of individual risks and, if necessary, to take corrective action. A distinction is made between risk concentrations that occur within a risk type (intra-risk concentrations) and concentrations that arise as a result of the interaction between different types of risk (inter-risk concentrations). Inter-risk concentrations

are implicitly taken into account when determining correlation matrices for the purposes of inter-risk aggregation. They are mainly managed by using quantitative stress test approaches and qualitative analyses, which aim to provide a holistic view across all types of risk.

3.6.3 Stress tests

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

3.6.4 Limitation principles

The DZ BANK Group has implemented a system of limits to ensure that it retains an adequate level of liquidity and maintains its risk-bearing capacity.

A system of limits and pre-set threshold values aims to ensure that the **liquidity surplus** at the level of the DZ BANK Group does not become a shortfall and therefore that an adequate level of liquidity is guaranteed.

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

3.6.5 Hedging objectives and hedging transactions

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

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

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

3.6.6 Risk reporting and risk manual

The quarterly **overall risk report** includes the risks throughout the group identified by DZ BANK. Together with the **adverse stress tests report**, which is also compiled on a quarterly basis, the **report on recovery indicators**, which is prepared quarterly, and the **reverse stress tests report**, which is produced annually, the overall risk report is the main channel through which risks incurred by the DZ BANK Group, DZ BANK, and the other management units are communicated to the Supervisory Board, the Board of Managing Directors, and the Group Risk and Finance Committee. Since the beginning of 2019, economic and regulatory key risk indicators have also been made available to the Board of Managing Directors in a monthly overall risk report, which is intended to ensure that the Board is informed promptly about the overall risk situation. In addition, the Board of Managing Directors and the Supervisory Board's Risk Committee receive portfolio and exposure-related management information in the quarterly **credit risk report for the DZ BANK Group**. Furthermore, the Board of Managing Directors receives monthly information on **liquidity risk** in the DZ BANK Group, DZ BANK, and the other management units.

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

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

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

3.6.7 Risk inventory and appropriateness test

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

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

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

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

4 Opportunities

4.1 Management of opportunities

The management of opportunities in the DZ BANK Group and at DZ BANK is integrated into the annual **strategic planning process**. Strategic planning enables the group to identify and analyze market discontinuities based on different macroeconomic scenarios, trends, and changes in the markets, and forms the basis for evaluating opportunities. Identified opportunities are taken into account in the business strategies.

Details about the strategic planning process are presented in section I.2.4 of the (group) management report.

Reports on future business development opportunities are based on the outcome of the business strategies. As part of the general communication of the business strategies, employees are kept up to date about potential opportunities that have been identified.

4.2 Potential opportunities

4.2.1 Corporate strategy

DZ BANK's core functions as a central institution, corporate bank, and holding company mean that it focuses closely on the local cooperative banks, which are its customers and owners. DZ BANK's **focus on the cooperative banks** is vital in view of the need to manage scarce resources and to meet new regulatory requirements. By focusing more closely on the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK's aim is to exploit the potential of its core activities more fully, particularly with regard to retail banking and SME business.

The principle of a **'network-oriented central institution/financial services group'** also means that business activities are concentrated on the business areas covered by the cooperative banks and on strengthening the position of the local cooperative banks in their markets. To this end, the DZ BANK Group, in its role as financial services provider, supplies decentralized products, platforms, and services.

In 2018, DZ BANK launched **'Verbund First 4.0'**, a strategic program designed to ensure the organization's resilience for the future. The associated potential opportunities are presented in section I.1 (Business model and strategic focus) of the (group) management report.

The core activities referred to above are supplemented by **complementary activities** using existing products, platforms, and services, for which DZ BANK acts as a corporate bank vis-à-vis third parties. These activities do not compete directly with those of the cooperative banks.

The **Outlook** in chapter V of the (group) management report describes expected developments in the market and business environment together with the business strategies and their implications for the financial performance forecast for 2020. The expected developments in the market and business environment are crucial factors in the **strategic positioning** and the resulting opportunities for increasing earnings and cutting costs.

4.2.2 Digitalization and new competitors

The process of **digitalization** has been surging ahead in virtually every area of life, evidenced by the widespread growth in the use of internet-based services and high-tech end devices. This trend is encouraging the intermediation of **new competitors** at the interface between customers and banking services. For example, it is evident that non-banks are increasingly gaining a foothold in the payments processing segment.

At the same time, the advancing digitalization across all areas of life and the associated changes in customer behavior are opening up opportunities in relation to day-to-day banking business, especially payments processing. For example, increased use of mobile devices in payments processing means that particularly Germany – where paying in cash has generally continued to be more common than in other countries – is now seeing cash transactions being substituted with cashless payments. Payments through online cash register functions are climbing steadily, making it more important to have payment processes that are suitable for omnichannel use. Overall, the acceleration in the use of financial management applications means that business processes and payment processes are becoming increasingly merged.

The entities in the DZ BANK Group responded to these developments a while ago by increasing the new products and services that they offer. Examples include the launch of paydirekt, a cross-bank e-commerce payment system, the implementation of contactless credit card payments using a smartphone at point of sale, and the introduction of standardized and stronger authentication procedures. The expansion of applications aimed at simplifying liquidity management and billing, together with greater use of a range of special benefits, facilitates more integration of banking business into customer value chains. DZ BANK's participation in the SEPA instant payments system also opens up opportunities for developing new solutions.

Based on this range of initiatives, the DZ BANK Group is forging ahead with the replacement of cash and increasingly tying in additional payment-related services with accounts. DZ BANK is thus sharing in the accelerating trend toward electronic payment transactions with the objective of increasing its earnings.

Furthermore, new technologies and developments – such as blockchain and digital currencies – are being identified as potential opportunities, tested by the Transaction Banking business line, and assessed as to whether they are viable for use in the cooperative financial network.

4.2.3 Credit ratings

The credit ratings of DZ BANK and its subsidiaries are critical in determining the funding opportunities available on money and capital markets. The relatively high ratings compared with other entities in the market open up potential opportunities for the entities in the DZ BANK Group.

DZ BANK is awarded credit ratings by the three largest rating agencies, Standard & Poor's, Moody's, and Fitch Ratings. Individual subsidiaries of DZ BANK are also given their own ratings. In view of the high degree of cohesion within the cooperative financial network, Fitch Ratings and Standard & Poor's issue a network rating, for the purposes of which the cooperative financial institutions are analyzed on a consolidated basis. The criteria used by the agencies include factors such as strategy, risk assessment, transparency, and solidarity within the cooperative financial network in addition to business performance and collaboration.

During the year under review, the rating agencies reviewed the credit ratings issued for **DZ BANK**. In September, **Standard & Poor's** confirmed its ratings for DZ BANK, but set the outlook for the long-term ratings to negative. The reason behind this was a change in the assessment of the German banking market, which was reflected in an adverse trend in the Banking Industry Country Risk Assessment (BICRA) on which the ratings are based. The BICRA is relevant to the anchor rating, which is used as the starting point for individual bank ratings. According to Standard & Poor's, the reason for this was the deterioration in the economic environment for German banks in view of the persistently low interest rates, challenging competitive and profitability conditions, and the economic slowdown in Germany.

In October, **Moody's** confirmed the ratings for DZ BANK, but nevertheless likewise set the outlook for the long-term ratings to negative because of changes in its view of the economic conditions surrounding the German banking market and an associated change in the outlook for the industry. The reasons given by Moody's for the downgrade were an increasingly challenging environment in terms of the profitability of German banks, a persistently high cost base, downward pressure on income because of the low interest rates, and flagging economic growth.

In the reporting year, **Fitch Ratings** confirmed its prior-year ratings for DZ BANK.

Fig. 9 provides an overview of DZ BANK's credit ratings.

As at December 31, 2019, the long-term credit rating for the **cooperative financial network** issued by Standard & Poor's and Fitch Ratings remained unchanged at AA. In September, the rating issued by Standard & Poor's was given a negative outlook, reflecting the change in the rating for DZ BANK. Again, the reasons were a change in the assessment of the German banking market, combined with a modified BICRA.

FIG. 9 – DZ BANK RATINGS

	Standard & Poor's		Moody's		Fitch	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Issuer rating	AA-	AA-	Aa1	Aa1	AA-	AA-
Covered bonds (DZ BANK BRIEFE)	AA+	AA+	Aaa	Aaa	-	-
Long-term rating for deposits	-	-	Aa1	Aa1	AA-	AA-
Long-term counterparty risk assessment/ derivative counterparty rating	-	-	Aa1	Aa1	AA-	AA-
Long-term rating for unsecured, 'preferred' bonds	AA-	AA-	Aa1	Aa1	AA-	AA-
Long-term rating for unsecured, 'non-preferred' bonds	A+	A+	A1	A1	AA-	AA-
Short-term rating	A-1+	A-1+	P-1	P-1	F1+	F1+

5 General risk factors

The DZ BANK Group and DZ BANK are subject to a range of risk factors that apply generally to the German and European banking industry as a whole. These are regulatory and macroeconomic risk factors that have an impact on liquidity and capital adequacy. The factors can be classified under business risk but are addressed separately here because of their key importance.

5.1 Regulatory risk factors

The term 'regulation' refers to all the different types of governmental intervention in the organization and activities of the DZ BANK Group, DZ BANK, and its subsidiaries. In the context of regulatory risk factors, the term generally encompasses standards from the perspectives of prudential supervision, commercial law, capital markets law, stock corporation law, and tax law.

DZ BANK and its subsidiaries are exposed to the following risks as a result of changes to the regulatory frameworks, including increasing regulation of the financial services industry in countries in which they operate. Amendments to existing legislation and regulations for banking and financial services may lead to higher capital requirements or adversely impact the earnings of DZ BANK and its subsidiaries. These risks could have a detrimental impact on the business of the entities in the DZ BANK Group.

5.1.1 Basel IV

In the next 5 years, DZ BANK and its subsidiaries subject to banking supervision must implement the European rules and regulations (CRR II and III) amended as a result of the international regulatory reforms in Basel IV. This represents a huge challenge for the DZ BANK banking group. The first elements

of the Basel IV reforms have already been introduced in the form of CRR II and will have to be applied by the entities in the DZ BANK banking group from the 2020 or 2021 financial years. Legislators intend to introduce the outstanding changes as part of CRR III.

The objective of the new regulations is to limit the use of internal models for determining regulatory capital adequacy and apply a higher degree of standardization to ensure that banks use uniform, comparable processes throughout the industry. One of the main aspects of the reforms is that they provide for a comprehensive revision of the procedures used to determine credit risk exposures. As part of its reporting system, DZ BANK makes considerable use of models approved by the supervisory authorities for determining credit risk with the application of the internal ratings-based approach (IRB approach).

Following the implementation of Basel IV, the current benefits for the affected entities in the DZ BANK banking group from using internal models could diminish because capital adequacy would be based to a greater extent on the revised standardized approaches. A core component of this revision is the introduction of an output floor for the amount of risk-weighted assets determined with internal models. This output floor would restrict the benefit from using internal models to 72.5 percent of the risk-weighted assets computed using the standardized approaches. This rule is expected to be introduced in stages from January 1, 2022, finally coming into force in full on January 1, 2027.

The capital requirements for market risk and operational risk are also affected by the output floor in addition to those for credit risk. DZ BANK uses internal models and will thus have to introduce the new market risk standardized approach so that it can

then comply with the mandatory requirement to report its capital requirement for market risk in the trading book to the supervisory authorities in parallel to its calculations using the internal model. Implementation of the new rules entails extensive and time-consuming changes to the calculation of the capital requirement for market risk in the trading book at DZ BANK.

The planned new regulations could lead to a substantial rise in risk-weighted assets and capital requirements as well as to a fall in the capital ratios for the DZ BANK banking group and DZ BANK. There is a risk that DZ BANK would not be able to obtain the necessary additional own funds (or would only be able to obtain them at a higher cost) or would have to reduce its risk-weighted assets. This could limit the flexibility enjoyed by DZ BANK in the operation of its business.

5.1.2 Switch in interest-rate benchmarks

To implement Regulation (EU) No. 2016/1011 (Benchmarks Regulation) and to respond to international market developments, the German and European financial industry is currently pressing ahead with the replacement of the present interest-rate benchmarks (some of which do not comply with the EU Benchmarks Regulation) with (virtually) risk-free interest-rate benchmarks.

The reformed interest-rate benchmarks and the new risk-free interest-rate benchmarks are provided by central banks or administrators. Such administrators must be entered in the benchmarks register maintained by ESMA. This means that Euribor and – until its scheduled discontinuation at the end of 2021 – EONIA can continue to be used. In the case of Libor rates, which are already compliant with the EU benchmark requirements, the banks involved are expected to continue supplying the necessary data only up to the end of 2021. In these circumstances, market participants are assuming that Libor rates will no longer be published going forward.

The main reformed interest-rate benchmarks of significance for the entities in the DZ BANK Group are Euribor, EONIA, and Libor; the new risk-free interest-rate benchmarks of significance are €STR, SOFR, SONIA, and SARON. Assets and liabilities of entities in the DZ BANK Group in national and international interbank and customer business are linked to these interest-rate benchmarks. There is a lack of clarity about numerous aspects of the switch in interest-rate benchmarks in the transition phase, particularly concerning new market practices and the

establishment of the interest-rate benchmarks in the markets.

The transition period for critical benchmarks has been extended by 2 years until December 31, 2021. If the changeover is not completed on time, there is a risk that the ability of the entities in the DZ BANK Group to handle the transactions concerned may be constrained. The transactions affected are, for example, the issuance of floating-rate securities referencing a Libor rate or interest-rate derivatives. In addition to the acquisition of new business, the calculation and billing of interest payments in connection with securities already issued by entities in the DZ BANK Group and the valuation of these securities could be adversely affected. This could give rise to business risks (such as a withdrawal from profitable areas of business), legal risks (such as compensation claims), and reputational risks for the entities in the DZ BANK Group.

5.2 Macroeconomic risk factors

5.2.1 Low interest rates

If there is a long period of low interest rates, the DZ BANK Group could face the risk of lower earnings, including lower earnings from BSH's extensive **building society operations**. When interest rates are very low, home savings loans lose their appeal for customers, while high-interest home savings deposits become more attractive. Consequently, interest income on home savings loans would fall and the interest cost for home savings deposits would rise. Furthermore, available liquidity could only be invested at low rates of return, an additional factor depressing earnings.

Because of the long period of low interest rates, the challenge faced by the DZ BANK Group's **asset management activities**, brought together under UMH, is to ensure that the guarantee commitments given to customers in respect of individual products can actually be met from the investment instruments in those products. This particularly affects the pension products and the guarantee fund product group. The pension products mainly consist of UniProfiRente, a retirement pension solution certified and subsidized by the German government. The amounts paid in during the contributory phase and the contributions received from the government are guaranteed to be available to the investor at the pension start date. The pension is then paid out under a payment plan with a subsequent life annuity. Guarantee funds are products for which

UMH guarantees that a minimum percentage of capital is preserved, depending on the precise product specification. If UMH is unable to draw some of the management fees, or has to inject fresh capital, so that it can meet its guarantee commitments, this could have a substantial detrimental impact on the financial performance of the DZ BANK Group.

The entire insurance industry is affected by the low interest rates in the capital markets. These low interest rates are having a particular effect on the **business model of the personal insurance companies** at R+V. Further details can be found in section 17.3.4.

A long period of low interest rates also increases the risk of **incorrect valuations** in financial and real estate markets in which the entities in the DZ BANK Group operate.

The developments described above affect market risk in the Bank sector, business risk in the Bank sector, and market risk in the Insurance sector.

5.2.2 Global trade disputes

If the United States were to further ramp up its protectionist action and Europe and China were to respond with retaliatory measures, the consequence could be escalation of the **trade disputes** that would have a huge negative impact on global trade as a whole. This would adversely affect the global economy and hit the heavily export-dependent German economy particularly hard.

DZ BANK, DZ HYP, and VR Smart Finanz grant a substantial number and volume of loans to German businesses. There is thus a risk that a deterioration in the credit quality of German businesses could lead to a greater credit risk and, if individual entities default, higher impairment losses in the Bank sector. Other potential consequences include a widening of credit spreads and a fall in the market liquidity of government and corporate bonds, which could cause a rise in market risk in both the Bank sector and the Insurance sector. This mainly affects DZ BANK, DZ HYP, and BSH in the Bank sector and R+V in the Insurance sector because these entities hold considerable portfolios of securities from German and European issuers.

There is also a risk that fair value losses on corporate bonds could have a temporary or permanent adverse impact on capital.

5.2.3 Economic divergence in the eurozone

DZ BANK, DZ HYP, and R+V hold significant investments in Italian and Spanish bonds. In addition, DZ BANK and DZ HYP have substantial investments in Portuguese bonds. DZ BANK has only entered into a small volume of derivatives and money market business with Italian and Spanish counterparties. Furthermore, DZ BANK operates a negligible volume of trading and lending business with short- and medium-term maturities involving counterparties in Italy, Spain, and Portugal; this business consists of trade finance and letters of credit.

The economies of Italy and Spain continue to be characterized by **government debt levels that are high** in relation to gross domestic product and are still proving difficult to bring down. Consequently, these countries remain vulnerable to fluctuation in investors' risk assessments.

In **Italy**, the coalition between the populist right-wing Lega and the likewise populist, but left wing, Five Star Movement collapsed at the beginning of September 2019. The new coalition between the Five Star Movement and the Social Democrats is expected to abandon the policy of confrontation with the EU. The areas of difficulty are the high level of government debt and the chronically weak growth in the Italian economy. If there are no lasting solutions to these problems, there could be perpetual concerns about whether the government debt could be sustained and/or refinanced. This could prejudice the ability of the country to obtain funding in international capital markets. As a result of the economic developments in Italy, the funding of **Italian banks** via the capital markets is becoming increasingly difficult. Moreover, the financial performance of these banks is hampered by continued high additions to loan provisions and by losses relating to the elimination of non-performing loans.

Since January 2020, the Socialist Workers' Party and the alternative left-wing Unidas Podemos alliance have been partners in a coalition forming a minority government in Spain. The direction of the government's fiscal policy is subject to significant uncertainty. Problem areas are the high level of government debt and weak growth in the Spanish economy, combined with a persistently high rate of unemployment. The tensions in Catalonia could give rise to further risks for the economy. This could prejudice the ability of the country and its banks to obtain funding in international capital markets.

Portugal's financial strength is weakened by its significant government indebtedness. The banking sector harbors further risks to financial stability. Even after capitalization, the banks are still carrying substantial portfolios of non-performing loans, although these are declining. To add to this, the earnings prospects for the sector are weak because of the current low level of interest rates. The Portuguese financial market is highly susceptible to volatility in investor confidence, but the country's ability to respond to negative shocks with fiscal policy measures is limited because of the high level of public debt.

In the last few years, the **ECB's expansionary monetary policy** and particularly its bond-buying program largely prevented the structural problems in some EMU member countries from being reflected in the capital markets. For Italy, Spain, and Portugal, there is a risk that this situation could change if the asset purchase program were to be brought to an end. Highly indebted countries could find it considerably more difficult to arrange funding through capital markets.

The developments described above could cause a deterioration in the credit standing of the countries concerned and of the businesses based in those countries, which would lead to heightened credit risk in the Bank sector. Other potential consequences of the sovereign debt crisis include a widening of credit spreads and a fall in the market liquidity of government and corporate bonds, which could cause a rise in market risk in both the Bank sector and the Insurance sector. There is also a risk that fair value losses on government and corporate bonds could have a temporary or permanent adverse impact on capital. If individual counterparties – for example, southern eurozone periphery countries – were to become insolvent, this would give rise to a requirement for additional impairment losses in the entities of the DZ BANK Group in respect of the financial instruments purchased from these countries.

5.2.4 Challenging shipping and offshore markets

In the Bank sector, the shipping finance business is mainly operated by DVB and, to a lesser degree, by DZ BANK. DVB also has offshore finance in its credit portfolio, consisting of various financing arrangements with broad links to the shipping sector. The portfolio includes finance for drilling platforms, drill ships, offshore construction ships, and supply ships for oil platforms. In the shipping finance business, an oversupply of tonnage continues to have a

detrimental impact on asset values and customer credit quality in some cases. To add to the problems, the low price of oil is adversely affecting global offshore oil production, leading to lower demand for supply ships and other floating offshore equipment. The market values of the financed assets are subject to significant fluctuation because of market volatility. These trends could lead to increased credit risk and to a higher level of impairment losses in the Bank sector.

5.2.5 Climate change

The DZ BANK Group is exposed to medium- and long-term risks resulting from climate change. These risks comprise both physical risks, such as more occurrences of natural disasters and flooded buildings, and transition risks, which can arise particularly as a result of legislative initiatives and changes in consumer behavior.

Physical climate risks affect the lending business of the entities in the DZ BANK Group. They can give rise to credit risk if, for example, the recoverability of collateral for loan exposures is adversely impacted by climate events. In addition, as a result of transition effects such as the transformation to a carbon-neutral economy, there is a risk in the lending business that the profitability of corporate finance borrowers (mainly at DZ BANK) and of real estate finance borrowers (mainly at BSH and DZ HYP) could be decreased. These effects could lead to a deterioration of the borrowers' credit quality and thus to higher impairment losses. In the Insurance sector of the DZ BANK Group, non-life actuarial risk (premium and reserve risk, catastrophe risk) at R+V is the main type of risk that could be significantly affected by physical climate risk. Specifically, in any one year, the actual impact from the size and frequency of losses could exceed the forecast impact. In both the Bank sector and the Insurance sector, physical climate risk could also give rise to operational risk from the non-availability of buildings or IT systems, or from weather or environmental events.

If climate risks are relevant because of the business model, they are implicitly backed with capital within the risk types referred to above. If the specified risks were to materialize, DZ BANK would have to fall back on the capital concerned. Furthermore, negative effects on the reputation of individual entities in the DZ BANK Group or on the DZ BANK Group as a whole cannot be ruled out.

5.3 Rating downgrades

DZ BANK's credit rating and the credit ratings of its subsidiaries are an important element in any comparison with competitor banks. A downgrade or even just the possibility of a downgrade in the rating for DZ BANK or one of its subsidiaries could have a detrimental effect on the relationship with customers and on the sale of products and services at all entities in the DZ BANK Group.

If DZ BANK's credit rating or the network rating for the cooperative financial network were to be downgraded, this would have a negative impact on DZ BANK's costs of raising equity and borrowing. In the event of a rating downgrade, new liabilities could also arise, or liabilities dependent on the maintenance of a specific credit rating could become due for immediate payment.

Furthermore, if a rating downgrade were to occur, the DZ BANK Group or DZ BANK could face a situation in which it had to furnish additional collateral in connection with rating-linked collateral agreements for derivatives (regulated by a credit support annex to an appropriate master agreement for financial futures) or in which it was no longer considered a suitable counterparty for derivative transactions at all.

In 2019, the credit ratings for DZ BANK issued by rating agencies Standard & Poor's and Moody's were given a negative outlook. The reasons were the deteriorating economic conditions for German banks, partly because of the low interest rates and the accompanying decline in profitability. It is not possible to predict with any degree of certainty whether the negative outlook will actually result in a rating downgrade for DZ BANK. Its rating would probably be downgraded simultaneously with those of other German banks.

If the credit rating for DZ BANK or one of its subsidiaries were to fall out of the range covered by the top four rating categories (investment-grade ratings, disregarding rating subcategories), the operating business of DZ BANK or the subsidiaries concerned could be adversely affected. This could also lead to an increase in the liquidity requirement in relation to derivatives and to a rise in funding costs. There would be an additional risk that these negative effects could spread to the other entities in the DZ BANK Group.

6 Liquidity adequacy

6.1 Principles

The management of liquidity adequacy is an integral component of business management in the DZ BANK Group and at DZ BANK. Liquidity adequacy is defined as the holding of sufficient liquidity reserves in relation to the risks arising from future payment obligations. It is considered from both an economic and a regulatory perspective. Whereas the economic perspective implements the requirements of MaRisk BA, the regulatory perspective applies the requirements from the CRR and the German national requirements for the implementation of Capital Requirements Directive IV in the KWG.

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

6.2 Economic perspective

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

6.2.1 Risk definition

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

6.2.2 Business background and risk strategy

Business background

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

Risk strategy

A key component of the liquidity risk strategy is the process of specifying and monitoring the risk appetite for liquidity risk. The liquidity risk strategy aims to

establish a binding basis for implementing these requirements at operational level.

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

However, further **extreme scenarios** are not covered by the risk appetite. The risks arising in this regard are accepted and therefore not taken into account in the management of risk. Examples of such scenarios are a run on the bank, i.e. an extensive withdrawal of customer deposits as a result of damage to the reputation of the banking system, or a situation in which all non-collateralized funding sources on money markets completely dry up over the long term, also encompassing transactions with those corporate customers, institutional customers, and customer banks that have close ties to the entities in the DZ BANK Group. On the other hand, the risk of a short-term and complete loss, or the risk of a medium-term and substantial loss, of unsecured funding from institutional investors is not accepted and this risk is the subject of relevant stress scenarios.

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

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

6.2.3 Specific risk factors

The following factors, alone or in combination with each other, could lead to an increase in liquidity risk,

adversely affect financial position and, in an extreme case, cause the insolvency of DZ BANK:

- Funding is withdrawn but cash nevertheless still flows out when legally due.
- Derivatives result in greater collateral requirements that involve cash outflows.
- Changes in the fair value of financial instruments mean that less liquidity can be generated.
- Cash is paid out earlier than expected because drawing rights are exercised.
- Cash outflows are earlier than expected or cash inflows later than expected because termination rights are exercised.
- New business is entered into to safeguard the reputation of the DZ BANK Group, resulting in cash outflows.
- Products are repurchased to safeguard the reputation of the DZ BANK Group, resulting in cash outflows.
- The liquidity requirement to ensure intraday payment obligations can be satisfied is greater than expected.
- There has been a negative impact on opportunities for generating currency-related liquidity through currency swaps.

6.2.4 Organization, responsibility, and risk reporting

Organization and responsibility

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

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

Risk reporting

Liquidity up to 1 year and structural liquidity of 1 year or more are reported on a daily basis to the **members of the Board of Managing Directors** of DZ BANK responsible for Group Treasury and Group Risk Controlling. The **Board of Managing Directors** receives a monthly report on liquidity risk.

The DZ BANK **Group Treasury** division and the units in the subsidiaries responsible for the management of liquidity risk also receive detailed daily information showing the contribution from each individual position to the aggregate position.

The DZ BANK **Group Treasury** division also has read-only access to the IT system used for measuring liquidity risk on a day-to-day basis and has set up its own analysis functionality within the system.

The **Group Risk and Finance Committee** receives a quarterly report on the liquidity risk of the DZ BANK Group and the individual management units, including DZ BANK.

The **entities in the DZ BANK Group** have their own corresponding reporting procedures that help to manage and monitor liquidity risk at individual entity level.

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

6.2.5 Risk management

Measurement of liquidity risk

DZ BANK uses an **internal risk model** to determine liquidity risk over a time horizon of 1 year. The same model is used to determine liquidity risk at the level of the DZ BANK Group. All entities in the DZ BANK Group with a significant impact on liquidity risk are integrated into the model, which is used to simulate one risk scenario and four stress scenarios a day.

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

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

Stress tests are conducted for the forward cash exposure and for the counterbalancing capacity using the following four scenarios with defined limits: 'downgrading', 'corporate crisis', 'market crisis', and 'combination crisis'. The stress scenarios look at sources of crises in both the market and the institution itself. A combination of market-specific and institution-specific sources is also taken into consideration. In crisis scenarios with institution-specific causes, such as a deterioration in the institution's reputation, it is assumed for example that it will be very difficult to obtain unsecured funding from customers, banks, and institutional investors in the 1-year forecast period. The simulated event in each stress scenario represents a serious deterioration in conditions.

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

In addition to the existing stress scenarios with defined limits, **foreign currency stress tests** simulate what would happen if the currency swap market also defaulted. The currencies in the major locations are examined (US dollar, pound sterling, Swiss franc, Hong Kong dollar, Singapore dollar). The currency limits relate only to the critical first month.

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

The internal liquidity risk model is constantly revised using an **appropriateness test** and adjusted in line with changes in the market, products, and processes.

The appropriateness test is conducted for each entity in the DZ BANK Group and aggregated at group level.

Management of limits for liquidity risk

Liquidity risk is monitored and managed with the aim of ensuring economic liquidity adequacy at every measurement date. This is based on the minimum liquidity surplus calculated for the four stress scenarios with defined limits. The Board of Managing Directors of DZ BANK has set, at the level of the **DZ BANK Group**, a **limit** (€1.0 billion) for liquidity risk and an **observation threshold** (€4.0 billion) that is higher than the limit. The observation threshold equates to the threshold value for economic liquidity adequacy specified in the risk appetite statement. The observation threshold and limit were unchanged compared with December 31, 2018. The Board of Managing Directors of DZ BANK has also specified a limit for **each management unit**. The observation threshold and the limits are monitored by the liquidity risk control function at DZ BANK both at group level and also for the management units.

The limit system aims to ensure that the DZ BANK Group remains solvent even in serious stress scenarios. **Emergency liquidity plans** are in place so that the group is able to respond to crisis events rapidly and in a coordinated manner. The emergency plans are revised annually.

Liquidity risk mitigation

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

Liquidity transfer pricing system

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

Transfer prices are set at DZ BANK for the liquidity costs of all the main products. The transfer pricing system takes into account the maturity period and market liquidity of the products and has a significant impact on risk/return management.

6.2.6 Quantitative variables

The available liquid securities and the availability and composition of the sources of funding have a significant influence on the minimum liquidity surplus of the DZ BANK Group and at DZ BANK. These factors are presented below.

Liquid securities

Liquid securities form part of the available liquidity reserves, which are referred to as **counterbalancing capacity**. Liquid securities are largely held in the portfolios held by DZ BANK's Capital Markets Trading division or in the portfolios of the treasury units at the subsidiaries of DZ BANK. Only bearer bonds are eligible as liquid securities.

Liquid securities comprise highly liquid securities that are suitable for collateralizing funding in private markets, securities eligible as collateral for central bank loans, and other securities that can be liquidated in the 1-year forecast period that is relevant for liquidity risk.

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

Fig. 10 shows the liquidity value of the liquid securities that would result from secured funding or if the securities were sold.

FIG. 10 – LIQUID SECURITIES

€ billion	Dec. 31, 2019	Dec. 31, 2018
Liquid securities eligible for GC Pooling (ECB Basket)¹	26.3	23.4
Securities in own portfolio	27.6	22.7
Securities received as collateral	9.4	9.7
Securities provided as collateral	-10.7	-9.0
Liquid securities eligible as collateral for central bank loans	16.8	12.3
Securities in own portfolio	17.7	13.4
Securities received as collateral	6.0	4.9
Securities provided as collateral	-6.9	-6.0
Other liquid securities	6.5	6.0
Securities in own portfolio	5.5	5.4
Securities received as collateral	1.2	0.9
Securities provided as collateral	-0.2	-0.2
Total	49.6	41.8
Securities in own portfolio	50.8	41.5
Securities received as collateral	16.6	15.5
Securities provided as collateral	-17.7	-15.3

¹ GC = general collateral, ECB Basket = eligible collateral for ECB funding.

As at December 31, 2019, the total liquidity value at the level of the **DZ BANK Group** was €49.6 billion (December 31, 2018: €41.8 billion). The total liquidity value attributable to **DZ BANK** as at December 31, 2019 was €39.0 billion (December 31, 2018: €30.2 billion). The year-on-year rise in the volume of liquid securities as at December 31, 2019 was attributable to expansion in securities portfolios, mainly at DZ BANK.

Consequently, liquid securities represented the largest proportion of the counterbalancing capacity for both the DZ BANK Group and DZ BANK, and made a major contribution to ensuring that they remained solvent in the stress scenarios with defined limits at all times during the relevant forecast period. In the first month, which is a particularly critical period in a crisis, liquid securities were almost exclusively responsible for maintaining solvency in the stress scenarios with defined limits.

Funding

The short-term and medium-term funding structure is a determining factor in the level of liquidity risk in the DZ BANK Group and at DZ BANK. The main sources of funding on the unsecured money markets are shown in Fig. 11.

FIG. 11 – UNSECURED SHORT-TERM AND MEDIUM-TERM FUNDING

%	DZ BANK banking group		DZ BANK	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Local cooperative banks	43	55	45	59
Other banks, central banks	11	14	11	14
Corporate customers, institutional customers	12	15	11	14
Commercial paper (institutional investors)	34	16	33	13

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

Further details on funding are provided in the business report (section II.5 (Financial position) of the (group) management report).

Liquidity maturities

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

6.2.7 Risk position

Economic liquidity adequacy is assured if none of the four stress scenarios with defined limits exhibit a negative value for the internal key risk indicator 'minimum liquidity surplus'. Fig. 12 shows the results of measuring liquidity risk. The results are based on a daily calculation and comparison of forward cash exposure and counterbalancing capacity. The values reported are the values that occur on the day on which the liquidity surplus calculated over the forecast period of 1 year is at its lowest point.

The liquidity risk value measured for the **DZ BANK Group** as at December 31, 2019 for the stress scenario with defined limits with the lowest minimum liquidity surplus (squeeze scenario) was €12.5 billion (December 31, 2018: €12.0 billion). The minimum liquidity surplus as at December 31, 2019 thus remained roughly at the level of the prior-year reporting date. During the year under review, liquidity at the level of the DZ BANK Group did not, in any of the stress scenarios with defined limits, fall below the observation threshold of €4.0 billion set by the Board

FIG. 12 – LIQUIDITY UP TO 1 YEAR IN THE STRESS SCENARIOS WITH DEFINED LIMITS: MINIMUM LIQUIDITY SURPLUSES

€ billion	Forward cash exposure		Counterbalancing capacity		Minimum liquidity surplus	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Downgrading	-76.1	-39.3	105.7	61.8	29.6	22.5
Corporate crisis	-74.5	-37.1	88.0	50.1	13.5	13.0
Market crisis	-80.7	-42.5	97.2	58.2	16.4	15.7
Combination crisis	-80.2	-42.1	92.7	54.1	12.5	12.0

of Managing Directors as the internal threshold value for 2019. Furthermore, it did not fall below the limit of €1.0 billion or the external minimum target of €0.0 billion on any measurement date in the reporting period. The observation threshold, limit, and external minimum target remained unchanged compared with 2018.

The corresponding liquidity risk value attributable to **DZ BANK** as at December 31, 2019 was €3.0 billion (December 31, 2018: €2.1 billion). The value is derived from the stress scenario with defined limits that has the lowest minimum liquidity surplus (squeeze scenario). The rise in the minimum liquidity surplus at DZ BANK resulted primarily from issuing activities.

The value fell below the limit applicable to DZ BANK from mid-June to mid-November in the reporting period. The temporary drop below the limit was largely attributable to a lower level of issuing activities, which was deliberately scheduled because of an anticipated liquidity inflow in November 2019 from the disposal of DVB's aviation portfolio. Until the completion date of the transaction, the disposal was not reported as a liquidity inflow to DZ BANK in the economic liquidity risk measurement at DVB.

The minimum liquidity surplus as at December 31, 2019 for both the DZ BANK Group and DZ BANK was positive in the stress scenarios with defined limits that were determined on the basis of risk appetite. This is due to the fact that the counterbalancing capacity was above the cumulative cash outflows on each day of the defined forecast period for each scenario, which indicates that the cash outflows assumed to take place in a crisis could be comfortably covered.

6.2.8 Possible impact from crystallized liquidity risk

One of the main operating activities of the management units is to make long-term liquidity available to their customers for different maturity

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

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

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

6.3 Normative internal perspective

6.3.1 Regulatory framework

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

The **liquidity coverage ratio** has a short-term focus and is intended to ensure that institutions can

withstand a liquidity stress scenario lasting 30 days. This KPI is defined as the ratio of available liquid assets (liquidity buffer) to total net cash outflows in defined stress conditions over the next 30 days. The external minimum target for the LCR specified by the supervisory authorities in 2019 was 100 percent. DZ BANK reports its own LCR and that of the DZ BANK banking group, calculated in accordance with the CRR in conjunction with Commission Delegated Regulation (EU) No. 2015/61, to the supervisory authority on a monthly basis.

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

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

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

6.3.3 Liquidity coverage ratio

The LCRs for the **DZ BANK banking group** and **DZ BANK** calculated in accordance with Commission Delegated Regulation (EU) No. 2015/61 are shown in Fig. 13.

The increase in the LCR measured for the DZ BANK banking group from 141.4 percent as at December 31, 2018 to 144.6 percent as at December 31, 2019 was largely attributable to higher excess cover at DZ BANK, although some of the gain was offset by countervailing effects in the subsidiaries.

FIG. 13 – LIQUIDITY COVERAGE RATIOS AND THEIR COMPONENTS

	DZ BANK banking group		DZ BANK	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Total liquidity buffer (€ billion)	84.1	78.7	63.4	58.0
Total net liquidity outflows (€ billion)	58.2	55.6	46.1	45.8
Liquidity coverage ratio (%)	144.6	141.4	137.5	126.7

The increase in the LCR measured for DZ BANK from 126.7 percent as at December 31, 2018 to 137.5 percent as at December 31, 2019 was attributable to higher excess cover, which was derived from the funding with commercial paper with maturities of more than 30 days. Excess cover in relation to the LCR is the difference between the liquidity buffer and the net liquidity outflows.

In the reporting period, the regulatory minimum requirement for the LCR of 100 percent was exceeded on every reporting date at the level of the DZ BANK banking group and at DZ BANK.

7 Capital adequacy

7.1 Strategy, organization, and responsibility

The management of capital adequacy is an integral component of business management in the DZ BANK Group and at DZ BANK. Capital adequacy is defined as the holding of sufficient capital to cover the risks assumed by the business. It is considered from both an economic and a regulatory perspective. Whereas the economic perspective takes into account the requirements of MaRisk BA, the regulatory perspective applies the requirements from the CRR and the German national requirements for the implementation of CRR IV (KWG and German Solvency Regulation (SolvV)).

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

Regulatory solvency requirements for the DZ BANK financial conglomerate, the DZ BANK banking group, and the R+V Versicherung AG insurance group are observed in economic capital management.

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

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

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

7.2 Economic perspective

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

7.2.1 Measurement methods

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

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

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

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

The purpose of the **capital buffer** (also referred to below as the capital buffer requirement) is to cover the lack of precision in some areas of risk measurement. This applies to migration risk on traditional loans and the risk arising from defined benefit obligations, for example. The latter, in the form of longevity risk, is one aspect of actuarial risk and is particularly important for the Bank sector. The individual components of the capital buffer are quantified using a method based on scenarios and models with input from experts.

A distinction is made between centralized and decentralized capital buffer requirements.

Decentralized capital buffer requirements are managed within the limits for the individual risk types, whereas the centralized capital buffer is managed on the basis of a limit covering all sectors and risk types.

7.2.2 Traffic light system

Economic capital adequacy is monitored and managed using a traffic light system based on the ratio of available internal capital to aggregate risk (expressed as a percentage).

The switch from green to amber in the traffic light system (**amber threshold**) is set at the internal threshold value for economic capital adequacy specified in the risk appetite statement, which in 2019 was unchanged compared with the previous year at 120 percent. The amber threshold serves as an early warning indicator. The **red threshold**, i.e. the borderline between amber and red in the traffic light system, was set at 110.0 percent in the year under review, again unchanged compared with 2018.

The threshold values for economic capital adequacy are reviewed annually and adjusted if necessary.

7.2.3 Risk-bearing capacity

Retrospective recalculation of the overall solvency requirement

It was necessary to recalculate the overall solvency requirement as at December 31, 2018 owing to scheduled changes to the parameters for the risk measurement procedures and the updating of actuarial assumptions carried out in the second quarter of 2019 for the Insurance sector on the basis of R+V's 2018 consolidated financial statements. The recalculation reflects updated measurements of insurance liabilities based on annual actuarial analyses and updates to parameters in the risk capital calculation. Because of the complexity and the amount of time involved, the parameters are not completely updated in the in-year calculation and an appropriate projection is made.

The recalculation led to changes in the available internal capital, the key risk indicators at the level of the DZ BANK Group, and economic capital adequacy. The figures as at December 31, 2018 given in this opportunity and risk report have been restated accordingly and are not directly comparable with the figures in the 2018 opportunity and risk report.

Available internal capital

The DZ BANK Group's **available internal capital** as at December 31, 2019 was measured at €26,968 million. The comparable figure as at December 31, 2018 was €27,954 million. The figure originally measured as at December 31, 2018 and disclosed in the 2018 opportunity and risk report came to €28,562 million. The reduction in available internal capital was largely because capital components were no longer included following implementation of the new requirements in the ECB's ICAAP guide.

The limit derived from the available internal capital amounted to €21,723 million as at December 31, 2019 (December 31, 2018: €24,276 million). The lower limit arose because unneeded sub-limits were relinquished.

As at the reporting date, **aggregate risk** was calculated at €16,932 million. The comparable figure as at December 31, 2018 was €16,418 million. The figure originally measured as at December 31, 2018 and disclosed in the 2018 opportunity and risk report came to €17,025 million. The increase in risk, which was mainly attributable to the Insurance sector, was due to portfolio growth and the level of interest rates. This trend was accompanied by a sharp rise in own funds in the Insurance sector.

Economic capital adequacy

As at December 31, 2019, the economic capital adequacy ratio for the **DZ BANK Group** was calculated at 159.3 percent. The comparable figure as at December 31, 2018 was 170.3 percent. The figure originally measured as at December 31, 2018 and disclosed in the 2018 opportunity and risk report was 167.8 percent. During the reporting year, the economic capital adequacy ratio was higher than the internal threshold value of 120.0 percent and the external minimum target of 100.0 percent at every measurement date. The reduction in economic capital adequacy compared with the end of 2018 was largely because capital components were no longer included in available internal capital following implementation of the requirements in the ECB's new ICAAP guide.

Fig. 14 provides an overview of the components of economic capital adequacy.

The limits and risk capital requirements including the capital buffer requirements for the **Bank sector**, broken down by risk type, are shown in Fig. 15.

Fig. 16 sets out the limits and overall solvency requirements for the **Insurance sector**, broken down by risk type, and includes policyholder participation. The definition of the limits and determination of overall solvency requirements take into account the ability to offset deferred taxes against losses (which arises where deferred tax liabilities can be eliminated in the loss scenario). Diversification effects between the risk types are also taken into consideration. Owing to these effects of correlation, the overall solvency requirement and limit for each risk type are not cumulative. The rise in the overall solvency requirement compared with the prior year resulted first and foremost from the trend in interest rates and business growth.

In addition to the figures shown in Fig. 15 and Fig. 16, the aggregate risk includes a **centralized capital buffer requirement across all types of risk**, which was calculated at €526 million as at December 31, 2019 (December 31, 2018: €301 million). The corresponding limit was €620 million (December 31, 2018: €340 million). This increase was predominantly the result of the specifications in the ECB's new ICAAP guide.

7.2.4 Possible impact from crystallized risk covered by capital

If risk covered by capital actually materializes, this has a negative impact on both financial performance and financial position as well as on the enterprise value of the DZ BANK Group and DZ BANK. In the income statement in this situation, the recognized expenses are higher and/or the recognized income is lower than originally expected. This is accompanied by a decrease in the net assets on the balance sheet because assets are unexpectedly lower and/or liabilities are unexpectedly higher. A widening of spreads on fungible financial instruments may also lead to a deterioration in the financial position, which is reflected in other comprehensive income.

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

FIG. 14 – COMPONENTS OF ECONOMIC CAPITAL ADEQUACY OF THE DZ BANK GROUP

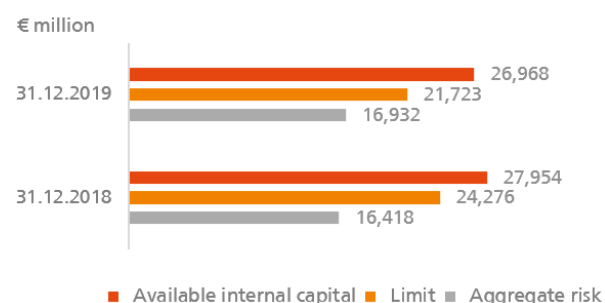


FIG. 15 – LIMITS AND RISK CAPITAL REQUIREMENTS INCLUDING CAPITAL BUFFER REQUIREMENTS IN THE BANK SECTOR

€ million	Limit		Risk capital requirement ³	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Credit risk	7,189	8,238	5,484	5,541
Equity investment risk	1,063	1,341	850	1,091
Market risk	5,646	6,768	3,860	4,030
Technical risk of a home savings and loan company ¹	706	667	397	553
Business risk ²	1,016	1,118	837	857
Operational risk	926	1,030	859	804
Total (after diversification)	15,201	18,236	11,289	11,600

¹ Including business risk and reputational risk of BSH.

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

³ Including decentralized capital buffer requirement.

FIG. 16 – LIMITS AND OVERALL SOLVENCY REQUIREMENTS IN THE INSURANCE SECTOR

€ million	Limit		Overall solvency requirement	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Life actuarial risk	1,200	1,100	977	921
Health actuarial risk	410	350	244	234
Non-life actuarial risk	3,960	3,650	3,597	3,300
Market risk	3,850	4,350	3,575	3,205
Counterparty default risk	100	100	90	64
Operational risk	680	640	644	557
Risks from entities in other financial sectors	112	145	111	111
Total (after diversification)	5,902	5,700	5,116	4,517

Viewed in isolation and assuming there are no other influencing factors, this chain of events would apply particularly in a scenario where the equity holder is simply seeking to maximize profits. In the case of DZ BANK, however, there is another significant factor in that the intention of the equity holders (who in many cases are also customers of DZ BANK

and its subsidiaries) in committing equity to DZ BANK is not only to achieve, as far as possible, market-level returns commensurate with the risk involved, but also to utilize the decentralized services that DZ BANK provides as the central institution in the cooperative financial network. The return on capital that forms part of any purely monetary analysis therefore needs to be adjusted in the case of DZ BANK to add the effects of the extra benefits. Given this background, EVA is only of limited use for assessing the advantages of the investment in DZ BANK. Thus, a negative EVA is not necessarily associated with the discontinuation of business activities undertaken by DZ BANK or its subsidiaries.

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

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

7.3 Normative internal perspective

7.3.1 Principles

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

7.3.2 DZ BANK financial conglomerate

The FKAG forms the main legal basis for the supervision of the DZ BANK financial conglomerate. The calculation methodology for the coverage ratio is taken from Commission Delegated Regulation (EU) No. 342/2014 in conjunction with article 49 (1) CRR.

The financial conglomerate coverage ratio is the ratio between the total of own funds in the financial conglomerate and the total of solvency requirements for the conglomerate. The resulting ratio must be at least 100 percent. The changes in the **eligible own funds** and the **solvency requirements** are shown in Fig. 17. According to current projections, the requirements will also be satisfied in 2020.

These components gave a preliminary **coverage ratio** of 171.9 percent as at December 31, 2019 (final figure as at December 31, 2018: 174.0 percent), which was in excess of the regulatory minimum requirement (100.0 percent) and the internal threshold value (120.0 percent). According to current projections, the requirements are also expected to be satisfied in 2020.

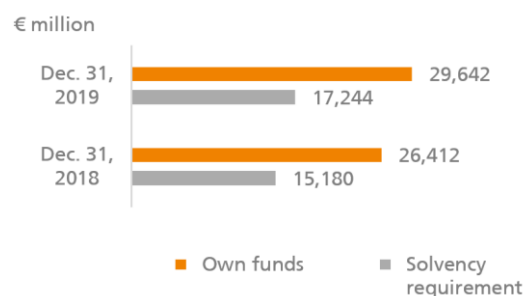
7.3.3 DZ BANK banking group

Regulatory framework

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

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

FIG. 17 – COMPONENTS OF THE REGULATORY CAPITAL ADEQUACY OF THE DZ BANK FINANCIAL CONGLOMERATE¹



¹ December 31, 2019: Preliminary figures; December 31, 2018: Final figures.

Regulatory minimum capital requirements

The minimum capital requirements that the DZ BANK banking group had to comply with in 2019 comprised those components of Pillar 1 laid down as mandatory by law and those individually specified by the banking supervisor. Institution-specific requirements under the additional capital requirements in Pillar 2, determined in the outcome of the SREP conducted for the DZ BANK banking group in 2018, also had to be satisfied. In this process, the banking supervisor specified a mandatory add-on (Pillar 2 requirement) that is factored into the basis of calculation used to determine the threshold for the maximum distributable amount (MDA). Distributions are restricted if capital falls below the MDA threshold.

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

The mandatory minimum capital requirements and their components applicable to 2019, 2018, and 2020 are shown in Fig. 18.

FIG. 18 – REGULATORY MINIMUM CAPITAL REQUIREMENTS OF THE DZ BANK BANKING GROUP¹

%	2019	2018
Minimum requirement for common equity Tier 1 capital	4.50	4.50
Additional Pillar 2 capital requirement	1.75	1.75
Capital conservation buffer	2.50	1.88
Countercyclical capital buffer	0.04	0.05
O-SII capital buffer	1.00	0.66
Mandatory minimum requirement for common equity Tier 1 capital	9.79	8.84
Minimum requirement for additional Tier 1 capital ¹	1.50	1.50
Mandatory minimum requirement for Tier 1 capital	11.29	10.34
Minimum requirement for Tier 2 capital ²	2.00	2.00
Mandatory minimum requirement for total capital	13.29	12.34

¹ The minimum requirement can also be satisfied with common equity Tier 1 capital.

² The minimum requirement can also be satisfied with common equity Tier 1 capital or additional Tier 1 capital.

The internal threshold values at the level of the DZ BANK banking group for the common equity Tier 1 capital ratio, the Tier 1 capital ratio, and the total capital ratio were satisfied at all times during the reporting period. The internal threshold values are shown in Fig. 6 in section 2.4.2.

Applying the CRR in full, the mandatory minimum capital requirements stipulated by the supervisory authorities and the recommended minimum capital requirements were also complied with on every reporting date in 2019. According to current projections, the requirements will also be satisfied in 2020.

BaFin has classified DZ BANK as an other systemically important institution (O-SII). The DZ BANK banking group had to comply with an **O-SII capital buffer** (comprising common equity Tier 1 capital) as defined in section 10g (1) KWG at a level of 1.0 percent in 2019.

Regulatory capital ratios

The regulatory **own funds** of the **DZ BANK banking group** as at December 31, 2019 determined in accordance with full application of the CRR amounted to a total of €25,690 million (December 31, 2018: €22,210 million).

This equates to a **rise in own funds** of €3,480 million compared with the end of 2018, comprising an increase in common equity Tier 1 capital of €2,547 million and in additional Tier 1 capital of €1,401 million. Some of the increase in these capital components was offset by a decrease in Tier 2 capital of €469 million.

In the case of **common equity Tier 1 capital**, net profits eligible for retention had a particularly positive impact. Conversely, a contraction in securitization exposures and the shortfall resulting from the comparison between expected losses and the loss allowances recognized in this regard for IRB approach exposures led to a reduction in common equity Tier 1 capital. The increase in additional Tier 1 capital was attributable to a new issue in this class of capital amounting to €1,401 million.

Tier 2 capital declined from €3,344 million as at December 31, 2018 to €2,875 million as at December 31, 2019, a year-on-year decrease of €469 million. This change was mainly attributable to the reduced level of eligibility under CRR rules for own funds instruments in this capital category in the last 5 years before their

maturity date and to the reduced possibilities for including minority interests.

Regulatory **risk-weighted assets** in the DZ BANK banking group went up from €132,152 million as at December 31, 2018 to €143,800 million as at December 31, 2019, a rise of €11,648 million. This increase was primarily due to a greater level of credit risk and a higher amortized carrying amount for R+V.

As at December 31, 2019, the DZ BANK banking group's **common equity Tier 1 capital ratio** was 14.4 percent and therefore higher than the ratio of 13.7 percent at the end of 2018. The **Tier 1 capital ratio** of 15.9 percent calculated as at the reporting date was also up compared with the figure at December 31, 2018. The figure as at December 31, 2019 was 14.3 percent. The **total capital ratio** also went up year on year from 16.8 percent as at December 31, 2018 to 17.9 percent as at the reporting date.

Fig. 19 provides an overview of the DZ BANK banking group's regulatory capital ratios.

The figures below are based on full application of the CRR. The **common equity Tier 1 capital ratio** for **DZ BANK** was calculated at 14.5 percent as at December 31, 2019, which was lower than the equivalent figure of 15.4 percent as at December 31, 2018. In contrast, the **Tier 1 capital ratio** (calculated on the same legal basis) was up, from 16.3 percent as at December 31, 2018 to 16.7 percent as at December 31, 2019. The **total capital ratio** declined from 19.7 percent as at December 31, 2018 to 19.5 percent as at the reporting date. The fall in the Tier 1 capital ratio and total capital ratio was attributable to the rise of €4,774 million in risk-weighted assets. The increase in the Tier 1 capital ratio was largely attributable to the issuance of new AT1 bonds. DZ BANK exceeded the regulatory minimum capital ratios at every reporting date in 2019.

Leverage ratio

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

The leverage ratios determined for the DZ BANK banking group and DZ BANK with the full application of the CRR are shown in Fig. 20.

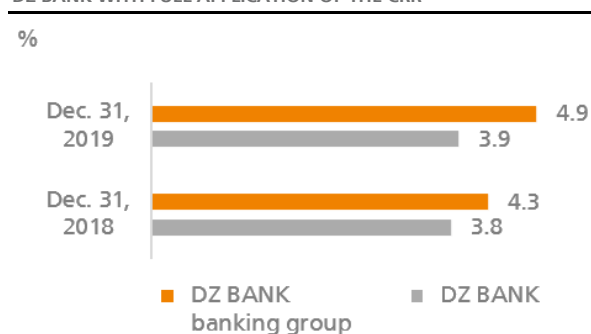
In the reporting period, the leverage ratio of the **DZ BANK banking group** determined with **full application of the CRR regulations** went up by 0.6 percentage points from 4.3 percent as at December 31, 2018 to 4.9 percent as at December 31, 2019. This increase resulted primarily from the rise in Tier 1 capital of €3.9 billion. In addition, the total exposure as at the reporting date had risen by €25.0 billion year on year. The growth of the total exposure was mainly attributable to the expansion of on-balance-sheet business at DZ BANK.

FIG. 19 – REGULATORY CAPITAL RATIOS OF THE DZ BANK BANKING GROUP WITH FULL APPLICATION OF THE CRR¹

	Dec. 31, 2019	Dec. 31, 2018
Capital		
Common equity Tier 1 capital (€ million)	20,705	18,158
Additional Tier 1 capital (€ million)	2,109	708
Tier 1 capital	22,814	18,866
Total Tier 2 capital (€ million)	2,875	3,344
Own funds	25,690	22,210
Risk-weighted assets		
Credit risk including long-term equity investments (€ million)	124,734	112,425
Market risk (€ million)	8,350	9,104
Operational risk (€ million)	10,716	10,623
Total	143,800	132,152
Capital ratios		
Common equity Tier 1 capital ratio (%)	14.4	13.7
Tier 1 capital ratio (%)	15.9	14.3
Total capital ratio (%)	17.9	16.8

¹ The figures as at December 31, 2018 differ from the corresponding figures disclosed in the opportunity and risk report for the first half of 2019 and in the opportunity and risk report for 2018 due to the transition to disclosure based on full application of the CRR and due to regulatory requirements.

FIG. 20 – LEVERAGE RATIOS OF THE DZ BANK BANKING GROUP AND DZ BANK WITH FULL APPLICATION OF THE CRR



The **DZ BANK banking group's** leverage ratio calculated in accordance with the currently applicable **CRR transitional guidance** was 5.0 percent as at December 31, 2019 (December 31, 2018: 4.5 percent).

DZ BANK's leverage ratio as at December 31, 2019 was calculated at 3.9 percent (December 31, 2018: 3.8 percent). The leverage ratio was the same whether the CRR was applied in full or with the transitional guidance. The increase was attributable to the rise in Tier 1 capital of €1,216 million. On the other side of the ratio, the total exposure grew by €29.6 billion, which was mainly attributable to expansion of on-balance-sheet business.

Using both calculation methods, the internal **threshold value** of 3.5 percent applicable to the leverage ratio of the DZ BANK banking group was met on every reporting date in 2019. According to current projections, the requirements will also be satisfied in 2020.

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

At the same time, the **calculation of total exposure** will be adjusted as part of the introduction of CRR II. As a consequence, it is anticipated that the leverage ratio for the DZ BANK banking group will increase by approximately 1 percentage point based on full application of the CRR. A significant factor in the forecast increase is that loans and advances within the cooperative network will no longer have to be included, which will lead to a significant reduction in the total exposure measure.

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

The MREL is intended to ensure that banks hold a sufficiently large volume of own funds and liabilities that can be 'bailed-in' to make it possible at all times to carry out an orderly resolution. 'Bail-in-able' liabilities are those that provide for creditors to take an interest in losses incurred and recapitalization if a bank gets into financial difficulties, enabling resolution to take

place on the basis of the bail-in and other instruments without recourse to government help and without jeopardizing the stability of the financial system.

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

The internal threshold value for the DZ BANK banking group's MREL ratio set by DZ BANK's Board of Managing Directors was 8.5 percent in 2019. In June 2019, BaFin notified DZ BANK that the Single Resolution Board had set an MREL ratio of 8.2 percent for the DZ BANK banking group, which was unchanged compared with the prior-year figure.

The MREL ratio measured for the DZ BANK banking group was 11.4 percent as at September 30, 2019 (December 31, 2018: 14.4 percent). The fall in the ratio compared with the figure as at the prior-year reporting date was attributable to the non-eligibility of existing non-preferred and non-subordinated issues because of their remaining term to maturity and to a significant increase in total assets. The measured MREL ratio was therefore above the internal threshold value and the external minimum target. These requirements were met at every reporting date during the year up to September 30, 2019. It is reasonable to assume that the requirements were also met as at December 31, 2019 and – according to current projections – will be satisfied in 2020.

The MREL ratio disclosed for 2019 relates to September 30, 2019 because the relevant figures for the end of the year were not yet available at the deadline date for the publication of this opportunity and risk report.

7.3.4 R+V Versicherung AG insurance group

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

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

Fig. 21 shows how the solvency requirements are covered by eligible own funds.

As at December 31, 2019, the preliminary figure for the regulatory risk-bearing capacity of the R+V Versicherung AG insurance group was 152.4 percent (final figure as at December 31, 2018: 177.3 percent).

The recalculation of the overall solvency requirement described in section 7.2.3 also affected the regulatory risk-bearing capacity of the R+V Versicherung AG insurance group and led to retrospective changes in the solvency requirements as at the end of 2018. The figures as at December 31, 2018 given in this opportunity and risk report have been restated accordingly and are not directly comparable with the figures in the 2018 opportunity and risk report.

The project accounting applied in the internal planning shows that the R+V Versicherung AG insurance group's solvency ratio will continue to exceed the minimum statutory requirement as at December 31, 2020.

7.4 Stress tests for types of risk covered by capital

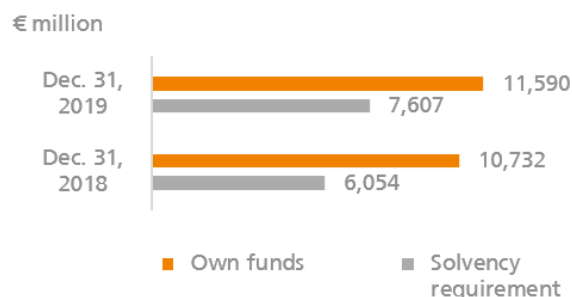
7.4.1 Adverse stress tests

Adverse stress tests are used to examine the impact on capital and risk from potential **crisis scenarios** that are exceptional, but plausible, and particularly relevant to the DZ BANK Group's value and risk drivers.

The **KPIs** relating to economic and regulatory capital adequacy are analyzed in this context. However, the stress tests also reflect events that go beyond the methods established for calculating capital adequacy. The term 'adverse stress tests' encompasses those stress scenarios that represent negative macroeconomic trends or events from the perspective of the DZ BANK Group. In this context, 'adverse' indicates that the scenarios may be particularly disadvantageous or even harmful.

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

FIG. 21 – REGULATORY CAPITAL ADEQUACY OF THE R+V VERSICHERUNG AG INSURANCE GROUP¹



¹ December 31, 2019: Preliminary figures; December 31, 2018: Final figures.

The adverse stress tests include a number of **scenarios across all risk types** and are generally designed for a 1-year scenario horizon as a minimum. They take into account both macroeconomic scenarios and historical situations that are particularly relevant for the DZ BANK Group's business model and portfolios.

The adverse scenarios are based on macroeconomic factors from both the real economy and financial markets or they consist of specific events that are particularly relevant for the DZ BANK Group but not of a macroeconomic nature; some scenarios combine both macroeconomic and specific events.

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

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

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

7.4.2 Reverse stress tests

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

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

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

The reverse stress tests are carried out annually. The results are noted by the **Board of Managing Directors** and by the DZ BANK Supervisory Board's **Risk Committee**.

7.4.3 Scenario analyses in the risk types

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

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

Bank sector

8 Credit risk

8.1 Definition

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

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

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

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

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

Replacement risk on derivatives is the risk of a counterparty defaulting during the term of a trading transaction where entities in the Bank sector can only

enter into an equivalent transaction with another counterparty by incurring an additional expense in the amount of the positive fair value at the time of default.

Recovery risk forms part of credit risk and increases the risk capital requirement for traditional credit risk, issuer risk, and replacement risk. Recovery risk arises from uncertainty relating to the recovery rates for collateral received. It also reflects the uncertainty regarding the recovery rate for unsecured receivables and the cure rate following counterparty default.

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

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

8.2 Specific risk factors

Key values used in determining credit risk include the concentrations of lending volume in terms of counterparties, sectors, countries, and maturities, and the credit quality structure of the credit portfolio.

Significant concentrations of volume in counterparties, sectors, or countries increase the risk that an accumulation of credit risk will become critical, for example if there are defaults among greater concentrations of counterparties or, in economic crises, defaults in sectors or countries with significant concentrations in the credit portfolio. The term of loan agreements is also a key credit risk factor because the probability of a deterioration in credit rating and therefore of a counterparty default during the term of an agreement generally increases over time. Particularly

in the case of an **accumulation of exposures that have longer terms to maturity** and a non-investment-grade rating, there is a danger that the credit risk will materialize and the recognition of impairment losses will become necessary.

8.3 Business background and risk strategy

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

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

Default risk relating to trading transactions arises from issuer risk, particularly in connection with the trading activities and investment business of DZ BANK, BSH, and DZ HYP. Replacement risk arises for the most part at DZ BANK and DZ PRIVATBANK. The entities in the Bank sector pursue a strictly decentralized business policy aimed at promoting the cooperative banks and are bound by the core strategic guiding principle of a 'network-oriented central institution and financial services group'. The business and risk policy for the credit-risk-bearing core businesses in the group is formulated on the basis of risk-bearing capacity. The credit risk strategy therefore forms the basis for credit risk management and reporting across the whole group and ensures that there is a standard approach to credit risk within the group. It takes into account the business models of each of the management units.

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

Both DZ BANK and the subsidiaries with a material credit risk seek to maintain a good rating and risk structure in their credit portfolios at all times. In the

future, the portfolios will continue to be characterized by a high degree of diversification.

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

The credit risk strategy specifies that the entities in the Bank sector must treat their partners fairly and, as part of the sustainability strategy, not enter into any lending arrangement that could prejudice the reputation of the DZ BANK Group or DZ BANK. A sustainable lending policy developed on the basis of this strategy is applied in the majority of the management units involved in lending.

The entities in the Bank sector are not involved in providing finance for the construction of new coal-fired power plants.

8.4 Sustainability review in the lending process

In the lending evaluation process, **DZ BANK** systematically reviews loan applications from relevant sustainability perspectives in order to limit any detrimental impact from its financing activities. All factors relevant to the financing arrangement in question are assessed in relation to environmental and social risks using a sustainability checklist based on the 10 principles of the **UN Global Compact** and the **Equator Principles**, the latter forming a global project finance standard for evaluating environmental and social risks. Loans to cooperative banks and to entities in the DZ BANK Group are exempt from the checks, as are exposures that are being restructured. Further exemptions apply to certain product types in the joint credit business with the cooperative banks, to loans under blanket approval agreements, and to exposures that are below the rating threshold.

At DZ BANK, industry-related principles are used in addition to the sustainability checklist when reviewing loan applications from sensitive industries (forestry, commodities mining/extraction, dam construction, fishing, and maritime industries). These principles specify the details to be reviewed with reference to international industry-specific conventions, recognized standards, certification, and optimum production processes.

8.5 Organization, responsibility, and risk reporting

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

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

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

8.6 Risk management

8.6.1 Rating systems

Use and characteristics of the rating systems

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

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

DZ BANK primarily uses VR rating systems in its credit risk management system to assess large and medium-sized companies, major corporate customers,

banks, investment funds, and project finance. The internal assessment approach is also used to evaluate the liquidity lines and credit enhancements made available by DZ BANK to programs for the issuance of asset-backed commercial paper (ABCP). These rating systems have been approved by the competent supervisory authority for the purposes of calculating regulatory capital using the **foundation IRB approach**.

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

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

Development and expansion of rating systems

All internal **rating systems** approved by the banking supervisor for solvency reporting were **validated** in 2019. Validation processes at DZ HYP have not yet been completed in full for all rating systems because of merger activities. The revision of the **rating system for project finance** and of the **slotting approach for project finance**, which was completed in 2018, successfully underwent a supervisory review in the first half of 2019, focusing on the slotting approach. It is planned to use the slotting approach from 2020 when determining the regulatory capital requirement.

The new default definition as specified in the EBA's 'Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures' (EBA/GL/2017/16) was implemented in September of the reporting year. The revision of the IRB approach rating systems in accordance with EBA/GL/2017/16 is scheduled for 2020.

The rating system for major corporations is currently being redeveloped and the testing phase is planned to start in 2020. The supervisory review of this rating system is scheduled for 2021.

DZ BANK credit rating master scale

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

Fig. 22 shows DZ BANK's credit rating master scale, in which internal credit ratings are matched to the ratings used by Moody's, Standard & Poor's, and Fitch Ratings. It should be noted that some internal ratings cannot be matched with a particular external rating because of the greater degree of refinement in the credit rating master scale. The ratings for securitization exposures are matched to various different external ratings depending on the asset class and region.

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

DZ BANK rating desk

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

FIG. 22 – BANK SECTOR: DZ BANK'S VR CREDIT RATING MASTER SCALE AND EXTERNAL CREDIT RATINGS

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

8.6.2 Lending business pricing

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

To ensure that lending business remains profitable, **standard risk costs** are determined in the management of individual transactions in many parts of the **Bank sector**. The purpose of these costs is to cover average expected losses from borrower defaults. The aim is to ensure that the net loss allowances recognized in the financial statements are covered on average over the long term in an actuarial-type approach by the standard risk costs included in the pricing.

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

8.6.3 Credit-portfolio management

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

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

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

8.6.4 Management of exposure in traditional lending business

Measuring exposure in traditional lending business

Individual lending exposures are managed on the basis of an analysis of gross lending exposure. The period taken into account in this case is equivalent to the monitoring cycle of 1 year. Together with risk-related credit-portfolio management, volume-oriented credit risk management is one of the components in the management of risk concentrations in the lending business.

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

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

Limit system for managing exposures in traditional lending business

Limits are set in the relevant entities in the Bank sector for individual borrowers and groups of connected customers. Counterparties are also managed

centrally at the level of the Bank sector, depending on the limit level and credit rating.

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

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

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

8.6.5 Management of credit exposure in trading transactions

Measuring credit exposure in trading transactions

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

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

At the level of the **Bank sector**, **replacement risk** is generally determined on the basis of fair value, taking into account appropriate add-ons. At **DZ BANK**, which is of particular significance as far as replacement risk is concerned, the risk is determined primarily according to each individual transaction as part of a portfolio simulation. The portfolio simulation models

future exposures, taking into account a large number of risk factors. Replacement risk resulting from remaining over-the-counter (OTC) derivatives is calculated on the basis of fair value and the add-ons for individual transactions. The add-ons take into account specific risk factors and residual maturities.

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

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

Limit system for managing trading exposure

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

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

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

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

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

8.6.6 Management of risk concentrations and correlation risks

Identifying risk concentrations

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

Risk concentrations in credit and collateral portfolios

In managing the traditional lending business and its trading business, DZ BANK takes into account the correlation between collateral and the borrower pledging the collateral or between the collateral and the counterparty whose replacement risk the collateral is intended to mitigate. If there is a significant positive correlation between the collateral and the borrower or

the counterparty pledging the collateral, the collateral is disregarded or accorded a reduced value as collateral. This situation arises, for example, where a guarantor, garnishee, or issuer forms a group of connected clients or a similar economic entity with the borrower or counterparty.

Wrong-way risk

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

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

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

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

These requirements are based on the Credit Support Annex (ISDA Master Agreement) and the Collateralization Annex (German Master Agreement for Financial Futures) and stipulate that, in accordance with the collateral policy, only collateral in the form of cash (mainly in euros or US dollars), investment-grade government bonds, and/or Pfandbriefe can be used for mitigating risks arising from **OTC derivatives**. Exceptions to this rule are permitted, mainly for local cooperative banks, although a very good credit rating

(at least 2B on DZ BANK's credit rating master scale) is still required for the relevant securities collateral. The collateral must also be eligible for use as collateral at the ECB.

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

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

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

8.6.7 Mitigating credit risk

Collateral strategy and secured transactions

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

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

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

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

Types of collateral

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

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

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

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

Management of traditional loan collateral

Collateral management is the responsibility mainly of **specialist units**, generally outside the front-office divisions. The core tasks of these units include

providing, inspecting, measuring, recording, and managing collateral and providing advice to all divisions in related matters.

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

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

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

Collateral management

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

DZ BANK's **collateral policy** regulates the content of collateral agreements and the responsibilities and authorities for implementing the rights and obligations they confer within the bank. This policy specifies contractual parameters, such as the quality of collateral, frequency of transfer, minimum transfer amounts, and thresholds. DZ BANK regularly uses bilateral collateral agreements. Exceptions apply to cover assets and special-purpose entities, as the special legal status of the counterparties means that only unilateral collateral agreements can be usefully enforced, and to supranational or government entities.

Any decision not to use a bilateral collateral agreement for counterparties not subject to the European Market Infrastructure Regulation (EMIR) rules must be approved by a person with the relevant authority.

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

Collateral agreements generally include minimum transfer amounts and, in some cases, also **thresholds** that are independent of the credit rating. There are also some agreements with triggers based on the credit rating. In these agreements, for example, the unsecured part of an exposure is reduced in the event of a ratings downgrade or the borrower is required to make additional payments (for example, payments known as ‘independent amounts’). Since the EMIR collateral agreement obligation came into force on March 1, 2017, the supervisory authorities have specified these contractual provisions as standard.

EMIR requires the exchange of an initial margin in bilateral OTC derivatives transactions in addition to the variation margin. The **initial margin exchange** will be mandatory for the entities in the Bank sector from September 2020.

Central counterparties

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

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

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

8.6.8 Management of non-performing lending exposures

Managing and monitoring non-performing exposures

Identified non-performing loans are transferred to the **workout units** at an early stage. By providing intensified loan management for critical exposures and applying tried-and-tested solutions, these special units lay the basis for securing and optimizing non-performing risk positions.

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

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

Policies and procedures for the recognition of loss allowances

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

Non-performing loans

The entities in the Bank sector classify a loan as non-performing if it has been rated between 5A and 5E on the VR credit rating master scale. This corresponds to the definition of default specified by the CRR. Non-

performing loans are also referred to by the abbreviation NPLs.

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

- Loss allowance ratio (balance of loss allowances as a proportion of total lending volume)
- Risk cover ratio (balance of loss allowances as a proportion of the volume of non-performing loans)
- NPL ratio (volume of non-performing loans as a proportion of total lending volume).

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

8.7 Lending volume

8.7.1 Reconciliation of lending volume to the consolidated financial statements

For the purposes of internal credit risk management in the Bank sector, the lending volume is broken down by credit-risk-bearing instrument – traditional lending, securities business, and derivatives and money market business. This breakdown corresponds to the risk classes required for the external reporting of risks arising from financial instruments. The credit-risk-bearing instruments are classified by sector, country group, credit rating, and term to maturity so that volume concentrations can be identified.

Fig. 23 shows a reconciliation of the gross lending volume on which the risk management is based to individual balance sheet items in order to provide a transparent illustration of the link between the consolidated financial statements and risk management.

FIG. 23 – BANK SECTOR: RECONCILIATION OF THE LENDING VOLUME

Lending volume for internal management accounts	Reconciliation										
	Lending volume for internal management accounts		Scope of consolidation		Carrying amount and measurement						
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018			
Traditional lending business							81.3	79.2			
							81.3	79.2			
							--	-			
	299.6	289.3	2.3	2.4	26.2	20.3	328.1	312.0			
							181.0	170.3			
Securities business							183.2	172.6			
							-2.2	-2.2			
							65.8	62.4			
	82.7	73.0	0.3	0.3	-16.5	-16.6	66.5	56.6			
							11.7	10.8			
Derivatives business							1.0	0.7			
							53.8	45.1			
							-0.7	-2.1			
	11.4	13.7	-0.1	0.1	-12.0	-15.9	-0.7	-2.1			
							0.2	0.9			
Money market business							19.3	15.6			
							-1.3	-2.5			
							-18.9	-16.1			
	4.6	3.0	-	-	26.6	21.6	31.3	24.6			
							16.2	12.4			
Total	398.3	378.9	2.5	2.8	24.3	9.4	425.1	391.1			
								Balance as at Dec. 31, 2019	26.8	6.7%	
									Balance as at Dec. 31, 2018	12.2	3.2%

Not relevant

There are discrepancies between the internal management and external consolidated financial reporting measurements for some products owing to the focus on the risk content of the items. The other main reasons for the discrepancies between the internal management figures and those in the external consolidated financial statements are differences in the scope of consolidation and differences in recognition and measurement methods.

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

The discrepancy in the **securities business** is mainly due to the variations in carrying amounts that arise because credit derivatives are offset against the issuer risk attaching to the underlying transaction in the internal management accounts, whereas such

derivatives are recognized at their fair value as financial assets or financial liabilities held for trading in the consolidated financial statements.

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

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

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

8.7.2 Change in lending volume

The **total lending volume** of the **Bank sector** increased by 5 percent overall in the year under review, from €378.9 billion as at December 31, 2018 to €398.3 billion as at December 31, 2019. One of the factors behind this increase was a rise of 4 percent in the lending volume in the **traditional lending business**, from €289.3 billion as at December 31, 2018 to €299.6 billion as at December 31, 2019. This uptrend was driven mainly by the retail sector. There was also an increase in the volume of the **securities business**, which advanced by 13 percent, from €73.0 billion as at December 31, 2018 to €82.7 billion as at December 31, 2019; this growth was focused in the financial sector. At €16.0 billion, the lending volume in the **derivatives and money market business** was down by 4 percent as at December 31, 2019 compared with the figure of €16.7 billion as at December 31, 2018.

At **DZ BANK**, the **total lending volume** rose by 9 percent, from €198.3 billion as at December 31, 2018 to €216.5 billion as at December 31, 2019. This was mainly due to an increase in volume in the traditional lending business, which went up from €146.7 billion as at the prior-year reporting date to €156.5 billion as at December 31, 2019. **Securities business** also saw growth, rising to €45.8 billion as at December 31, 2019 compared with €36.8 billion as at December 31, 2018; this was primarily attributable to higher exposure in financial-sector and public-sector bonds. However, **derivatives and money market business** at DZ BANK declined to €14.3 billion as at December 31, 2019 compared with the December 31, 2018 figure of €14.9 billion.

8.7.3 Sector structure of the credit portfolio

Fig. 24 shows the breakdown of the credit portfolio by sector, in which the lending volume is classified according to the industry codes used by Deutsche Bundesbank. This also applies to the other sector

breakdowns related to credit risk in this opportunity and risk report.

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

As at December 31, 2019, a significant proportion (59 percent) of **DZ BANK's** lending volume was also concentrated in the financial sector (December 31, 2018: 60 percent). The composition of this customer segment is the same both at DZ BANK and in the Bank sector. Loans and advances to public-sector borrowers rose by €1.3 billion year on year.

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

8.7.4 Geographical structure of the credit portfolio

Fig. 25 shows the geographical distribution of the credit portfolio by country group. The lending volume is assigned to the individual country groups using the International Monetary Fund's breakdown, which is updated annually. This also applies to the other country-group breakdowns related to credit risk in this opportunity and risk report.

As at December 31, 2019, 97 percent of the lending in the **Bank sector** (December 31, 2018: 96 percent) and also 95 percent of the total lending by **DZ BANK** (unchanged on the figure as at December 31, 2018) was concentrated in Germany and other industrialized countries.

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

€ billion	Traditional lending business		Securities business		Derivatives and money market business		Total	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Financial sector	100.6	98.3	32.0	25.7	10.2	12.8	142.8	136.8
Public sector	10.7	10.4	38.1	35.9	0.7	0.4	49.5	46.7
Corporates	107.3	114.9	8.5	7.6	4.6	3.0	120.4	125.5
Retail	69.8	57.2	1.5	2.4	-	-	71.4	59.6
Industry conglomerates	10.5	7.8	2.7	1.5	0.5	0.4	13.6	9.7
Other	0.6	0.7	-	-	-	-	0.6	0.7
Total	299.6	289.3	82.7	73.0	16.0	16.6	398.3	378.9

FIG. 25 – BANK SECTOR: LENDING VOLUME, BY COUNTRY GROUP

€ billion	Traditional lending business		Securities business		Derivatives and money market business		Total	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Germany	269.4	254.3	47.7	43.1	10.7	10.1	327.8	307.4
Other industrialized countries	20.9	23.5	31.0	26.1	4.8	5.5	56.7	55.2
Advanced economies	1.9	2.5	0.8	0.8	0.1	0.1	2.8	3.4
Emerging markets	7.3	9.0	0.9	0.9	0.2	0.2	8.5	10.1
Supranational institutions	-	-	2.3	2.1	0.3	0.6	2.6	2.8
Total	299.6	289.3	82.7	73.0	16.0	16.6	398.3	378.9

8.7.5 Residual maturity structure of the credit portfolio

The breakdown of the credit portfolio by residual maturity for the **Bank sector** as at December 31, 2019 presented in Fig. 26 shows that the lending volume had increased by €14.0 billion in the short-term maturity band and by €23.0 billion in the medium-term maturity band compared with the figures as at December 31, 2018. By contrast, the lending volume in the longer-term maturity band contracted by €17.6 billion. The shift between the maturity bands is primarily attributable to updates to the methodology used at DZ BANK as part of its activities to implement the requirements of BCBS 239 (Principles for effective risk data aggregation and risk reporting).

8.7.6 Rating structure of the credit portfolio

Fig. 27 shows the Bank sector's consolidated lending volume by rating class according to the VR credit rating master scale.

In the **Bank sector**, the proportion of the total lending volume accounted for by rating classes 1A to 3A (investment grade) as at December 31, 2019 was unchanged year on year at 78 percent. Rating classes 3B to 4E (non-investment grade) represented 21 percent of the total lending volume as at the reporting date, which was also unchanged compared with the end of 2018. The proportion of the total

lending volume in the Bank sector accounted for by defaults, represented by rating classes 5A to 5E, was unchanged year on year at 1 percent as at December 31, 2019.

Rating classes 1A to 3A (investment grade) also dominated lending at **DZ BANK**, where they accounted for 87 percent of the total lending volume, which was down slightly compared with a year earlier (December 31, 2018: 88 percent). Rating classes 3B to 4E (non-investment grade) represented 11 percent of the total lending volume as at the reporting date, which equated to an increase of 10 percent compared with the figure as at December 31, 2018. Defaults (rating classes 5A to 5E) accounted for 1 percent of the total lending volume as at December 31, 2019, which was unchanged year on year.

As at December 31, 2019, the **10 counterparties associated with the largest lending volumes** accounted for 6 percent of total lending in the **Bank sector** (December 31, 2018: 7 percent). These borrowers were predominantly in the public sector and had investment-grade ratings. The equivalent proportion for **DZ BANK** was 5 percent (December 31, 2018: 7 percent). In this case, these counterparties largely comprised borrowers from the financial sector (including the cooperative banks) and public sector with investment-grade ratings.

FIG. 26 – BANK SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Traditional lending business		Securities business		Derivatives and money market business		Total	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
≤ 1 year	69.3	53.6	15.3	13.2	7.8	11.6	92.4	78.4
> 1 year to ≤ 5 years	73.9	53.2	26.9	26.3	3.2	1.4	104.0	81.0
> 5 years	156.4	182.4	40.5	33.5	5.0	3.6	201.9	219.5
Total	299.6	289.3	82.7	73.0	16.0	16.6	398.3	378.9

FIG. 27 – BANK SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion		Traditional lending business		Securities business		Derivatives and money market business		Total	
		Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Investment grade	1A	5.0	5.1	32.6	30.8	1.0	1.2	38.6	37.1
	1B	1.8	1.6	2.9	2.8	0.9	2.5	5.6	6.9
	1C	97.4	91.8	10.7	8.2	4.0	3.4	112.1	103.4
	1D	7.4	6.8	2.4	2.0	0.4	0.2	10.2	9.0
	1E	11.7	11.5	3.2	2.0	1.5	1.9	16.5	15.4
	2A	10.8	9.9	5.0	5.8	1.0	1.4	16.8	17.1
	2B	10.6	11.4	8.4	6.1	1.8	2.1	20.9	19.7
	2C	15.6	14.9	2.4	2.5	1.1	1.0	19.1	18.4
	2D	17.4	17.1	4.2	2.9	0.9	0.7	22.6	20.7
	2E	18.7	17.6	3.7	2.5	1.4	0.8	23.8	20.9
Non-investment grade	3A	20.2	21.8	4.5	3.8	0.6	0.6	25.4	26.2
	3B	25.1	22.9	0.6	1.4	0.5	0.3	26.3	24.7
	3C	21.4	16.3	0.5	0.3	0.1	0.1	22.0	16.7
	3D	13.5	15.0	0.2	0.5	0.1	0.1	13.8	15.5
	3E	5.9	5.7	0.2	0.2	-	-	6.2	6.0
	4A	3.4	2.3	-	-	-	-	3.5	2.3
	4B	3.3	5.1	-	-	-	-	3.3	5.1
	4C	1.7	2.6	-	0.1	-	-	1.8	2.7
	4D	0.5	0.6	-	-	-	-	0.5	0.6
	4E	1.7	2.2	-	-	-	-	1.8	2.2
	Default	4.3	4.8	0.1	0.1	-	-	4.5	5.0
	Not rated	1.9	2.5	0.8	0.8	0.5	0.3	3.2	3.5
	Total	299.6	289.3	82.7	73.0	16.0	16.6	398.3	378.9

8.7.7 Collateralized lending volume

Fig. 28 shows the breakdown of the collateralized lending volume at overall portfolio level by type of collateral and by risk-bearing instrument.

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

As at December 31, 2019, the total collateral value in the **Bank sector** had risen to €124.3 billion as at December 31, 2019 from €121.5 billion as at December 31, 2018. The collateralization rate was 39.4 percent as at the reporting date (December 31, 2018: 39.7 percent).

In the **traditional lending business**, most of the collateral value (87 percent as at December 31, 2019) continued to be accounted for by charges over physical assets such as land charges, mortgages, and registered ship and aircraft mortgages (December 31, 2018: 85 percent). These types of collateral are particularly important for BSH, DZ HYP, and DVB. In contrast, charges over physical assets are of lesser importance at DZ BANK because DZ BANK bases its lending decisions primarily on borrower credit quality.

FIG. 28 – BANK SECTOR: COLLATERAL VALUE, BY TYPE OF COLLATERAL

€ billion	Traditional lending business		Derivatives and money market business		Total	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Guarantees, indemnities, risk subparticipation	6.5	6.4	0.4	0.3	7.0	6.7
Credit insurance	4.0	3.7	-	-	4.0	3.7
Land charges, mortgages, registered ship and aircraft mortgages	107.4	103.5	-	-	107.4	103.5
Pledged loans and advances, assignments, other pledged assets	3.5	6.0	-	-	3.5	6.0
Financial collateral	2.2	1.3	0.1	0.1	2.3	1.3
Other collateral	0.1	0.2	-	-	0.1	0.2
Total collateral	123.7	121.1	0.6	0.4	124.3	121.5
Lending volume	299.6	289.3	16.0	16.6	315.6	305.9
Uncollateralized lending volume	175.9	168.2	15.4	16.2	191.3	184.4
Collateralization rate (%)	41.3	41.9	3.7	2.4	39.4	39.7

In **securities transactions**, there is generally no further collateralization to supplement the collateral already taken into account. Equally, in the **derivatives and money market business**, collateral received under collateral agreements is already factored into the calculation of gross lending volume with the result that only a comparatively low level of collateral (personal and financial collateral) is then additionally reported.

At €11.9 billion, **DZ BANK's** total collateral value as at December 31, 2019 was down year on year (December 31, 2018: €12.6 billion). The collateralization rate had declined to 7.0 percent as at the reporting date (December 31, 2018: 7.8 percent).

8.7.8 Securitizations

The following figures are not directly comparable with the corresponding figures in the 2018 annual opportunity and risk report or in the 2019 half-yearly opportunity and risk report because the base data has been adjusted from a fair value analysis to a nominal amount analysis in line with the internal reporting system.

The Bank sector's **asset-backed securities (ABS) portfolio** is predominantly held by DZ BANK and DZ HYP. This portfolio at **Bank sector** level had a nominal amount of €2,797 million as at the reporting date (December 31, 2018: €2,756 million). The nominal amount for **DZ BANK** was €2,323 million as at the reporting date (December 31, 2018: €2,196 million). The highest internal rating class 1A accounted for 57 percent of the nominal amount as at

December 31, 2019 (December 31, 2018: 45 percent). This year-on-year improvement largely arose because new investments in the ABS portfolio were focused only on unencumbered high-quality liquid assets (HQLAs) in accordance with the requirements of the credit risk strategy.

The above figures included the **ABS wind-down portfolio** from the period before the financial crisis with a nominal amount of €1,178 million (December 31, 2018: €1,464 million) at **Bank sector** level and €705 million (December 31, 2018: €903 million) in respect of **DZ BANK**. As in the previous year, the volume of the wind-down portfolio contracted during the reporting year, primarily because of regular redemptions.

In addition, **DZ BANK** acts as a **sponsor** in ABCP programs that are funded by issuing money market-linked ABCP or liquidity lines. The ABCP programs are made available for DZ BANK customers who then securitize their own assets via these companies.

As at December 31, 2019, the securitization exposures arising from **DZ BANK's** activities in which it acts as a sponsor amounted to €1,442 million (December 31, 2018: €1,398 million). The increase in the exposures was due to new business and to fluctuations in the drawdown of liquidity lines.

8.8 Credit portfolios with increased risk content

The credit portfolios with increased risk content are analyzed separately because of their significance for

the risk position. The figures presented here are included in the above analyses of the total lending volume.

8.8.1 Loans and advances to borrowers in eurozone periphery countries

As at December 31, 2019, loans and advances to borrowers in the countries directly affected by the **economic divergence in the eurozone** attributable to the **Bank sector** and to **DZ BANK** amounted to €7,505 million (December 31, 2018: €7,355 million) and €2,175 million (December 31, 2018: €2,165 million) respectively.

Fig. 29 shows the borrower structures of the entities in the Bank sector for the eurozone periphery countries by credit-risk-bearing instrument.

8.8.2 Shipping finance and offshore finance

Business background

Within the DZ BANK Group's Bank sector, the **shipping finance business** is mainly operated by DVB and, to a lesser degree, by DZ BANK. At DVB and DZ BANK, the lending volume associated with shipping finance comprises loans and advances to customers, guarantees and indemnities, irrevocable loan commitments, and derivatives.

DVB had decided to implement a run-off strategy in 2019 for its shipping finance business with the aim of scaling back its portfolio in an orderly fashion as the individual finance contracts matured. Key components were the discontinuation of new business and a run-off plan designed to preserve value. Separately from the above, DVB will participate in necessary restructuring measures to improve the collection of outstanding loans and receivables.

DVB also has **offshore finance** business in its credit portfolio. This business consists of various financing arrangements with broad links to the shipping sector. The portfolio includes finance for drilling platforms, drill ships, offshore construction ships, and supply ships for oil platforms. No further new business has been taken on in the business since 2017.

DZ BANK offers **shipping finance** as part of its joint credit business with the local cooperative banks. Shipping finance in the narrow sense refers to capital investment in mobile assets involving projects that are separately defined, both legally and in substance, in which the borrower is typically a special-purpose entity whose sole business purpose is the construction and operation of ships. In such arrangements, the debt is serviced from the cash flows generated by the ship. The assessment of the credit risk is therefore based not only on the recoverability of the asset, but also in particular on the capability of the ship to generate earnings.

To reduce risk, finance provided by DZ BANK must normally be secured by a first mortgage on the vessel and the assignment of insurance claims and proceeds. A distinction is made between shipping finance in the narrow sense and finance provided for shipyards and shipping companies. The following disclosures for DZ BANK relate solely to shipping finance in the narrow sense.

FIG. 29 – BANK SECTOR: LOANS AND ADVANCES TO BORROWERS IN EUROZONE PERIPHERY COUNTRIES

€ million	Traditional lending business ¹		Securities business		Derivatives and money market business		Total	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Portugal	41	62	1,104	1,026	-	-	1,146	1,089
of which: public sector	-	-	1,030	925	-	-	1,030	925
of which: non-public sector	41	62	74	101	-	-	116	164
of which: financial sector	-	1	-	-	-	-	-	1
Italy	92	148	3,094	2,847	70	70	3,256	3,065
of which: public sector	-	-	2,856	2,599	-	-	2,856	2,599
of which: non-public sector	92	148	238	248	70	70	400	465
of which: financial sector	34	32	68	59	70	70	172	161
Spain	169	222	2,830	2,850	104	129	3,104	3,201
of which: public sector	6	13	2,006	1,859	-	-	2,012	1,872
of which: non-public sector	163	210	824	991	104	129	1,091	1,330
of which: financial sector	31	28	263	364	99	126	393	518
Total	302	432	7,029	6,723	174	199	7,505	7,355
of which: public sector	6	13	5,892	5,303	-	-	5,898	5,396
of which: non-public sector	296	419	1,137	1,341	174	199	1,607	1,959
of which: financial sector	66	61	331	423	169	196	566	680

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

Crisis management

In the shipping finance business, an oversupply of tonnage continued to have a detrimental impact on asset values and customer credit quality. In the offshore business, there was no increase in the demand for vessels, despite the rise in the oil price in the reporting year. The global bulk cargo, container, and tanker markets presented a mixed picture in 2019. Fleet growth was limited because of preparations for an International Maritime Organization regulation due to come into force in 2020 and because of the removal of tanker tonnage for floating storage. In many of the sectors, this helped to offset the weaker market fundamentals.

At **DVB** and **DZ BANK**, shipping finance is deemed to be non-performing if it has been rated between 5A and 5E on the VR credit rating master scale. The two banks aim to secure and optimize the non-performing exposures within their management system for handling problem loans.

Conditions in the **offshore finance** market remained tough in the reporting year and the market is not expected to bounce back significantly in the short term. For this reason, all offshore finance had been moved to the NCA portfolio in 2018.

Shipping finance lending volume

As at December 31, 2019, the **Bank sector's** shipping finance portfolio had a total value of €6,334 million (December 31, 2018: €8,692 million). The breakdown of the lending volume between the two management units as at December 31, 2019 was as follows

(corresponding figures as at December 31, 2018 in parentheses):

- DVB: €5,648 million (€8,084 million), of which €5,060 million (€6,922 million) is core business not classified as non-performing
- DZ BANK: €686 million (€608 million), of which €351 million (€313 million) is business not classified as non-performing.

The lending volume of **DVB** shipping finance exposed to heightened risk (NCA portfolio) consists solely of traditional lending business. It declined from €1,162 million as at December 31, 2018 to €558 million as at December 31, 2019, a year-on-year decrease of 49 percent. This decrease was primarily attributable to early redemptions and (partial) workout of individual large-volume exposures.

The breakdown by country group of DVB's NCA shipping finance portfolio as at December 31, 2019 was as follows (corresponding figures as at December 31, 2018 in parentheses):

- Germany: €96 million (€136 million)
- Other industrialized countries: €348 million (€820 million)
- Advanced economies: €60 million (€150 million)
- Emerging markets: €84 million (€56 million).

As at December 31, 2019, DVB's NCA shipping finance portfolio included 70 financed vessels (December 31, 2018: 135 vessels). The average exposure as at the reporting date was €15 million

(December 31, 2018: €26 million) and the largest single exposure was €40 million (December 31, 2018: €115 million).

The largest proportion of the NCA shipping finance portfolio was attributable to the financing of bulk carriers. As at December 31, 2019, this proportion had risen to 51 percent of DVB's total NCA shipping finance volume (December 31, 2018: 40 percent) as a consequence of the disproportionate level of redemptions in other shipping finance segments. The portfolio was almost fully collateralized in compliance with DVB strategy.

At **DZ BANK**, shipping loans with a value of €335 million were classified as non-performing as at December 31, 2019 (December 31, 2018: €295 million). These exposures consisted almost entirely of traditional lending business, most of which was operated jointly with the local cooperative banks. Broken down by type of ship, DZ BANK's non-performing portfolio was focused mainly on multifunctional merchant vessels. In terms of carrying capacity, these ships were almost exclusively small- to medium-sized vessels. As in 2018, DZ BANK's shipping finance portfolio in 2019 was mainly concentrated in Germany but broadly diversified by type of vessel, borrower, charterer, and shipping activity.

Offshore finance lending volume

As at December 31, 2019, the Bank sector's lending volume in the offshore finance business, which is attributable exclusively to **DVB** and is classified as traditional lending business, amounted to €921 million (December 31, 2018: €1,335 million).

8.9 Volume of non-performing loans

The fall in the volume of non-performing loans reported for the **Bank sector** from €5.0 billion as at December 31, 2018 to €4.5 billion as at December 31, 2019 in conjunction with the increase in the total lending volume from €378.9 billion to €398.3 billion caused the NPL ratio to go down year on year to 1.1 percent at the end of 2019 (December 31, 2018: 1.3 percent).

At **DZ BANK**, there was a rise in the volume of non-performing loans, which went up from €1.9 billion as at December 31, 2018 to €2.1 billion as at the 2019 balance sheet date. Combined with a rise in the total lending volume from €198.3 billion to €216.5 billion,

this resulted in a higher NPL ratio of 1.0 percent (December 31, 2018: 0.9 percent).

Fig. 30 shows key figures relating to the volume of non-performing loans.

8.10 Risk position

The risk capital requirement (including capital buffer requirement) for credit risk is based on a number of factors, including the size of single-borrower exposures, individual ratings, and the industry sector of each exposure.

As at December 31, 2019, the **credit value-at-risk including capital buffer requirement** in the **Bank sector** was €5,484 million (December 31, 2018: €5,541 million) with a limit of €7,189 million (December 31, 2018: €8,238 million).

FIG. 30 – BANK SECTOR: KEY FIGURES FOR THE VOLUME OF NON-PERFORMING LOANS

	Bank sector		DZ BANK	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Total lending volume (€ billion)	398.3	378.9	216.5	198.3
Volume of non-performing loans (€ billion) ¹	4.5	5.0	2.1	1.9
Balance of loss allowances (€ billion)	2.7	2.7	1.2	1.2
Loss allowance ratio (%) ²	0.7	0.7	0.6	0.6
Coverage ratio (%) ³	59.3	54.5	59.5	65.2
NPL ratio (%) ⁴	1.1	1.3	1.0	0.9

¹ Volume of non-performing loans excluding collateral.

² Balance of loss allowances as a proportion of total lending volume.

³ Balance of loss allowances as a proportion of the volume of non-performing loans.

⁴ Volume of non-performing loans as a proportion of total lending volume.

The contraction in the credit value-at-risk including capital buffer requirement resulted largely from the reduction in the DVB portfolio.

As at December 31, 2019, the credit value-at-risk including capital buffer requirement at **DZ BANK** was €2,297 million (December 31, 2018: €2,166 million) with a limit of €2,674 million (December 31, 2018: €2,674 million).

The credit values-at-risk including capital buffer requirement for the Bank sector and for DZ BANK were within the applicable limit at every measurement date during 2019.

Fig. 32 shows the credit value-at-risk together with the average probability of default and expected loss. Because of the breakdown by credit-risk-bearing instrument, the risk capital requirement is presented without the capital buffer requirement.

The risk capital required in the **Bank sector** and at **DZ BANK** for credit portfolios exposed to increased credit risk is shown in Fig. 31, again without the capital buffer requirement.

Compared with December 31, 2018, the credit value-at-risk for the Bank sector entities' exposure in the peripheral countries of the eurozone had increased as at December 31, 2019.

The credit value-at-risk for the overall shipping finance portfolio in the Bank sector amounted to €132 million as at December 31, 2019 (December 31, 2018: €194 million). These figures consist of the DVB core business and DZ BANK business, in either case not classified as non-performing.

The credit value-at-risk in the Bank sector for shipping finance and offshore finance stemmed primarily from DVB. The decline in the credit value-at-risk for the shipping finance portfolio compared with the end of 2018 arose predominantly because of the scaling back of DVB's NCA portfolio.

FIG. 31 – BANK SECTOR: CREDIT VALUE-AT-RISK¹ FOR CREDIT PORTFOLIOS WITH INCREASED RISK CONTENT

€ million	Bank sector		DZ BANK	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Eurozone periphery countries portfolio	1,288	1,079	21	14
Shipping finance portfolio ²	57	98	36	38
Offshore finance portfolio	73	118		

¹ Excluding capital buffer requirement.

² DVB: NCA portion; DZ BANK: Rating classes 5A–5E on the VR credit rating master scale.

 Not relevant

FIG. 32 – BANK SECTOR: FACTORS DETERMINING THE CREDIT VALUE-AT-RISK

	Average probability of default (%)				Expected loss (€ million)				Credit value-at-risk ¹ (€ million)			
	Bank sector		DZ BANK		Bank sector		DZ BANK		Bank sector		DZ BANK	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Traditional lending business	0.5	0.5	0.2	0.2	418	405	138	122	2,493	2,568	1,168	950
Securities business	0.1	0.2	0.2	0.2	48	49	28	28	1,733	1,511	299	226
Derivatives and money market business	0.1	0.1	0.2	0.1	11	10	10	9	226	453	148	365
Total					477	464	176	159	4,452	4,532	1,614	1,541
Average	0.4	0.4	0.2	0.2								

¹ Excluding capital buffer requirement.

 Not relevant

9 Equity investment risk

9.1 Definition

Equity investment risk is defined as the risk of losses arising from negative changes in the fair value of that portion of the long-term equity investments portfolio for which the risks are not included in other types of risk.

9.2 Specific risk factors

Key factors when determining equity investment risk are the equity investment's industry sector, the location of its registered office, and the nominal amount of the investment. The possibility cannot be ruled out that a future impairment test on the long-term equity investments held by the entities in the Bank sector could lead to a significant reduction in the carrying amounts of these investments reported on the balance sheet. In the case of non-controlling interests, there is also a risk that key information may not be available or cannot be obtained promptly by virtue of the fact that the investment is a minority stake and this could result in a need to recognize impairment losses.

9.3 Business background, risk strategy, and responsibility

In the Bank sector, equity investment risk arises primarily at DZ BANK, BSH, and DVB.

The entities in the Bank sector hold long-term equity investments largely for strategic reasons, especially to cover markets, market segments, or parts of the value chain in which they themselves or the cooperative banks are not active. These investments therefore support the sales activities of the cooperative banks or help reduce costs by bundling functions. The investment strategy is continuously aligned with the needs of cooperative financial network policy.

Risk strategy requirements must be observed in the management of long-term equity investments. Such management is subject to the principle that equity investment risk (measured as risk capital requirement) may be taken on only if this risk is considered together with the associated opportunities and only if the risk remains below the existing limits.

Decisions on whether to acquire or dispose of **long-term equity investments** are made by the Board of Managing Directors of the entities in the Bank sector in consultation with the relevant committees.

At DZ BANK, the Strategy & Group Development division is responsible for **supporting these investments**, whereas at BSH the task falls within the scope of the Central Services/Policy/International division and the Financial Controlling division. At DVB, the investments are the responsibility of the Accounting and Legal Affairs departments.

Equity investment risk is **measured** and **monitored** at Bank sector level by DZ BANK. Details are reported within the DZ BANK Group's overall risk report.

9.4 Risk management

The carrying amounts of the long-term equity investments are regularly tested for possible impairment in the last quarter of the financial year. If there are any indications during the course of the year of possible impairment, more frequent impairment tests are also carried out. In the impairment tests, the carrying amounts of the long-term equity investments are compared against the amount that could be realized on the market on the same date.

The risk capital requirement for the vast majority of the long-term equity investments in the **Bank sector** including **DZ BANK** is determined using a Monte Carlo simulation. In this method, portfolio concentrations in sectors and individual counterparties are taken into account by simulating industry-wide and individual investment-related risk factors.

The risk capital requirement is influenced, in particular, by the market values of the long-term equity investments, the volatility of the market values, and the correlations between the market values, with market price fluctuations mainly derived from reference prices listed on an exchange.

At **DVB**, the risk capital requirement for long-term equity investments in the transport sector is determined using an earnings-at-risk approach.

The measurement of equity investment risk takes into account both the equity-accounted investments and the fully consolidated investees. As part of acquisition accounting and during the course of preparing the consolidated financial statements, the investment carrying amounts for consolidated subsidiaries are offset against the relevant share of net assets. Consequently, the investment carrying amounts disclosed in the notes to the consolidated financial statements are considerably lower than the carrying amounts used for determining risk.

9.5 Risk position

The **carrying amounts of long-term equity investments** in the **Bank sector** relevant for the measurement of equity investment risk amounted to €2,392 million as at December 31, 2019 (December 31, 2018: €2,776 million). As at December 31, 2019, the carrying amounts of the long-term equity investments of **DZ BANK** totaled €1,509 million (December 31, 2018: €1,697 million).

As at the reporting date, the **risk capital requirement including capital buffer requirement** for equity investment risk in the **Bank sector** was measured at €850 million, which was lower than the corresponding figure at the end of 2018 of €1,091 million. The limit was €1,063 million (December 31, 2018: €1,341 million). The limit was not exceeded at any time in 2019. The decline in the risk and the limit was attributable to the disposal of long-term equity investments.

As at December 31, 2019, the **risk capital requirement including capital buffer requirement** for equity investment risk at **DZ BANK** amounted to €503 million (December 31, 2018: €685 million). The limit at December 31, 2019 was €640 million (December 31, 2018: €800 million).

10 Market risk

10.1 Definition

Market risk in the Bank sector comprises market risk in the narrow sense of the term, and market liquidity risk.

Market risk in the narrow sense of the term – referred to below as market risk – is the risk of losses arising from adverse movements in market prices or in the parameters that influence prices.

Market risk in the Bank sector is broken down into general market risk, spread and migration risk, and asset management risk. General market risk comprises the following components: interest-rate risk, equity risk, fund price risk, currency risk, and commodity risk.

Market liquidity risk is the risk of losses arising from adverse changes in market liquidity, for example as a result of a reduction in market depth or of market disruption. Market liquidity risk arises primarily in connection with securities already held in the portfolio as well as funding and money market business.

10.2 Specific risk factors

Interest-rate risk, spread and migration risk, equity risk, fund price risk, currency risk, and asset-management risk are caused by changes in the yield curve, credit spreads, exchange rates, and share prices. Credit spreads and market liquidity squeezes are the critical risk factors for the overall market risk in the Bank sector, including DZ BANK.

Spread risk, including migration risk, is the most significant type of market risk for the entities in the Bank sector and DZ BANK. A significant proportion of the spread and migration risk is attributable to securities issued by southern eurozone periphery countries and held by the entities in the Bank sector. **Wider credit spreads** are an indication that markets believe credit quality has deteriorated. If credit spreads were to widen, this would therefore lead to a fall in the fair value of the government and corporate bonds affected.

A **liquidity squeeze throughout the market** could also mean that assets held by the entities in the Bank sector could only be liquidated in markets if they were discounted and that it would only be possible to carry out active risk management on a limited basis. There is also a risk that the business activities of the entities in the Bank sector could be adversely impacted as a result of these effects, which could arise particularly in periods when markets are subject to significant stress.

10.3 Business background and risk strategy

10.3.1 Business background

The DZ BANK Group is exposed to considerable market risk in the Bank sector. Market risk arises mainly in connection with BSH, DZ HYP, and UMH in addition to DZ BANK. The assumption of market risk by these entities in the Bank sector is primarily attributable to the DZ BANK Group's strategic focus on the cooperative financial network. This strategy means that each entity in the DZ BANK Group specializes in certain types of product with a corresponding impact on the respective entity's risk profile.

Market risk thus arises mainly from DZ BANK's own trading activities and its traditional lending business with non-retail customers, BSH's traditional lending business aimed at financing privately owned real estate, DZ HYP's traditional lending business involving finance for real estate and local authorities, together with its portfolios of securities held to manage liquidity

and cover assets, and UMH's own-account investing activities and its guarantee obligations to customers linked to fund-based investment products.

Liabilities and – where present in a group entity – assets related to direct pension commitments are a further source of market risk. Market liquidity risk arises primarily in connection with securities already held in the portfolio as well as funding and money market business.

10.3.2 Risk strategy

The following principles for managing market risk apply to the **Bank sector** and **DZ BANK**:

- Market risk is only taken on to the extent that it is necessary to facilitate attainment of business policy objectives.
- The assumption of market risk is only permitted within the existing limits and only provided that it is considered together with the associated opportunities.
- Statutory restrictions, provisions in the Articles of Association, or other limitations enshrined in the risk strategy that prohibit the assumption of certain types of market risk for individual management units are observed.

DZ BANK and the subsidiaries pursue the following strategies in relation to the individual **types of market risk**:

- Spread and migration risk is assumed.
- Interest-rate risk associated with the original business purpose of the management units is largely eliminated.
- In contrast, interest-rate risk from pension obligations is accepted and included in the calculation of risk-bearing capacity.
- Virtually all currency risk is eliminated.
- Commodity risk is assumed only to a very small degree.

Market liquidity risk is consciously assumed following an analysis that takes into account the prevailing market liquidity.

10.4 Organization, responsibility, and risk reporting

Market risk in the **Bank sector** is managed on a decentralized basis by the individual management units within the centrally specified limits for the capital requirement for market risk. Each unit bears

responsibility for the risk and performance associated with each portfolio. Responsibility for managing risk within a management unit is normally brought together under a local treasury unit.

One exception is **DZ BANK**, where portfolios are managed at the level of subordinate organizational units (group, department, division). In this case, the relevant traders bear direct responsibility for risk and performance. The organizational units are structured in such a way that the responsibility for the marketing of certain types of product is assigned in each case to a trading division with product responsibility.

Key figures for market risk are reported at **sector level** and for **DZ BANK** to the Group Risk and Finance Committee within the overall risk report for the DZ BANK Group.

10.5 Management of market risk

10.5.1 Central market risk measurement

Central market risk measurement in the overall portfolio Various components are used to quantify market risk in the Bank sector from a present value perspective. These components are combined to determine the aggregate risk capital requirement for market risk, taking into account the effects of concentration and diversification. The risks arising in connection with the assets and liabilities associated with direct pension commitments are also factored in. Since the start of 2019, the models have been operated centrally by DZ BANK and are fed with input data provided by the management units on each trading day. Sector-wide standards and rules ensure that the modeling is appropriate.

The **first component** of the measurement approach creates a spread and migration risk model based on a Monte Carlo simulation. It determines the combined spread and migration risk over a longer-term (strategic) horizon of 1 year with a confidence level of 99.9 percent. Whereas spread risk quantifies credit-risk-related losses from financial instruments in a short-term view of value-at-risk, this becomes the combined spread and migration risk in the risk capital requirement over a longer-term perspective. For this reason, migration risk is not shown in the table of values-at-risk in Fig. 34.

The **second component** is a value-at-risk model based on a historical simulation in which the general

market risk is determined from a short-term (operational) perspective over 1 day and with a confidence level of 99.0 percent. The model calculated day by day is based on a historical observation period of 250 trading days and includes a number of risk factors. The most important risk factor groups include money market and swap interest rates, basis and credit spreads, share prices, exchange rates, and commodity prices. The model also includes implied volatility in the risk measurement. Drawing on the results of the value-at-risk measurement, a transformation model scales up the operational key risk indicators (also taking account of stress events) to a strategic perspective in which a 1-year holding period and a confidence level of 99.9 percent is assumed.

In the **last step**, the results from the spread and migration risk model and from the transformation model are then combined to give the aggregate risk capital requirement for market risk.

Central market risk measurement for interest-rate risk in the banking book

For internal sector-wide management purposes, the banking book and trading book are treated in the same way in terms of the models used, key risk indicators, frequency of risk measurement, and main risk measurement parameters. To supplement this risk management approach in which the banking and trading books are analyzed holistically, interest-rate risk in the banking book from a regulatory perspective within the Bank sector and at DZ BANK is managed separately using a present-value approach.

On behalf of the other management units in the Bank sector, DZ BANK also operates a partially centralized model for quantifying periodic interest-rate risk.

Overall, these methods are used to record the impact from changes in interest rates, both from an economic perspective (based on present value) and from the angle of net interest income.

Concentrations of market risk

Concentrations in the portfolio affected by market risk are identified by classifying the exposure in accordance with the risk factors associated with interest rates, spreads, migration, equities, currencies, and commodities. This incorporates the effects of correlation between these different risk factors, particularly in stress phases.

10.5.2 Decentralized market risk measurement

In addition to the models specified in section 10.5.1, the main **management units** operate their own risk models to satisfy ICAAP requirements from the perspective of the individual institution. The results from these models are not used to manage market risk in the Bank sector and therefore do not form part of this opportunity and risk report.

10.5.3 Backtesting and stress tests

The central value-at-risk model is subject to **backtesting**, the purpose of which is to verify the predictive quality of the model. Changes in the value of portfolios on each trading day are usually compared against the value-at-risk calculated using risk modeling.

Risks arising from extreme market situations are primarily recorded using **stress tests**. The crisis scenarios underlying the stress tests include the simulation of significant fluctuations in risk factors and serve to highlight potential losses not generally recognized in the value-at-risk approach. Stress tests are based on extreme market fluctuations that have actually occurred in the past together with crisis scenarios that – regardless of market data history – are considered to be economically relevant. The crisis scenarios used in this case are regularly reviewed to ensure they are appropriate. The following are deemed to be risk factors: interest-rate risk, spread risk, migration risk, equity risk, and currency risk.

10.5.4 Management of limits for market risk

The starting point for limiting market risk is a limit for the capital requirement for market risk in the **Bank sector** specified as part of operational planning. This limit is broken down into an individual limit for the market risk capital requirement in each management unit.

Within **DZ BANK**, this limit is then further subdivided into a system of limits for the divisions, departments, and groups to appropriately reflect the decentralized portfolio responsibility assigned to these units and the nature of the bank from a regulatory perspective as a trading book institution. Limits are monitored on every trading day.

10.5.5 Mitigating market risk

The entities in the Bank sector use various approaches to mitigate market risk. For example, some market risk from the assets-side business (such as traditional lending business) or from the liabilities-side business (such as home savings deposits) is offset by suitable

countervailing liability or asset transactions (such as own issues or securities). These activities are carried out as part of asset/liability management. In other cases, financial derivatives are used for hedging purposes.

As the measurement of market risk is based on the inclusion of the individual items subject to market risk, there is no need to monitor the economic effectiveness of hedges.

10.5.6 Managing the different types of market risk

Management of spread risk and migration risk

Most of the spread and migration risk in the **Bank sector** and at **DZ BANK** arises from non-trading portfolios and is consciously assumed within the established limits in accordance with the associated long-term investment strategy. Hedging instruments are also used in carefully selected trading book portfolios. The central measurement of this risk means that the level of the risk on every trading day is transparent. If there is any indication that the ability of the Bank sector or **DZ BANK** to bear the spread and migration risk is in jeopardy, Group Treasury at **DZ BANK** will initiate corrective measures across the sector.

Management of interest-rate risk

Interest-rate risk arising from operating activities at **DZ BANK** and **DZ HYP** is mitigated primarily by means of hedging using interest-rate derivatives, either on the basis of individual transactions or portfolios.

At **BSH**, an asset/liability management approach based on the maturities of the securities in the investment portfolio is used to manage interest-rate risk arising from the collective building society operations and the traditional lending business, including the interest-rate risk associated with direct pension commitments. Interest-rate derivatives are of minor significance.

DZ BANK is notably exposed to significant interest-rate risk from direct pension commitments in addition to the interest-rate risk arising from operating activities. This risk is consciously assumed within the existing limits.

Management of equity risk and fund price risk

Equity risk and fund price risk from the non-trading portfolios are managed first and foremost by directly changing the underlying exposure. Derivative products

are also used within the trading portfolio to keep the type of risk involved within the allocated limits.

Some funds are broken down into their constituent parts for the purposes of measuring the risk. In such cases, the risk is not treated as part of fund price risk, but is managed within the type of market risk determined for the constituent part concerned.

Management of asset-management risk

Asset-management risk arises from minimum payment commitments given by **UMH** and/or its subsidiaries for guarantee products. The risks from these guarantee products are managed mainly by using asset allocation.

The launch of new guarantee products is governed by the guidelines for medium-term planning that apply to **UMH** and takes into account the risk capital required and the available internal capital. Before new products are launched, the risks associated with them are analyzed and assessed. Management mechanisms embedded in the products aim to prevent the value of an individual product from falling below its guaranteed level during its lifetime.

Asset-management risk is reported using a separate internal system and is monitored regularly at individual product level by **UMH**.

10.6 Management of market liquidity risk

The calculation of general market risk in the Bank sector and at **DZ BANK** using the transformation model and the spread and migration risk model takes market liquidity risk into account.

Within the transformation model, stress events are expressly integrated into the analysis when market risk is scaled up from an operating perspective to a strategic perspective. The change in risk factors in these events is based on the assumption that it is not possible to make changes to the exposures in the portfolio of the Bank sector and **DZ BANK** over a specified period.

The spread and migration risk model implicitly factors in phases of diminishing market liquidity via the calibration of the credit spread volatility included in the model. The estimation of volatility based on market data from the recent past also uses a lower limit determined from longer-term data. This prevents any low level of credit spread volatility in a calm market environment with normal liquidity from being transferred directly into the model parameters.

10.7 Risk position

10.7.1 Value-at-risk

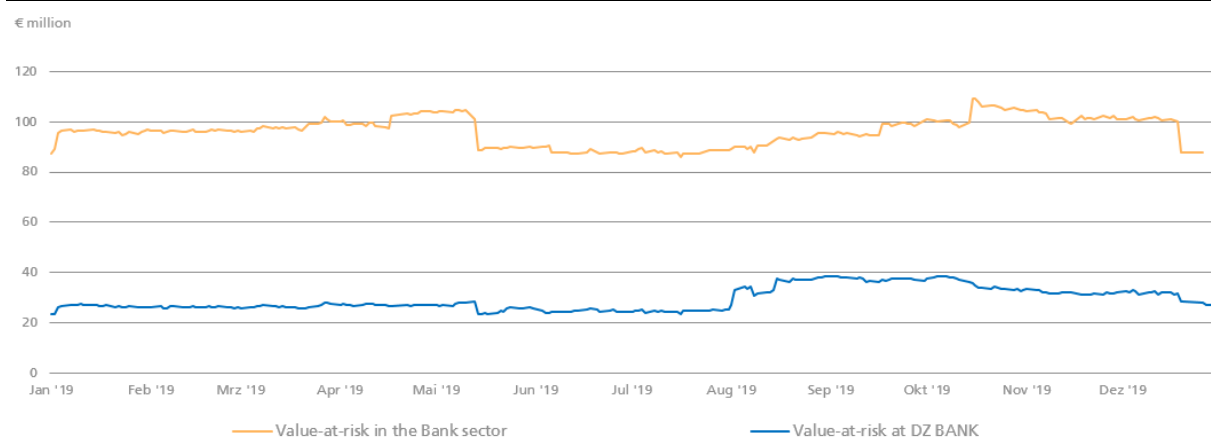
Since the start of 2019, DZ BANK has been using a central, sector-wide market risk model for the short-term (operational) management of market risk in the

Bank sector and at DZ BANK. Because of this change of management system, the aggregate risk is no longer separated into trading and non-trading portfolios. This has resulted in changes to the chart and table of risk values compared with the presentation in the 2018 opportunity and risk report.

The changes in market risk by trading day for the **Bank sector** and **DZ BANK** in 2019 are shown in Fig. 33.

Fig. 34 shows the average, maximum, and minimum values-at-risk measured for the **Bank sector** and **DZ BANK** over the reporting year, including a further breakdown by type of market risk.

FIG. 33 – BANK SECTOR: CHANGE IN MARKET RISK BY TRADING DAY¹



¹ Value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period, based on a central market risk model for the Bank sector. Concentrations and effects of diversification were taken fully into account when calculating the risks.

FIG. 34 – BANK SECTOR: CHANGE IN MARKET RISK BY TYPE OF RISK^{1 2}

€ million	Interest-rate risk		Spread risk		Equity risk ³		Currency risk		Commodity risk		Diversification effect ⁴		Total	
	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK	Bank sector	DZ BANK
Dec. 31, 2018	23	7	76	19	7	1	1	2	-	-	-19	-6	88	23
Average	20	11	88	22	6	2	2	3	-	-	-20	-8	96	29
Maximum	30	17	103	25	8	3	5	4	-	-	-37	-11	109	39
Minimum	11	7	73	18	5	1	-	2	-	-	-3	14	86	23
Dec. 31, 2019	11	9	88	21	6	2	4	4	-	-	-21	15	88	27

¹ Value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period, based on a central market risk model for the Bank sector. Concentrations and effects of diversification were taken fully into account when calculating the risks.

² The minimum and maximum amounts for the different subcategories of market risk may stem from different points in time during the reporting period. Consequently, they cannot be aggregated to produce the minimum or maximum aggregate risk due to the diversification effect.

³ Including funds, if not broken down into constituent parts.

⁴ Total effects of diversification between the types of market risk for all consolidated management units.

The following value-at-risk figures were measured as at December 31, 2019 for the **interest-rate risk in the banking book for regulatory purposes** (corresponding figures as at December 31, 2018 in parentheses):

- Bank sector: €11 million (€23 million)
- DZ BANK: €8 million (€7 million)

The decline in the interest-rate risk in the Bank sector was attributable to changes in positions at BSH.

10.7.2 Risk capital requirement

One of the tools used to quantify market risk from a longer-term (strategic) perspective is a spread and migration risk model. This model determines the combined spread and migration risk with a 1-year horizon and a confidence level of 99.9 percent. A value-at-risk model is also used. It determines the general market risk from a short-term (operational) perspective over 1 day with a confidence level of 99.0 percent. Drawing on the results of the value-at-risk measurement, a transformation model scales up the operational key risk indicators (also taking account of stress events) to a strategic perspective with a 1-year holding period and a confidence level of 99.9 percent. The results from the spread and migration risk model and from the transformation model are then combined to give the aggregate risk capital requirement for market risk. The aggregate risk capital requirement is compared with the related limits every month to ensure there is capacity to bear market risk.

As at December 31, 2019, the **risk capital requirement (including capital buffer requirement)** for market risk in the **Bank sector** amounted to €3,860 million (December 31, 2018: €4,030 million with a **limit** of €5,646 million (December 31, 2018: €6,768 million). The decrease in the risk was largely due to the introduction of the central market risk model.

As at December 31, 2019, **DZ BANK's risk capital requirement (including capital buffer requirement)** for market risk amounted to €1,698 million (December 31, 2018: €1,150 million) with a **limit** of €2,220 million (December 31, 2018: €2,000 million). The increase in the risk was attributable to a change in the reporting methodology. DZ BANK is not exposed to any asset-management risk.

Throughout the year under review, the risk capital requirement (including capital buffer requirement)

remained below the relevant limit at the levels of both the Bank sector and DZ BANK.

11 Technical risk of a home savings and loan company

11.1 Definition

Technical risk of a home savings and loan company is subdivided into two components: new business risk and collective risk.

New business risk is the risk of a negative impact from possible variances compared with the planned new business volume.

Collective risk refers to the risk of a negative impact that could arise from variances between the actual and forecast performance of the collective building society operations caused by significant long-term changes in customer behavior unrelated to changes in interest rates. It can be distinguished from interest-rate risk by incorporating a change in customer behavior unrelated to interest rates in the collective simulation. Conversely, only changes in customer behavior induced by changes in interest rates are relevant to interest-rate risk.

11.2 Specific risk factors

A variance between the actual and planned new business volume (**new business risk**) could lead to lower deposits from banks and customers over the short to medium term. Over the medium to long term, the lower level of new business could also lead to a decrease in loans and advances to banks and customers.

Variances between the actual and forecast performance of the collective building society business caused by significant long-term changes in customer behavior unrelated to changes in interest rates (**collective risk**) could also lead to lower loans and advances to banks and customers and to lower deposits from banks and customers.

Over the medium to long term, there is a risk that a lower level of new business and change in customer behavior could cause net interest income to taper off.

11.3 Business background, risk strategy, and responsibility

Technical risk of a home savings and loan company arises in the Bank sector in connection with the

business activities of BSH. This risk represents the entity-specific business risk of BSH. A home savings arrangement is a system in which the customer accumulates savings earmarked for a specific purpose. The customer enters into a home savings contract with fixed credit balance and loan interest rates, so that when the savings phase is completed at a later point and a loan is allocated under the contract, he/she can receive a home savings loan at a favorable interest rate. A home savings agreement is therefore a combined asset/liability product with a very long maturity.

Technical risk of a home savings and loan company is closely linked with the BSH business model and cannot therefore be avoided. Against this backdrop, the **risk strategy** aims to prevent an uncontrolled increase in risk.

BSH is **responsible** for managing the technical risk of a home savings and loan company within the Bank sector. This includes measuring the risk and communicating risk information to the risk management committees at BSH and to the Board of Managing Directors and Supervisory Board of BSH. Technical risk of a home savings and loan company forms an integral part of the DZ BANK Group's internal risk reporting system.

11.4 Risk management

A special collective simulation, which includes the integrated effects of a (negative) change in customer behavior and a drop in new business, is used to **measure the technical risk of a home savings and loan company** on a quarterly basis. The results from the collective simulation for the technical risk of a home savings and loan company are fed into a long-term forecast of earnings. The variance between the actual earnings in the risk scenario and the earnings in a base forecast with the same reference date is used as a risk measure. The variance is discounted to produce a present value. The total present value of the variances represents the technical risk of a home savings and loan company and therefore the risk capital requirement for this type of risk.

Concentrations of this risk are most likely to arise from new business risks.

In order to determine the technical risk of a home savings and loan company in a **stress scenario**, the stress parameters (customer behavior and new business) are severely impaired. An appropriate collective simulation is then generated on this basis and is analyzed using the same methodology used

for the measurement of current risk. Stress tests are carried out quarterly.

The risk is managed in particular through a forward-looking policy for products and scales of rates and charges, and through appropriate marketing activities and sales management.

11.5 Risk position

As at December 31, 2019, the **capital requirement** for the technical risk of a home savings and loan company amounted to €397 million (December 31, 2018: €553 million) with a **limit** of €706 million (December 31, 2018: €667 million). A capital buffer requirement was not calculated for the technical risk of a home savings and loan company as at the reporting date. The decrease in the risk was due to the course of business and the general conditions.

12 Business risk

12.1 Definition and business background

Business risk denotes the risk of losses arising from earnings volatility for a given business strategy and not covered by other types of risk. In particular, this comprises the risk that, as a result of changes in material circumstances (for example, the regulatory environment, economic conditions, product environment, customer behavior, market competitors) corrective action cannot be taken at an operational level to prevent the losses.

DZ BANK's core functions as a central institution, corporate bank, and holding company mean that it focuses closely on the local cooperative banks, which are its customers and owners. In this context, business risk can arise from corporate banking, retail banking, capital markets business, and transaction banking.

Business risk mainly affects DVB and DZ PRIVATBANK in addition to DZ BANK.

12.2 Specific risk factors

Business risk in the Bank sector of the DZ BANK Group is shaped by the following factors:

Costs of regulation

Over the next few years, the DZ BANK Group is likely to continue to face increased costs, and thus reduced profits, in connection with implementing the requirements resulting from regulatory legislative initiatives (see section 5.1).

Competition based on pricing and terms

Fiercer competition in retail and corporate banking based on pricing and terms could give rise to margins that are economically unattractive for the entities in the Bank sector or that do not adequately cover the risk arising from the corresponding transactions.

Greater competition in capital markets business

DZ BANK's capital markets business is faced with the ongoing challenges presented by **low interest rates**, accompanied by a fall in market liquidity and historically low risk premiums. In DZ BANK's own-account investing activities with the local cooperative banks, there is an evident rise in price sensitivity caused by a contraction in operating profits and increases in the size of the banks resulting from mergers. DZ BANK's customers have the option of conducting transactions in selected financial instruments using **electronic trading platforms**. For certain products, this is likely to lead to a shift in trading volume to such trading platforms. It is predicted that this will bring about a change in competitor structure, with competition becoming fiercer in the trading of certain financial instruments for customer account, resulting in the risk of a reduction in margins and revenue going forward.

New competitors in transaction banking

In transaction banking, the entities in the Bank sector are increasingly finding themselves up against less regulated global competitors, often from outside the banking sector and offering innovative solutions to meet the changes in customer needs. These developments are changing the role played by the management units as product providers and are likely to reduce fee and commission income from the transaction banking activities of the entities in the Bank sector.

12.3 Organization and risk management

The management of business risk is a primary responsibility of the **Board of Managing Directors of DZ BANK** and is carried out in consultation with the senior management of the main subsidiaries and the heads of the DZ BANK divisions involved. Group management is integrated into a committee structure, headed by the **Group Coordination Committee**. The Strategy & Group Development division supports the Board of Managing Directors as part of its role in supervising the activities of the subsidiaries.

The **Central Advisory Council** plays a key role in providing ideas and advice for the members of the

Group Coordination Committee and the Board of Managing Directors of DZ BANK. The council facilitates in-depth discussion of key strategic issues in the DZ BANK Group. These issues include the fundamental ongoing development of the entities in the DZ BANK Group, strategic planning considerations, and current business performance. The Central Advisory Council also addresses key questions relating to the design of new products and services, and their marketing to cooperative banks and their customers.

The management of business risk is closely linked with the **management of opportunities** and the tools used in the strategic planning process. It is based on setting targets for the subsidiaries involved in active management and for the divisions of DZ BANK.

Business risk is quantified using a risk model based on an earnings-at-risk approach. Risk concentrations may arise if business activities are focused on a small number of areas. Concentrations of business risk are limited by using qualitative criteria in strategic management.

To identify regulatory initiatives with a material impact on the DZ BANK Group, DZ BANK, and the other management units, a centralized **regulation management** office has been set up at DZ BANK. This office establishes direct contact with the relevant units at DZ BANK and in the other management units, organizes regular bank-wide and groupwide dialog on identified and new strategic regulatory initiatives, and uses a 'regulatory map' to report to the responsible steering committees, the Board of Managing Directors, and the Supervisory Board of DZ BANK.

12.4 Risk position

As at December 31, 2019, the **Bank sector's risk capital requirement (including capital buffer requirement)** for business risk (including reputational risk) amounted to €837 million (December 31, 2018: €857 million). The **limit** was €1,016 million as at the reporting date (December 31, 2018: €1,118 million).

As at December 31, 2019, the economic capital requirement for **DZ BANK** was calculated at €673 million (December 31, 2018: €686 million). The limit as at December 31, 2019 was €770 million (December 31, 2018: €800 million).

The limits for the Bank sector and for DZ BANK were not exceeded at any measurement date during 2019.

13 Reputational risk

13.1 Definition and business background

Reputational risk refers to the risk of losses from events that damage confidence, mainly among customers (including the cooperative banks), shareholders, employees, the labor market, the general public, and the supervisory authorities, in the entities in the Bank sector or in the products and services that they offer. Reputational risk can arise as an independent risk (primary reputational risk) or as an indirect or direct consequence of other types of risk, such as liquidity risk, business risk, and operational risk (secondary reputational risk).

13.2 Specific risk factors

If the Bank sector as a whole or the individual management units acquire a negative reputation, there is a risk that existing or potential customers will be unsettled with the result that existing business relationships might be terminated or it might not be possible to carry out planned transactions. There is also a risk that it will no longer be possible to guarantee the backing of stakeholders, such as shareholders and employees, necessary to conduct business operations.

13.3 Risk strategy and responsibility

Reputational risk is incorporated into the risk strategy by pursuing the following objectives:

- Avoiding loss resulting from reputation-damaging incidents by taking preventive action
- Mitigating reputational risk by taking preventive and responsive action
- Raising awareness of reputational risk within the Bank sector, e.g. by defining the people responsible for risk and establishing a sector-wide reporting system and set of rules for reputational risk.

These objectives are applicable both at the Bank sector level and in the management units. The management units are responsible for complying with the rules and for deciding what suitable preventive and responsive action to take.

The reputational risk strategy is based on the business strategies in each management unit and to this end is reviewed at least once a year and adjusted as necessary.

Each management unit is responsible for managing its reputational risk and must comply with the requirements laid down in the set of rules for reputational risk. The principle of **decentralized** responsibility applies equally within all the management units, including DZ BANK. Based on this approach, responsibility for managing reputational risk lies with each division with the involvement of other functions such as communications, marketing, corporate security, and compliance.

13.4 Risk management

Reputational risk in the Bank sector is generally taken into account within business risk and is therefore implicitly included in the measurement of risk and assessment of capital adequacy. At BSH, reputational risk is measured and the capital requirement determined mainly as part of the technical risk of a home savings and loan company. In addition, the risk that obtaining funding may become more difficult as a consequence of reputational damage is specifically taken into account in liquidity risk management.

Crisis communications aimed at mitigating reputational risk are designed to prevent greater damage to the entities in the Bank sector if a critical event occurs. The management units therefore follow a stakeholder-based approach in which reputational risk is identified and evaluated from a qualitative perspective depending on the stakeholder concerned.

14 Operational risk

14.1 Definition

Operational risk – also referred to below as OpRisk – is defined as the risk of loss from human behavior, technological failure, weaknesses in process or project management, or external events. This closely resembles the regulatory definition. Legal risk is included in this definition.

Operational risk in the Bank sector is broken down into the following components:

- HR risk
- IT risk
- Outsourcing risk
- Legal risk

- Tax risk
- Compliance risk
- Risks in connection with the (consolidated) financial reporting process.

14.2 Business background and risk strategy

Operational risk can arise in any division of the entities in the Bank sector. DZ BANK as well as DVB, DZ HYP, DZ PRIVATBANK, and UMH are particularly subject to operational risk.

The Bank sector entities aim to manage operational risk efficiently. They apply the following principles:

- Reinforce risk awareness
- Handle operational risk openly and largely without penalties
- Avoid, reduce, transfer, or accept risk as optional courses of action
- Ensure that the impact of decisions on operational risk is taken into account
- Manage operational risk on a decentralized basis but within the limits set out in the framework for operational risk.

14.3 Organization, responsibility, and risk reporting

Each management unit is responsible for managing its operational risk. The principle of **decentralized** responsibility applies equally within all the management units, including DZ BANK.

One of the purposes of the **framework for operational risk** is to harmonize organizational structures throughout the sector. The sector-wide coordinated approach to operational risk is also managed by a **committee** assigned to the Group Risk Management working group and comprising representatives from DZ BANK and its main subsidiaries.

A **DZ BANK** unit responsible for controlling operational risk located within the Group Risk Controlling division develops the management and control methods based on regulatory requirements and business needs applicable to the Bank sector. The unit ensures that operational risk is monitored independently and it is responsible for central reporting.

Corresponding organizational units are also in place at the other main entities in the **Bank sector**.

In most of the management units in the **Bank sector**, including **DZ BANK**, specialist divisions with central risk management functions manage some operational risk tasks. As part of their overarching responsibility, these specialist divisions in each entity also perform an advisory and guiding function for the matters within their remit.

Because operational risk can affect all divisions, local operational risk coordinators are located in each division of the main **management units** and they act as interfaces with Central Risk Controlling. This also applies to **DZ BANK**.

Regular **reports** on loss data, risk self-assessments, risk indicators, and risk capital are submitted to the Board of Managing Directors, the Group Risk and Finance Committee, the Risk Committee, and operational management, facilitating effective management of operational risk on a timely basis.

14.4 Central risk management

14.4.1 Measurement of operational risk

An **economic portfolio model** that takes into account loss data and the results from the risk self-assessments is used to determine the risk capital requirement for operational risk in the Bank sector. The results from the model, combined with the tools used to identify risk, are used to manage operational risk centrally.

In addition, **risk concentrations** and risk drivers are identified by using separate model-based analyses, taking into account event categories and areas of business specified by regulatory requirements. Such concentrations can occur, for example, if IT systems are supplied by just a few companies or if business processes are outsourced to a limited number of service providers.

14.4.2 Identifying operational risk

Loss database

The groupwide collation of loss data in a central database allows the Bank sector to identify, analyze, and evaluate loss events, highlighting patterns, trends, and concentrations of operational risk. This data-gathering covers a number of areas but focuses particularly on data for gross losses with a value of €1,000 or more related to risks that have been incurred, for example in connection with the risk factors specified in sections 14.5 to 14.11. The

recorded gross losses upward from a defined threshold value are managed as part of the corrective action management process.

Risk self-assessment

Senior managers from all management units assess operational risk using a scenario-supported risk self-assessment process in order to identify and evaluate all material operational risks and ensure maximum possible transparency regarding the risk position. The main potential risks for all first-level risk categories as defined by the CRR are calculated and described using risk scenarios. The scenarios also enable risk concentrations to be identified.

Risk indicators

In addition to the loss database and risk self-assessment, risk indicators help the Bank sector to identify risk trends and concentrations at an early stage and detect weaknesses in business processes. A system of warning lights is used to indicate risk situations based on specified threshold values. Risk indicators within the Bank sector are collected systematically and regularly on a wide scale.

14.4.3 Limiting operational risk

The limits for operational risk are used as the basis for central monitoring of the risk capital requirement at the Bank sector level. The risk capital requirement for the Bank sector is broken down into risk contributions for each management unit using a risk-sensitive allocation procedure so that the management units in the Bank sector can be monitored centrally. These risk contributions are then monitored centrally using limits for each management unit.

14.4.4 Mitigating and avoiding operational risk

Continual improvement of business processes is one of the methods used with the aim of **mitigating** operational risk. The transfer of risk by means of insurance or outsourcing as permitted by liability regulations provides further protection.

Operational risk is **avoided**, for example, by rejecting products that can be identified during the new product process as entailing too much risk.

In all relevant management units, a comprehensive **contingency and crisis management system** (with business continuity plans covering critical processes) has been established to ensure the continuation of business in the event of process disruption or system breakdown. These business continuity plans are

regularly reviewed and simulated to ensure they are fully functional. The contingency and crisis management system at DZ BANK has been certified in accordance with ISO 22301, which applies worldwide.

14.5 HR risk

14.5.1 Specific risk factors

Disputes in connection with the collective bargaining process can give rise to a risk of strikes. The possibility cannot be ruled out that simultaneous industrial action at all sites over several days could cause lasting disruption to processes and workflows. Moreover, sensitive internal and external interfaces could be jeopardized by long-term business interruptions. This could restrict operating activities and have a negative impact on reputation.

Unless the necessary number of **suitable managerial and administrative staff** can be attracted within the required timeframe, and/or existing managers and employees can be retained in the Bank sector entities, there will be a heightened risk that, in particular, appointments to key regulatory functions will not be made or will not be made satisfactorily as a result of inadequate expertise in terms of either quality or quantity. This could lead to sanctions from the banking supervisor and a qualified audit opinion in the consolidated and separate financial statements and group management reports and management reports prepared by the entities in the Bank sector, which could impact negatively on the reputation of individual entities in the Bank sector and of the DZ BANK Group as a whole.

14.5.2 Risk management

The entities in the Bank sector have developed a mechanism known as a **Human Resources KPI cockpit** with standardized KPIs. The Human Resources KPI cockpit is intended to integrate HR strategies between the management units, increase transparency, and ensure comparability between the HR management systems in the Bank sector as well as help the management units to manage their HR activities. To this end, the cockpit specifies 21 KPIs across the following four categories: value added/finance, employer appeal, organization/efficiency, and innovation/learning.

The entities in the Bank sector pursue the objective of preventing or minimizing HR risk by identifying negative trends and abnormalities, and then initiating

corrective action. HR risk is monitored using the following 4 risk factors: exit risk, availability risk, skills and qualifications risk, motivational risk.

Long-term professional development, a high level of trainee recruitment, and a staff potential-promotion program for managers aim to ensure that staff members undergo the continuing development and training that will also make it possible to meet future staffing requirements from within the organization. In the interest of long-term staff retention, there are programs to establish and enhance the organization's appeal as a place to work, such as corporate health management and support for achieving a work-life balance.

Compliance functions and a comprehensive internal control system are used to counter fraud and negligence. Examples include internal rules on the minimum absence for employees with responsibility for trading positions.

Risk Controlling at DZ BANK has specified relevant KPIs for HR management as risk indicators. The key figures are collated on a monthly basis as part of the risk indicator process and include training days per employee, employee workload, resignation rate, total staff turnover rate, and the percentage of vacant positions.

The HR division of DZ BANK is involved in designing the standard scenarios relating to HR risk and validates the scenario assessment of the other entities in the Bank sector, particularly with regard to basis of calculation, frequency of occurrence, and loss level.

14.6 IT risk

14.6.1 Specific risk factors

Malfunctions or breakdowns in data processing systems or in the programs used on these systems, including attacks from external sources – such as hackers or malware –, could have an adverse impact on the ability of the entities in the Bank sector to efficiently maintain the processes necessary to carry out operating activities, protect saved data, ensure sufficient control, or continue to develop products and services. Furthermore, such malfunctions or breakdowns could lead to the temporary or permanent loss of data or to unauthorized data access, modification, or publication. This could restrict operating activities and have a negative impact on reputation.

14.6.2 Risk management

The entities in the Bank sector use computers and data processing systems to carry out their operating activities. Practically all business transactions and activities are processed electronically using appropriate IT systems. These systems are networked with each other and are operationally interdependent.

Processes in the IT units of the entities in the Bank sector are designed with risk issues in mind and are monitored using a variety of control activities in order to ensure that IT risk is appropriately managed. The starting point is to determine which risks are unavoidable in certain aspects of IT. Detailed requirements can then be specified. These requirements determine the extent to which checks need to be carried out and are intended to ensure that all activities are conducted in compliance with the previously defined risk appetite.

IT units apply comprehensive physical and logical precautionary measures to guarantee the security of data and applications and to ensure that day-to-day operations are maintained. Measures used by the Bank sector to counter the risk of a partial or complete loss of IT systems include segregated data processing centers in which the data and systems are mirrored, special access security, fire control systems, and an uninterruptible power supply supported by emergency power generators. Regular exercises are carried out to test defined restart procedures to be used in emergency or crisis situations with the aim of checking the efficacy of these procedures. Data is backed up and held within highly secure environments in different buildings.

DZ BANK's risk assessment methodology for IT risk is made available centrally by information security management and applied locally by the managers responsible for the various applications using tool-supported control processes. All variances identified in these processes are assessed from the perspective of the associated risks. All IT risks classified as material are included in regular information security reports to the Board of Managing Directors.

The risks identified in the information security control processes are also taken into account by the IT division, information security management, and the locally based OpRisk coordinators for the purposes of evaluating the risk self-assessment scenarios as part of the management of operational risk. The IT risk groups, comprising IT operating risk, IT outsourcing

risk, IT security risk, and IT project risk, are each allocated one or more scenarios in the risk self-assessment. When the risk self-assessment is completed, the results of the decentralized risk assessment are compared with internal IT estimates and then analyzed. The results of the risk self-assessment process are also used as parameters for assessing IT risk events in the following year.

14.7 Outsourcing risk

14.7.1 Specific risk factors

When business activities are outsourced, there is a risk that a service provider could fail or cease to be available as a result of insurmountable technical or financial difficulties.

There is also a risk that the services performed by the service provider might not meet the contractually agreed requirements. The consequences could be that only some of the outsourced processes or services can be provided, or even that the outsourced processes or services cannot be provided at all. This could lead to a loss of business and to claims for damages from customers. In turn, this could also have a negative impact on reputation.

14.7.2 Risk management

The entities in the Bank sector have outsourced activities and processes to third-party service providers to a considerable extent.

The process of assessing the risk and determining the degree to which an outsourcing arrangement is material is mostly carried out as part of the analysis of outsourcing risk by the division responsible for the outsourcing with the involvement of a number of corporate and functional units, including legal affairs, business continuity management, and compliance, and in consultation with the local coordinators for operational risk. Internal audit is also involved as part of its auditing activities.

COM acts as a central point of contact for outsourcing matters at DZ BANK and lays down standards for handling outsourcing activities and their operational management. The RSA Archer outsourcing management tool is used within COM as the central application for recording outsourcing projects at DZ BANK and for managing the external service providers.

At DZ BANK, external service providers are managed by the department responsible for the outsourcing in accordance with the currently applicable guidelines for external procurement management. Service meetings are regularly held with service providers to facilitate communication and coordinate the IT services and other services to be provided by the third parties concerned. Compliance with contractually specified service level agreements is monitored by means of status reports and uptime statistics. The external service providers submit annual audit reports in which they evaluate and confirm the effectiveness of the general controls and procedures.

Business continuity plans, specific contractual liability provisions, and exit strategies are used to reduce outsourcing risk.

14.8 Legal risk

Tax risk with legal risk implications is not included in this section; it is described in section 14.9.1 below.

14.8.1 Specific risk factors

Legal risk may arise from changes in the way that the authorities or the courts interpret legal provisions. In particular, the Bank sector entities may have to adjust their business models to offset adverse effects on their competitiveness caused by new or enhanced regulatory requirements relating to liquidity, capital, processes, and/or reporting, or by changes in other regulatory frameworks. These effects could reduce the Bank sector entities' appeal as partners in business transactions.

14.8.2 Risk management

In the entities of the Bank sector, responsibility for managing legal disputes normally lies with their organizational units responsible for dealing with legal issues.

The entities in the Bank sector pursue a strategy of avoiding legal risk. The organizational units responsible for assessing legal issues therefore continuously monitor proposed legislation and regulatory requirements that are legally relevant, as well as developments in decisions by the courts. On this basis, these units identify legal risk and are involved in informing the departments concerned as soon as possible and implementing any necessary changes. The legal affairs units are responsible for reviewing and assessing circumstances from a legal perspective and also for coordinating any legal proceedings. The latter consists of both defending

claims pursued against the entities in the Bank sector and enforcing claims by the management units against third parties.

If any legal risk is identified, the management unit concerned assesses the risk parameters in terms of their probability of occurrence and possible impact. In addition, the amounts in dispute in the divisions are calculated quarterly as part of the assessment of risk indicators and, if they exceed certain thresholds, the affected divisions must prepare a report. As part of the annual risk self-assessment in the management and control of operational risk, the legal affairs divisions of the management units help to assess the standard scenarios for legal risk. The results are taken into account when determining the economic capital.

Identified risks are limited and mitigated by organizational measures, either legal or procedural, or are taken into account by recognizing appropriate loss allowances.

The legal affairs divisions in the Bank sector entities also submit reports on risk-related issues to the member(s) of the Board of Managing Directors with relevant responsibility, independently of the established regular reports on cases pending before the courts.

14.8.3 Provisions recognized on the balance sheet

The entities in the Bank sector report potential losses arising from legal risk in accordance with the relevant (consolidated) financial reporting standards, which includes recognizing any provisions that may be required. This also encompasses potential risk in connection with cases pending before the courts. Disclosures covering the provisions recognized for risks arising from ongoing legal disputes are included in note 69 of the notes to the consolidated financial statements.

Any concentrations of risk owing to similarities between individual cases are taken into consideration. Comparable cases are aggregated to form a group.

The entities in the Bank sector have recognized provisions for legal risk arising in connection with capital market and credit products.

14.9 Tax risk

14.9.1 Specific risk factors

Tax risk can arise from adverse **changes in tax circumstances** (tax legislation, decisions by the courts), adverse **changes in the interpretation by tax authorities of existing tax legislation**, and adverse **changes in non-tax regulation**. Further risks could arise as a result of adverse changes in tax law or in decisions by the courts, which could also have retroactive implications.

As a result of tax audits, an alternative assessment of the tax risk or, in some cases, other information could give rise to **retrospective tax liabilities** for periods that have already been assessed. As there are still outstanding audits by the tax authorities relating to a number of financial years, there is a risk that retrospective tax payments could be required and these payments would be subject to interest charges. Such events could also have a negative impact on reputation.

14.9.2 Risk management

The entities in the Bank sector have decentralized systems for managing tax risk. Within the management units, responsibility for managing tax risk normally lies with the organizational units responsible for dealing with tax issues.

The entities in the Bank sector pursue a strategy of avoiding tax risk. The starting point for managing tax risk is the ongoing process of identifying, recording, and monitoring risk. If any tax risk is identified, the risk parameters are assessed in terms of their probability of occurrence and possible impact in quantitative and qualitative terms. Identified risks are limited and mitigated by means of tax organizational measures. Business transactions are assessed for tax purposes on the basis of current tax legislation, taking into account the latest decisions by the courts and interpretations by the authorities. The outcome is factored into the measurement of loss allowances.

The tax department at DZ BANK reports the groupwide data relevant to risk to the head of the Group Finance division and to the member of the Board of Managing Directors with relevant responsibility. Separately, and depending on materiality thresholds, ad hoc risk reports are also submitted to the above individuals.

14.10 Compliance risk

14.10.1 Specific risk factors

The entities in the Bank sector are exposed to operational risk, especially the risk that the implemented compliance and risk management systems could be inadequate for completely preventing or uncovering violations of legal provisions, for identifying and assessing all relevant risks for the entities in the Bank sector, or for initiating appropriate corrective measures.

Violations of legal provisions may have legal implications for the entity concerned, for the members of its decision-making bodies, or for its employees. They may give rise, for example, to fines, penalties, retrospective tax payments, or claims for damages by third parties. The reputation of individual entities in the Bank sector and the DZ BANK Group as a whole could also suffer as a result. These effects could reduce the Bank sector entities' appeal as partners in business transactions and lead to losses in value.

14.10.2 Risk management

In the context of their operating activities, the entities in the Bank sector must comply with various legal requirements in a large number of countries. These include prohibitions on accepting or granting benefits in connection with efforts to attract business, and prohibitions on other unfair business practices.

The management of risk arising from non-compliance with applicable laws, regulatory requirements, and internal rules and regulations is described in section 3.5.5.

14.11 Risks in connection with the (consolidated) financial reporting process

14.11.1 Specific risk factors

The main risks in the (consolidated) financial reporting process are that, as a result of unintended misstatements or deliberate action, the group management reports, annual financial statements, and management reports of DZ BANK and the other entities in the Bank sector might not provide a true and fair view of financial position and financial performance and/or that publication might be delayed. This could then have an adverse impact on investors' confidence in the DZ BANK Group and in the individual entities in the Bank sector or on their reputation. Furthermore, sanctions could be imposed, for example by the supervisory authorities. These

effects could reduce the Bank sector entities' appeal as partners in business transactions.

14.11.2 Risk management

In order to limit operational risk in this area of activity, DZ BANK and the other entities in the Bank sector have set up internal control systems for the (consolidated) financial reporting process as an integral component of the control systems put in place for the general risk management process. The functionality of these control systems is described in section 3.5.10.

14.12 Loss events

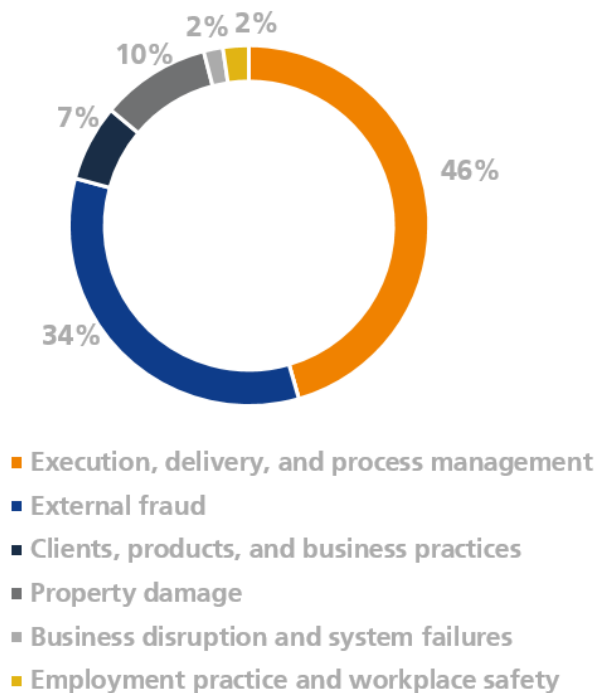
Losses from operational risk do not follow a consistent pattern. Instead, the overall risk profile can be seen from the total losses incurred over the long term and is shaped by a small number of large losses. Consequently, comparisons between net losses in a reporting period and those in a prior-year period are not meaningful. Prior-year figures are therefore not disclosed.

Over the course of time, there are regular fluctuations in the pattern of losses as the frequency of relatively large losses in each individual case is very low. Presenting the change in losses meaningfully therefore requires a sufficiently long and unchanging time horizon for reporting purposes. The data is therefore selected from the loss history for the past 4 quarters and on the basis of the date on which the expense is recognized in the income statement.

Fig. 35 shows the losses reported in the past 4 quarters, classified by loss event category.

In the **Bank sector**, the 'Execution, delivery, and process management' event category accounted for the largest proportion (46 percent) of net losses. The net loss in this event category was mainly attributable to 20 loss events, broken down as follows: 15 loss events resulted from failures in process implementation or in process design; a further 4 loss events were due to disagreements with business partners; 1 loss event was in connection with tax matters. The 'External fraud' event category accounted for 34 percent of net losses. Most of these losses related to 4 cases of prohibited transactions involving lending documents that had been falsified or improperly used and 1 case of hacker activity.

FIG. 35 – BANK SECTOR: NET LOSSES BY EVENT CATEGORY IN 2019¹



¹ In accordance with the CRR, losses caused by operational risks that are associated with risks such as credit risk are also shown.

Accounting for 80 percent of total net losses, the largest event category at **DZ BANK** was also 'Execution, delivery, and process management'. The loss amount was attributable to some of the loss events referred to above.

Losses did not reach a critical level relative to the expected loss from operational risk at any point during 2019, either in the Bank sector or at **DZ BANK**.

14.13 Risk position

Using the internal portfolio model, the **Bank sector's** risk capital requirement (including capital buffer requirement) for operational risk as at December 31, 2019 was calculated at €859 million (December 31, 2018: €804 million) with a limit of €926 million (December 31, 2018: €1,030 million).

As at December 31, 2019, the corresponding requirement at **DZ BANK** was €459 million (December 31, 2018: €417 million). The limit as at December 31, 2019 was €472 million (December 31, 2018: €499 million).

The risk capital requirement (including capital buffer requirement) for the Bank sector and for **DZ BANK** were within the applicable limit at every measurement date during 2019.

Insurance sector

15 Basic principles of risk management in the Insurance sector

15.1 Risk strategy

The principles of risk management in the Insurance sector are based on the risk strategy of the **DZ BANK** Group for the Insurance sector. The risk strategy is derived from the business strategies, taking into account the strategic 4-year plan approved by the R+V Board of Managing Directors.

Life actuarial risk is managed with the objectives of holding a broadly diversified product portfolio and of developing existing products while designing new ones. Pension, endowment and risk insurance, working life and semi-retirement products, and index-linked products are underwritten in order to diversify the life insurance and pension provision portfolios. The actuarial assumptions are designed so as to build in safety margins and address changes in the latest findings in order to withstand both the current risk situation as well as potential changes in this situation. Where products have policyholder participation, this represents the main instrument for mitigating risk. Underwriting guidelines and risk audits are used to prevent anti-selection. The risk exposure in the case of large individual risks may be limited by taking out appropriate reinsurance.

The objectives of managing **health actuarial risk** are a risk-conscious underwriting policy, cost/benefit management, the development of existing products, and the design of new products. In this case too, the actuarial assumptions build in safety margins and address changes in the latest findings in order to withstand both the current risk situation as well as potential changes in this situation. The risk exposure in the case of large individual risks may be limited by taking out appropriate reinsurance.

The management of **non-life actuarial risk in direct business** aims to optimize portfolios in terms of risk and reward. R+V focuses on business in Germany, offering a full range of non-life insurance products. The assumption of risk in connection with expanding its market share is accepted subject to the proviso that the business is profitable. Underwriting guidelines and size restrictions ensure targeted risk selection. Depending on its risk-bearing capacity, R+V reviews

whether to purchase reinsurance cover to reduce earnings volatility, insure against major and cumulative claims, and protect and boost existing financial strength and earnings power.

In **inward non-life business**, R+V also aims to optimize the portfolio from a risk/reward perspective. Risk selection is based on binding underwriting guidelines and the exclusions of liability defined in those guidelines. The assumption of reinsurance risk is managed by using individual liability and aggregate limits in the sales and underwriting policy.

R+V's investments particularly give rise to interest-rate risk, spread risk, and equity risk. R+V's **market risk strategy** is determined by the regulatory investment principles specified in section 124 VAG and by internal rules.

Insurance companies must invest all assets so as to ensure the security, quality, liquidity, and profitability of the portfolio as a whole; the location of the assets must also ensure that they are available. In addition, well-established collaboration arrangements between R+V's underwriting and investment departments as part of the management of assets and liabilities are used to match insurance contract benefit obligations on the balance sheet with investment opportunities.

The market risk assumed by R+V reflects the investment portfolio structure developed as part of strategic asset allocation taking into account the individual risk-bearing capacity and long-term income requirements of R+V subsidiaries. The risk is managed in compliance with the limits specified at DZ BANK Group level.

The management of market risk is connected with the following fundamental objectives of risk policy: ensuring competitive returns on investments taking into account individual risk-bearing capacities, achieving defined minimum investment returns in stress scenarios, and securing a certain hidden asset level to ensure consistent earnings. The aim is also to guarantee that there is a sufficient proportion of fungible investments. The methods used to limit life insurance risk include policyholder participation set at an appropriate level, a discount rate in line with the capital market situation, and recognition of supplementary change-in-discount-rate reserves.

In line with the risk strategy for **counterparty default risk**, R+V aims to maintain a high average credit

rating for its portfolios, avoid concentrations of issuers at portfolio level, and comply with the limits that have been set for counterparties and debtors of insurance and reinsurance companies.

The risk strategy for **operational risk** aims to further raise awareness of operational risk.

The objective of the **reputational risk strategy** is to promote the image of the R+V brand with due regard to the need for transparency and credibility.

15.2 Organization, responsibility, and risk reporting

The risk management process, which is implemented across all entities in the R+V subgroup, defines rules for the way in which risks are identified, analyzed, assessed, managed and monitored, and the way in which they are reported and communicated. These rules form the basis for a central **early-warning system**.

Participations are also included in the R+V subgroup's risk management system. Risk-bearing capacity is reviewed and measured at least once a quarter and the process includes a review of binding key performance indicators and threshold values. Corrective action must be initiated if a specified index value is exceeded. Risk-bearing capacity and all material risks are then finally evaluated each quarter by the Risk Committee.

Reports are submitted to the Board of Managing Directors of R+V in the event of material changes in risk. Company information that has a bearing on risk exposure is passed to the relevant supervisory bodies at R+V, both quarterly and on an ad hoc basis.

16 Actuarial risk

16.1 Definition and business background

16.1.1 Definition

Actuarial risk is the risk that the actual cost of claims and benefits deviates from the expected cost as a result of chance, error or change. It is broken down into the following categories defined by Solvency II:

- Life actuarial risk
- Health actuarial risk
- Non-life actuarial risk.

Life actuarial risk

Life actuarial risk refers to the risk arising from the assumption of life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. Life actuarial risk is calculated as the combination of capital requirements for, as a minimum, the following sub-modules:

- **Mortality risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.
- **Longevity risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.
- **Disability-morbidity risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of disability, sickness, or morbidity rates.
- **Life catastrophe risk** describes the risk of loss or adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.
- **Lapse risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, cancellations, renewals, and surrenders.
- **Life expense risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.

Health actuarial risk

Health actuarial risk refers to the risk arising from the assumption of health and casualty insurance obligations, in relation to the risks covered and the processes used in the conduct of this business.

Non-life actuarial risk

Non-life actuarial risk refers to the risk arising from the assumption of non-life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. It is calculated as the combination of capital requirements for the following submodules:

- **Premium and reserve risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency, and severity of insured events, and in the timing and amount of claim settlements.
- **Non-life catastrophe risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.
- **Lapse risk** describes uncertainty about the continuation of the direct insurance and reinsurance contracts. It results from the fact that the lapse of contracts that are profitable for the insurance company will lead to a reduction in own funds.

16.1.2 Business background

In the DZ BANK Group, considerable actuarial risk arises from the business activities of R+V. The risk arises from the direct life insurance and health insurance business, the direct non-life insurance business, and the inward reinsurance business.

16.2 Specific risk factors

In the case of long-term products, which constitute the bulk of R+V's **direct life insurance business**, there is a risk of negative variances over the term of the contracts compared with calculation assumptions because of the length of time covered by the contracts. The relevant risk factors include changes in life expectancy, increasing rates of disability-morbidity, and disproportionately sharp cost increases. If the actual trends in life expectancy, disability-morbidity, and costs vary from the calculation assumptions, there is a risk over the medium to long term that the gross profit generated from life insurance will decline.

In **health insurance** at R+V, which accounts for a substantial proportion of health actuarial risk, there is a risk of higher claims caused by the behavior of the policyholders and service providers. In such cases, R+V generally has the option of adjusting premiums. Sharp premium increases could have negative

implications for the level of new business at R+V in the future.

R+V's **direct non-life insurance and inward non-life reinsurance business** involves the provision of cover for a range of disasters. This includes both natural disasters, such as earthquakes, storms, and floods, and man-made disasters. These events cannot be predicted. Generally speaking, there is both the risk of particularly significant individual loss events and also the risk of a large number of loss events that are each not necessarily significant in themselves. As a result, in any one year, the actual impact from the size and frequency of losses could exceed the forecast impact. Climate change represents an additional risk factor in connection with the occurrence of natural disasters. It is reasonable to expect that climate change will lead to an increase in weather-related natural disasters over the long term.

16.3 Management of life actuarial risk

16.3.1 Risk measurement

The risk for insurance contracts subject to **mortality risk** is modeled as a permanent 15 percent increase in mortality.

The risk for insurance contracts subject to **longevity risk** is modeled as a 20 percent increase in longevity.

The overall solvency requirement for **disability-morbidity risk** is analyzed on the basis of a permanent 35 percent rise in the disability rates expected for the next 12 months, a permanent 25 percent rise in the disability rates expected for the period after those 12 months, and a permanent 20 percent decrease in all expected likely cases of policyholders being able to return to work.

The risk for insurance contracts affected by **life catastrophe risk** is modeled as an immediate increase of 0.15 percentage points in mortality rates in the next 12 months.

The risk for insurance contracts subject to **lapse risk** is modeled for the following scenarios: for an increase in lapses, a 50 percent rise in the lapse rate; for a decrease in lapses, a 50 percent reduction in the lapse rate; for a mass lapse event, lapse of 40 percent of the contracts.

The overall solvency requirement for **life expense risk** is based on the following stress scenarios: a

permanent 10 percent rise in the costs reflected in the measurement of the insurance liabilities; an increase of 1 percentage point in the cost inflation rate.

16.3.2 Risk management in direct life insurance business

Actuarial risk is taken into account by carrying out a prudent cost calculation while products are still in development. This applies to the development of existing products as well as the design of new types of insurance. Safety margins are included in the actuarial assumptions to achieve this. The assumptions are structured in such a way that they not only withstand the current risk situation, but should also accommodate potential changes in the risk position. Actuarial control systems are used to decide whether the cost calculation for future new business needs to be changed. The calculation is also adjusted on an ongoing basis in line with the latest actuarial findings. The appointed actuary carries out reviews as part of product development and during the course of the term of contracts to verify that the actuarial assumptions used are appropriate.

A number of measures are taken to prevent a concentration of risks in the portfolio. Before contracts are signed, extensive risk reviews are carried out to limit **mortality and disability-morbidity risks**. In general, risk is only assumed in compliance with fixed underwriting guidelines. High levels of individual or cumulative risk are limited by reinsurance.

Generally speaking, the risk is mitigated if the insured risks are diversified. For example, an increase in mortality has an adverse impact on endowment life and risk insurance policies, but at the same time has a positive impact on the longevity risk associated with pension insurance.

Cost control tools are used to manage **life expense risk**.

Lapse risk is mitigated by structuring life insurance contracts to provide maximum flexibility should policyholders' circumstances change. A range of different options during the term of an insurance contract enables customers to maintain their contract instead of canceling it. Appropriate design of policyholder participation and, in particular, the final bonus also counteracts lapse risk.

In addition, advance notice of **policyholder participation** in the form of declarations of future bonuses is also a key instrument with which to reduce actuarial risk relating to life insurance.

16.4 Management of health actuarial risk

16.4.1 Risk measurement

Health actuarial risk is calculated by combining the capital requirements for the subcategories ‘similar to life techniques, health actuarial risk’ (risk on health insurance pursued on a similar technical basis to that of life insurance), ‘non-similar to life techniques, health actuarial risk’ (risk on health insurance pursued on a similar technical basis to that of non-life insurance), and ‘health catastrophe risk’.

The methods described in the sections on life actuarial risk and non-life actuarial risk are used to measure risk in the subcategories.

Health actuarial risk also includes significant parts of the group’s casualty insurance business as well as its health and occupational disability insurance business.

16.4.2 Risk management in health and casualty insurance

Risk management in health insurance business

In the health insurance business, the Insurance sector aims to manage actuarial risk by means of an **underwriting policy**, the features of which are underwriting guidelines and selection of risk, and management of benefits and costs. In many of the health insurance rate scales, deductibles are used to control the extent of claims. Provisions are recognized to ensure that all benefit obligations under insurance contracts can be met. The appointed actuary carries out monitoring as part of product development and over the course of time to verify that the actuarial assumptions used are appropriate.

In accordance with VAG provisions, R+V carries out an annual comparison of its calculations with the insurance benefits it is required to pay. If this comparison of claims for an observation unit within a particular scale of insurance rates reveals a variance that is other than temporary, the relevant **premiums** are adjusted. All actuarial assumptions are reviewed and specified in consultation with an independent trustee. A safety margin factored into premiums is also intended to ensure that obligations can be met if

claims are higher than the level provided for in cost calculations.

In the health insurance business, the **decrement tables** include assumptions regarding mortality and the probability of other relevant withdrawal factors. Under the requirements set out in the German Health Insurance Supervision Regulation (KVV), these assumptions must be specified and reviewed from the perspective of prudent risk assessment. It is for this reason that a new mortality table is developed annually by the Verband der privaten Krankenversicherung e.V. (PKV) [Association of German private healthcare insurers] in consultation with BaFin. In accordance with statutory provisions, R+V carries out an annual comparison of its calculations with the most recently published mortality tables.

When determining **lapse probabilities** for the purposes of its calculations, R+V uses both its own observations and the latest figures published by BaFin.

Where premiums were adjusted on January 1, 2019, R+V used the new PKV mortality table valid for 2019 to determine both new business premiums and those **premium adjustments** in existing business.

Unisex insurance rate scales are offered in R+V’s **new business**. The cost calculation for these rates is not only based on the existing gender breakdown, but also takes into account the expected pattern of switching by existing policyholders to the new rates. The appropriateness of the composition of the portfolio resulting from the calculations is reviewed by actuaries using comparable calculations.

Risk management in casualty insurance business

The risk situation in the casualty insurance division is characterized by the fact that it is fixed-sum insurance and not indemnity insurance. Consequently, the maximum benefit per insured person is restricted to the sum insured.

A risk review also forms part of the underwriting policy in the case of casualty insurance. Premiums are reviewed on an ongoing basis to ensure that they remain appropriate. Claims are assessed on a case-by-case basis.

16.5 Management of non-life actuarial risk

16.5.1 Risk measurement

The capital requirements for **premium and reserve risk** are calculated on the basis of risk factors and volume measures for all branches of insurance in which business is conducted. The risk factors (e.g. the standard deviation as a percentage of the volume measure) describe the degree of threat posed by the risk. The volume measure for the **premium risk** is essentially the net premium income earned in the financial year and in the first and second years after that. The net claims provisions in the form of a best-estimate valuation constitute the volume measure for the **reserve risk**.

The capital requirement for **catastrophe risk** is calculated as an aggregation of four risk modules. These are natural catastrophe risk (broken down into the following natural hazards: hail, storm, flood, earthquake, and subsidence), the catastrophe risk of non-proportional reinsurance in non-life insurance, risk of man-made catastrophe, and other catastrophe risk in non-life insurance. Catastrophe risk is calculated using the volume measures of sums insured and premiums. Risk mitigation through reinsurance is taken into consideration.

To determine the overall solvency requirement as part of internal risk assessment, empirical distributions are generated for the relevant parameters for parts of the **direct insurance portfolio**, such as the claim amount and the number of claims per sector and claim type (e.g. basic claims, major claims, catastrophe claims). The value-at-risk can then be determined with the required confidence level directly from the underwriting result modeled in this way, recorded as a loss function. The parameters for the analyzed distributions are set using historical portfolio data and related planning data. They are therefore intended to reflect the actual risk position of the entity concerned.

The risk modeling for calculating basic claims relating to the natural hazard earthquake and basic claims and minor cumulative events relating to the natural hazards hail, storm, and flood is based on mathematical/statistical methods. The minimum and maximum claim amounts for minor cumulative events are derived from the group's own claims history. Modeling is based on the group's own claims data.

The risk modeling for major cumulative events relating to the natural hazards hail, storm, flood, and

earthquake uses probability-based natural hazard models. This approach uses catastrophe claims that have been modeled by external providers for each natural hazard and take account of the specific risk profile.

In its **inward reinsurance business**, R+V deploys a simulation tool for stochastic modeling of catastrophe risk. To model the natural catastrophe risk on an individual contract basis, event catalogs from external providers containing predefined scenarios based on historical observations are used. The event catalogs cover the main countries and natural hazards related to the underwritten risk in the inward reinsurance concerned. In the case of countries and natural hazards for which there is no event catalog, modeling is based on R+V's own claims history. This involves generating scenarios for the current portfolio on the basis of historical major claims.

For inward reinsurance purposes, modeling based on the group's own claims history is also used to determine the overall solvency requirement for the risk of **man-made catastrophe**. This involves generating scenarios for the current portfolio on the basis of the historical major claims.

The overall solvency requirement for **lapse risk** is determined on the basis of a stress scenario involving the lapse of 40 percent of those insurance contracts whose lapse would lead to an increase in the best-estimate valuation for the premium provision.

16.5.2 Risk management in direct non-life insurance business

Premium and reserve risk is managed through risk selection, risk-oriented premiums and products, and profit-oriented underwriting guidelines. In order to maintain a balanced risk profile, R+V ensures it has reinsurance cover for major individual risks. Managers use planning and control tools to ensure they are in a position at an early stage to identify unexpected or adverse portfolio or claim trends and to initiate appropriate corrective action in response to the changes in the risk situation. To make these risks manageable, pricing is based on a calculation that uses mathematical/statistical modeling.

The measurement of the overall solvency requirement for **natural catastrophe risk** is supplemented by analysis of the policy portfolio. This analysis carried out with the aid of tools such as the ZÜRS Geo information system (zoning system for flooding,

backwater flooding, and heavy rainfall) investigates risk concentrations and changes in these concentrations over time. The use of geographical diversification and the deployment of underwriting guidelines form the basis for managing risks arising from natural disasters.

To reduce actuarial risk, R+V purchases facultative and obligatory reinsurance cover, formulates risk exclusions, and designs risk-appropriate deductible models. Risk-bearing capacity is reviewed as part of the reinsurance decision-making process. This is used as the basis for reinsurance structures and liability layers.

In order to prevent or limit losses, R+V provides a network of different subsidiaries that offer specialist services to help customers and sales partners with contract, risk prevention, or restructuring issues.

In compliance with Solvency II requirements, mathematical/statistical methods are used to calculate future payment obligations for the purpose of measuring insurance liabilities. Insurance liabilities are measured separately for premium and claims provisions. R+V's own experience, actuarial statistics, and additional sources of information are used for the calculations. The methods deployed are based on generally accepted principles of actuarial practice.

16.5.3 Risk management in inward non-life business

R+V counters **premium and reserve risk** by continuously monitoring the market as well as the economic and political situation, by managing risk in accordance with its corporate strategy, and by setting insurance rates appropriate to the risk involved. The risk is managed on the basis of an earnings-driven underwriting policy. The assumption of risk is circumscribed by mandatory underwriting guidelines and limits that restrict potential liability arising from both individual and cumulative claims. R+V takes account of economic capital costs when underwriting risk. Compliance with these requirements is monitored.

The material actuarial risks in the inward reinsurance portfolio are **catastrophe risk**, long tail risk, reserve risk and also far-reaching changes in the trends underlying the main markets. The actual and potential losses arising from the level and frequency of claims under natural disaster insurance are recorded and assessed using industry-standard software and R+V's own additional verification systems. The portfolio is

continuously monitored for possible concentrations of natural disaster risk.

The objective in managing natural disaster risk is to ensure that there is a broad balance of risk across all categories and that the risk is diversified geographically around the globe.

Limits are set to support central management and limitation of cumulative risks arising from individual natural hazards. One of the mechanisms for managing risk is a systematic check on the cumulative authorized limits for natural disaster risks. The monitoring and management of limits may include the reallocation or adjustment of capacities. The modeled exposures remained within the authorized limits.

Action that can be taken to mitigate the risk includes management of deductibles and retrocession taking into account risk-bearing capacity and the effective costs of retrocession. Minimum requirements apply in relation to the credit rating of retrocessionaires. To minimize peak risk in connection with natural disasters in Europe, R+V has entered into a retrocession agreement as part of its inward reinsurance business. R+V monitors the claims rate trend promptly and continuously, allowing it to initiate preventive measures so that it always has a sufficient level of reserves. The reserves position is monitored in a number of ways, including by means of an expert report, which is prepared once a year.

16.6 Claims rate trend in non-life insurance

The claims rate (net) in **direct non-life insurance** fell below the prior-year level, as anticipated. Natural disaster events Eberhard and Jörn/Klaus gave rise to claims incurred totaling €83 million. The claims rate in the **inward reinsurance business** went up year on year. Notable natural disaster events included Hurricane Dorian and typhoons Hagibis and Faxai, which gave rise to a total expense of €169 million.

Changes in claims rates and settlements (net of reinsurance) in direct non-life insurance and inward non-life reinsurance business are shown in Fig. 37.

16.7 Risk position

As at December 31, 2019, the **overall solvency requirement for life actuarial risk** amounted to €977 million (December 31, 2018: €921 million). The **limit** was set at €1,200 million as at the reporting date (December 31, 2018: €1,100 million) and was not

exceeded on any measurement date during the reporting year.

As at December 31, 2019, the **overall solvency requirement for health actuarial risk** was measured at €244 million (December 31, 2018: €234 million) with a **limit** of €410 million (December 31, 2018: €350 million). Again, the risk capital requirement remained below the limit on every measurement date during 2019.

As at December 31, 2019, the **overall solvency requirement for non-life actuarial risk** amounted to €3,597 million (December 31, 2018: €3,300 million). The increase was primarily the result of the growth in the volume of business. The **limit**, which was fixed at €3,960 million as at the reporting date (December 31, 2018: €3,650 million), was not exceeded on any measurement date during the reporting period.

The overall solvency requirement for the various types of non-life actuarial risk is shown in Fig. 36. The rise in the overall solvency requirement compared with the prior year resulted first and foremost from business

growth. This applied particularly to premium and reserve risk.

The changes in actuarial risk in direct non-life insurance in 2020 will continue to be shaped by the strategy of achieving profitable growth in all segments of R+V.

In its inward reinsurance business, R+V intends to expand its portfolio, which is well diversified in terms of geography and sector, by continuing the earnings-driven underwriting policy it has pursued in previous years.

FIG. 36 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR NON-LIFE ACTUARIAL RISK

€ million	Dec. 31, 2019	Dec. 31, 2018
Premium and reserve risk	2,254	2,004
Non-life catastrophe risk	2,295	2,167
Lapse risk	74	97
Total (after diversification)	3,597	3,300

FIG. 37 – INSURANCE SECTOR: CLAIMS RATE AND SETTLEMENTS (NET OF REINSURANCE)¹

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Claims rate (net) as percentage of premiums earned										
Including major/natural disaster claims	76.3	76.2	76.6	76.1	76.2	75.5	78.2	75.6	77.7	77.3
Excluding major/natural disaster claims	72.7	71.1	72.8	72.3	74.0	73.8	69.1	72.7	71.4	75.0
Settlements (net) as percentage of provision for incoming claims										
Non-life	0.6	1.1	3.1	3.6	1.6	2.1	0.5	0.3	1.9	4.8

¹ Direct non-life insurance business and inward non-life reinsurance.

17 Market risk

17.1 Definition and business background

17.1.1 Definition

Market risk describes the risk arising from fluctuation in the level or volatility of market prices of assets, liabilities, and financial instruments that have an impact on the value of the assets and liabilities of the entity. It reflects the structural mismatch between assets and liabilities, in particular with respect to their maturities. In accordance with the breakdown specified in Solvency II, the bulk of credit risk within market risk is assigned to spread risk. The other parts of credit risk are measured within counterparty default risk and other risk types.

Market risk is broken down into the following subcategories:

- **Interest-rate risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the term structure of interest rates or to the volatility of interest rates.
- **Spread risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of credit spreads above the risk-free interest rate term structure. Default risk and migration risk are also included in this subcategory. The credit spread is the difference in interest rates between a high-risk and a risk-free fixed-income investment. Changes in the credit risk premiums lead to changes in the market value of the corresponding securities.
- **Equity risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of the market prices of equities. Equity investment risk is also a part of equity risk. Equity risk arises from existing equity exposures as a result of market volatility.
- **Currency risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of exchange rates. Currency risk arises as a result of exchange rate volatility either from investments held in a foreign currency or the existence of a currency imbalance between insurance liabilities and investments.
- **Real-estate risk** describes the sensitivity of the values of assets, liabilities, and financial instruments

to changes in the level or volatility of the market prices of real estate. Real-estate risk can arise as a result of negative changes in the fair value of real estate held directly or indirectly. This may be the result of a deterioration in the specific characteristics of the real estate or a general change in market prices (for example in connection with a real-estate crash).

- **Concentration risk** represents the additional risk for an insurance or reinsurance company stemming either from lack of diversification in the asset portfolio or from a large exposure to the risk of default by a single issuer of securities or a group of related issuers.

17.1.2 Business background

Market risk arises in the insurance business as a result of investing activities. It is caused by the timing difference between the payment of premiums by the policyholder and the payments for claims and benefits by the insurance company, and by endowment-type business in personal insurance.

17.2 Specific risk factors

Generating the guaranteed return required in its life insurance business may present R+V with additional challenges if interest rates remain low or turn negative and credit spreads remain narrow. On the other hand, if **interest rates** were to rise significantly in the near future or **credit spreads** on bonds were to widen, this would lead to a substantial fall in the fair values of R+V's investments used to cover the obligations to policyholders. Falls in fair value of this nature could have a temporary impact on operating profit at R+V, or a permanent impact if investments have to be sold.

Because cash flows in connection with insurance liabilities in the area of life insurance can be forecast and R+V's investments are diversified, the risk that bonds might have to be sold at a loss before their maturity date is low.

Default risk may arise from a **deterioration in the financial circumstances of issuers or debtors**. This could lead to the recognition of credit-risk-related impairment losses or to partial or total defaults on loans and receivables.

R+V's investments have a high credit rating. In the dominant public and financial sectors, they are also largely loans and advances in the form of government bonds and German and European Pfandbriefe backed

by collateral in accordance with statutory requirements.

17.3 Risk management

17.3.1 Market risk measurement

The measurement of market risk involves analyzing shock scenarios specified in **Solvency II** requirements, in some cases supplemented by the group's own parameterization.

The capital requirements for **interest-rate risk** are determined on the basis of shock scenarios calculated for an increase in interest rates and a decrease in interest rates. R+V uses the shock factors in the standard formula to calculate the overall solvency requirement for interest-rate risk.

The capital requirements for **spread risk** are calculated using a factor approach based on the relevant lending volume. The level of the shock factor is determined by the security's rating and the modified duration of the investment. With loan securitizations, a distinction is made between single, double, and multiple securitization structures. Depending on which is applicable, different rating-dependent shock factors are used. R+V uses its own shock factors, based on a portfolio model and with particular regard to concentration risk, to calculate the overall solvency requirement.

The capital requirements for **equity risk** are determined on the basis of stress scenarios calculated for a decrease in market value. The stress amounts depend on the equity type, e.g. whether it is listed on a regulated market in a member state of the European Economic Area or Organisation for Economic Co-operation and Development (OECD). The capital requirement for equity risk is based on the relevant equity exposure. It is determined using modeling and risk quantification based on observable data. The parameters are increased in order to take account of default risk and concentration risk. Default risk describes the risk of loss resulting from issuer insolvency.

Currency risk is calculated using a scenario approach that reflects the impact of a decrease or increase in the exchange rate for a foreign currency. The shock factor for determining the overall solvency requirement is based on the individual currency portfolio of R+V. Lower factors are applied for currencies that are

pegged to the euro than for those that are not pegged to the euro.

The calculation of **real-estate risk** looks at both property held directly (e.g. land and buildings) and real-estate funds. The shock factor for determining the overall solvency requirement for real-estate risk is a stress scenario adapted from the standard formula and reflects the fact that direct holdings consist overwhelmingly of investments in German real estate and fund holdings consist primarily of European real estate.

The overall solvency requirement for **concentration risk** is not calculated separately because this risk is taken into account in the calculations for equity risk, spread risk, and counterparty default risk.

17.3.2 Principles of market risk management

The risk attaching to investments is managed in accordance with the guidelines specified by EIOPA, the stipulations in the VAG, the information provided in regulatory circulars, and internal investment guidelines (for details, see 'Market risk strategy' in section 15.1). R+V aims to ensure compliance with the internal provisions in the risk management guidelines for investment risk and with other regulatory investment principles and regulations by means of investment management, internal control procedures, a forward-looking investment policy, and organizational measures. The management of risk encompasses both economic and accounting aspects.

R+V continuously expands and refines the range of instruments used to identify, assess, and analyze the risk attaching to new investments and to monitor risk in the investment portfolio, in order to be able to respond to any changes in the capital markets and to detect, limit, or avoid risk at an early stage.

R+V counters investment risk by observing the principle of achieving the greatest possible security and profitability while safeguarding liquidity. By maintaining a mix and diversification of investments, R+V's investment policy aims to take into account the objective of mitigating risk.

R+V monitors changes in all types of market risk through constant measurement and a process of reporting to the relevant bodies. Risk in all subcategories is quantified through specific economic calculations. Stress tests represent an important early-warning system. In addition to natural diversification

via maturity dates, issuers, countries, counterparties and asset classes, limits are also applied in order to mitigate risk.

Asset/liability management investigations are carried out at R+V. The necessary capital requirement to maintain solvency is reviewed on an ongoing basis with the support of stress tests and scenario analyses. Specifically, reviews are carried out to assess the effects of a long period of low interest rates and volatile capital markets. R+V uses derivatives to manage market risk.

17.3.3 Management of individual market risk categories

In the management of **interest-rate risk**, R+V adheres to the principle of a mix and diversification of investments, combined with balanced risk-taking in selected asset classes and duration management that takes account of the structure of obligations. Furthermore, the use of pre-emptive purchases helps to provide a constant return from investments and to manage changes in interest rates and duration. A portion of the fixed-income investment portfolio has also been protected against a fall in prices.

In the management of **spread risk**, R+V pays particular attention to high credit ratings for investments, with the overwhelming majority of its fixed-income portfolio being held in investment-grade paper (see also Fig. 43 in section 17.4.2). The use of third-party credit risk evaluations and internal expert assessments, which are often more rigorous than the credit ratings available in the market, serves to further minimize risk.

Mortgage lending is also subject to internal rules that help to limit default risk. Analysis has shown that accounting considerations do not require any loan loss allowances to be recognized at portfolio level.

The management of **equity risk** is based on a core-satellite approach in which the core comprises shares in large, stable companies in indices that can be hedged to which satellite equities are added to improve the risk/return profile. Asymmetric strategies are also used to reduce or increase equity exposure under a rules-based approach. At R+V, equities are used as part of a long-term investment strategy to guarantee that obligations to policyholders can be satisfied; generating profits by exploiting short-term fluctuations to sell shares is not its objective. The risk of having to

sell equities at an inopportune moment is mitigated by the broadly diversified portfolio of investments.

Currency risk is controlled by systematic foreign-exchange management. Virtually all reinsurance assets and liabilities are denominated in the same currency.

Real-estate risk is mitigated by diversifying holdings across different locations and types of use.

Concentration risk is reduced by mixing and diversifying investments. This is particularly apparent from the granular structure of the issuers in the portfolio.

17.3.4 Distinctive features of managing market risk in personal insurance business

Due to the persistently low level of interest rates, there is a risk that the guaranteed minimum return agreed for certain products when contracts are signed cannot be generated on the capital markets over the long term. This particularly applies to life insurance contracts and casualty insurance contracts with premium refund clauses that guarantee minimum returns. In the case of products with long-term guarantees, there is a risk of negative variances over the term of the contracts compared with calculation assumptions because of the length of time covered by the contracts. The main reasons for variances are the change in the capital market environment and maturity mismatches between investments and insurance contracts. A protracted period of low interest rates increases the market risk arising from investments.

Market risk can be countered by writing new business that takes into account the current capital market situation and by taking the following action to boost the portfolio's risk-bearing capacity. It is crucial to ensure that there is enough free capital that can be made available even in adverse capital market scenarios. The necessary capital requirement to maintain solvency is reviewed on an ongoing basis with the aid of stress tests and scenario analyses as integral components of asset/liability management.

Risk is essentially mitigated by recognizing a supplementary change-in-discount-rate reserve as specified in the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) and adding to the discount rate reserves for existing contracts, thereby reducing the average interest liabilities. In 2019, R+V added a total of

€647 million to these supplementary reserves in its life insurance business, bringing the overall amount to €3,919 million. The addition to these reserves for casualty insurance with premium refund was €4 million, bringing the total to €38 million. Following the amendment to the DeckRV at the end of 2018, there will be a further increase in the supplementary change-in-discount-rate reserve, although this will be in smaller steps over a longer period (using the ‘corridor method’).

Policyholder participation in the form of future declarations of bonuses is also a key instrument used to reduce market risk attaching to life insurance.

The breakdown of benefit reserves by discount rate for the main life and casualty insurance portfolios is shown in Fig. 38.

A summary of the actuarial assumptions for calculating the benefit reserves for the main life and casualty insurance portfolios is presented in note 11 of the notes to the consolidated financial statements. It forms part of the notes on the accounting policies applicable to the ‘Benefit reserve’ line item on the balance sheet.

The company actuarial discount rate calculated in accordance with the procedure developed by the Deutsche Aktuarvereinigung e.V. (DAV) [German Actuarial Association] is used in determining the health insurance discount rate. This procedure is based on a fundamental professional principle issued by the DAV for determining an appropriate discount rate. As a result of these calculations, there was only a reduction in the discount rate in 2019 for observation units with a premium adjustment effective January 1, 2019 if a premium adjustment had not already been carried out with effect from January 1, 2018.

FIG. 38 – INSURANCE SECTOR: BENEFIT RESERVES BY DISCOUNT RATE FOR THE MAIN INSURANCE PORTFOLIOS¹

Discount rate	Proportion of total benefit reserve in 2019 ²		Proportion of total benefit reserve in 2018 ²	
	(€ million)	(%)	(€ million)	(%)
0.00%	5,938	9.1	5,713	9.3
0.08%	2	-	1	-
0.10%	-	-	-	-
0.25%	891	1.4	853	1.4
0.35%	23	-	-	-
0.40%	2	-	-	-
0.50%	118	0.2	59	0.1
0.75%	24	-	41	0.1
0.90%	4,850	7.4	2,720	4.4
1.00%	75	0.1	8	-
1.25%	2,467	3.8	2,266	3.7
1.50%	24	-	29	-
1.55%	29	-	-	-
1.75%	5,723	8.7	5,292	8.6
1.80%	315	0.5	36	-
2.00%	654	1.0	445	0.7
2.25%	11,251	17.2	10,536	17.1
2.50%	88	0.1	87	0.1
2.75%	8,238	12.6	7,876	12.8
3.00%	2,326	3.5	2,798	4.5
3.25%	7,172	10.9	7,000	11.3
3.50%	3,564	5.4	3,857	6.2
3.75%	215	0.3	258	0.4
4.00%	7,294	11.1	7,346	11.9

¹ The table covers the following insurance products that include a guaranteed rate of return:
 – Casualty insurance policies with premium refund
 – Casualty insurance policies with premium refund as pension insurance
 – Pension insurance policies
 – Endowment insurance policies, including capital accumulation, risk and credit insurance policies, pension plans with guaranteed insurance-based benefits
 – Capital deposit products.

² The share of the total benefit reserve attributable to supplementary insurance policies is listed under the relevant basis of calculation for the associated main insurance policy.

17.3.5 Managing risk arising from defined benefit pension obligations

The R+V entities have pension obligations (defined benefit obligations) to their current and former employees. By entering into such direct defined benefit obligations, they assume a number of risks, including risks associated with the measurement of the amounts recognized on the balance sheet, in particular risk arising from a change in the discount rate, risk of longevity, inflation risk, and risk in connection with salary and pension increases. A requirement may arise to adjust the existing provisions for pensions and other post-employment benefits as a result of decisions by the courts, legislation, or changes in the (consolidated) financial reporting. All the plan assets at R+V without exception are assets in reinsured pension schemes and are subject to interest-rate risk. The strategy adopted for the pension assets is predominantly driven by the defined benefit obligations.

17.4 Lending volume

17.4.1 Reconciliation of the lending volume

The amount and structure of the lending volume are key factors for the aspects of credit risk reflected in market risk and counterparty default risk. To identify possible risk concentrations, the volume liable to credit risk is broken down by sector, country group, and rating class.

FIG. 39 – INSURANCE SECTOR: RECONCILIATION OF THE LENDING VOLUME

for internal management accounts		Reconciliation				Lending volume for the consolidated financial statements			
		Scope of consolidation		Definition of the lending volume		Carrying amount and measurement			
Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
								9.7	9.3 of which: mortgage loans
								7.2	7.4 of which: promissory notes and loans
								9.1	9.6 of which: registered bonds
								0.7	- of which: other loans
								11.3	9.2 of which: variable-yield securities
								55.8	49.0 of which: fixed-income securities
								0.4	0.2 of which: derivatives (positive fair values)
								0.4	0.3 of which: deposits with ceding insurers
98.0	86.9	-1.2	-1.9	0.4	0.2	-2.4	-0.3	94.8	84.9 Total
Balance as at Dec. 31, 2019								-3.2	-3.2%
Balance as at Dec. 31, 2018								-2.0	-2.3%

Not relevant

Fig. 39 shows a reconciliation of the lending volume on which the risk management is based to individual balance sheet items in order to provide a transparent illustration of the link between the consolidated financial statements and risk management. There are discrepancies between the internal management and external (consolidated) financial reporting measurements for some portfolios owing to the focus on the risk content of the items. Other main reasons for the discrepancies between the two sets of figures are differences in the scope of consolidation, differences in the definition of lending volume, and various differences in recognition and measurement methods.

17.4.2 Change in lending volume

As at December 31, 2019, the total lending volume of R+V had increased by 13 percent to €98.0 billion (December 31, 2018: €86.9 billion). This increase was attributable to the interest-rate-related rise in fair values and the expansion of the investment portfolios in connection with the growth in the insurance business.

The volume of lending in the **home finance** business totaled €10.8 billion as at December 31, 2019 (December 31, 2018: €9.9 billion). Of this amount, 89 percent was accounted for by loans for less than 60 percent of the value of the property (December 31, 2018: 90 percent). The volume of home finance was broken down by finance type as at the reporting date

as follows (figures as at December 31, 2018 shown in parentheses):

- Consumer home finance: €9.9 billion (€9.3 billion)
- Commercial home finance: €0.1 billion (€0.1 billion)
- Commercial finance: €0.7 billion (€0.5 billion).

In the home finance business, the entire volume disbursed is usually backed by traditional **loan collateral**.

The financial sector and the public sector, which are the dominant **sectors**, together accounted for 71 percent of the total lending volume as at December 31, 2019, as was also the case at the end of 2018. This lending mainly comprised loans and advances in the form of German and European Pfandbriefe backed by collateral in accordance with statutory requirements. Loans and advances to the public sector and consumer home finance (retail) highlight the safety of this investment.

Fig. 40 shows the sectoral breakdown of the lending volume in the Insurance sector.

An analysis of the **geographical breakdown** of lending in Fig. 41 reveals that Germany and other industrialized countries continued to account for the lion's share of the lending volume as at December 31, 2019 – as they also did at December 31, 2018 – with a

share of 90 percent. European countries dominated within the broadly diversified exposure in industrialized countries.

The high proportion of obligations in connection with the life insurance business requires investments with longer maturities. This is also reflected in the breakdown of **residual maturities** shown in Fig. 42.

As at December 31, 2019, 83 percent of the total lending volume had a residual maturity of more than 5 years. This was the same percentage as at December 31, 2018. By contrast, just 3 percent of the total lending volume was due to mature within 1 year as at the reporting date (December 31, 2018: 2 percent).

The **rating structure** of the lending volume in the Insurance sector is shown in Fig. 43. Of the total lending volume as at December 31, 2019, 79 percent continued to be attributable to investment-grade borrowers (December 31, 2018: 80 percent).

The lending volume that is not rated, which made up 18 percent of the total lending volume (December 31, 2018: 17 percent), essentially comprised low-risk consumer home finance for which external ratings were not available.

To rate the creditworthiness of the lending volume, R+V uses external ratings that have received general approval. It also applies its own expert ratings in accordance with the provisions of Credit Rating Agency Regulation III to validate the external credit ratings. R+V has defined the external credit rating as the maximum, even in cases where its own rating is better. The ratings calculated in this way are matched to the DZ BANK credit rating master scale using the methodology shown in Fig. 22 (section 8.6.1).

As at the reporting date, the **10 counterparties associated with the largest lending volumes** accounted for 18 percent of R+V's total lending volume (December 31, 2018: 21 percent).

FIG. 40 – INSURANCE SECTOR: LENDING VOLUME, BY SECTOR

€ billion	Dec. 31, 2019	Dec. 31, 2018
Financial sector	47.2	40.0
Public sector	22.5	21.3
Corporates	17.3	15.6
Retail	9.9	9.3
Industry conglomerates	1.0	0.6
Other	-	-
Total	98.0	86.9

FIG. 41 – INSURANCE SECTOR: LENDING VOLUME, BY COUNTRY GROUP

€ billion	Dec. 31, 2019	Dec. 31, 2018
Germany	35.7	31.9
Other industrialized countries	52.9	46.6
Advanced economies	1.2	1.1
Emerging markets	5.1	4.2
Supranational institutions	3.1	3.1
Total	98.0	86.9

FIG. 42 – INSURANCE SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Dec. 31, 2019	Dec. 31, 2018
≤ 1 year	2.6	2.1
> 1 year to ≤ 5 years	13.7	12.9
> 5 years	81.7	71.9
Total	98.0	86.9

FIG. 43 – INSURANCE SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion	Dec. 31, 2019	Dec. 31, 2018	
Investment grade	1A	26.2	25.1
	1B	14.3	11.9
	1C	-	-
	1D	9.0	7.7
	1E	-	-
	2A	8.2	7.4
	2B	6.9	5.5
	2C	6.2	5.5
	2D	2.8	2.7
	2E	-	-
Non-investment grade	3A	4.0	4.1
	3B	1.0	0.8
	3C	0.7	0.4
	3D	-	-
	3E	0.4	0.4
	4A	0.2	0.1
	4B	0.2	0.1
	4C	0.1	0.2
	4D	-	-
	4E	-	-
Default	-	-	
Not rated	17.8	15.0	
Total	98.0	86.9	

17.4.3 Credit portfolios with increased risk content R+V's exposure in credit portfolios with increased risk content is analyzed separately because of its significance for the risk position in the Insurance sector. The figures presented here are included in the above analyses of the total lending volume.

Investments in **eurozone periphery countries** totaled €6,812 million as at December 31, 2019 (December 31, 2018: €6,158 million), a rise of 11 percent. Fig. 44 shows the country breakdown of the exposure.

17.5 Risk position

As at December 31, 2019, the **overall solvency requirement for market risk** amounted to €3,575 million (December 31, 2018: €3,205 million) with a **limit** of €3,850 million (December 31, 2018: €4,350 million). This increase in market risk was attributable to the expansion of the investment portfolios in connection with the growth in the insurance business. It was also due to the fall in the potential for risk mitigation arising from the projection of lower future policyholder participation, which in turn was caused by the fall in interest rates in 2019. The limit was not exceeded on any measurement date during 2019.

Fig. 45 shows the overall solvency requirement for the various types of market risk.

The overall solvency requirement includes a **capital buffer requirement** for market risk. This capital buffer requirement covers the spread and migration risk arising from sub-portfolios of Italian government bonds. Since the recalculation of the overall solvency requirement as at December 31, 2018, it has also taken account of the increase in market risk stemming from a further refinement of the method for measuring interest-rate risk. R+V is currently working in cooperation with DZ BANK to establish whether there is any need for changes in connection with the supervisory review process carried out by EIOPA under Commission Delegated Regulation (EU) 2015/35 (Solvency II Regulation). The capital buffer relating to the refinement of the measurement of interest-rate risk will be removed again once the new methodology has been implemented.

As at December 31, 2019, the capital buffer requirement for market risk totaled €206 million (December 31, 2018: €333 million).

FIG. 44 – INSURANCE SECTOR: EXPOSURE IN EUROZONE PERIPHERY COUNTRIES

€ million	Dec. 31, 2019	Dec. 31, 2018
Italy	3,897	4,081
of which: public sector	2,814	2,983
of which: non-public sector	1,083	1,099
of which: financial sector	782	836
Spain	2,915	2,077
of which: public sector	1,524	1,402
of which: non-public sector	1,391	675
of which: financial sector	1,128	468
Total	6,812	6,158
of which: public sector	4,338	4,384
of which: non-public sector	2,474	1,773
of which: financial sector	1,910	1,304

FIG. 45 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR MARKET RISK

€ million	Dec. 31, 2019	Dec. 31, 2018
Interest-rate risk	1,168	1,465
Spread risk	1,446	1,248
Equity risk	1,837	1,496
Currency risk	218	165
Real-estate risk	390	359
Total (after diversification)	3,575	3,205

18 Counterparty default risk

18.1 Definition and business background

Counterparty default risk reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies over the following 12 months. It covers risk-mitigating contracts, such as reinsurance arrangements, securitizations and derivatives, and receivables from intermediaries, as well as any other credit risk that is not otherwise covered by risk measurement.

Counterparty default risk takes account of collateral or other security that is held by the insurance or reinsurance company and any associated risks.

18.2 Specific risk factors

Counterparty default risk can arise as a result of unexpected default or deterioration in the credit standing of mortgage loan borrowers, counterparties of derivatives, reinsurance counterparties or policyholders, or insurance brokers.

18.3 Risk management

18.3.1 Measurement of counterparty default risk and management of limits

The capital requirements for counterparty default risk are determined on the basis of the relevant exposure and the expected losses per counterparty.

R+V manages counterparty default risk at individual entity level.

Transactions involving derivatives are subject to internal guidelines, particularly those regarding volume and counterparty limits. The various risks are monitored and transparently presented as part of the internal reporting system. Only economic hedges are used and they are not reported on a net basis in the consolidated financial statements.

R+V uses the views expressed by the international rating agencies in conjunction with its own credit ratings to help it to assess counterparty and issuer risk. Compliance with the limits for major counterparties is reviewed on an ongoing basis, with checks on limit utilization and compliance with investment guidelines.

18.3.2 Mitigating counterparty default risk

Default management mitigates the risks arising from defaults on receivables relating to direct insurance operations with policyholders and insurance brokers. The risk of default on receivables is also addressed by recognizing general loan loss allowances, which are calculated on the basis of past experience. The average ratio of defaults to gross premiums written over the past 3 years was 0.1 percent, which was unchanged on the figure as at December 31, 2018.

The default risk for receivables arising from inward and ceded reinsurance business is limited by constantly monitoring credit ratings and making use of other sources of information in the market. As was the case at the end of 2018, virtually all receivables arising from ceded reinsurance, which amounted to €14 million as at December 31, 2019 (December 31, 2018: €23 million), were due from entities with a rating of A or higher. In 2019, receivables arising from reinsurance did not represent a material risk due to the excellent credit quality of the reinsurers. There were no material defaults in 2019 or in previous years.

18.4 Risk position

As at December 31, 2019, the **overall solvency requirement for counterparty default risk** was

€90 million (December 31, 2018: €64 million) with a **limit** of €100 million (December 31, 2018: €100 million). The limit was not exceeded on any measurement date during 2019.

19 Reputational risk

19.1 Definition and business background

Reputational risk is defined as the risk of losses that could arise from possible damage to the reputation of R+V or of the entire industry as a result of a negative perception among the general public (for example, customers, business partners, shareholders, authorities, media).

Reputational risk can arise as an independent risk (primary reputational risk) or as an indirect or direct consequence of other types of risk, such as operational risk (secondary reputational risk).

19.2 Specific risk factors

If R+V acquires a negative reputation, there is a risk that existing or potential customers will be unsettled with the result that existing business relationships might be terminated or it might not be possible to carry out planned transactions. There is also a risk that R+V's adverse reputation is then transferred to the entities in the Bank sector and it may no longer be possible to guarantee the backing of stakeholders, such as network partners and employees, necessary to conduct business operations.

19.3 Risk management

One of the main objectives of R+V is to ensure that the R+V brand enjoys a positive image in the cooperative financial network and among the public at large. To prevent any damage to this image, R+V ensures that quality standards are adhered to in product development and in all other parts of the value chain. In addition, R+V's corporate communications are coordinated centrally within the Chief Executive Officer's area of responsibility so that any inaccurate presentation of circumstances can be countered. Media reports about the insurance industry in general and R+V in particular are monitored and continuously analyzed across all R+V departments. A continuous improvement process pays close attention to ratings and market comparisons covering service, product quality, and advisory expertise, which are key parameters as far as customer satisfaction is concerned.

For the purposes of managing reputational risk, R+V uses risk indicators that are intended to facilitate early identification of risk trends and increase the transparency of risk exposures. A system of warning lights is used with the aim of highlighting risk situations based on qualitative and quantitative threshold values.

R+V's reputational risk is not specifically quantified within the Solvency II framework. However, it is implicitly included in the overall solvency requirement for life actuarial risk (lapse risk).

20 Operational risk

20.1 Definition and business background

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events. It includes legal risk.

Operational risk in the Insurance sector is broken down into the following components:

- HR risk
- IT risk
- Legal risk
- Tax risk.

Operational risk could arise in any division of R+V.

20.2 Central risk management

The **risk capital requirement** for operational risk in the Insurance sector is determined in accordance with the standard formula in Solvency II. The risk calculation uses a factor approach, taking account of premiums, provisions and, in the case of unit-linked business, costs.

R+V uses scenario-based risk self-assessments and risk indicators to manage and control operational risk. In the **risk self-assessments**, operational risk is assessed in terms of the probability of occurrence and the level of loss. Qualitative assessments can be used in exceptional cases.

Risk indicators are intended to help the Insurance sector to identify risk trends and concentrations at an early stage and to detect weaknesses in business processes. A system of warning lights is used to indicate risk situations based on specified threshold values.

To support the management of operational risk, all R+V's business processes are structured in accordance with the requirements of the **framework guidelines** for employee authority and power of attorney in R+V companies. Divisions not covered by these guidelines are subject to other policy documents, including policies on new business and underwriting.

The **internal control system** is a key instrument used by R+V to **limit operational risk**. Rules and controls in each department and reviews of the use and effectiveness of the internal control system carried out by Group Audit at R+V aim to avert the risk of errors and fraud. Payments are largely automated. Powers of attorney and authorizations stored in user profiles, as well as automated submissions for approval based on a random generator, are also used. Manual payments are approved by a second member of staff.

Business interruptions could mean that processes and workflows are disrupted over several days. Moreover, sensitive internal and external interfaces could be jeopardized by long-term business interruptions.

To ensure that it is operational at all times, R+V has a fully integrated **business continuity management system** (BCM system) with a central coordination function. This also includes the contingency and crisis management system and is documented in the business continuity, contingency, and crisis management guidelines. The security and BCM conference with representatives from all divisions provides specialist support and is intended to help coordinate activities within the R+V subgroup. Reports on significant findings relevant to risk and on any exercises and tests that have been carried out are also submitted to the Risk Committee.

The purpose of BCM is to ensure that R+V's operating activities can be maintained in the event of an emergency or crisis. To this end, time-critical business processes are recorded with the necessary resources. Any necessary documentation (such as business continuity planning) is prepared and reviewed. Special organizational structures, such as the R+V crisis management team and the individual business continuity teams in the divisions, have also been set up to deal with emergency and crisis situations.

20.3 HR risk

20.3.1 Specific risk factors

The future success of R+V is dependent upon capable managers and employees with the necessary skills and qualifications. There is fierce competition for managerial and administrative staff in the labor market, driven by high demand and insufficient numbers of suitable individuals. Unless the necessary number of suitable managerial and administrative staff can be attracted within the required timeframe, and/or existing managers and employees can be retained, there will be a risk that tasks will not be performed or will not be performed satisfactorily as a result of inadequate expertise in terms of either quality or quantity. This could restrict operating activities and have a negative impact on reputation.

20.3.2 Risk management

R+V uses the mechanisms of professional development and talent management with a view to ensuring that staff members undergo the continual development and training that will also make it possible to meet future staffing requirements from within the organization. The tools it uses for this purpose include a system for assessing high-potential employees, succession planning, and skills upgrading programs.

In the interest of long-term staff retention, R+V runs programs to establish and enhance its appeal as a place to work.

R+V counters operational risk in sales and distribution by providing continuing professional development courses for field sales staff. R+V applies the code of conduct for sales and distribution of the Gesamtverband der Deutschen Versicherungswirtschaft e.V. (GDV) [German Insurance Association]. This code focuses on a relationship between customers, insurance companies, and brokers that is defined by fairness and trust. The requirements set out in the code of conduct are reflected in the principles, policies, and processes of each company.

20.4 IT risk

20.4.1 Specific risk factors

The main type of operational risk to which R+V is exposed is the risk of malfunctions or breakdowns in data processing systems or in the programs used on these systems, including attacks from external sources,

such as hackers or malware. Such events could have an adverse impact on R+V's ability to efficiently maintain the processes necessary to carry out operating activities, protect saved data, ensure sufficient control, or continue to develop products and services. Furthermore, such malfunctions or breakdowns could lead to temporary or permanent loss of data. If operational risk of this nature were to materialize, it could restrict operating activities and have a negative impact on reputation.

20.4.2 Risk management

Quality assurance in IT follows best practice. A meeting is held every working day to discuss current topics and assign people to work on them. In addition, appropriate measures relating to adherence to service level agreements (e.g. system availability) are decided upon at monthly meetings attended by the IT divisional managers.

Physical and logical precautionary measures have been established for the purpose of data and application security and to ensure that day-to-day operations are maintained. A particular risk would be a partial or total breakdown in data processing systems.

R+V counters this risk by using two segregated data processing centers in which the data and systems are mirrored, special access security, fire control systems, and an uninterruptible power supply supported by emergency power generators. Exercises are carried out to test a defined restart procedure to be used in disaster situations with the aim of checking the efficacy of this procedure. Data is backed up and held within highly secure environments in various buildings. Furthermore, data is mirrored to a tape library at a remote, off-site location.

Various IT security management procedures are used to identify, assess, and document cyber risks and then to systematically allocate these risks for processing. The processing status and risk treatment are tracked and reported centrally each month.

20.5 Legal risk

20.5.1 Specific risk factors

Legal risk may arise from adverse changes in the legal environment, including adverse changes in the way that the authorities or the courts interpret legal provisions. If such risks were to materialize, this could have a detrimental impact on R+V's appeal as a partner in business transactions.

20.5.2 Risk management

R+V monitors and analyzes relevant decisions by the courts with a view to mitigating legal risk by identifying any need for action in good time and implementing specific corrective measures.

Legal disputes arising from the processing of insurance claims or benefit payments are covered by insurance liabilities, and therefore do not form part of operational risk.

20.6 Tax risk

20.6.1 Specific risk factors

Tax risk can arise from adverse changes in **tax circumstances** (tax legislation, decisions by the courts) or in the **interpretation by tax authorities** of existing tax legislation. As a result of tax audits, an alternative assessment of tax matters or errors in the calculation of the basis of tax assessments could give rise to **retrospective tax liabilities** for periods that have already been assessed. As there are still outstanding audits by the tax authorities relating to a number of financial years, there is a risk that retrospective tax payments could be required and these payments would be subject to interest charges. Such events could also have a negative impact on reputation.

20.6.2 Risk management

R+V has established a tax compliance management system to minimize tax risk. Business transactions are assessed for tax purposes on the basis of current tax legislation, taking into account the latest decisions by the courts and interpretations by the authorities.

20.7 Risk position

As at December 31, 2019, the **overall solvency requirement for operational risk** amounted to €644 million (December 31, 2018: €557 million). The rise in the overall solvency requirement compared with the prior year resulted first and foremost from business growth. The **limit** applicable at the reporting date was set at €680 million (December 31, 2018: €640 million). The limit was not exceeded on any measurement date during 2019.

21 Risks from entities in other financial sectors

All entities that form part of the regulatory R+V Versicherung AG insurance group are generally

included in the calculation of group solvency. This also applies to non-controlling interests in insurance companies and to entities in other financial sectors.

The **non-controlling interests in insurance companies** mainly relate to reinsurance and insurance companies over which R+V can exercise significant influence but without having complete control. The risk capital requirement for non-controlling interests in insurance companies is included on a pro-rata basis in accordance with Solvency II. As at December 31, 2019, no non-controlling interests in insurance companies were included in the risk measurement. At R+V, the **entities in other financial sectors** mainly consist of pension funds and occupational pension schemes.

The **risk factors** applicable for risks from entities in other financial sectors are generally the same as the risk factors for the risks subject to capital requirements under Solvency II.

Risk is quantified for the pension funds and occupational pension schemes in accordance with the requirements currently specified by the insurance supervisor. This means applying the capital requirements in Solvency I, which are essentially calculated by applying a factor to the volume measures of benefit reserves and capital at risk.

R+V Pensionskasse AG is exposed to risks comparable with those faced by the life insurance entities in the R+V subgroup. The main risk management activities applicable in this case are those relating to life actuarial risk (section 16.3.2), market risk (section 17.2), counterparty default risk (section 18.2), and operational risk (section 20.2).

The risk situation in a pension fund is determined to a significant degree by the nature of the pension plans offered. In pension plans offered by R+V involving defined contributions with a minimum benefit, it must be ensured that at least the sum of the contributions paid into the plan (net of any contributions covering biometric risk assumed by R+V) is available on the agreed pension start date.

R+V also offers pension plans that include guaranteed insurance-based occupational incapacity cover as well as pension benefits and benefits for surviving dependants. Market risk and all the risk types covered by actuarial risk are relevant as far as occupational pension provision is concerned. Longevity risk is also

important in relation to pensions because of the guaranteed benefits involved. Again, the risk management activities relating to life actuarial risk, market risk, counterparty default risk, and operational risk apply in this case. R+V aims to ensure that the ongoing pension plan contributions and the benefit reserve include sufficient amounts to cover the costs of managing pension fund contracts.

In the pension plans involving a benefit commitment without any insurance-based guarantees, R+V does not assume responsibility for any of the pension fund risk or investment risk because the benefits promised by the pension fund are subject to the proviso that the employer will also make up any difference required. This also applies to the period in which pensions are drawn. If the employer fails to make up the difference required, R+V's commitment is reduced to insurance-based guaranteed benefits based on the amount of capital still available.

As at December 31, 2019, the **overall solvency requirement** for risks in connection with entities in other financial sectors stood at €111 million (December 31, 2018: €111 million) with a **limit** of €112 million (December 31, 2018: €145 million). The limit was not exceeded on any measurement date during 2019.

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Balance sheet as at December 31, 2019

ASSETS

€ million	(Notes)		Dec. 31, 2019	Dec. 31, 2018
1. Cash and cash equivalents				
a) Cash on hand			281	287
b) Balances with central banks			28,228	2,377
of which: with Deutsche Bundesbank	27,858			(2,249)
			28,509	2,664
2. Debt instruments from public-sector entities and bills of exchange eligible for refinancing by central banks				
a) Treasury bills, non-interest-bearing treasury notes and similar debt instruments from public-sector entities			204	230
			204	230
3. Loans and advances to banks	(02, 04, 05, 06, 07)			
a) Repayable on demand			18,727	41,736
b) Other loans and advances			114,224	103,314
			132,951	145,050
4. Loans and advances to customers	(02, 04, 05, 07)		38,308	34,748
of which: secured by mortgages		250		(287)
local authority loans		795		(869)
5. Bonds and other fixed-income securities	(02, 04, 05, 07, 12, 14)			
a) Money market instruments			233	180
ab) from other issuers			233	180
b) Bonds			32,902	27,448
ba) from public-sector issuers		7,152		6,948
of which: eligible as collateral at Deutsche Bundesbank	6,392			(6,540)
bb) from other issuers		25,750		20,500
of which: eligible as collateral at Deutsche Bundesbank	16,512			(13,011)
c) Own bonds			364	363
Nominal value		360		(360)
			33,499	27,991
6. Shares and other variable-yield securities	(02, 07, 12, 14)		60	60
6a. Trading assets	(02, 07, 13)		35,810	32,434
7. Long-term equity investments	(02, 12, 14)		295	372
of which: in banks		226		(223)
8. Shares in affiliated companies	(02, 12, 14)		10,788	10,997
of which: in banks		6,052		(6,250)
in financial services institutions		210		(210)
9. Trust assets	(08)		654	833
of which: trust loans		45		(56)
10. Intangible assets	(02, 14)			
b) Purchased concessions, industrial and similar rights and assets, including licenses for such rights and assets			61	52
d) Payments in advance			19	32
			80	84
11. Property, plant and equipment	(02, 14)		420	428
12. Other assets	(15)		1,525	1,424
13. Prepaid expenses and accrued income	(16)			
a) In connection with issuing and lending business			99	66
b) Other			20	47
			119	113
14. Deferred tax assets	(02, 17)		1,025	1,083
15. Excess of plan assets over pension liabilities	(18)		58	37
Total assets			284,305	258,548

EQUITY AND LIABILITIES

€ million	(Notes)		Dec. 31, 2019	Dec. 31, 2018
1. Deposits from banks	(02, 04, 05, 06)			
a) Repayable on demand			45,829	46,869
b) With agreed maturity or notice period			89,958	85,693
			135,787	132,562
2. Deposits from customers	(02, 04, 05)			
b) Other deposits			33,589	35,553
ba) Repayable on demand		20,532		21,896
bb) With agreed maturity or notice period		13,057		13,657
			33,589	35,553
3. Debt certificates issued including bonds	(02, 04, 05)			
a) Bonds issued			31,294	27,715
b) Other debt certificates issued			23,446	6,533
of which: commercial paper		22,733		(6,533)
			54,740	34,248
3a. Trading liabilities	(02, 13)		37,864	34,426
4. Trust liabilities	(08)		654	833
of which: trust loans		45		(56)
5. Other liabilities	(03, 19)		666	825
6. Deferred income and accrued expenses	(16)			
a) In connection with issuing and lending business			88	76
b) Other			15	10
			103	86
7. Provisions	(02)			
a) Provisions for pensions and other post-employment benefits			53	43
b) Provisions for taxes			125	148
c) Other provisions			842	804
			1,020	995
8. Subordinated liabilities	(02, 05, 20)		5,426	4,636
9. Profit-sharing rights	(21)		68	68
of which: maturing within two years		68		(4)
10. Fund for general banking risks	(02)		3,812	3,812
of which: special item in accordance with section 340e (4) HGB		240		(240)
11. Equity	(22, 23, 24)			
a) Subscribed capital			4,926	4,926
Contingent capital: €53 million (Dec. 31, 2018: €53 million)				
b) Capital reserve			3,784	3,784
c) Revenue reserves			1,542	1,470
ca) Statutory reserve		105		105
cd) Other revenue reserves		1,437		1,365
d) Distributable profit			324	324
			10,576	10,504
Total equity and liabilities			284,305	258,548
1. Contingent liabilities	(35)			
b) Liabilities under guarantees and indemnity agreements ¹			8,004	7,859
			8,004	7,859
2. Other obligations	(35)			
c) Irrevocable loan commitments			22,158	20,996
			22,158	20,996

¹ See also details under 'Other disclosures' in Notes 36 and 37.

Income statement for the period January 1 to December 31, 2019

€ million	(Notes)		2019	2018
1. Interest income from	(02, 30)			
a) Lending and money market business		2,062		1,881
of which: negative interest rates on financial assets	186			(173)
b) Fixed-income securities and book-entry securities		489		541
of which: negative interest rates on financial assets	–			(0)
		2,551		2,422
2. Interest expense	(02)	1,871	680	1,850
of which: positive interest rates on financial liabilities	195			(176)
expenses incurred by the unwinding of discounts on provisions	2			(3)
3. Current income from	(02, 30)			
a) Shares and other variable-yield securities		0		1
b) Long-term equity investments		10		16
c) Shares in affiliated companies		185		232
			195	249
4. Income from profit-pooling, profit-transfer and partial profit-transfer agreements			283	250
5. Fee and commission income	(30, 31)	813		768
6. Fee and commission expenses		402		380
			411	388
7. Net trading income	(02, 30)		426	363
of which: reversal in accordance with section 340e (4) HGB	–			(35)
income from the discounting of provisions	0			(–)
expenses incurred by the unwinding of discounts on provisions	0			(0)
8. Other operating income	(02, 30, 32)		129	154
of which: income from the discounting of provisions	10			(1)
9. General and administrative expenses				
a) Staff expenses		636		636
aa) Wages and salaries		549		535
ab) Social security, post-employment and other employee benefit expenses		87		101
of which: post-employment benefit expenses	17			(33)
b) Other administrative expenses		779		770
			1,415	1,406
10. Amortization and write-downs on intangible assets, and depreciation and write-downs on property, plant and equipment			50	46
11. Other operating expenses	(02, 32)		115	254
of which: expenses incurred by the unwinding of discounts on provisions	7			(138)
12. Write-downs on and loss allowances for loans and advances and certain securities, and additions to provisions for losses on loans and advances	(02)		169	–
13. Income from the reversal of write-downs on loans and advances and certain securities, and from the reversal of provisions for losses on loans and advances	(02)		–	229
14. Write-downs on and allowances for long-term equity investments, shares in affiliated companies, and securities treated as fixed assets	(02)		–	384
15. Income from the reversal of write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets	(02)		115	–
16. Income from reversal of the fund for general banking risks	(02)		–	425
17. Expenses from the transfer of losses			10	159
18. Result from ordinary activities			480	381

€ million	(Notes)			2019	2018
19. Extraordinary income	(33)			-	9
20. Extraordinary expenses	(33)			20	80
21. Extraordinary result				-20	-71
22. Income taxes			66		-10
of which: from deferred taxes		58			(-22)
23. Other taxes not included under 'Other operating expenses'			0		-2
				66	-12
24. Net income for the year	(34)			394	322
25. Profit brought forward from 2018				2	2
26. Additions to revenue reserves					
d) To other revenue reserves			72		-
				72	-
27. Distributable profit				324	324

Notes

A General disclosures

>> 01 Basis of preparation

DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK), headquartered in Frankfurt am Main, is entered in the commercial register at the Frankfurt am Main local court under the number HRB 45651.

The annual financial statements of DZ BANK for the year ended December 31, 2019 have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the Statutory Order on the Accounts of Banks and Financial Services Institutions (RechKredV). At the same time, the annual financial statements comply with the provisions of the German Stock Corporation Act (AktG), the DG BANK Transformation Act, and the Articles of Association of DZ BANK.

DZ BANK has made use of available options to include disclosures in the notes to the financial statements rather than on the balance sheet and income statement. Unless stated otherwise, all amounts are shown in millions of euros (€ million). All figures are rounded to the nearest whole number. This may result in very small discrepancies in the calculation of totals and percentages.

The accounting policies applied in 2019 were essentially the same as those used in 2018. Any changes compared with 2018 are set forth in Note 02 'Accounting policies'.

>> 02 Accounting policies

Assets and liabilities are measured in accordance with the general provisions in sections 252 et seq. HGB, taking account of the special provisions in sections 340 et seq. HGB applicable to banks.

Loans and advances to banks and customers

Loans and advances to banks and customers are carried at their principal amounts or at cost. The difference between the principal amount and the amount disbursed is recognized under deferred income and apportioned pro rata over the term of the loan. Promissory notes, registered bonds, and lease receivables acquired from third parties are recognized at cost. Loans and advances, which are classified as current assets, are measured strictly at the lower of cost and market.

Provisions for lending risks comprise valuation allowances and provisions for identifiable credit risk and latent credit risk for all portfolios of loans and advances on the balance sheet, for off-balance-sheet transactions, and for revocable loan commitments. DZ BANK also recognizes allowances for general banking risks as permitted by section 340f HGB.

The calculation of loss allowances under HGB is based on the IFRS 9 expected loss model, which divides loss allowances into three stages. The probability of default, the loss given default, and the expected loan amount at the time of default are factored into the calculation of the expected credit losses. Stages 1 and 2 (portfolio loan loss allowances) are recognized for deferred credit risks; stage 1 corresponds to the 12-month expected credit

loss and stage 2 to the lifetime expected credit loss. Use of the IFRS 9 expected loss model to calculate loss allowances under HGB complies with the general measurement principles of the HGB. The reason for using the expected loss model is to take account of expected losses at an earlier stage, which will produce a better true and fair view of net assets, financial position, and results of operations.

Loss allowances for identifiable credit risk (actual impairment losses) are calculated in stage 3 in the amount of the lifetime expected credit loss. The expected credit loss in stage 3 is generally calculated on the basis of individual expert appraisals of the achievable cash flows and probability-weighted scenarios.

Transactions for which loss allowances are to be recognized are assigned to stage 1 upon initial recognition. This is not the case for financial assets that are purchased or originated credit-impaired assets (POCI assets). They are initially recognized at their carrying amount adjusted for their lifetime expected credit losses (POCI asset adjustment). At the balance sheet date, the cumulative changes that exceed the lifetime expected credit loss since initial recognition (POCI asset adjustment) are recognized as an additional loss allowance. Reversals of the POCI asset adjustment as a result of reversals of impairment losses are not possible due to the cost restriction under HGB.

At each balance sheet date, assets are assigned to stage 2 if their credit risk has significantly increased since initial recognition but there is no objective evidence of impairment. The review of whether the credit risk has increased significantly since initial recognition is carried out on an ongoing basis using both quantitative and qualitative criteria.

As a result of the 3-stage model being used, whenever there is a significant increase in credit risk, a transfer to stage 2 takes place and a loss allowance is recognized in the amount of the lifetime expected credit loss.

Bonds and other fixed-income securities, and shares and other variable-yield securities

These line items on the balance sheet comprise long-term securities and securities in the liquidity reserve. Securities in the liquidity reserve are measured strictly in accordance with the principle of lower of cost and market. Long-term securities that are permanently impaired are written down to the lower of cost and market. In 2019, as in the previous year, temporarily impaired long-term securities were optionally measured at the lower of cost and market or their carrying amount was retained in accordance with section 340e (1) HGB. Under the item 'Bonds and other fixed-income securities', the carrying amount of marketable securities not measured at the lower of cost and market was €1,176 million. For further information on the impact on net assets, financial position, and results of operations, please refer to Note 14 'Statement of changes in fixed assets'.

The fair value of securities is largely determined by reference to current market prices or by using generally accepted valuation methods on the basis of parameters that are broadly observable in the market, such as yield curves, spreads, volatility, or exchange rates. If specific parameters relevant to the measurement cannot be observed or cannot be determined directly from market data, the bank's own internal estimated parameters are used.

DZ BANK individually measures securities that are held either as long-term investments or in the liquidity reserve.

Premiums and discounts on the fixed-income securities in the banking book are recognized in accordance with the effective interest method. This resulted in interest expense of €38 million in 2019 (2018: €47 million).

Dividend income from shares and other variable-yield securities that are held either as long-term investments or in the liquidity reserve is reported as current income from shares and other variable-yield securities.

Trading assets and trading liabilities

Trading assets and trading liabilities comprise bonds and other fixed-income securities, shares and other variable-yield securities, promissory notes, registered bonds, sale and repurchase agreements, and derivatives (interest-rate, currency, credit, and equity derivatives). DZ BANK reports its own structured issues of credit-linked notes and share certificates – because they are held for trading purposes – as trading liabilities in accordance with the criteria specified in accounting guidance statement 2 issued by the banking committee of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Public Auditors in Germany].

Over-the-counter (OTC) derivatives held for trading purposes, for which variation margins have been agreed on the basis of bilateral master agreements in the Collateralization Annex and for which the variation margins have been paid daily, are netted and shown on the balance sheet on a net basis. For each master agreement, the netting covers the fair values of the OTC derivatives and the variation margin. As at December 31, 2019, this netting reduced loans and advances to banks by €2,641 million (December 31, 2018: €2,695 million), loans and advances to customers by €593 million (December 31, 2018: €486 million), the carrying amount of trading assets by €12,920 million (December 31, 2018: €10,758 million), deposits from banks by €2,298 million (December 31, 2018: €1,762 million), deposits from customers by €414 million (December 31, 2018: €265 million), and the carrying amount of trading liabilities by €13,442 million (December 31, 2018: €11,912 million). The amounts are presented on a gross basis in Note 26 'List of derivatives recognized at fair value by product area' and in Note 27 'List of derivatives recognized at fair value by counterparty structure'.

The fair values of OTC interest-rate derivatives that are traded through a central counterparty have also been netted with the carrying amounts of the underlying derivatives positions contained in the trading assets and trading liabilities line items on the balance sheet. As at December 31, 2019, this netting reduced the carrying amount of trading assets by €24,348 million (December 31, 2018: €7,192 million), the carrying amount of other assets by €2,100 million (December 31, 2018: €1,728 million), and the carrying amount of trading liabilities by €26,448 million (December 31, 2018: €8,920 million). The amounts are presented on a net basis in Note 26 'List of derivatives recognized at fair value by product area' and in Note 27 'List of derivatives recognized at fair value by counterparty structure'.

As part of the clearing service for customers of DZ BANK, the fair values of OTC interest-rate derivatives that are traded through a central counterparty are recognized and netted with the carrying amounts of the underlying derivatives positions contained in the trading assets and trading liabilities line items on the balance sheet.

Financial instruments held for trading purposes are measured at their fair value in accordance with section 255 (4) HGB in conjunction with section 340e (3) HGB. To ensure that the income statement only includes unrealized gains from positions that are substantially closed, a risk adjustment is applied to the net gains and losses. This adjustment comprises a value-at-risk adjustment, a mathematical calculation that describes the maximum potential loss that is considered to be highly probable. An internal model is used to calculate the value-at-risk adjustment based on regulatory requirements. It applies the 10-day value-at-risk adjustment required by the regulator. The calculation of the value-at-risk adjustment was based on an observation period of 250 trading days and a confidence level of 99 percent. The value-at-risk adjustment amounted to €8 million (December 31, 2018: €17 million).

Where markets are inactive, generally accepted discounted cash flow methods are used in the model-based measurement of the fair value of financial instruments without optionalities. Modeling of the yield curves is based on a multi-curve approach with collateral discounting. Simple products on which options exist are measured using customary standard models in which the inputs are quoted in active markets. For structured products on which options exist, a wide range of standard valuation techniques are used. Valuation models are calibrated to available market prices and validated regularly. In order to determine fair value reliably, measurement adjustments are also made for uncertain measurements.

Fair value gains and losses, current interest payments and dividend income from securities held for trading purposes, current payments arising from derivatives and from sale and repurchase agreements and securities lending transactions entered into for trading purposes, promissory notes and other receivables, foreign exchange, and precious metals – including any deferrals carried out – are all recognized as part of the net trading result. In addition, the funding costs attributable to trading assets and trading liabilities in the form of internal fixed-term deposits and imputed overnight rates are also reported as part of the net trading result.

Securities lending

For securities involved in securities lending transactions, the accounting treatment of securities lending is the same as the accounting treatment for genuine sale and repurchase agreements (i.e. agreements in which the buyer is under an obligation to sell back the securities) in accordance with section 340b (2) HGB. The securities remain on the balance sheet. Borrowed securities are not recognized on the balance sheet.

Long-term equity investments and shares in affiliated companies

Long-term equity investments and shares in affiliated companies are measured at amortized cost or, if expected to be permanently impaired, at the lower of cost and fair value. If the reasons for a previous write-down no longer exist, the write-down is reversed so that the asset is measured at fair value. However, the reversal must not result in a carrying amount higher than the original cost.

Property, plant and equipment, and intangible assets

Property, plant and equipment is measured at cost and reduced by depreciation over its estimated useful life. Useful life is based on the depreciation tables published by the German tax authorities.

Low-value assets with an individual net value of up to €250 are written off in full in the year of acquisition and expensed. In the case of assets with an individual net value between €250 and €1,000, the aggregate item that needs to be recognized on an annual basis for tax purposes has been included in the HGB financial statements to simplify matters. In accordance with tax rules, annual aggregate items with overall carrying amounts that are not material are depreciated at a flat rate of 20 percent in the year of recognition and then in each of the 4 subsequent years.

Office furniture and equipment including operating equipment is depreciated on a straight-line basis.

Assets are written down if they are considered to be impaired on a permanent basis. If the reasons for a previous write-down no longer exist, the write-down is reversed.

Intangible fixed assets are measured at cost and amortized on a straight-line basis. A useful life of 3 to 10 years is used as the basis for the amortization.

Deferred taxes

Using the option to recognize deferred tax assets provided for in section 274 (1) sentence 2 HGB, the bank recognized the excess of deferred tax assets after they had been offset against deferred tax liabilities. Deferred taxes are measured using the national and entity-specific tax rates expected to apply at the time of realization. The income tax group was subject to a standard tax rate of 31.26 percent (trade tax of 15.435 percent and corporation tax/solidarity surcharge of 15.825 percent). Deferred taxes at branches outside Germany were measured at the statutory rates applicable in the countries concerned, which range from 19.00 percent to

25.10 percent. The carrying amounts also included the deferred taxes from measurement differences at subsidiaries that form a tax group with the bank. Overall, this resulted in an excess of deferred tax assets recognized on DZ BANK's balance sheet, the bulk of which is attributable to subsidiaries. For its measurement of the excess of deferred tax assets, the bank assumes that the profit-and-loss transfer agreements with its subsidiaries will continue and bases its income planning on a 5-year planning horizon. In accordance with IAS 12.29(a), when calculating the expected future tax benefits from the measurement differences in existence at the balance sheet date, only those measurement differences are recognized that are likely to disappear again in this period and will not be replaced with new measurement differences. The calculation of deferred tax assets takes account of tax loss carryforwards in the amount of the losses expected to be offset within the next 5 years.

Liabilities

Liabilities are carried at the settlement amount. The difference between the notional amount and the amount disbursed is recognized under prepaid expenses and apportioned pro rata over the term of the loan. Capital-related bonds, in which interest payments or repayments of principal are not solely subject to interest-rate risk, are recognized at their nominal amounts, with any related options being recognized and measured separately.

Provisions

Defined benefit obligations are calculated in accordance with actuarial principles. Their computation is based on the projected unit credit method. The discount rate used was forecast on the basis of the interest rate published by Deutsche Bundesbank as at November 30, 2019. It corresponds to the average market interest rate over the past 10 years as at December 31, 2019 (2.71 percent) for a residual maturity of 15 years. In Germany, the biometric tables used in these calculations are the 2018 G mortality tables published by HEUBECK AG, Cologne. Measurement is based on anticipated annual rates of increase of 1.8 percent for salaries and 1.6 percent for pensions. In order to provide cover for its defined benefit obligations, DZ BANK has transferred assets to DZ BANK Pension Trust e. V., Frankfurt am Main, which acts as a trustee on behalf of the pension beneficiaries. The valuation of defined benefit obligations outside Germany is based on the applicable country-specific biometric factors and parameters. Pension plans and the bank's early-retirement obligations gave rise to provisions for pensions and other post-employment benefits of €53 million.

DZ BANK recognizes provisions for current taxes in accordance with German tax law.

It recognizes its other provisions at the amounts needed to settle contingent liabilities and/or anticipated losses as dictated by prudent business practice.

Provisions that are recognized for more than 1 year are discounted at the average market interest rate for the past 7 years that corresponds to their residual maturity. It is calculated and published by Deutsche Bundesbank.

Income from the discounting of provisions for banking business and expenses incurred by the unwinding of discounts on such provisions are reported as interest income and interest expenses respectively. If the provisions are related to trading activities, the income resulting from discounting and expenses incurred by the unwinding of discounts are shown in the net trading result. Income from the discounting of residual provisions and expenses incurred by the unwinding of discounts on such provisions are reported as other operating income and other operating expenses respectively.

Additional regulatory Tier 1 capital instruments

Owing to their structure, the additional Tier 1 instruments (AT1 bonds) that have been issued are classified as debt. They are recognized at their settlement value under the subordinated liabilities line item on the balance sheet. The interest cost is accrued on the basis of the expected interest payments to the bond holders. The accrued interest is also recognized under the subordinated liabilities line item on the balance sheet.

Interest-linked contracts of the banking book

In accordance with the principles of write-downs to anticipate identifiable expected losses, evidence was provided for all on-balance-sheet and off-balance-sheet interest-linked financial instruments of the banking book to show that no losses will be incurred on contracted interest-linked items in the future. This was done using the present value/carrying amount method. In this method, the carrying amounts of the interest-bearing transactions of the banking book are offset against the interest-rate-related present values, taking account of the associated costs of managing the risk and the portfolio. Any remaining shortfall after offsetting would require a corresponding provision to be recognized. As at December 31, 2019, there was no need to recognize a provision for anticipated losses pursuant to section 340a HGB in conjunction with section 249 (1) sentence 1 HGB.

Miscellaneous

Expenses in connection with investments are offset against investment income in accordance with section 33 RechKredV in conjunction with section 340c (2) HGB. Fair value gains and losses on the measurement of loans and advances and the securities in the liquidity reserve are reported as a net figure in accordance with section 32 RechKredV in conjunction with section 340f (3) HGB.

The fund for general banking risks amounted to €3,812 million as at December 31, 2019 (December 31, 2018: €3,812 million). This fund for general banking risks includes a special item in accordance with section 340e (4) HGB.

The methods used to recognize and measure internal transactions are the same as those applied to external transactions. The internal transactions are shown as netted amounts in the respective line items on the balance sheet.

Non-trading credit derivatives in which DZ BANK is the protection buyer and for which hedge accounting is not applied, along with non-trading protection-seller transactions, are measured individually and in accordance with the HGB imparity principle as required by accounting guidance statement 1 issued by the banking committee of IDW. Like guarantees, non-trading protection-seller transactions in the banking book for individual exposures – where such transactions are held to maturity or until the credit event occurs and they only cover the credit risk – are subject to an evaluation of the necessity for loss allowances. The transactions are shown under contingent liabilities or, in the case of loss allowances being recognized, under other provisions.

>> 03 Currency translation

Assets and liabilities denominated in foreign currencies as well as claims and delivery obligations under currency transactions are translated in compliance with section 256a HGB in conjunction with section 340h HGB. This legislation requires that foreign currencies be translated at the middle spot exchange rate on the balance sheet date.

All currency exposures arising in connection with trading assets and trading liabilities are recognized and measured in accordance with the rules governing trading assets and trading liabilities. The corresponding exchange gains and losses on foreign-currency transactions designated as trading assets and trading liabilities are reported as net trading income on the income statement.

Under the strategy for managing currency risk, DZ BANK's foreign currency exposures and foreign-currency transactions are deemed to be specifically covered in the same currency. Assets are deemed to be specifically covered in the same currency if they are matched by liability items, forward transactions, or options. The excess fair value measurement of these derivatives is reported as an offsetting item for currency translation under 'Other liabilities'. The fair value gains and losses on non-trading transactions that are specifically covered in the same currency are shown on a net basis under other operating income. Where DZ BANK has entered into currency swaps in connection with the hedging of interest-bearing balance sheet items, the swap income and expenses are treated as interest income and expense in the financial year, reflecting the nature of the income and expense involved.

B Balance sheet disclosures

>> 04 Maturity structure

ASSET ITEMS

€ million	Dec. 31, 2019	Dec. 31, 2018
Other loans and advances to banks	114,224	103,314
up to 3 months	10,586	9,672
between 3 months and 1 year	15,743	12,107
between 1 year and 5 years	38,611	35,891
more than 5 years	49,284	45,644
Loans and advances to customers	38,308	34,748
up to 3 months	9,821	8,175
between 3 months and 1 year	3,390	3,426
between 1 year and 5 years	14,317	12,442
more than 5 years	7,664	7,645
no fixed maturity	3,116	3,060
Bonds and other fixed-income securities	33,499	27,991
of which: maturing in subsequent year	4,614	4,810

LIABILITY ITEMS

€ million	Dec. 31, 2019	Dec. 31, 2018
Deposits from banks with agreed maturity or notice period	89,958	85,693
up to 3 months	14,534	14,473
between 3 months and 1 year	7,356	5,967
between 1 year and 5 years	26,845	25,421
more than 5 years	41,223	39,832
Deposits from customers		
Other deposits from customers with agreed maturity or notice period	13,057	13,657
up to 3 months	3,368	3,209
between 3 months and 1 year	3,019	2,723
between 1 year and 5 years	1,553	2,329
more than 5 years	5,117	5,396
Debt certificates issued including bonds		
Bonds issued	31,294	27,715
of which: maturing in subsequent year	11,506	6,516
Other debt certificates issued	23,446	6,533
up to 3 months	20,075	6,329
between 3 months and 1 year	3,371	193
between 1 year and 5 years	-	11

>> 05 Affiliated companies and other long-term investees and investors

Loans and advances to and deposits from affiliated companies:

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans and advances to banks	34,390	29,144
Loans and advances to customers	5,125	4,988
Bonds and other fixed-income securities	4,121	6,337
Deposits from banks	12,656	7,074
Deposits from customers	3,532	2,085
Debt certificates issued including bonds	1,181	1,231
Subordinated liabilities	1,412	1,412

Loans and advances to and deposits from other long-term investees and investors:

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans and advances to banks	63,416	58,838
Loans and advances to customers	845	1,022
Bonds and other fixed-income securities	2,736	2,514
Deposits from banks	40,006	42,368
Deposits from customers	569	795
Debt certificates issued including bonds	17,652	18,596
Subordinated liabilities	2,536	1,153

The list of shareholdings compiled in accordance with section 285 no. 11 HGB is shown in Note 46.

>> 06 Loans and advances to and deposits from affiliated banks

Loans and advances to and deposits from banks include the following amounts:

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans and advances to affiliated banks	78,110	73,274
Deposits from affiliated banks	51,898	53,105

>> 07 Subordinated assets

The following balance sheet items include subordinated assets in the amounts stated:

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans and advances to banks	1,059	1,073
of which: to affiliated companies	858	857
Loans and advances to customers	111	114
Bonds and other fixed-income securities	328	396
of which: to affiliated companies	247	242
to investees	5	5
Shares and other variable-yield securities	2	2
Trading assets	177	205
of which: to affiliated companies	6	14
to investees	2	2
Total	1,677	1,790

>> 08 Trust activities

Total trust assets and trust liabilities are broken down as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Trust assets		
Loans and advances to banks	45	56
Loans and advances to customers	0	0
Long-term equity investments	609	777
Total	654	833

€ million	Dec. 31, 2019	Dec. 31, 2018
Trust liabilities		
Deposits from banks	45	56
Deposits from customers	609	777
Total	654	833

>> 09 Foreign currency

Assets and liabilities denominated in foreign currency are as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Assets	22,686	16,045
Liabilities	57,640	31,630

>> 10 Sale and repurchase agreements

The carrying amount of assets subject to sale and repurchase agreements as at December 31, 2019 was €1,800 million (December 31, 2018: €1,200 million).

>> 11 Assets assigned as collateral

The following table lists liabilities for which assets in the amount shown have been pledged as collateral:

€ million	Dec. 31, 2019	Dec. 31, 2018
Deposits from banks	56,627	56,448
Debt certificates issued including bonds	515	567
Trading liabilities	1,800	1,200
Total	58,942	58,215

The amount pledged as collateral for exchange-traded forward transactions, in connection with collateral agreements as part of OTC trading business, and for securities lending transactions was €14,412 million (December 31, 2018: €12,949 million).

>> 12 Marketable securities

The following asset items include marketable securities in the amounts shown:

€ million	Dec. 31, 2019	Dec. 31, 2018
Bonds and other fixed-income securities	33,499	27,991
of which: listed on a stock exchange	27,088	22,051
Shares and other variable-yield securities	2	2
of which: listed on a stock exchange	2	2
Long-term equity investments	32	32
of which: listed on a stock exchange	–	–
Shares in affiliated companies	3,469	3,469
of which: listed on a stock exchange	–	–

>> 13 Trading assets and trading liabilities

The table below shows a breakdown of trading assets and trading liabilities:

€ million	Dec. 31, 2019	Dec. 31, 2018
Trading assets		
Derivatives	7,276	6,000
Receivables	14,426	13,206
Bonds and other fixed-income securities	13,130	12,552
Shares and other variable-yield securities	1,210	988
Other (risk adjustments)	-232	-312
Total	35,810	32,434

€ million	Dec. 31, 2019	Dec. 31, 2018
Trading liabilities		
Derivatives	4,066	4,405
Liabilities	33,798	30,021
Total	37,864	34,426

>> 14 Statement of changes in fixed assets

The changes in fixed assets were as follows:

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

€ million	Intangible assets	Land and buildings	Office furniture and equipment
Cost as at Jan. 1, 2019	500	459	231
Additions	21	1	16
Disposals	1	0	40
Reclassifications	-	-	-
Cost as at Dec. 31, 2019	520	460	207
Reversals of write-downs	-	-	-
Depreciation, amortization and write-downs as at Jan. 1, 2019	416	103	159
Additions	25	8	17
Disposals/reclassifications	1	0	40
Depreciation, amortization and write-downs as at Dec. 31, 2019	440	111	136
Carrying amount as at Dec. 31, 2019	80	349	71
Carrying amount as at Dec. 31, 2018	84	356	72

The carrying amount of the land and buildings used by DZ BANK for its own operations as at December 31, 2019 was €198 million (December 31, 2018: €201 million).

INVESTMENTS

€ million	Long-term securities	Long-term equity investments	Shares in affiliated companies
Change	-3,219	-77	-209
Carrying amount as at Dec. 31, 2019	18,720	295	10,788
Carrying amount as at Dec. 31, 2018	21,939	372	10,997

The fair value of financial instruments reported under investments for which write-downs have not been recognized in accordance with section 253 (3) sentence 6 HGB was €1,125 million (carrying amount: €1,176 million) for bonds and other fixed-income securities. These securities are tested to ascertain whether they are actually impaired. If they are, the impairment loss is calculated on the basis of parameters. In the case of asset-backed securities (ABSs), DZ BANK carried out detailed cash flow analyses related to the receivables in the securitization pool taking into account the waterfall structure of each ABS tranche. The assessment of impairment was also based on previous experience with the issuers in question and on the relevant economic forecasts.

>> 15 Other assets

The other assets of €1,525 million (December 31, 2018: €1,424 million) largely include initial and variation margin payments arising from derivatives and repos of €666 million (December 31, 2018: €582 million), tax credits of €460 million (December 31, 2018: €559 million), and accruals relating to currency swaps of €177 million (December 31, 2018: €104 million).

>> 16 Prepaid expenses/accrued income and deferred income/accrued expenses

€ million	Dec. 31, 2019	Dec. 31, 2018
Prepaid expenses/accrued income		
Discount on deposits	44	39
Premium on loans and advances	55	27
Other prepaid expenses/accrued income	20	47
Total	119	113

€ million	Dec. 31, 2019	Dec. 31, 2018
Deferred income/accrued expenses		
Discount on loans and advances	8	14
Premium on issues business	80	62
Other deferred income/accrued expenses	15	10
Total	103	86

>> 17 Deferred tax assets

This line item included deferred tax assets in accordance with section 274 HGB amounting to €1,025 million as at December 31, 2019 (December 31, 2018: €1,083 million). Deferred tax assets were recognized primarily in respect of the fund for home savings risk at Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, in respect of insurance liabilities at R+V Versicherung AG, Wiesbaden, and in respect of other temporary balance sheet differences at DZ BANK and the subsidiaries that form a tax group with it.

>> 18 Netting of assets and liabilities

The table below shows the cost and the fair value of netted assets that are protected from the claims of all other creditors and are used solely to settle liabilities arising from defined benefit obligations; it also shows the amount needed to settle these netted liabilities. It also shows the pertinent netted income and expenses resulting from discounting and from the netted assets.

€ million	Dec. 31, 2019	Dec. 31, 2018
Cost of netted assets	1,157	1,217
Fair value of netted assets	1,280	1,203
Amount needed to settle the netted liabilities	1,222	1,167
Netted expenses	117	152
Netted income	126	24

After netting of the various pension plans, there were surplus assets resulting from excess plan cover of €58 million in Germany as at December 31, 2019 (December 31, 2018: €37 million) and full plan cover at the foreign branch in New York (December 31, 2018: shortfall in plan cover of €1 million).

>> 19 Other liabilities

The other liabilities of €666 million (December 31, 2018: €825 million) include, in particular, initial and variation margins received arising from derivatives and repos of €423 million (December 31, 2018: €407 million) and currency translation liabilities of €121 million (December 31, 2018: €69 million).

>> 20 Subordinated liabilities

There are no early redemption obligations in respect of the subordinated capital. In the event of insolvency or liquidation, all rights in connection with these liabilities, including rights to interest, are subordinated to the claims of all non-subordinated creditors.

The subordinated liabilities carried an average interest rate of 2.31 percent (2018: 3.38 percent) and had initial maturities of between 5 and 30 years.

Subordinated liabilities are issued in the form of fixed-income and variable-yield securities, promissory notes, registered bonds, and a convertible bond.

The interest expense for the liabilities reported under this item amounted to €130 million in 2019 (2018: €156 million).

Accrued interest not yet due for payment amounting to €42 million (December 31, 2018: €45 million) is included within the subordinated liabilities balance sheet item.

To strengthen its regulatory Tier 1 capital, DZ BANK issued AT1 bonds with a total nominal value of €750 million on November 11, 2015 and AT1 bonds with a total nominal value of €1,400 million on November 19, 2019. The AT1 bonds are split into four types depending on their interest-rate arrangements (types A to D) and establish unsecured subordinated liabilities that meet the requirements in the Capital Requirements Regulation (CRR).

The bearer bonds are bound by the terms and conditions in the information memorandum, which include an indefinite term to maturity and a unilateral right of cancellation for the issuer. As a result, DZ BANK may call

each tranche of the bond in its entirety, but not parts thereof, as it chooses, either at the first possible maturity date (August 1, 2021 / August 1, 2026 for the 2015 issue; August 1, 2025 / August 1, 2030 for the 2019 issue) or thereafter at any interest payment date. Furthermore, the issuer may exercise its call right prematurely if certain regulatory or tax reasons arise. In all instances, DZ BANK must obtain the consent of the competent supervisory authority in order to call the bonds.

If they are called, AT1 bonds are repaid at their nominal value. In some circumstances, the repayment amount may be lower than the original nominal value if the value had been written down due to a trigger event and the write-down had not subsequently been reversed in full. Such a trigger event occurs if the common equity Tier 1 capital ratio of DZ BANK and the DZ BANK Group falls below 7.00 percent. Under certain conditions, the write-downs on the instruments may be reversed to the full original nominal value in subsequent financial years.

Depending on their type, the AT1 bonds issued in 2015 have an annual floating or fixed interest rate from the day of issue until August 1, 2021 / August 1, 2026. Depending on their type, the AT1 bonds issued in 2019 have an annual floating or fixed interest rate from the day of issue until August 1, 2025 / August 1, 2030. In subsequent periods, the interest rate will be reset on the basis of 12-month Euribor / the 5-year euro mid-swap rate plus a margin.

Interest payments are generally at the discretion of the issuer. They may be canceled, either wholly or in part, depending on the items eligible for distribution or by order of the competent supervisory authority. Interest payments are not cumulative; canceled or reduced payments will not be made up in subsequent periods. Interest of €34 million was paid in 2019 (2018: €34 million).

The accrued (not yet due) interest for the AT1 bonds amounted to €19 million as at December 31, 2019 (December 31, 2018: €14 million).

In respect of the registered bond with a conversion right that was issued in 2014 with a nominal value of €128 million, there will be an option of voluntary conversion by the creditors or mandatory conversion by the issuer after the end of December 3, 2019. The bond has a coupon of 5.0 percent. Early redemption by the issuer is possible at any time if necessary for regulatory reasons. There are no other plans or agreements to convert these liabilities into equity; there are no other early redemption obligations.

>> 21 Profit-sharing rights

Profit-sharing rights also incur a share of losses of up to their full amount. Interest payments are subject to the availability of distributable profit. Claims by holders of profit-sharing rights to the repayment of the capital are subordinated to the claims of other creditors.

DZ BANK has issued registered profit-participation certificates with a volume of €63 million. Total registered profit-participation certificates comprise 6 separate issues with an original maturity of 16 years and a coupon of 7.06 percent each.

Accrued interest not yet due for payment amounting to €4 million (December 31, 2018: €4 million) is included under profit-sharing rights on the balance sheet.

>> 22 Changes in equity

The subscribed capital of DZ BANK consists of 1,791,344,757 registered non-par-value shares each with an imputed value of €2.75. All shares in issue are fully paid-up.

The changes in equity were as follows:

€ million	Jan. 1, 2019	Additions/ (-) Withdrawals	Dec. 31, 2019
Subscribed capital	4,926	–	4,926
Capital reserve	3,784	–	3,784
Revenue reserves	1,470	72	1,542
Statutory reserve	105	–	105
Other revenue reserves	1,365	72	1,437
Distributable profit	324	0	324
– 2018 appropriation of profits/dividend	324	-322	–
Profit carried forward	–	-2	–
– 2019 distributable profit	–	324	324
Total equity	10,504	72	10,576

Authorized capital

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by May 31, 2021 on one or more occasions by up to a total of €100 million by way of issuing new registered non-par-value shares in return for cash or non-cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders both in the case of capital increases in return for non-cash contributions and in the case of capital increases in return for cash contributions if the capital is increased for the purpose of

- a) issuing new shares to employees of the corporation (employee shares),
- b) issuing new shares to one or more cooperative banks which, measured in terms of their total assets, directly and indirectly have a below-average stake in the corporation's share capital, i.e. less than 0.5 percent of their total assets (based on the nominal value of €2.75 per DZ BANK share),
- c) acquiring companies, equity investments in companies or for granting equity investments in the corporation in order to back strategic partnerships.

The Board of Managing Directors is also authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital I').

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by May 31, 2021 on one or more occasions by up to a total of €300 million by issuing new registered non-par-value shares in return for cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital II').

The new shares issued on the basis of utilizing Authorized Capital I or Authorized Capital II can also be acquired by credit institutions determined by the Board of Managing Directors if aforesaid credit institutions agree to offer said shares to the shareholders (indirect subscription right).

The Board of Managing Directors did not make use of any of this authorized action in 2019.

Contingent capital

The share capital is to be contingently raised by up to €52,859,413.75 by issuing up to 19,221,605 new, registered non-par-value shares (Contingent Capital). The increase in the Contingent Capital shall serve to grant registered non-par value shares (subscription shares) for the fulfillment of corresponding conversion rights and/or conversion obligations of creditors of convertible bonds or registered bonds, as the case may be, that were issued until June 24, 2015 in return for a cash contribution on the basis of the authorization resolution of the Annual General Meeting of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank of June 24, 2014. The increase in the Contingent Capital must only be carried out to the extent that the creditors of aforesaid convertible bonds or registered bonds, as the case may be, entitled or obliged to convert make use of their conversion right or fulfill their conversion obligation and that no own shares are used for aforesaid fulfillment. The subscription shares shall at all times be issued at a ratio of one registered bond to 7,435.824 subscription shares.

The subscription shares participate from the beginning of the financial year in which they come into existence in the profits of the current financial year as well as in the profits of previous years if a resolution of the appropriation of said profits has yet to be passed.

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to determine the further details pertaining to the execution of the increase in the Contingent Capital.

>> 23 Disclosures on shareholders

At the end of 2019, 99.5 percent of shares were held by cooperative enterprises (December 31, 2018: 99.4 percent). These cooperative enterprises include the cooperative banks and other legal entities and trading companies economically associated with the cooperative movement or cooperative housing sector.

>> 24 Disclosure pursuant to section 20 AktG

DZ Beteiligungs-GmbH & Co. KG Baden-Württemberg, Karlsruhe, and WGZ Beteiligungs GmbH & Co. KG, Düsseldorf, have notified us in accordance with section 20 (1) AktG that they each hold more than a quarter of the shares in DZ BANK.

>> 25 Amounts not allowed to be distributed as dividends

The table below gives a breakdown of the total amount that is not allowed to be distributed as a dividend pursuant to section 268 (8) and section 253 (6) HGB:

€ million	Dec. 31, 2019	Dec. 31, 2018
Recognition of deferred taxes	1,025	1,083
Recognition of assets at fair value	123	–
Difference arising from using the average market interest rates for the past 10 years and the past 7 years to discount provisions for defined benefit obligations	138	157
Total	1,286	1,240

The total amounts of €1,286 million that were not allowed to be distributed as dividends were offset by sufficient distributable reserves. Consequently, the distributable profit of €324 million was not prohibited from being paid out as a dividend.

>> 26 List of derivatives recognized at fair value by product area

The table below shows a list of the derivatives recognized at fair value by product area:

€ million	Nominal amount					Fair value			
	Time to maturity			Total amount		Positive		Negative	
	≤ 1 year	> 1–5 years	> 5 years	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
INTEREST-LINKED CONTRACTS	147,462	398,893	543,677	1,090,032	1,063,584	16,320	13,823	14,179	12,126
OTC products									
Forward rate agreements	5,624	–	–	5,624	11,700	0	0	0	0
Interest-rate swaps (same currency)	122,358	358,367	514,461	995,186	962,495	14,495	12,101	11,276	9,618
Interest-rate options – bought	7,900	20,195	13,089	41,184	38,559	1,532	1,331	105	110
Interest-rate options – written	9,227	20,186	16,127	45,540	47,727	293	391	2,798	2,398
Exchange-traded products									
Interest-rate futures	2,353	145	–	2,498	3,103	–	–	–	–
CURRENCY-LINKED CONTRACTS	30,832	24,634	9,761	65,227	65,638	945	863	959	1,302
OTC products									
Cross-currency swaps	11,046	20,922	9,679	41,647	40,551	586	606	691	1,022
Forward forex transactions	11,989	2,544	9	14,542	12,306	224	138	128	152
Forex options – bought	3,329	181	–	3,510	5,563	8	18	16	15
Forex options – written	4,224	973	7	5,204	6,918	33	38	23	45
Exchange-traded products									
Forex/gold futures	132	–	–	132	135	–	–	–	–
Forex/gold options	112	14	66	192	165	94	63	101	68
SHARE-/INDEX-LINKED CONTRACTS	13,772	12,594	3,451	29,817	30,326	1,554	1,275	2,181	2,725
OTC products									
Share/index options – bought	16	45	12	73	67	7	3	0	0
Share/index options – written	195	144	–	339	302	0	38	10	42
Other share/index contracts	868	3,150	2,479	6,497	5,670	66	–	208	462
Exchange-traded products									
Share/index futures	462	76	1	539	465	–	–	–	–
Share/index options	12,231	9,179	959	22,369	23,822	1,481	1,234	1,963	2,221
OTHER CONTRACTS	349	19	38	406	440	108	82	115	93
OTC products									
Commodities contracts	21	4	–	25	39	0	0	0	4
Exchange-traded products									
Futures (excl. gold futures)	119	1	–	120	139	0	0	0	1
Options (excl. gold options)	209	14	38	261	262	108	82	115	88
CREDIT DERIVATIVES	1,691	9,165	5,305	16,161	14,904	354	186	65	70
Protection buyer									
Credit default swaps	402	1,969	478	2,849	2,806	1	6	62	31
Protection seller									
Credit default swaps	1,289	7,196	4,827	13,312	12,098	353	180	3	39
Total	194,106	445,305	562,232	1,201,643	1,174,892	19,281	16,229	17,499	16,316

A substantial proportion of the transactions listed were entered into for the purposes of hedging interest-rate, exchange-rate, market, or credit risk.

>> 27 List of derivatives recognized at fair value by counterparty structure

The table below shows a list of the derivatives recognized at fair value by counterparty structure:

€ million	Fair value			
	Positive		Negative	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
OECD central governments	0	–	1	3
OECD banks	15,374	12,988	14,149	13,449
OECD financial services institutions	98	79	137	123
Other companies, private individuals	3,807	3,117	3,094	2,644
Non-OECD central governments	0	0	–	–
Non-OECD banks	2	45	118	97
Total	19,281	16,229	17,499	16,316

>> 28 List of derivatives not recognized at fair value by product area

The table below shows a list of the derivatives not recognized at fair value by product area:

€ million	Nominal amount			Fair value					
	Time to maturity			Total amount		Positive		Negative	
	≤ 1 year	> 1–5 years	> 5 years	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
INTEREST-LINKED CONTRACTS	597	1,603	2,687	4,887	6,868	593	609	284	353
OTC products									
Interest-rate swaps (same currency)	203	1,188	2,287	3,678	3,669	593	609	264	340
Interest-rate options – bought	–	–	–	–	200	–	0	–	–
Interest-rate options – written	100	370	400	870	895	–	–	20	13
Exchange-traded products									
Interest-rate futures	294	45	–	339	2,104	–	–	–	–
CURRENCY-LINKED CONTRACTS	70,946	4,076	262	75,284	53,671	696	464	630	428
OTC products									
Cross-currency swaps	137	383	106	626	855	39	40	85	113
Forward forex transactions	70,809	3,693	156	74,658	52,816	657	424	545	315
CREDIT DERIVATIVES	191	1,187	–	1,378	2,186	20	32	10	4
Protection buyer									
Credit default swaps	50	306	–	356	148	–	0	10	3
Protection seller									
Credit default swaps	141	881	–	1,022	2,038	20	32	–	1
Total	71,734	6,866	2,949	81,549	62,725	1,309	1,105	924	785

The transactions listed were entered into for the purposes of hedging interest-rate, exchange-rate, market, or credit risk.

The carrying amounts of non-trading derivatives not recognized at fair value included premiums of €22 million (December 31, 2018: €6 million) under other assets, and premiums of €31 million (December 31, 2018: €24 million) under other liabilities.

Prepaid expenses and accrued income include no upfront payments (December 31, 2018: €30 million). Deferred income and accrued expenses include upfront payments of €9 million (December 31, 2018: €3 million). Accrued income from non-trading derivatives not recognized at fair value is reported in the amount of €33 million (December 31, 2018: €35 million) under loans and advances to banks and in the amount of €9 million (December 31, 2018: €8 million) under loans and advances to customers, while accrued expenses on non-trading

derivatives not recognized at fair value are reported in the amount of €26 million (December 31, 2018: €33 million) under deposits from banks and in the amount of €18 million (December 31, 2018: €13 million) under deposits from customers.

The carrying amounts of non-trading derivatives not recognized at fair value also included a liability of €121 million (December 31, 2018: €69 million) relating to the offsetting item for currency translation. Accruals relating to forward forex transactions are netted and recognized in an amount of €177 million under other assets (December 31, 2018: €104 million).

>> 29 List of derivatives not recognized at fair value by counterparty structure

The table below shows a list of the derivatives not recognized at fair value by counterparty structure:

€ million	Fair value			
	Positive		Negative	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
OECD banks	994	823	756	656
OECD financial services institutions	–	0	–	–
Other companies, private individuals	311	261	157	127
Non-OECD banks	4	21	11	2
Total	1,309	1,105	924	785

C Income statement disclosures

>> 30 Breakdown of income by geographical market

The table below shows the geographical breakdown of total interest income, current income from shares and other variable-yield securities, long-term equity investments and shares in affiliated companies, fee and commission income, net trading income, and other operating income:

€ million	2019	2018
Germany	3,837	3,638
International	278	318
Total	4,115	3,956

>> 31 Administration and agency services provided for third parties

Administration and agency services provided for third parties relate primarily to custody services, securities brokerage, and the management of trust assets.

>> 32 Other operating income and expenses

Other operating income amounted to €129 million. This amount largely comprised income of €32 million from the reversal of provisions, income of €31 million from options, rental income of €12 million, and net income of €9 million resulting from the measurement of the occupational pension plan.

The other operating expenses of €115 million were mainly attributable to expenses of €26 million in connection with options as well as operating costs and rental expenses of €12 million in connection with premises not used for banking operations.

>> 33 Extraordinary expenses

The extraordinary expenses of €20 million resulted from an increase in the provisions for restructuring that had been recognized in 2018 in connection with the 'Verbund First 4.0' program.

>> 34 Proposed appropriation of profits

It will be proposed to the Annual General Meeting that the distributable profit be appropriated for a dividend payment of €0.18 per non-par-value share. This would equate to a total distribution of €322 million.

D Other disclosures

>> 35 Contingent liabilities and other obligations

DZ BANK only assumes liabilities in the form of guarantees and indemnity agreements after it has carefully assessed the risks involved. Having constantly evaluated the risks attaching to the guarantees and indemnity agreements that it has entered into, the bank is currently of the view that the principal debtors concerned will be able to meet the obligations underlying these guarantees and indemnity agreements. DZ BANK believes that these guarantees and indemnity agreements are unlikely to be utilized.

In order to cover acute risks arising from guarantees, indemnity agreements and irrevocable loan commitments, the bank has recognized provisions of an appropriate amount and has reduced the relevant figures reported by a corresponding amount.

The irrevocable loan commitments include unused liquidity lines in connection with securitizations of €2,635 million (December 31, 2018: €2,338 million).

>> 36 Other financial obligations

As at December 31, 2019, the total amount of other financial obligations for the following year was €122 million (December 31, 2018: €353 million). Most of these obligations related to follow-up obligations under memoranda and articles of association and to obligations under lease agreements, capital expenditure projects, and pending transactions. This amount includes obligations to affiliated companies of €27 million (December 31, 2018: €27 million).

Other financial obligations will amount to €273 million for years from 2021 onward. This amount includes obligations to affiliated companies of €61 million.

There were also irrevocable payment obligations in connection with the bank levy of €35 million. Collateral of the same amount has been pledged. The pledged collateral is included in other assets.

DZ BANK is a participant in the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR) [National Association of German Cooperative Banks], Berlin. This facility comprises a guarantee fund and a guarantee network. Under the terms of its statutes, DZ BANK has lodged a guarantee bond of up to €203 million with the BVR in support of the guarantee network in order to cover any eventualities.

>> 37 Letters of comfort

Except in the event of political risk, DZ BANK has undertaken to ensure, in proportion to its shareholding for the consolidated entity DZ PRIVATBANK S.A., Strassen, Luxembourg, and in total for DZ HYP, Hamburg and Münster, that these companies are able to meet their contractual obligations. These entities are identified in the list of DZ BANK's shareholdings (Note 46) as being covered by a letter of comfort. DZ BANK has also issued subordinated letters of comfort in respect of DZ BANK Capital Funding LLC I, DZ BANK Capital Funding LLC II, and DZ BANK Capital Funding LLC III, all based in Wilmington, USA. In addition, DZ BANK has issued 5 subordinated letters of comfort in respect of DZ BANK Perpetual Funding (Jersey) Limited, St. Helier, Jersey, each relating to different classes of preferred shares.

>> 38 Employees

Average number of employees by employee group:

	2019	2018
Female employees	2,239	2,254
Full-time employees	1,293	1,334
Part-time employees	946	920
Male employees	3,049	3,081
Full-time employees	2,867	2,918
Part-time employees	182	163
Total employees	5,288	5,335

>> 39 Investment fund assets

DZ BANK owned the following holdings of more than 10 percent of the units in investment fund assets within the meaning of section 285 no. 26 HGB as at December 31, 2019:

INVESTMENT FUND ASSETS BY INVESTMENT OBJECTIVE

	Carrying amount	Fair value	Difference between fair value and carrying amount	Distributions paid for 2019
€ million				
Mixed fund (pension funding)	1,247	1,247	0	4

The investment fund units are used to cover and fund DZ BANK's direct defined benefit obligations in Germany over the long term. They were able to be redeemed on any day without restriction.

>> 40 Auditor fees

The total fees charged for 2019 by the independent auditors of the financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, are broken down as follows:

	2019	2018
€ million		
Auditing services	4.9	6.4
Other attestation services	0.5	0.7
Tax consultancy services	0.1	–
Other services	0.3	0.6
Total	5.8	7.7

The fees for auditing services comprise expenses relating to the audit of the consolidated financial statements and group management report, the audit of the annual financial statements and management report of DZ BANK, and the review by the auditor of the condensed interim consolidated financial statements and interim group management report. The fees for other attestation services comprise the fees charged for the audit in accordance with section 89 of the German Securities Trading Act (WpHG). The fees for other services include fees for consultancy services and project-related audits.

>> 41 Cover statement

The following cover is in place for outstanding covered bonds and derivatives:

€ million	Dec. 31, 2019	Dec. 31, 2018
Total cover assets	19,044	21,908
Ordinary cover	19,044	21,908
Loans and advances to banks	13,161	12,833
Loans and advances to customers	1,063	895
Securities	4,820	8,180
Cover requirement	9,723	10,740
Outstanding covered		
– bearer bonds	2,885	2,809
– registered bonds	6,838	7,931
Excess cover	9,321	11,168

>> 42 Trustees of cover assets

The trustees are appointed by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] and have a duty under law to ensure that the issuance, administration, and collateralization of DZ BANK's covered bonds comply with statutory requirements, the provisions of the Articles of Association, and the terms and conditions of the bonds.

Trustee

Klaus Schmitz
 Presiding Judge at the
 Frankfurt am Main regional court (retired)
 (until October 31, 2019)

Klaus Wiens
 Presiding Judge at the
 Frankfurt am Main regional court (retired)
 (since November 1, 2019)

Deputy trustee

Klaus Wiens
 Presiding Judge at the
 Frankfurt am Main regional court (retired)
 (until October 31, 2019)

Dr. Matthias Kögler
 Presiding Judge at the
 Frankfurt am Main regional court (retired)
 (since November 1, 2019)

>> 43 Related party disclosures

The exercise of DZ BANK's normal business activities involves parties related to DZ BANK. Transactions with related parties within the meaning of section 285 no. 21 HGB are conducted on an arm's-length basis.

>> 44 Decision-making bodies

The total remuneration for the members of the Board of Managing Directors of DZ BANK in 2019 was €10,139 thousand (2018: €10,167 thousand). The total remuneration for the Supervisory Board was €929 thousand (2018: €853 thousand). The total remuneration for the Board of Managing Directors in 2019 and 2018 includes the total bonus awarded to the Board of Managing Directors for the year in question. A sum of 20 percent of the total bonus determined on the basis of targets achieved is paid out in the subsequent year immediately after the annual financial statements have been formally adopted. Payment of the remaining 80 percent of the bonus of €1,555 thousand granted for 2019 (2018: €1,487 thousand) depends on the long-term performance of DZ BANK shares and is spread out over a period of up to 4 years in total.

A total amount of €10,226 thousand (2018: €10,416 thousand) was paid to former members of the Board of Managing Directors or their surviving dependants, for whom defined benefit obligations of €134,349 thousand (2018: €127,337 thousand) were also recognized.

Board of Managing Directors of DZ BANK

Uwe Fröhlich

(Co-Chief Executive Officer)

Responsibilities: Cooperative Banks/Verbund;
 Communication, Marketing; Research and
 Economics; Strategy & Group Development;
 Structured Finance

Dr. Cornelius Riese

(Co-Chief Executive Officer)

Responsibilities: Group Audit; Legal;
 Strategy & Group Development

Uwe Berghaus

Responsibilities: Corporate Banking Baden-
 Württemberg; Corporate Banking Bavaria;
 Corporate Banking North and East;
 Corporate Banking West/Central; Investment
 Promotion; Central Corporate Banking

Dr. Christian Brauckmann

Responsibilities: IT; Services & Organisation

Ulrike Brouzi

Responsibilities: Bank Finance; Compliance;
 Group Finance; Group Financial Services

Wolfgang Köhler

Responsibilities: Capital Markets Trading;
 Capital Markets Institutional Clients;
 Capital Markets Retail Clients; Group Treasury

Michael Speth

Responsibilities: Group Risk Controlling;
 Credit; Credit Services

Thomas Ullrich

Responsibilities: Group Human Resources;
 Operations; Payments & Accounts;
 Transaction Management

Supervisory Board of DZ BANK

Henning Deneke-Jöhrens
(Chairman of the Supervisory Board)
Chief Executive Officer
Volksbank eG Hildesheim-Lehrte-Pattensen

Ulrich Birkenstock
(Deputy Chairman of the Supervisory Board)
Employee
R+V Allgemeine Versicherung AG

Heiner Beckmann
Senior manager
R+V Allgemeine Versicherung AG

Uwe Goldstein
Bank director (ret.)

Dr. Peter Hanker
Spokesman of the Board of Managing Directors
Volksbank Mittelhessen eG

Pilar Herrero Lerma
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Marija Kolak
President
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V. (BVR)

Rainer Mangels
Employee
R+V Rechtsschutz-Schadenregulierungs-GmbH

Gregor Scheller
Chief Executive Officer
Volksbank Forchheim eG

Sigrid Stenzel
Regional Group Director
ver.di Bayern

Dr. Wolfgang Thomasberger
Chief Executive Officer
VR Bank Rhein-Neckar eG

Martin Eul
(Deputy Chairman of the Supervisory Board)
Chief Executive Officer
Dortmunder Volksbank eG

Hermann Buerstedde
Employee
Union Asset Management Holding AG

Timm Häberle
Chief Executive Officer
VR-Bank Neckar-Enz eG

Andrea Hartmann
Employee
Bausparkasse Schwäbisch Hall AG

Dr. Dierk Hirschel
Head of the Economic Policy Division
ver.di Bundesverwaltung

Renate Mack
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Stephan Schack
Chief Executive Officer
Volksbank Raiffeisenbank eG, Itzehoe

Uwe Spitzbarth
Departmental coordinator
ver.di Bundesverwaltung

Ingo Stockhausen
Chief Executive Officer
Volksbank Oberberg eG

>> 45 Supervisory mandates held by members of the Board of Managing Directors and employees

As at December 31, 2019, members of the Board of Managing Directors and employees also held mandates on the statutory supervisory bodies of major companies. These and other notable mandates are listed below. Companies included in the consolidation are indicated with an asterisk (*).

Members of the Board of Managing Directors

Uwe Fröhlich (Co-Chief Executive Officer)	DZ HYP AG, Hamburg and Münster (*) Chairman of the Supervisory Board
	DZ PRIVATBANK S.A., Strassen (*) Chairman of the Supervisory Board
	VR Smart Finanz AG, Eschborn (*) Chairman of the Supervisory Board
Dr. Cornelius Riese (Co-Chief Executive Officer)	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (*) Chairman of the Supervisory Board
	R+V Versicherung AG, Wiesbaden (*) Chairman of the Supervisory Board
	TeamBank AG Nürnberg, Nuremberg (*) Chairman of the Supervisory Board
	Union Asset Management Holding AG, Frankfurt am Main (*) Chairman of the Supervisory Board
Uwe Berghaus	DZ HYP AG, Hamburg and Münster (*) Member of the Supervisory Board
	EDEKABANK AG, Hamburg Member of the Supervisory Board
Dr. Christian Brauckmann	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board
	DZ PRIVATBANK S.A., Strassen (*) Deputy Chairman of the Supervisory Board
	Fiducia & GAD IT AG, Frankfurt am Main Member of the Supervisory Board

Ulrike Brouzi	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (*) Member of the Supervisory Board
	R+V Allgemeine Versicherung AG, Wiesbaden (*) Member of the Supervisory Board
	R+V Lebensversicherung AG, Wiesbaden (*) Member of the Supervisory Board
	Salzgitter AG, Salzgitter Member of the Supervisory Board
	Union Asset Management Holding AG, Frankfurt am Main (*) Member of the Supervisory Board
Wolfgang Köhler	DVB Bank SE, Frankfurt am Main (*) Chairman of the Supervisory Board
	R+V Lebensversicherung AG, Wiesbaden (*) Member of the Supervisory Board
Michael Speth	BAG Bankaktiengesellschaft, Hamm Member of the Supervisory Board
	DVB Bank SE, Frankfurt am Main (*) Deputy Chairman of the Supervisory Board
	DZ HYP AG, Hamburg and Münster (*) Member of the Supervisory Board
	R+V Versicherung AG, Wiesbaden (*) Member of the Supervisory Board
	VR Smart Finanz AG, Eschborn (*) Deputy Chairman of the Supervisory Board
Thomas Ullrich	Deutsche WertpapierService Bank AG, Frankfurt am Main Deputy Chairman of the Supervisory Board
	TeamBank AG Nürnberg, Nuremberg (*) Deputy Chairman of the Supervisory Board
	VR Payment GmbH, Frankfurt am Main (*) Chairman of the Supervisory Board

Employees

Rolf Büscher	DVB Bank SE, Frankfurt am Main (*) Member of the Supervisory Board
	ReiseBank AG, Frankfurt am Main (*) Member of the Supervisory Board
Winfried Münch	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main Member of the Supervisory Board
Dr. Peter Neu	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board
Claudio Ramsperger	Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A., Trento Member of the Board of Directors
Gregor Roth	ReiseBank AG, Frankfurt am Main (*) Chairman of the Supervisory Board
	VR Payment GmbH, Frankfurt am Main (*) Member of the Supervisory Board
Peter Tenbohlen	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board
Dr. Ulrich Walter	Deutsche WertpapierService Bank AG, Frankfurt am Main Member of the Supervisory Board
Dagmar Werner	Banco Cooperativo Español S.A., Madrid Member of the Board of Directors

>> 46 List of shareholdings

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
AER Holding N.V. 1)	Willemstad, Curaçao	100.00		20	0
AGIMA Aktiengesellschaft für Immobilien-Anlage 5)	Frankfurt am Main	100.00		84,025	0
APZ Auto-Pflege-Zentrum GmbH 1)	Darmstadt	100.00		7,135	1,312
APZ Beteiligungs GmbH 1)	Darmstadt	81.70		6,137	-1,734
APZ CarMotion GmbH 1)	Fischamend, Austria	100.00		10	-25
Aquila Aircraft Leasing Ltd. 1)	Dublin, Ireland	0.00		-19	161
Assimoco S.p.A. 1)	Milan, Italy	66.88		247,313	23,203
Assimoco Vita S.p.A. 1)	Milan, Italy	82.14		169,603	24,307
attract S.A. 1)	Luxembourg, Luxembourg	100.00		50,040	24,412
Aufbau und Handelsgesellschaft mbH 1)	Stuttgart	94.90		525	0
AXICA Kongress- und Tagungszentrum Pariser Platz 3 GmbH 5)	Berlin	100.00		26	0
Bathgate Trading Opco LLC 1)	Majuro, Marshall Islands	0.00		1	0
BAUFINEX GmbH 1)	Schwäbisch Hall	70.00		3,617	-1,383
Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken - 5)	Schwäbisch Hall	96.94		1,812,302	0
Berwick Shipping LLC 1)	Majuro, Marshall Islands	0.00		-106	-1
Beteiligungsgesellschaft Westend 1 mbH & Co. KG 1)	Frankfurt am Main	94.90		17,485	685
Braveheart Shipping Holdco LLC 1)	Majuro, Marshall Islands	0.00		0	0
Braveheart Shipping Opco LLC 1)	Majuro, Marshall Islands	0.00		-251	-131
BWG Baugesellschaft Württembergischer Genossenschaften mbH 1)	Stuttgart	94.78		9,965	0
Canadian Iron Ore Railcar Leasing LP 1)	Hamilton, Canada	0.00		-5,388	-2,566
carexpert Kfz-Sachverständigen GmbH 1)	Walluf	60.00		4,471	313
CHEMIE Pensionsfonds AG 1)	Wiesbaden	100.00		28,318	2,000
Chiefs Aircraft Holding (Malta) Limited 1)	Floriana, Malta	0.00		4,592	2,745
CI CONDOR Immobilien GmbH 1)	Hamburg	100.00		20,100	0
CIORL Partner Ltd. 1)	Toronto, Canada	0.00		-5,388	-2,566
compertis Beratungsgesellschaft für betriebliches Vorsorgemanagement mbH 1)	Wiesbaden	100.00		4,132	378
COMPLINA GmbH 1)	Wiesbaden	100.00		115	14
Condor Allgemeine Versicherungs-Aktiengesellschaft 1) 5)	Hamburg	100.00		41,762	0
Condor Dienstleistungs GmbH 1)	Hamburg	100.00		356	66
Condor Lebensversicherungs-Aktiengesellschaft 1)	Hamburg	94.98		51,742	0
Container Investment Fund I LLC 1)	Majuro, Marshall Islands	0.00		-19,095	285
Cruise Ship InvestCo LLC 1)	Majuro, Marshall Islands	0.00		0	0
DCAL Aircraft Malta Ltd. 1)	Floriana, Malta	0.00		14,598	11,811
DEGECASTELL GmbH 1)	Eschborn	100.00		25	-40
DEGEIMPULS Grundstücksverwaltungsgesellschaft Objekt Hattingen mbH 1)	Eschborn	100.00		23	-1
DEGEKONZEPT Grundstücksverwaltungsgesellschaft mbH 1)	Eschborn	100.00		76	14
Deucalion Capital I (UK) Ltd. 1)	London, UK	0.00		727	2,797
Deucalion Capital II (MALTA) Limited 1)	Valletta, Malta	0.00		-22	597
Deucalion Capital II (UK) Ltd. 1)	London, UK	0.00		143	0
Deucalion Capital II Limited 1)	George Town, Cayman Islands	0.00		-1,136	3,924
Deucalion Capital VI Limited 1)	George Town, Cayman Islands	0.00		-322	-10
Deucalion Capital VIII Limited 1)	George Town, Cayman Islands	0.00		10,198	-1,836
Deucalion Engine Leasing (Ireland) Ltd. 1)	Dublin, Ireland	0.00		1,055	20
Deucalion Ltd. 1)	George Town, Cayman Islands	0.00		46,858	24,498
DEVIF-Fonds Nr. 150 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	0.00		n/a	n/a
DEVIF-Fonds Nr. 2 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	0.00		n/a	n/a
DEVIF-Fonds Nr. 250 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	0.00		n/a	n/a
DEVIF-Fonds Nr. 500 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	0.00		n/a	n/a
DEVIF-Fonds Nr. 528 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	0.00		n/a	n/a
DEVIF-Fonds Nr. 60 Deutsche Gesellschaft für Investmentfonds 1)	Frankfurt am Main	0.00		n/a	n/a
DG Participacoes Ltda. 1)	São Paulo, Brazil	100.00		0	0
Dilax Beteiligungs Verwaltungsgesellschaft mbH 1)	Berlin	100.00		25	0
Dilax Beteiligungsgesellschaft mbH & Co. KG 1)	Berlin	92.39		0	0
Dilax France SAS 1)	Valence, France	100.00		407	86
Dilax Intelcom AG 1)	Ermatingen, Switzerland	100.00		435	69
Dilax Intelcom GmbH 1)	Berlin	72.01		0	-3,119
Dilax Intelcom Iberica S.L.U. 1)	Madrid, Spain	100.00		203	78
Dilax Management Investment Reserve GmbH 1)	Berlin	100.00		233	1
Dilax Management Investment Verwaltungsgesellschaft mbH 1)	Berlin	100.00		21	1
Dilax Management Investmentgesellschaft mbH & Co. KG 1)	Berlin	99.50		200	-3
Dilax Systems Inc. 1)	Saint Lambert, Canada	100.00		502	163
Dilax Systems UK Ltd. 1)	London, UK	100.00		0	-95
DILAX Systems US Inc 1)	City of Wilmington, County of New Castle, 19801, USA	100.00		4	4
Drem Shipping LLC 1)	Majuro, Marshall Islands	0.00		0	14
DUNAVAGON s.r.o. 1)	Dunajská Streda, Slovakia	100.00	0.00	0	-2,013
DV01 Szarazfoldi Jarmukolcsoszo rt 1)	Áporka, Hungary	100.00		-97	0
DVB Bank America N.V. 1)	Willemstad, Curaçao	100.00		140,020	26,655
DVB Bank SE 5)	Frankfurt am Main	100.00		688,919	0

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
DVB Capital Markets LLC 1)	New York, USA	100.00		994	-1,521
DVB Group Merchant Bank (Asia) Ltd. 1)	Singapore, Singapore	100.00		338,088	18,490
DVB Transport Finance Limited 1)	London, UK	100.00		48,755	96
DVG Deutsche Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung 5)	Frankfurt am Main	100.00		82	0
DZ BANK Capital Funding LLC I 2) 4)	Wilmington, USA	100.00		300,896	6,556
DZ BANK Capital Funding LLC II 2) 4)	Wilmington, USA	100.00		500,666	6,335
DZ BANK Capital Funding LLC III 2) 4)	Wilmington, USA	100.00		350,283	4,069
DZ BANK Capital Funding Trust I	Wilmington, USA	0.00	100.00	300,001	6,573
DZ BANK Capital Funding Trust II	Wilmington, USA	0.00	100.00	500,001	6,385
DZ BANK Capital Funding Trust III	Wilmington, USA	0.00	100.00	350,001	4,088
DZ BANK Perpetual Funding (Jersey) Limited 4)	St. Helier, Jersey	0.00	100.00	260,300	1,217
DZ BANK Perpetual Funding issuer (Jersey) Limited	St. Helier, Jersey	0.00		0	0
DZ BANK Sao Paulo Representacao Ltda. 2)	São Paulo, Brazil	100.00		395	46
DZ Beteiligungsgesellschaft mbH Nr. 11 5)	Frankfurt am Main	100.00		6,620	0
DZ Beteiligungsgesellschaft mbH Nr. 14 5)	Frankfurt am Main	100.00		51	0
DZ Beteiligungsgesellschaft mbH Nr. 18 5)	Frankfurt am Main	100.00		64,726	0
DZ Beteiligungsgesellschaft mbH Nr. 21 5)	Frankfurt am Main	100.00		25	0
DZ Beteiligungsgesellschaft mbH Nr. 22	Frankfurt am Main	100.00		20	-1
DZ Beteiligungsgesellschaft mbH Nr. 23 5)	Frankfurt am Main	100.00		25	0
DZ Beteiligungsgesellschaft mbH Nr. 24	Frankfurt am Main	100.00		19	-1
DZ CompliancePartner GmbH	Neu-Isenburg	100.00		1,836	771
DZ FINANCIAL MARKETS LLC	New York, USA	100.00		4,271	272
DZ Gesellschaft für Grundstücke und Beteiligungen mbH 5)	Frankfurt am Main	100.00		1,461	0
DZ HYP AG 3) 5)	Hamburg/Münster	96.39		1,762,331	0
DZ Immobilien + Treuhand GmbH 5)	Münster	94.50		4,055	0
DZ Polska Spółka Akcyjna w likwidacji	Warsaw, Poland	100.00		68,890	-1,195
DZ PRIVATBANK (Schweiz) AG 1)	Zurich, Switzerland	100.00		163,290	755
DZ PRIVATBANK S.A. 3)	Strassen, Luxembourg	91.46		640,651	11,382
DZ Versicherungsvermittlung Gesellschaft mbH 5)	Frankfurt am Main	100.00		51	0
DZ Vierte Beteiligungsgesellschaft mbH 5)	Frankfurt am Main	100.00		254,687	0
e@syCredit Marketing und Vertriebs GmbH 1)	Nuremberg	100.00		25	0
Englische Strasse 5 GmbH 1)	Wiesbaden	90.00		16,937	477
Evolit Consulting GmbH 1)	Vienna, Austria	100.00		n/a	n/a
FKS-NAVIGIUM GmbH 1)	Eschborn	100.00		-759	-118
FPAC (Malta) Limited 1)	Floriana, Malta	100.00		3,681	3,681
fragWILHELM GmbH 1)	Wiesbaden	100.00		184	-323
Fundamenta Erteklanc Ingatlanközvetítő és Szolgáltató Kft. 1)	Budapest, Hungary	100.00		6,370	-2,190
Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt. 1)	Budapest, Hungary	51.25		161,395	22,158
Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft. 1)	Budapest, Hungary	100.00		2,483	-239
GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG 1)	Nidderau	96.56		68,573	0
GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG 1)	Nidderau	95.03		65,672	0
GENO Broker GmbH 5)	Frankfurt am Main	100.00		10,000	0
GENO-Beteiligungsgesellschaft mbH	Düsseldorf	100.00		1,144	-4
Genossenschaftlicher Informations Service GIS GmbH	Frankfurt am Main	100.00		4,376	88
German Small Asset Invest 1)	Hamburg	0.00		n/a	n/a
Glen Campbell Opco LLC 1)	Majuro, Marshall Islands	0.00		-197	-4
Glencoe Shipping Holdco LLC 1)	Majuro, Marshall Islands	0.00		-15	0
GMS Management und Service GmbH 1)	Nidderau	100.00		82	32
Günther Kältetechnik GmbH 1)	Plüderhausen	60.00		n/a	n/a
GWG 1. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		2,000	630
GWG 2. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		3,000	870
GWG 3. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		7,000	1,555
GWG 4. Wohn GmbH & Co. KG 1)	Stuttgart	100.00		9,000	1,229
GWG Beteiligungsgesellschaft mbH 1)	Stuttgart	100.00		29	1
GWG Gesellschaft für Wohnungs- und Gewerbebau Baden-Württemberg AG 1)	Stuttgart	91.57		338,951	25,415
GWG Hausbau GmbH 1)	Stuttgart	94.48		2,750	0
GWG ImmoInvest GmbH 1)	Stuttgart	94.90		9,518	1,282
GWG Wohnpark Sendling GmbH 1)	Stuttgart	94.00		4,028	375
GZ-Immobilien-Management GmbH & Co. Objekt KG	Frankfurt am Main	100.00		12	731
Hibiscus Aircraft Leasing Limited 1)	Floriana, Malta	0.00		-41	-25
Hollandse Scheepshypotheekbank N.V. 1)	Rotterdam, Netherlands	100.00		707	0
Hudson Services LLC 1)	Majuro, Marshall Islands	0.00		-106	708
HumanProtect Consulting GmbH 1)	Cologne	100.00		308	91
Immobilien-Gesellschaft 'DG Bank-Turm, Frankfurt am Main, Westend' mbH & Co. KG des genossenschaftlichen Verbundes 2)	Frankfurt am Main	95.97		187,431	17,238
Immobilien-Verwaltungsgesellschaft 'DG BANK-Turm, Frankfurt am Main, Westend' mbH	Frankfurt am Main	100.00		62	27
IMPETUS Bietergesellschaft mbH 5)	Düsseldorf	100.00		54,063	0
Intermodal Investment Fund IX LLC 1)	Majuro, Marshall Islands	100.00		-13,921	733
IPConcept (Luxemburg) S.A. 1)	Strassen, Luxembourg	100.00		18,580	9,000
IPConcept (Schweiz) AG 1)	Zurich, Switzerland	100.00		6,345	293
Iron Maple Rail Ltd. 1)	Vancouver, Canada	100.00		-989	1,946
ITF International Transport Finance Suisse AG 1)	Zurich, Switzerland	100.00		-40,355	-4,764

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Ivanhoe Shipping Opco LLC 1)	Majuro, Marshall Islands	0.00		0	-271
IZD-Beteiligung S.à.r.l. 1)	Luxembourg, Luxembourg	99.50		50	-107
K2 Aircraft Malta Ltd 1)	Floriana, Malta	100.00		12	8
Kalsubai Shipping and Offshore Private Ltd. 1)	Mumbai, India	0.00		0	14,624
Kälte Eckert GmbH 1)	Markgröningen	70.00		6,958	-68
KBIH Beteiligungsgesellschaft für Industrie und Handel mbH	Frankfurt am Main	100.00		31,008	9,080
KRAVAG Umweltschutz und Sicherheitstechnik GmbH 1)	Hamburg	100.00		302	33
KRAVAG-ALLGEMEINE Versicherungs-Aktiengesellschaft 1)	Hamburg	100.00		132,612	13,251
KRAVAG-LOGISTIC Versicherungs-Aktiengesellschaft 1)	Hamburg	51.00		238,189	19,083
KTP Beteiligungs GmbH & Co. KG 1)	Frankfurt am Main	100.00		25,769	1,033
KTP Verwaltungs GmbH 1)	Frankfurt am Main	100.00		22	-2
KV MSN 27602 Aircraft Ltd. 1)	Dublin, Ireland	0.00		-16	-6
Lantana Aircraft Leasing Limited 1)	Floriana, Malta	0.00		-15,762	10,115
Leith Shipping LLC 1)	Majuro, Marshall Islands	0.00		0	-226
Linton Shipping LLC 1)	Majuro, Marshall Islands	0.00		0	86
Maple Leaf Shipping Holdco LLC 1)	Majuro, Marshall Islands	0.00		-61	2
MD Aviation Capital Pte. Ltd. 1)	Singapore, Singapore	100.00		-4,087	299
MDAC 1 Pte Ltd. 1)	Singapore, Singapore	100.00		1,526	41
MDAC 11 Pte Ltd. 1)	Singapore, Singapore	100.00		-2,419	111
MDAC 2 Pte Ltd. 1)	Singapore, Singapore	100.00		-109	487
MDAC 3 Pte Ltd. 1)	Singapore, Singapore	100.00		-9,728	-4,789
MDAC 4 Pte Ltd. 1)	Singapore, Singapore	100.00		-2,430	20
MDAC 5 Pte. Ltd. 1)	Singapore, Singapore	100.00		-1,871	257
MDAC 6 Pte Ltd. 1)	Singapore, Singapore	100.00		-196	2,950
MDAC 8 Pte Ltd. 1)	Singapore, Singapore	100.00		-106	16
MDAC 9 Pte Ltd. 1)	Singapore, Singapore	100.00		-782	124
MDAC Malta Ltd. 1)	Floriana, Malta	0.00		0	0
MI-Fonds 384 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds 388 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds 391 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds 392 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds F 57 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds F 59 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds F44 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds F45 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds F46 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds F47 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds J01 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
MI-Fonds J03 Metzler Investment GmbH 1)	Frankfurt am Main	0.00		n/a	n/a
Mount Diamir LLC 1)	Majuro, Marshall Islands	0.00		0	0
Mount Pleasant Shipping Pte. Ltd. 1)	Singapore, Singapore	100.00		0	-3,602
Mount Rinjani Shipping Pte. Ltd.	Singapore, Singapore	100.00		-10,182	2,066
Mount Ulriken LLC 1)	Majuro, Marshall Islands	100.00		-4,229	-887
MSN1164 Freighter Ltd. 1)	Dublin, Ireland	0.00		-225	524
MSU Management-, Service- und Unternehmensberatung GmbH 1)	Landau in der Pfalz	74.00		806	131
NFC Labuan Shipleasing I Ltd. 1)	Labuan, Malaysia	100.00		0	-8,024
NFC Shipping Fund C LLC 1)	Majuro, Marshall Islands	0.00		8,521	-427
NTK Immobilien GmbH 1)	Hamburg	100.00		26	1
NTK Immobilien GmbH & Co. Management KG 2)	Hamburg	100.00		643	-599
Ocean Giant LLC 1)	Majuro, Marshall Islands	0.00		-108	-2
Okoye Beteiligungsverwaltungs GmbH 1)	Vienna, Austria	80.00		n/a	n/a
Pascon GmbH 1)	Wiesbaden	100.00		33	2
PCAM Issuance II SA Issue RV AVL 001 1)	Luxembourg, Luxembourg	0.00		n/a	n/a
PDZ Personaldienste & Zeitarbeit GmbH 5)	Darmstadt	100.00		60	0
Pension Consult-Beratungsgesellschaft für Altersvorsorge mbH 1)	Munich	100.00		1,607	96
Philip Trading Opco LLC 1)	Majuro, Marshall Islands	0.00		-85	1
Phoenix Beteiligungsgesellschaft mbH 5)	Düsseldorf	100.00		108,349	0
Quoniam Asset Management GmbH 1)	Frankfurt am Main	93.07	100.00	36,892	22,154
R+V Allgemeine Versicherung Aktiengesellschaft 1) 5)	Wiesbaden	95.00		774,177	0
R+V Deutschland Real (RDR) 1)	Hamburg	0.00		n/a	n/a
R+V Dienstleistungs GmbH 1)	Wiesbaden	100.00		643	10
R+V Direktversicherung AG 1) 5)	Wiesbaden	100.00		13,320	0
R+V Erste Anlage GmbH i.L. 1)	Wiesbaden	100.00		1,045	-9
R+V INTERNATIONAL BUSINESS SERVICES Ltd., Dublin 1)	Dublin, Ireland	100.00		1,347	115
R+V KOMPOSIT Holding GmbH 1) 5)	Wiesbaden	100.00		1,820,012	0
R+V Krankenversicherung AG 1)	Wiesbaden	100.00		104,985	16,000
R+V Kureck Immobilien GmbH i.L. 1)	Wiesbaden	100.00		35	-6
R+V Lebensversicherung Aktiengesellschaft 1)	Wiesbaden	100.00		744,981	0
R+V Luxembourg Lebensversicherung S.A. 1)	Strassen, Luxembourg	100.00		378,144	48,130
R+V Mannheim P2 GmbH 1)	Wiesbaden	94.00		59,239	1,931
R+V Pensionsfonds AG 1)	Wiesbaden	100.00		29,353	1,900
R+V Pensionskasse AG 1)	Wiesbaden	100.00		103,233	500

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
R+V Personen Holding GmbH 1)	Wiesbaden	100.00		1,189,583	74,761
R+V Rechtsschutz-Schadenregulierungs-GmbH 1)	Wiesbaden	100.00		360	83
R+V Service Center GmbH 1) 5)	Wiesbaden	100.00		2,869	0
R+V Service Holding GmbH 1) 5)	Wiesbaden	100.00		183,115	0
R+V Treuhand GmbH 1)	Wiesbaden	100.00		52	10
R+V Versicherung AG 5)	Wiesbaden	92.12		2,149,774	0
Range Holding GmbH 1)	Vienna, Austria	100.00		n/a	n/a
RC II S.a.r.l. 1)	Luxembourg, Luxembourg	90.00		8,762	-292
ReiseBank Aktiengesellschaft 1)	Frankfurt am Main	100.00		19,267	0
RUV Agenturberatungs GmbH 1)	Wiesbaden	100.00		486	218
RV AIP S.a.r.l. 1)	Luxembourg, Luxembourg	100.00		n/a	n/a
RV AIP S.C.S. SICAV-SIF - RV TF 2 Infra Debt 1)	Luxembourg, Luxembourg	100.00		n/a	n/a
RV AIP S.C.S. SICAV-SIF 1) 1)	Luxembourg, Luxembourg	99.00		n/a	n/a
RV AIP S.C.S. SICAV-SIF - RV TF Acquisition Financing 1)	Luxembourg, Luxembourg	98.67		n/a	n/a
S2 Shipping and Offshore Ptd Ltd. 1)	Singapore, Singapore	100.00		-21,254	5,696
Scheepvaartmaatschappij Ewout B.V. 1)	Schiphol, Netherlands	100.00		377	377
Schwäbisch Hall Facility Management GmbH 1)	Schwäbisch Hall	51.00		9,146	152
Schwäbisch Hall Kreditservice GmbH 1) 5)	Schwäbisch Hall	100.00		27,775	0
Schwäbisch Hall Wohnen GmbH Gesellschaft für wohnwirtschaftliche Dienstleistungen 1)	Schwäbisch Hall	100.00		612	1
SECURON Versicherungsmakler GmbH 1)	Hannover	100.00		637	138
Shamrock Trading Opco LLC 1)	Majuro, Marshall Islands	0.00		-20	0
Shipping and Intermodal Investment Management Fund I LLC 1)	Majuro, Marshall Islands	0.00		-1,846	-39,440
Shipping and Intermodal Investment Management Fund II LLC 1)	Majuro, Marshall Islands	0.00		4,258	-12,394
SHT Schwäbisch Hall Training GmbH 1)	Schwäbisch Hall	100.00		5,040	35
SIIM Marlin Holdings LLC 1)	Majuro, Marshall Islands	72.04		-4,636	1,995
SINALOA Aircraft Leasing Limited 1)	Floriana, Malta	0.00		-11	-23
Sprint Sanierung GmbH 1)	Cologne	100.00		29,973	-3,449
SRF I Ltd. 1)	Floriana, Malta	0.00		-99	2,578
SRF III Ltd. 1)	Floriana, Malta	0.00		-657	-6,656
Stani Trading Opco LLC 1)	Majuro, Marshall Islands	0.00		-208	-4
Stephenson Capital Limited 1)	George Town, Cayman Islands	0.00		-17,500	-12,577
TeamBank AG Nürnberg 2) 5)	Nuremberg	92.44		539,699	0
Terra Maris I LLC 1)	Majuro, Marshall Islands	100.00		-7,126	3,663
Tiger Aircraft Leasing (UK) Limited 1)	London, UK	0.00		0	0
Twenty Holding Private Limited 1)	Singapore, Singapore	0.00		-505	-5
UI Infrastruktur Management SARL 1)	Luxembourg, Luxembourg	100.00		n/a	n/a
UI Management S.a.r.l. 1)	Luxembourg, Luxembourg	100.00		13	1
UI Vario: 2 issued by Union Investment Luxembourg S.A. 1)	Luxembourg, Luxembourg	0.00		n/a	n/a
UII Issy 3 Moulins SARL 1)	Paris, France	100.00		7	-2
UII PSD KN ImmoInvest GP GmbH 1)	Hamburg	100.00		54	23
UII SCE Management GP GmbH 1)	Hamburg	100.00		26	1
UII Verwaltungsgesellschaft mbH 1)	Hamburg	100.00		22	-1
UIN Union Investment Institutional Fonds Nr. 560 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 578 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 635 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 669 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 715 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 716 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 772 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 817 1)	Frankfurt am Main	0.00		2,222,753	-477
UIN Union Investment Institutional Fonds Nr. 825 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 833 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 834 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 839 1)	Frankfurt am Main	0.00		n/a	n/a
UIN Union Investment Institutional Fonds Nr. 913 1)	Frankfurt am Main	0.00		n/a	n/a
UIR FRANCE 1 S.a.r.l. 1)	Paris, France	100.00		8	-7
UIR FRANCE 2 S.a.r.l. 1)	Paris, France	100.00		13	-8
UIR Verwaltungsgesellschaft mbH 1)	Hamburg	100.00		98	6
UMB Unternehmens-Managementberatungs GmbH 1)	Wiesbaden	100.00		3,753	852
UniMultiAsset: Chance I 1)	Frankfurt am Main	0.00		n/a	n/a
UniMultiAsset: Chance II 1)	Frankfurt am Main	0.00		n/a	n/a
UniMultiAsset: Chance III 1)	Frankfurt am Main	0.00		n/a	n/a
UniMultiAsset: Exklusiv 1)	Frankfurt am Main	0.00		n/a	n/a
Union Asset Management Holding AG 2)	Frankfurt am Main	96.57		1,124,702	430,236
Union Investment Austria GmbH 1)	Vienna, Austria	100.00		17,550	2,042
Union Investment Financial Services S.A. 1)	Luxembourg, Luxembourg	100.00		20,298	945
Union Investment Institutional GmbH 1) 6)	Frankfurt am Main	100.00		93,970	0
Union Investment Institutional Property GmbH 1) 6)	Hamburg	90.00		23,950	6,141
Union Investment Luxembourg S.A. 1)	Luxembourg, Luxembourg	100.00		195,207	25,267
Union Investment Privatfonds GmbH 1) 6)	Frankfurt am Main	100.00		460,942	0
Union Investment Real Estate Asia Pacific Pte. Ltd. 1)	Singapore, Singapore	100.00		879	-174

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Union Investment Real Estate Austria AG 1)	Vienna, Austria	94.50		8,093	1,936
Union Investment Real Estate France S.A.S. 1)	Paris, France	100.00		3,802	1,417
Union Investment Real Estate GmbH 2) 6)	Hamburg	94.50		164,984	55,506
Union Investment Service Bank AG 1) 6)	Frankfurt am Main	100.00		63,115	0
Union IT-Services GmbH 1) 6)	Frankfurt am Main	100.00		4,701	1,669
Union Service-Gesellschaft mbH 1) 6)	Frankfurt am Main	100.00		8,807	1,974
Unterstützungskasse der Condor Versicherungsgesellschaften GmbH 1)	Hamburg	66.67		26	0
URA Verwaltung GmbH 1)	Vienna, Austria	100.00		37	5
VAUTID (SHANGHAI) Wear Resistant Material Trading Co. Ltd. 1)	Shanghai, China	100.00		1,301	368
VAUTID Austria GmbH 1)	Marchtrenk, Austria	100.00		897	170
VAUTID GmbH 1)	Ostfildern	82.51		4,491	-898
VAUTID INDIA PRIVATE LIMITED 1)	Mumbai, India	100.00		-415	-180
VAUTID LATAM S.A. 1)	Quito, Ecuador	74.00		386	48
VAUTID MIDDLE EAST F.Z.E. 1)	Ajman Free Zone, United Arab Emirates	100.00		45	-42
VB A330 Leasing Ltd 1)	George Town, Cayman Islands	100.00		-1,796	-1,796
VisualVest GmbH 1) 6)	Frankfurt am Main	100.00		14,525	0
VR Consultingpartner GmbH 1)	Frankfurt am Main	100.00		1,235	-259
VR Equity Gesellschaft für regionale Entwicklung in Bayern mbH 1)	Frankfurt am Main	100.00		2,109	-54
VR Equitypartner Beteiligungskapital GmbH & Co. KG UBG 2)	Frankfurt am Main	100.00		44,501	1,754
VR Equitypartner GmbH 5)	Frankfurt am Main	100.00		69,070	0
VR Equitypartner Management GmbH 1)	Frankfurt am Main	100.00		359	-5
VR FACTOREM GmbH 1) 5)	Eschborn	100.00		39,385	0
VR GbR 2)	Frankfurt am Main	100.00		173,020	28,052
VR HYP GmbH 1)	Hamburg	100.00		25	-1
VR Kreditservice GmbH 1) 5)	Hamburg	100.00		25	0
VR Mittelstandskapital Unternehmensbeteiligungs GmbH 2)	Düsseldorf	100.00		9,679	244
VR Payment GmbH	Frankfurt am Main	90.00		55,671	4,415
VR Real Estate GmbH 1)	Hamburg	100.00		25	-1
VR Smart Finanz AG (VR-LEASING Aktiengesellschaft until July 10, 2019) 5)	Eschborn	100.00		211,070	0
VR Smart Finanz Bank GmbH (VR DISKONTBANK GmbH until July 11, 2019) 1) 5)	Eschborn	100.00		200,147	0
VR Smart Guide GmbH 1)	Eschborn	100.00		847	340
VR WERT Gesellschaft für Immobilienbewertung mbH 1) 5)	Hamburg	100.00		50	0
VR-Leasing Beteiligungs GmbH 1)	Eschborn	100.00		98,620	531
VR-LEASING Hauptverwaltung GmbH & Co. KG 1) 6)	Eschborn	94.80	76.00	5,000	3,339
Waverley Shipping Opco LLC 1)	Majuro, Marshall Islands	0.00		15	-251
WBS Wohnwirtschaftliche Baubetreuungs- und Servicegesellschaft mbH 1)	Stuttgart	94.90		19,199	-48

JOINT VENTURES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
38321 & 38329 Aircraft Leasing (Cayman) Ltd. 1)	Grand Cayman, Cayman Islands	50.00	0.00	10,325	2,485
AerCap Partners I Ltd. 1)	Shannon, Ireland	50.00		0	0
AerCap Partners II Ltd. 1)	Shannon, Ireland	50.00		0	0
BAU + HAUS Management GmbH 1)	Wiesbaden	50.00		10,007	848
BEA Union Investment Management Limited 1)	Hong Kong, Hong Kong	49.00		60,315	12,764
Cella Intermodal Investment Fund LLC 1)	Majuro, Marshall Islands	50.00		n/a	n/a
D8 Product Tankers I LLC 1)	Majuro, Marshall Islands	50.00		7,593	-299
D8 Product Tankers Investments LLC 1)	Majuro, Marshall Islands	50.00		0	0
Deutsche WertpapierService Bank AG	Frankfurt am Main	50.00		211,436	15,656
DZ BANK Galerie im Stadel Kunstverwaltungsgesellschaft mbH	Frankfurt am Main	50.00		13	-2
GMS Holding GmbH 1)	Paderborn	58.89	45.00	15,448	2,455
Intermodal Investment Fund IV LLC 1)	Majuro, Marshall Islands	50.00		13,361	2,845
Intermodal Investment Fund VIII LLC 1)	Majuro, Marshall Islands	50.00	0.00	6,032	599
IZD-Holding S.à.r.l. 1)	Luxembourg, Luxembourg	50.30	50.00	9	-61
MS Oceana Schifffahrtsgesellschaft mbH & Co. KG 1)	Hamburg	50.00		7,041	-595
MS Octavia Schifffahrtsgesellschaft mbH & Co. KG 1)	Hamburg	50.00		5,695	-1,063
Norafin Verwaltungs GmbH 1)	Mildenaue	44.72		24,090	460
Prvá stavebná sporiteľ'na, a.s. 1)	Bratislava, Slovakia	32.50		258,255	14,890
R+V Kureck Immobilien GmbH Grundstücksverwaltung Braunschweig 1)	Wiesbaden	50.00		7,534	278
TrustBills GmbH	Hamburg	25.00		-1,125	-2,572
Versicherungs-Vermittlungsgesellschaft des Sächsischen Landesbauernverbandes mbH 1)	Dresden	50.00		252	51
Versicherungs-Vermittlungsgesellschaft mbH des Bauernverbandes Mecklenburg-Vorpommern e.V. (VVB) 1)	Neubrandenburg	50.00		195	15
Versicherungs-Vermittlungsgesellschaft mbH des Landesbauernverbandes Brandenburg (VVB) 1)	Teltow	50.00		33	4
Versicherungs-Vermittlungsgesellschaft mbH des Landesbauernverbandes Sachsen-Anhalt e.V. (VVB) 1)	Magdeburg	50.00		63	4
Zhong De Zuh Fang Chu Xu Yin Hang (Sino-German-Bausparkasse) Ltd. 1)	Tianjin, China	24.90		377,286	5,680

ASSOCIATES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
adorsys GmbH & Co. KG 1)	Nuremberg	25.89		1,698	2,861
adorsys Verwaltungs GmbH 1)	Nuremberg	25.90		27	-1
Artemis Gas 1 Shipping Inc. 1)	Piraeus, Greece	20.00		67,735	836
Bankenkonsortium der Zenit GmbH, GbR	Düsseldorf	33.30		0	0
bbv-service Versicherungsmakler GmbH 1)	Munich	25.20		2,079	357
Bergina AS 1)	Grimstad, Norway	40.00		n/a	n/a
Bookwire Holding GmbH 1)	Frankfurt am Main	49.00		n/a	n/a
Danae Gas Shipping Inc 1)	Majuro, Marshall Islands	5.00		n/a	n/a
Dr. Förster Holding GmbH 1)	Neu-Isenburg	20.06		-12,858	-1,280
Dr. Neuberger Holding GmbH 1)	Wiesbaden	40.00		8,146	-980
European Convenience Food GmbH 1)	Garrel	44.29		4,728	-3,103
GBS Beteiligungsgesellschaft mbH 1)	Bayreuth	42.33		5,037	1,865
GGB-Beratungsgruppe GmbH	Stuttgart	23.13		-1,123	-1,858
GHM Holding GmbH 1)	Erolzheim	40.00		17,182	-18
GHM MPP Reserve GmbH 1)	Regenstauf	50.00		349	-4
GHM MPP Verwaltungs GmbH 1)	Remscheid	50.00		18	-2
Global Asic GmbH 1)	Dresden	30.80		1,083	-35
Global Offshore Services B.V. 1)	Amsterdam, Netherlands	32.13		0	0
Goldeck Zetti Beteiligungsgesellschaft mbH 1)	Leipzig	39.23		32,777	1,443
Gram Car Carriers Holdings Pte. Ltd. 1)	Singapore, Singapore	5.88		0	0
Groneweg Verwaltungsgesellschaft mbH 1)	Greven	48.00		23,073	702
Hör Technologie GmbH 1)	Weiden i.d. Opf.	62.78	49.99	23,502	-1,029
Hudson Chemical Tankers Ltd 1)	Middlesex, UK	25.00		n/a	n/a
Informatik Consulting Systems Holding GmbH 1)	Stuttgart	49.83	49.43	n/a	n/a
Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in Nordrhein-Westfalen mbH - KBG -	Neuss	23.60		4,028	783
KCM Bulkers International Limited 1)	Tortola, Virgin Islands	49.00		n/a	n/a
KCM Bulkers Ltd. 1)	Tortola, Virgin Islands	49.00		0	0
KOTANI JV CO. BV 1)	Amsterdam, Netherlands	48.35		78,007	-6,683
KTP Holding GmbH 1)	Bous	37.36		40,741	3,879
Mandarin Containers Limited 1)	Tortola, Virgin Islands	17.01		64,288	1,903
MON A300 Leasing Ltd. 1)	George Town, Cayman Islands	20.00		74	1,592
Mount Faber KS i.L. 1)	Oslo, Norway	0.00		0	0
MSEA Aframax Holdings LLC 1)	Majuro, Marshall Islands	48.00		25,731	-871
MSEA Marlin Holdings LLC 1)	Majuro, Marshall Islands	32.19		n/a	n/a
MSN 1272&1278 Aircraft Leasing 1)	Grand Cayman, Cayman Islands	20.00		n/a	n/a
n3k Informatik GmbH 1)	Heilbronn	58.33	49.99	10,812	1,092
Ostertag DeTeWe Group GmbH 1)	Walddorfhäslach	58.52	49.90	13	-104
PI-SM GmbH 1)	Ehringshausen	40.80		24,217	369
Sanitärgruppe Stiller GmbH 1)	Cologne	45.00		38,991	49,308
SCL GmbH 1)	Butzbach	49.00		5,707	1,942
Signet Wohnmöbel II GmbH (Erwerbengesellschaft 2019 GmbH until January 14, 2020) 1)	Osnabrück	49.80		n/a	n/a
SRF Railcar Leasing Limited 1)	Cashel, Ireland	49.00		27,711	1,403
TAP Ltd. 1)	Hamilton, Bermuda	38.05		n/a	n/a
Touax Rail Finance 3 Ltd. 1)	Bracetown, Ireland	28.92		24,586	2,829
Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung. TreuFinanz	Düsseldorf	33.14		1,701	-278
TREVA Entertainment GmbH i. L. 1)	Hamburg	32.70		1,269	-529
United MedTec Holding GmbH 1)	Bückeberg	41.01		1,408	213
Votronic Elektronik-Systeme GmbH 1)	Lauterbach	49.80		n/a	n/a
Weisshaar Holding GmbH 1)	Deisslingen	84.94	49.92	3,668	-582
Wessel-Werk Beteiligungsverwaltung GmbH i.L. 1)	Karlsruhe	45.00		-2,088	-1,527
ZBI Partnerschafts-Holding GmbH 1)	Erlangen	49.90		10,913	19,788
ZT Finance GmbH 1)	Weilheim	26.67		-21	-20

SHAREHOLDINGS OF 20% OR MORE

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
AMP Capital Infrastructure Debt Fund IV (EUR), L.P. 1)	Luxembourg, Luxembourg	39.84		n/a	n/a
Assiconf S.r.l. 1)	Turin, Italy	20.00		80	6
ASSICRA Servizi Assicurativi Banche di Credito Cooperativo Abruzzo e Molise S.r.l. 1)	Pescara, Italy	25.00		376	28
BCC RISPARMIO & PREVIDENZA S.G.R.P.A. 1)	Milan, Italy	25.00		43,825	18,081
BRASIL FLOWERS S.A. 1)	Barbacena, Brazil	45.00		n/a	n/a
Burghofsplele GmbH 1)	Eltville	20.00		0	-21
Bürgerschaftsbank Brandenburg GmbH	Potsdam	25.31		29,836	748
Bürgerschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	30.38		16,637	75
Bürgerschaftsbank Sachsen-Anhalt GmbH	Magdeburg	29.73		15,999	387
Bürgerschaftsbank Thüringen GmbH	Erfurt	22.13		26,582	636
Cheyne Real Estate Credit (CRECH) Fund IV Loans SCS SICAV-SIF 1)	Luxembourg, Luxembourg	20.83		n/a	n/a
CMMT Partners L.P. 1)	Camden, USA	26.90		n/a	n/a
Corpus Sireo Health Care III SICAV-FIS 1)	Luxembourg, Luxembourg	33.33		54,751	2,388
Corpus Sireo Health Care IV SICAV-FIS 1)	Luxembourg, Luxembourg	46.51		26,209	115
Credit Suisse Global Infrastructure SCA SICAR 1)	Luxembourg, Luxembourg	30.09		288,803	57,350
DEGEPROMO Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG 1) 6)	Eschborn	95.00	33.34	n/a	n/a
DZ BANK Mikrofinanzfonds eG 2)	Frankfurt am Main	30.90	0.00	259	2
Finatem II GmbH & Co. KG 1)	Frankfurt am Main	20.20		20,149	9,537
FREUNDE DER EINTRACHT FRANKFURT Aktiengesellschaft 1)	Frankfurt am Main	32.05		6,099	1,446
GENOPACE GmbH 1) 6)	Berlin	27.49		200	0
Global Infrastructure Partners III-C2, L.P. 1)	New York, USA	27.97		n/a	n/a
Golding Mezzanine SICAV IV 1)	Munsbach, Luxembourg	49.98		4,042	365
GTIS Brazil II S-Feeder LP 1)	Edinburgh, UK	100.00		20,603	-9,591
Hermann-Löns-Grundstücks- und Entwicklungs GbR 1)	Münster	50.00		301	250
Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH	Stuttgart	20.00		1,023	0
Macquarie Asia Infrastructure Fund 2 SCSp 1)	Luxembourg, Luxembourg	50.48		n/a	n/a
Macquarie Asia Infrastructure Fund EU Feeder L.P. 1)	London, UK	100.00		n/a	n/a
MB Asia Real Estate Feeder (Scot.) L.P. 1)	Edinburgh, UK	34.80		7,333	-1,667
Medico 12 GmbH & Co. KG 1)	Frankfurt am Main	99.98		826	-57
Nuveen Immobilien GmbH 1)	Frankfurt am Main	50.00		132	10
Nuveen Immobilien GmbH & Co. GB I KG 1)	Frankfurt am Main	73.91	73.21	2,015	-373
paydirekt GmbH	Frankfurt am Main	33.33		20,702	4,424
PT. VAUTID WEAR TECHNOLOGY INDONESIA 1)	Tangerang (Banten), Indonesia	50.00		103,005	-8,227
RV-CVIII Holdings, LLC 1)	Camden, USA	100.00		72,164	2,779
Schroder Italien Fonds GmbH & Co. KG 1)	Frankfurt am Main	23.08	19.74	728	-34
Schroder Property Services B.V. S.à.r.l. 1)	Amsterdam, Netherlands	30.00		316	61
Technology DZ Venture Capital Fund I GmbH & Co. KG i.L. 1)	Munich	34.33		5,543	-46
TF H III Technologiefonds Hessen Gesellschaft mit beschränkter Haftung	Wiesbaden	25.00		5,174	-843
TF H Technologie-Finanzierungsfonds Hessen Gesellschaft mit beschränkter Haftung (TF H GmbH) i.L.	Wiesbaden	33.33		543	-27
Tishman Speyer Brazil Feeder (Scots/D), L.P. 1)	Edinburgh, UK	100.00		21,803	-266
Tishman Speyer European Real Estate Venture VIII Parallel SCSp 1)	Luxembourg, Luxembourg	55.88	0.00	n/a	n/a
Tishman Speyer European Strategic Office Fund Feeder, L.P. 1)	London, UK	97.18		7,064	723
TXS GmbH 1)	Hamburg	24.50		200	344
VAUTID & HUIFENG (WUHU) Wear Resistant Material Co. Ltd. 1)	Wuhu, China	50.00		701	68
VAUTID Arabia Coating & Treatment of Metals LLC 1)	Ras Al Khaimah, United Arab Emirates	24.50	0.00	200	-38
Vautid North America, Inc. 1)	Carnegie, USA	100.00	0.00	-309	9
VBI Beteiligungs GmbH 1)	Vienna, Austria	24.50		584	-39
VR-LEASING OPHIR GmbH & Co. Immobilien KG 1)	Eschborn	94.80	16.33	n/a	n/a
VR-NetWorld GmbH 2)	Bonn	43.48		5,849	276
ZhangJiaGang Vautid Yao Yu Wear Resistance Material Co., Ltd. 1)	Yangshe Town, China	50.00		231	79

MORE THAN 5% OF VOTING RIGHTS (LARGE CORPORATIONS)

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Banco Cooperativo Español S.A.	Madrid, Spain	12.02		505,949	63,983
EDEKABANK Aktiengesellschaft	Hamburg	8.35		159,365	6,065
EURO Kartensysteme GmbH	Frankfurt am Main	19.60		12,036	202
PANELLINIA BANK SOCIETE ANONYME (under special liquidation)	Athens, Greece	8.42	5.28	50,143	-12,637
Protektor Lebensversicherungs-AG 1)	Berlin	5.27		15,332	320
Raiffeisendruckerei GmbH 1)	Neuwied	7.88		35,418	899
SCHUFA Holding AG 1)	Wiesbaden	17.94		101,550	34,599

SHAREHOLDINGS OF LESS THAN 20%

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Macquarie European Infrastructure Fund 6 SCSp 1)	Luxembourg, Luxembourg	4.15		n/a	n/a
Hotel Wagramerstrasse 8 Errichtungs- und BetriebsgmbH & Co KG 1)	Vienna, Austria	0.00		21,933	2,523
ABE Clearing S.A.S a Capital Variable	Paris, France	1.92		27,916	3,194
AERS Consortio AG 1)	Stuttgart	16.50		125	-19
Airport Garden Services and Business Center S.A. 1)	Brussels-Zaventem, Belgium	0.00		273	185
AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung	Frankfurt am Main	0.00		246,672	12,040
Akademie Badischer Volksbanken und Raiffeisenbanken GmbH 1)	Karlsruhe	0.00		n/a	0
Anlegerentschädigung von Wertpapierfirmen GmbH 1)	Vienna, Austria	0.00	1.61	n/a	n/a
Architrave GmbH 1)	Berlin	12.04		n/a	n/a
ARDIAN Infrastructure Fund V B S.C.S., SICAV-RAIF 1)	Luxembourg, Luxembourg	13.58		n/a	n/a
Assicoop-Assicurazioni Cooperative S.r.l. 1)	Catania, Italy	0.00		n/a	n/a
assistance partner GmbH & Co. KG 1)	Munich	5.01		1,246	0
Bank Polskiej Spółdzielczosci Spolka Akcyjna	Warsaw, Poland	1.00		188,411	5,512
Baro Beteiligungs-GmbH & Co. KG 1)	Münster	5.10		82,501	4,749
BayBG Bayerische Beteiligungsgesellschaft mbH	Munich	9.38		237,213	4,370
Bayerische Raiffeisen- Beteiligung-Aktiengesellschaft 2)	Beilngries	1.85		852,750	36,575
Berliner Volksbank eG 1)	Berlin	0.00	0.00	1,029,942	19,628
Beteiligungs-Aktiengesellschaft der bayerischen Volksbanken 1)	Pöcking	1.14		232,968	7,919
BFL Gesellschaft des Bürofachhandels mbH & Co. KG i.L. 1)	Eschborn	0.00	0.00	2,225	37,613
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen	Munich	13.15		53,351	1,962
Blackrock Renewable Income Europe Fund 1)	London, UK	7.69		n/a	n/a
Blackstone Real Estate Partners Europe III L.P. 1)	New York, USA	1.62		70	644,548
Blackstone Real Estate Partners International I.E. L.P. 1)	New York, USA	9.77		-26,468	-11,031
BLHV Versicherungs-Service GmbH 1)	Freiburg	9.00		n/a	n/a
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	10.00		4,646	324
Bürgerschaftsbank Bremen GmbH	Bremen	4.86		7,895	494
Bürgerschaftsbank Hessen GmbH	Wiesbaden	15.87		20,839	850
Bürgerschaftsbank Nordrhein-Westfalen GmbH Kreditgarantiegemeinschaft	Neuss	15.75		36,759	1,320
Bürgerschaftsbank Rheinland-Pfalz GmbH	Mainz	14.31		16,826	221
Bürgerschaftsbank Sachsen GmbH	Dresden	14.66	16.59	43,596	1,581
Bürgerschaftsbank Schleswig-Holstein GmbH	Kiel	11.79		41,174	992
Bürgerschaftsbank Gemeinschaft Hamburg GmbH	Hamburg	6.36		26,278	1,034
Caprese S.A. 1)	Brussels-Zaventem, Belgium	0.00		7,788	-595
Cash Logistik Security AG 1)	Düsseldorf	4.10		1,057	1,266
Cassa Centrale Banca - Credito Cooperativo del Nord Est Società per Azioni	Trento, Italy	3.69		1,087,039	31,017
Celt S. A. 1)	Kraków, Poland	4.44	0.00	n/a	n/a
Centrast S. A. 1)	Warsaw, Poland	0.00		n/a	n/a
CLS Group Holdings AG	Lucerne, Switzerland	0.00		442,364	-21,769
Coop System S.p.A. 1)	Rome, Italy	1.97		n/a	n/a
Copenhagen Infrastructure III K/S 1)	Copenhagen K, Denmark	5.77		n/a	n/a
Cruz Martins & Wahl Lda. 1)	Lousado, Portugal	10.00		7,854	544
Curzon Capital Partners III LP 1)	London, UK	11.99		n/a	n/a
Curzon Capital Partners IV LP 1)	London, UK	10.73		0	0
DEPFA Beteiligungsholding II Gesellschaft mit beschränkter Haftung i.L. 1)	Düsseldorf	10.00		228	-11
DEPFA Beteiligungsholding III Gesellschaft mit beschränkter Haftung i.L. 1)	Düsseldorf	0.00		307	-11
Deutsche Bauernsiedlung - Deutsche Gesellschaft für Landentwicklung (DGL) mbH 1)	Frankfurt am Main	16.26		7,464	-185
Deutsche Börse Commodities GmbH	Frankfurt am Main	16.20	14.48	7,369	4,601
Deutscher Genossenschafts-Verlag eG 2)	Wiesbaden	1.54	1.58	67,233	1,197
DG ANLAGE Holland-Fonds 'Nieuwegein, 's-Hertogenbosch' GmbH & Co. KG (DGI 48) i.L.	Frankfurt am Main	0.00		0	9,169
DG IMMOBILIEN MANAGEMENT Gesellschaft mbH	Frankfurt am Main	5.01		16,180	10,774
DG Immobilien-Anlagegesellschaft Nr. 34 'Berlin, Darmstadt, Frankfurt' Schütze & Dr. Neumann KG i.L.	Frankfurt am Main	0.00		2,686	-54
DG Immobilien-Anlagegesellschaft Nr. 35 'Berlin, Frankfurt' Prüske & Dr. Neumann KG i.L.	Frankfurt am Main	0.00		3,039	-75
DG IMMOBILIEN-Objektgesellschaft 'Stuttgart, Industriestrasse' Kreft & Dr. Neumann KG (DGI 49) i.L.	Frankfurt am Main	0.00		0	0
DI Rathaus-Center Pankow Nr.35 KG 1)	Düren	3.86		n/a	n/a
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH Berlin 1)	Berlin	14.13		11	-2
EDD AG i.L. 2)	Düsseldorf	9.99		22,491	-5,301
EIG Energy Fund XVI (Scotland) L.P. 1)	Edinburgh, UK	14.02		183,963	-2,587
EIG Energy Fund XVII (Scotland) L.P. 1)	Edinburgh, UK	15.61		n/a	n/a
Euro Capital S.A.S. 1)	Metz, France	6.67		23,020	1,663
European Property Investors Special Opportunities, L.P. 1)	London, UK	6.35		23,003	0
European Property Investors, L. P. 1)	London, UK	6.50		5,349	-80
EXTREMUS Versicherungs-Aktiengesellschaft 1)	Cologne	5.00		64,058	118
Fiducia & GAD IT AG 2)	Frankfurt am Main	0.00		440,232	1,584
FIDUCIA Mailing Services eG 2)	Karlsruhe	0.00		80	0
Flugplatz Schwäbisch Hall GmbH 1)	Schwäbisch Hall	2.00		49	0
GAD Beteiligungs GmbH & Co. KG 2)	Münster	2.27		117,992	2,991
GBK Holding GmbH & Co. KG 1)	Kassel	0.00		469,411	12,486

SHAREHOLDINGS OF LESS THAN 20%

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
GDV Dienstleistungs-GmbH 1)	Hamburg	2.82		27,430	901
German Equity Partners IV GmbH & Co. KG 1)	Frankfurt am Main	4.36		132,960	32,578
GLADBACHER BANK Aktiengesellschaft von 1922	Mönchengladbach	17.53		39,878	1,498
Global Energy & Power Infrastructure Fund III E, SCSp 1)	Luxembourg, Luxembourg	3.30		n/a	n/a
Global Infrastructure Partners IV-C2, L.P. 1)	Luxembourg, Luxembourg	17.17		n/a	n/a
GMS Mitarbeiter Beteiligungsgesellschaft UG & Co.KG 1)	Paderborn	4.00	0.00	986	-8
Golding Mezzanine SICAV III 1)	Munsbach, Luxembourg	1.30		73,460	7,553
Grand Hotel Heiligendamm GmbH & Co. KG Fundus Fonds Nr. 34 1)	Disternich	1.90		0	0
Gründerfonds Ruhr GmbH & Co. KG 1)	Essen	7.25		927	-897
HANDWERKSBAU NIEDERRHEIN AKTIENGESELLSCHAFT	Düsseldorf	10.15		25,383	2,227
heal.capital I GmbH & Co. KG 1)	Berlin	1.39		n/a	n/a
Hines European Value Fund SCSp 1)	Luxembourg, Luxembourg	13.87		n/a	n/a
Immigon portfolioabbau ag i.A.	Vienna, Austria	3.79		775,271	101,592
Immo Feest en Cultuurpaleis Oostende SA 1)	Brussels, Belgium	0.00		16,524	403
Interessengemeinschaft Frankfurter Kreditinstitute GmbH	Frankfurt am Main	7.01		25,453	9,771
IVS Immobilien GmbH 1)	Schiffweiler	6.00		26	0
K in Kortrijk S.A. 1)	Brussels, Belgium	0.00		92,110	-707
Karen Notebook S. A. 1)	Warsaw, Poland	2.17		n/a	n/a
KLAAS MESSTECHNIK GmbH 1)	Seelze-Harenberg	15.00		28	0
KLV BAKO Vermittlungs-GmbH	Karlsruhe	10.00		233	9
Konsortium der Absatzfinanzierungsinstitute plettac-asso GbR	Wuppertal	0.00	7.08	n/a	n/a
Kreditgarantiegemeinschaft der Freien Berufe Baden-Württemberg Verwaltungs GmbH	Stuttgart	4.76		153	0
Kreditgarantiegemeinschaft der Industrie, des Verkehrsgewerbes und des Gastgewerbes Baden-Württemberg Verwaltungs-GmbH	Stuttgart	15.28		1,300	0
Kreditgarantiegemeinschaft des bayerischen Gartenbaues GmbH	Munich	9.07		649	0
Kredit-Garantiegemeinschaft des bayerischen Handwerks Gesellschaft mit beschränkter Haftung	Munich	12.00		4,846	0
Kreditgarantiegemeinschaft des Gartenbaues Baden-Württemberg Verwaltungs-GmbH	Stuttgart	12.00		138	0
Kreditgarantiegemeinschaft des Handels Baden-Württemberg Verwaltungs-GmbH	Stuttgart	10.05		1,022	0
Kreditgarantiegemeinschaft des Handwerks Baden-Württemberg Verwaltungs-GmbH	Stuttgart	10.05		1,001	0
Kreditgarantiegemeinschaft des Hotel- und Gaststättengewerbes in Bayern GmbH	Munich	9.66		4,359	0
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH	Munich	7.19		6,317	0
Kunststiftung Baden-Württemberg GmbH 1)	Stuttgart	0.00		2,899	-17
Les Grands Pres S.A. 1)	Brussels-Zaventem, Belgium	0.00	0.00	51,717	4,262
Lucrezia GmbH & Co. KG 1)	Berlin	0.00		n/a	n/a
Macquarie European Infrastructure Fund 4 L.P. 1)	St. Peter Port, Guernsey	5.70		1,392,438	7,874
MBG H Mittelständische Beteiligungsgesellschaft Hessen GmbH	Wiesbaden	16.26		11,343	452
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg Gesellschaft mit beschränkter Haftung	Stuttgart	9.94		76,993	4,504
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH	Mainz	9.80	11.11	15,328	445
MBG Mittelständische Beteiligungsgesellschaft Schleswig-Holstein mbH	Kiel	14.59	15.22	41,293	2,272
Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg mbH	Potsdam	8.89		21,836	1,774
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH	Schwerin	16.00		15,950	1,521
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH	Hannover	19.92		14,309	671
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	9.38		47,602	908
Mittelständische Beteiligungsgesellschaft Sachsen-Anhalt (MBG) mbH	Magdeburg	19.84		24,033	729
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	10.28		25,914	970
Münchener Hypothekenbank eG 2)	Munich	1.22		1,388,092	48,699
Munster S.A. 1)	Luxembourg, Luxembourg	0.00		2,099	-68
Niedersächsische Bürgschaftsbank (NBB) GmbH	Hannover	17.68		28,283	1,886
Norddeutsche Genossenschaftliche Beteiligungsgesellschaft 1)	Hannover	0.00		1,374,605	47,534
Opción Jamantab S. A. DE C. V. 1)	Mexico City, Mexico	0.00		10,231	-129
Partners Group Global Mezzanine 2007 S.C.A., SICAR 1)	Luxembourg, Luxembourg	2.24		57,911	-3,536
Prosa Beteiligungs GmbH & Co. KG 1)	Frankfurt am Main	15.63		587	-408
Prosolis GmbH The Solution House i.L. 1)	Fulda	6.00		n/a	n/a
Raiffeisen Waren-Zentrale Rhein-Main eG	Cologne	2.03		32,415	1,862
Raiffeisen-Kassel A-Beteiligungs GmbH & Co. KG	Kassel	8.22		40,415	295
Raiffeisen-Kassel B-Beteiligungs GmbH & Co. KG	Kassel	8.22		40,415	295
Royale 120 New Building S.A. 1)	Brussels-Zaventem, Belgium	0.00		43,743	931
Royale 120 S.A. 1)	Brussels-Zaventem, Belgium	0.00		893	40
RREEF Pan-European Infrastructure Feeder GmbH & Co. KG 1)	Eschborn	17.70		348,880	-116
Rund Vier GmbH & Co. KG 1)	Vienna, Austria	0.00		46,872	3,564
S.W.I.F.T. Society for Worldwide International Financial Telecommunication 2)	La Hulpe, Belgium	0.00		417,465	23,960
Saarländische Wagnisfinanzierungsgesellschaft mbH	Saarbrücken	2.59		7,776	2,356
SALEG Sachsen-Anhaltinische Landesentwicklung GmbH 1)	Magdeburg	1.15		14,287	574
Sana Kliniken AG 1)	Munich	0.00		998,916	99,642
Schulze-Delitzsch-Haus, eingetragene Genossenschaft 1)	Bonn	0.00		548	7
Sechzehnte Gamma Trans Leasing Verwaltungs-GmbH & Co. Finanzierungs-Management KG i.L. 1)	Nidderau	16.51		n/a	n/a

SHAREHOLDINGS OF LESS THAN 20%

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
SGB-Bank Spółka Akcyjna	Poznań, Poland	0.00		150,565	-34,620
SIGNA Development Selection AG 1)	Innsbruck, Austria	5.00		n/a	n/a
SIGNA Prime Selection AG 1)	Innsbruck, Austria	5.00		2,434,344	224,994
SIGNA Sports United GmbH 1)	Munich	11.59		n/a	n/a
Société de la Bourse de Luxembourg S.A. 1)	Luxembourg, Luxembourg	0.00		121,609	8,947
Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG	Ochsenfurt	4.44	4.55	188,586	6,341
Target Partners Capital GmbH & Co. KG 1)	Munich	10.00	10.01	535	0
Technologiezentrum Schwäbisch Hall GmbH 1)	Schwäbisch Hall	4.17	5.56	569	62
Teko - Technisches Kontor für Versicherungen Gesellschaft mit beschränkter Haftung 1)	Düsseldorf	10.00	0.00	81	30
True Sale International GmbH	Frankfurt am Main	7.69		4,611	-163
Ufficio Centrale Italiano di Assistenza Assicurativa Automobilisti in Circolazione Internazionale -U.C.I. Societe consortie a R.L. 1)	Milan, Italy	0.00		n/a	n/a
UIR Belgique 1 S.A. 1)	Brussels, Belgium	0.00		548	-44
UIR Le Président 1 1)	Brussels-Zaventem, Belgium	0.00	0.00	3,880	-430
UIR MU III S.A. de C.V. 1)	Mexico City, Mexico	0.00		13,137	790
Visa Inc.	San Francisco, USA	0.00		30,286,783	9,174,385
VR-Bank Schwäbisch Hall eG 1)	Schwäbisch Hall	0.00		119,256	4,721
VR-IMMOBILIEN-LEASING GmbH 1)	Eschborn	6.00		n/a	n/a
WESTFLEISCH Finanz AG 1)	Münster	0.00		87,003	6,492
WRW Wohnungswirtschaftliche Treuhand Rheinland-Westfalen Gesellschaft mit beschränkter Haftung i.L.	Düsseldorf	2.73		n/a	n/a
ZG Raiffeisen eG	Karlsruhe	1.01	0.00	82,762	2,206

1) Held indirectly.

2) Including shares held indirectly.

3) A letter of comfort exists.

4) A subordinated letter of comfort exists.

5) Profit-and-loss transfer agreement with DZ BANK (direct or indirect).

6) Section 264 (3) HGB and section 264b HGB have been applied.

n/a = no figures available.

>> 47 Disclosures pursuant to section 285 no. 11a HGB

As at the balance sheet date, DZ BANK was a shareholder with unlimited liability in the following entities:

- Bankenkonsortium der Zenit GmbH, GbR, Düsseldorf
- Konsortium der Absatzfinanzierungsinstitute plettac-assco GbR, Wuppertal
- VR GbR, Frankfurt am Main.

>> 48 Events after the balance sheet date

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

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements of DZ BANK give a true and fair view of the assets, liabilities, financial position and profit or loss of DZ BANK, and the management report of DZ BANK includes a fair review of the development and performance of the business and the position of DZ BANK, together with a description of the principal opportunities and risks associated with the expected development of DZ BANK.

Frankfurt am Main, March 3, 2020

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

The Board of Managing Directors



Fröhlich



Dr. Riese



Berghaus



Dr. Brauckmann



Brouzi



Köhler



Speth



Ullrich

Independent auditor's report

To DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, which comprise the balance sheet as at 31 December 2019, and the income statement for the financial year from 1 January 2019 to 31 December 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, for the financial year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sec. 289f (4) HGB [“Handelsgesetzbuch”: German Commercial Code] contained in section IV.1 of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2019 and of its financial performance for the financial year from 1 January 2019 to 31 December 2019 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor's responsibilities for the audit of the annual financial statements and of the management report” section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2019 to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Measurement of equity investments and shares in affiliates

Reasons why the matter was determined to be a key audit matter

The determination of the fair values of equity investments and shares in affiliates is generally based on business plans which are drawn up separately for each entity. The figures in such plans are based on assumptions which require the use of judgement by the Board of Managing Directors or estimates. In particular, the current uncertainty surrounding the future economic development of the investees and affiliates influences these assumptions, also in light of the prevailing low interest rates. In addition, in determining the capitalised earnings value, assumptions must be made regarding, in particular, the derivation of the return on an alternative investment with the same risk and maturity profile using capital market models (Capital Asset Pricing Model) in order to derive the discount rate to apply to the cash flows of the forecast.

As the measurement of equity investments and shares in affiliates is based to a high degree on assumptions involving the use of estimates or judgement, and these items are material in amount, this was a key audit matter. Our focus was on the measurement of the shares in affiliates (Bausparkasse Schwäbisch Hall AG, DZ PRIVATBANK AG, DZ HYP AG, DVB Bank SE) whose business model is currently particularly affected by the prevailing low interest rates and the general economic development.

Auditor's response

To assess the recoverability of the carrying amounts of the equity investments and shares in affiliates, we examined the design of the process for valuing shareholdings to determine whether the methods defined therein are consistent with the professional pronouncements of the Institut der Wirtschaftsprüfer (IDW) on the valuation of companies and equity investments (IDW AcP HFA 10 in conjunction with IDW S1).

Based on the Bank's capitalised earnings valuations or alternative valuation methods, we assessed the recoverability of the carrying amounts of the equity investments for a risk-based sample of affiliates and equity investments.

For the audit of the recoverability of the carrying amounts of the equity investments, we used specialists in the audit team who have special expertise in the area of business valuation.

We examined whether the valuation model developed by DZ BANK ensures arithmetical accuracy. We assessed the significant planning assumptions (e.g., new business and margin planning), taking the results achieved in the past and the quality of the entities' planning into account. We analysed the data used by the Bank based on our knowledge of the business activities and forecast industry development and, where available, compared specific data and assumptions with external market data. During our audit, we also obtained an understanding of how the sustainable earnings at the respective entities and the capitalisation rate were derived.

Our procedures did not lead to any reservations relating to the measurement of the equity investments and shares in affiliates.

Reference to related disclosures

Information on the principles applied for measuring equity investments and shares in affiliates is contained in section A, note 02 of the notes to the financial statements. Information on the development of equity investments and shares in affiliates is provided in section B, note 14, while the list of shareholdings is provided in section D, note 46.

2. Recoverability of deferred tax assets

Reasons why the matter was determined to be a key audit matter

The Board of Managing Directors of DZ BANK exercised the option under Sec. 274 (1) Sentence 2 HGB to recognise deferred tax assets.

DZ BANK estimates whether the differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts underlying the deferred taxes are likely to reverse in subsequent financial years on the basis of a forecast of tax earnings for the next five financial years, which in turn is derived from the internal planning for the entities in the tax group. In light of the material significance and use of the judgement in relation to the assumptions used in the forecast, the assessment of the recoverability of deferred tax assets was a key audit matter.

Auditor's response

We examined the design of the process for recognising deferred tax assets and assessing the recoverability of such assets to determine whether deferred tax differences are identified and measured in accordance with the provisions of tax and commercial law governing the recognition of deferred taxes.

In addition, we reconciled the tax forecasts for the tax group with internal planning documents in accordance with German commercial law and obtained an understanding of the amount and cause of differences in taxable profit in light of the requirements of tax law. We assessed the commercial law forecasts of the entities in the income tax group, taking into account our knowledge of the entities' business activities and the development of the respective industry, with regard to the underlying planning assumptions (e.g., interest rate trends) and planning inputs (e.g., new business and margin planning) and the quality of past forecasts.

Furthermore, we examined whether existing tax group relationships were correctly taken into account in the tax planning and assessed the underlying planning horizon and the tax rates used for the tax group.

Our procedures did not lead to any reservations relating to the assessment of the recoverability of deferred tax assets.

Reference to related disclosures

Information on the recognition and measurement of deferred tax assets is contained in section A, note 02 and in section B, note 17 of the notes to the financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises the combined separate non-financial report pursuant to Sec. 340a in conjunction with Sec. 289b HGB and Sec. 340i in conjunction with Sec. 315b HGB, the declaration on corporate governance pursuant to Sec. 289f (4) HGB and the responsibility statement pursuant to Sec. 289 (1) Sentence 5 HGB.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 29 May 2019. We were engaged by the Supervisory Board on 31 May 2019. We have been the auditor of DZ BANK AG Deutsche Zentral-Genossenschaftsbank without interruption since financial year 2002.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Institution or entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report: reviews of interim financial statements, voluntary audits of the annual financial statements of controlled entities, project-based reviews and audit of reporting requirements and rules of conduct pursuant to Sec. 89 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act], including the audit of custody operations and the depositary function pursuant to Sec. 68 (7) KAGB ["Kapitalanlagegesetzbuch": German Investment Code], issuance of comfort letters, certificates pursuant to Sec. 5 InvStG ["Investmentsteuergesetz": German Investment Tax Act], agreed-upon procedures pursuant to ISRS 4400, reviews pursuant to ISRE 2410 and IDW AuS 900, assurance engagements relating to the internal control system at service organisations pursuant to IDW AsS 951 and ISAE 3402, audits of single financial statements or elements thereof in accordance with IDW AuS 490, other assurance engagements pursuant to ISAE 3000, assurance engagements relating to compliance management systems pursuant to IDW AsS 980. In addition, permitted non-audit services in the form of tax and other advisory services for DZ BANK and its controlled entities (organisational or professional support for quantitative and qualitative data requests from supervisory authorities and in connection with regulatory reports, provision of information in connection with current and planned legislative amendments and events for employees of DZ BANK Group, support services in connection with the digitalisation of product processes, preparation of certificates for foreign tax purposes, support with regard to new or amended tax reporting or documentation requirements, review of tax returns and tax brochures, tax due diligence services).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Christian Mai.

Eschborn/Frankfurt am Main, 6 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft



Mai
Wirtschaftsprüfer
[German Public Auditor]



Meier
Wirtschaftsprüfer
[German Public Auditor]

Editorial information

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Dr. Cornelius Riese (Co-Chief Executive Officer)
Uwe Berghaus
Dr. Christian Brauckmann
Ulrike Brouzi
Wolfgang Köhler
Michael Speth
Thomas Ullrich

Chairman of the Supervisory Board:
Henning Deneke-Jöhrens

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