

Report of the Supervisory Board



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

In 2019, the Supervisory Board carried out the tasks assigned to it by law, the Articles of Association, and rules of procedure. As part of this remit, the Supervisory Board advised the Board of Managing Directors and monitored its management activities. In particular, the Supervisory Board focused on the capital situation of DZ BANK and its strategy as the network-oriented central institution and holding company of a financial services group. It also studied current regulatory challenges arising from the EU's ongoing legislative process, such as implementation of the EU banking package. The Supervisory Board thoroughly examined the risk position of the bank and the group as well as the development of systems and procedures used to manage the main risks in the Bank sector and Insurance sector. The Supervisory Board was always involved in decisions of fundamental importance. The Board of Managing Directors provided the Supervisory Board with regular, timely, and comprehensive reports on all matters relevant to the company, in particular the strategy, planning, business performance, risk situation, risk management, remuneration systems, regulatory requirements, technology, organizational matters, and compliance.

The difficulties faced by the German banking industry continued to grow in 2019, particularly regarding interest rates: At the start of the year, yields on ten-year Bunds were still around 0.20 percent, but had fallen to an all-time low of minus 0.72 percent by the end of August. The political risks – including the escalated US/Chinese trade dispute and fears about a disorderly Brexit – led to heightened demand for safe-haven assets at times and put the brake on the global economy. This affected the German economy too, although it has managed to avoid a recession so far. Weaker growth and low inflationary pressure prompted most central banks to ease the monetary policy reins still further. When signs of a partial agreement in the US/Chinese trade dispute emerged in the fourth quarter, yields on ten-year Bunds improved to minus 0.18 percent. The stock markets – measured by the DAX – climbed by 25.5 percent in 2019. Although political risks caused prices to drop in May and August, the DAX enjoyed a very successful trading year overall thanks to expansionary monetary policy.

The macroeconomic climate and the political climate will remain key determinants for the business model of the DZ BANK Group going forward. The main challenges at the moment are, in particular, the low level of interest rates, the economic downturn, and uncertainty surrounding (economic) policy and trade going forward. There are also challenges in the market, as can be seen not only from the fierce level of competition but also a fundamental shift in competitive structures and sources of income as a result of the entry of new competitors in the market and regulatory requirements. Other market challenges include customers' growing preference for digital and omnichannel solutions (e.g. platforms and ecosystems) and pressure on companies to increase their appeal as an employer. The evolving challenges faced by DZ BANK – both in its role as the central institution and corporate bank and as the holding company – require it to update its strategy as the leading financial services provider for the cooperative financial network. In 2019, the Supervisory Board therefore again focused on the refinement of the strategy under the 'Verbund First 4.0' banner and, as in previous years, discussed its ongoing implementation at length during a special strategy meeting. The emphasis of the program lies in three areas: a more intensive market offering (network orientation, customer focus, and a digital experience), optimized control and production processes (effective and focused), and the evolution of the workforce and corporate culture. Implementation of the first strategic steps under 'Verbund First 4.0' played a part in the DZ BANK Group's particularly good operating performance in 2019. The Supervisory Board is unanimously supporting the 'Verbund First 4.0' strategic program.

Meetings of the Supervisory Board

The Supervisory Board held five meetings in 2019. Its members attended the meetings of the Supervisory Board and its committees regularly.

At its meetings in the reporting year, the Supervisory Board received and discussed reports from the Board of Managing Directors on current business performance, the capital situation, and other matters pertaining to DZ BANK and the DZ BANK Group. It examined the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report for the year ended December 31, 2018 and approved them in line with the Audit Committee's resolution recommendation. The Supervisory Board also discussed the report on profitability in 2018 and, in accordance with the Audit Committee's recommendations, approved the report of the Supervisory Board to the Annual General Meeting as well as the agenda for the Annual General Meeting on May 29, 2019. Other deliberations of the Supervisory Board focused on the requirement for the DZ BANK Group to report on non-financial issues (corporate social responsibility (CSR) reporting requirement). Furthermore, it held discussions with representatives from the supervisory authorities on the risk audit by the SSM, the supervisory priorities for 2019, the outcome of DZ BANK's SREP review in 2018, and the expectations, strategies, and activities of the supervisory authorities in relation to DZ BANK. The Supervisory Board also monitored the action taken in response to the findings of the supervisory authorities' on-site audits.

Under items scheduled for regular discussion, the Supervisory Board examined the strategic and operational planning at DZ BANK and in the DZ BANK Group in the third and fourth quarters of 2019. This included discussing the recovery planning, which is required by law. The Supervisory Board also adopted various resolutions in connection with transactions requiring its consent, such as long-term equity investments and loans. In this context, there were also discussions on the risk situation, changes to the structure of DVB Bank, changes at DZ PRIVATBANK, the challenges for Bausparkasse Schwäbisch Hall and DZ HYP posed by low interest rates, and the transformation of VR Smart Finanz into a digital provider of finance for the self-employed and small businesses. Moreover, the Supervisory Board studied the JST's feedback on the outcome of the 2019 SREP, the change in S&P's credit rating outlook for DZ BANK and the cooperative financial network, the successful placement of an AT1 bond, and the ECB's decision on September 12, 2019 regarding tiered interest rates. Finally, the Supervisory Board regularly received and discussed reports on the work of the committees from their Chairs.

At its meeting in May, the Supervisory Board deliberated on the completion of the process to select DZ BANK's future auditor. The discussion centered on the Audit Committee's closing report and its decision. The Audit Committee presented its findings to the Supervisory Board, which resulted in a decision in favor of PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main (PwC) and KPMG Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin (KPMG). The Audit Committee's preference was for PwC. The Supervisory Board agreed with this decision and resolved that it would propose PwC as the auditor at DZ BANK's 2021 Annual General Meeting.

Meetings of the Supervisory Board committees

With two exceptions, each Supervisory Board committee also met on a number of occasions in 2019. During this period, the Remuneration Control Committee held three meetings, the Audit Committee four meetings, and the Risk Committee five meetings. The Nominations Committee needed to meet only once in 2019, while the Mediation Committee did not need to meet at all.

In the year under review, the Nominations Committee focused on the annual reappraisal of the Board of Managing Directors and the Supervisory Board, proposing a related resolution to the Supervisory Board.

At its meetings in 2019, the Remuneration Control Committee focused on a wide range of remuneration issues and on contractual matters relating to the Board of Managing Directors. This included the variable remuneration for the members of the Board of Managing Directors, with the committee setting the level of such remuneration for 2018 and defining the company targets and individual targets for 2019. In this context, the committee discussed the remuneration system for the Board of Managing Directors – including examining whether it can be made less complex – and set the total sum of variable remuneration at DZ BANK AG and in the DZ BANK Group. Another subject addressed by the Remuneration Control Committee was the reappointment of the remuneration officer and the recruitment of a new head of the Compliance Office. The committee also discussed the structure of the remuneration systems for employees, the appropriateness of the remuneration systems, analysis of the risk takers for 2019, and the remuneration officer's remuneration control report. Finally, the Remuneration Control Committee conducted an appropriateness test and its regular salary review in respect of the remuneration of the Board of Managing Directors as at January 1, 2020. Where necessary, the Remuneration Control Committee proposed individual resolutions to the Supervisory Board on these matters.

In 2019, the Audit Committee studied the findings of the audit of the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report for the year ended December 31, 2018 by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart (EY). It proposed a related resolution to the Supervisory Board. The committee also examined the auditor's reports on the half-year financial report of the DZ BANK Group and on the audit of the securities and investment services business in 2018/2019. Furthermore, the Audit Committee studied the planning for the audit of the 2019 single-entity and consolidated financial statements, discussed the auditor's areas of focus for 2019 and key findings from the current audit, and monitored the financial reporting process.

Furthermore, the committee discussed the appointment of the auditor of the single-entity financial statements and the auditor of the consolidated financial statements for 2019 as well as the auditor for the review of the group's half-year financial report and other interim financial statements. In this context, the Audit Committee proposed a resolution to the Supervisory Board on the quality and independence of the auditor and recommended to the Supervisory Board that EY again be engaged as auditor. The fee to be paid to EY was taken into account. The Audit Committee prepared the review of the non-financial statement for the Supervisory Board. This also involved studying the findings of the review of the non-financial statement conducted by the auditor EY at the request of the Supervisory Board.

Furthermore, the Audit Committee examined and discussed the business performance and capital/profitability situation in the DZ BANK Group. It also focused on supervisory audits carried out in the DZ BANK Group, the latest regulatory and fiscal developments, and the project portfolio.

Other matters addressed by the committee included internal audit reports for the periods ended December 31, 2018 and June 30, 2019, the annual compliance report for 2018, and the IT strategy of DZ BANK and the DZ BANK Group. In this context, the Audit Committee monitored the effectiveness of the internal control system, risk management system, and internal audit. It also examined the engagement of the auditor for non-audit services, including monitoring the upper limit on fees and checking the necessity of measures to maintain the auditor's independence. Neither of these points required further action to be taken. In addition, the committee carefully examined the outcome of the changes to the compliance function.

The project to prepare for the change of auditor, which was the responsibility of the Audit Committee, was completed last year. The committee believes both PwC and KPMG would be suitable as the future auditor, but expressed a preference for PwC. The Audit Committee ended this process by recording its findings in a resolution that it presented to the Supervisory Board; the Supervisory Board shared the committee's opinion. In anticipation of the proposed election of PwC as auditor, PwC has therefore been subject to tighter independence requirements since January 1, 2020 as part of the 'cooling-in period'. PwC has again confirmed its independence to the Supervisory Board.

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

Corporate governance

In line with the requirements of the German Banking Act, the Supervisory Board conducted an evaluation of the Board of Managing Directors and a self-evaluation in the first quarter of 2019. It found that the structure, size, composition, and performance of both the Board of Managing Directors and the Supervisory Board and the knowledge, skills, and experience of the individual members of the Board of Managing Directors and Supervisory Board and of the Board of Managing Directors and Supervisory Board as a whole fulfilled the requirements laid down by law and in the Articles of Association. The Supervisory Board therefore confirmed the individual suitability of the individual members of the Board of Managing Directors and Supervisory Board and the collective suitability of the Board of Managing Directors and Supervisory Board as a whole. In this context, it also signed off a profile of skills and expertise for the Board of Managing Directors and Supervisory Board.

In its view, the Supervisory Board had adequate financial and personnel resources at its disposal in 2019 to be able to support new members in becoming familiar with their role and to provide the training that is necessary to maintain members' required level of expertise. DZ BANK offered and offers to cover the costs for members of the Supervisory Board of training programs that are relevant to the activities of Supervisory Boards. This includes a modular program run by an external provider that is specifically tailored to Supervisory Board members and enables each Supervisory Board member to select modules to suit their individual requirements. Internal training courses on IT and IFRS accounting were also held for the Supervisory Board in 2019.

There were no indications of fundamental and far-reaching conflicts of interests affecting Supervisory Board members.

Cooperation with the auditor

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

The Board of Managing Directors of DZ BANK issued a non-financial statement for 2019. The Supervisory Board decided to submit the report for a voluntary external review by an auditor, for which it engaged DZ BANK's auditor. EY did not become aware of any facts that would lead it to believe that the combined non-financial statement of the DZ BANK Group for the period January 1 to December 31, 2019 had not been prepared, in all material respects, in accordance with the statutory requirements. On this basis and in accordance with the Audit Committee's recommendation, the Supervisory Board concluded, having conducted its own review, that the non-financial statement complies with the statutory requirements. At its meeting on March 26, 2020, the Supervisory Board therefore approved the 2019 non-financial statement prepared by DZ BANK.

The auditor EY confirmed that the single-entity financial statements – together with the bookkeeping system – and the management report of DZ BANK as well as the consolidated financial statements and the group management report submitted by the Board of Managing Directors for the year ended December 31, 2019 complied with the applicable legal provisions. EY issued an unqualified opinion for each of these sets of financial statements. The audit reports were submitted to the members of the Supervisory Board, who discussed them in detail at their meetings. In addition, the Chairman of the Supervisory Board and the Chairs of the Supervisory Board committees maintained a regular, intensive dialog with the auditor. This dialog also covered the new independent auditor's report pursuant to section 322 HGB (including the key audit matters). The Supervisory Board agrees with the findings of the audit.

Adoption of the financial statements

At their meetings, the Supervisory Board and its Audit Committee scrutinized the single-entity financial statements and management report of DZ BANK (including the Board of Managing Directors' proposal for the appropriation of profits) as well as the consolidated financial statements and group management report for the year ended December 31, 2019. The Chairman of the Audit Committee provided the Supervisory Board with detailed information about the committee's extensive deliberations on the single-entity financial statements and management report of DZ BANK as well as the consolidated financial statements and group management report. Representatives of the auditor attended the Supervisory Board meeting convened to adopt the financial statements as well as the preparatory meetings held by the Audit Committee and by the Risk Committee so that they could report in detail on the material findings of their audit. They were also available to answer questions

from the members of the Supervisory Board. The Supervisory Board did not express any reservations following the concluding findings of its review. The Supervisory Board approved the single-entity financial statements of DZ BANK and the consolidated financial statements prepared by the Board of Managing Directors for the year ended December 31, 2019 at its meeting on March 26, 2020 in line with the Audit Committee's resolution recommendation. The financial statements have therefore been adopted. The Supervisory Board approved the Board of Managing Directors' proposal for the appropriation of profits.

Personnel changes on the Supervisory Board and Board of Managing Directors

Uwe Fröhlich was appointed to the Board of Managing Directors with effect from January 1, 2019, and he and Dr. Cornelius Riese became the Co-Chief Executive Officers. Under this dual arrangement, Mr. Fröhlich is primarily responsible for activities relating to the cooperative financial network and the corporate bank, while Dr. Riese is primarily responsible for DZ BANK's activities as the holding company. On the same date, Ulrike Brouzi also became the member of the Board of Managing Directors responsible for finance. There were no personnel changes on the Supervisory Board in 2019.

The Supervisory Board wishes to thank the Board of Managing Directors and all employees of the DZ BANK Group for their valuable contribution in 2019.

Frankfurt am Main, March 26, 2020

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