Uwe Fröhlich (left) and Dr. Cornelius Riese, Co-Chief Executive Officers

Dear Shareholders,

We are looking back on a year that was shaped to a large degree by the COVID-19 pandemic. Despite a turbulent and challenging twelve months, we are delighted that the DZ BANK Group was able to emerge from the year with a very satisfactory profit before taxes of €1.46 billion. We are thereby in line with the target we set ourselves prior to the pandemic.

The markets proved to be very volatile in 2020. The brief respite and economic rebound over the summer came to an abrupt end toward the end of the year as the rate of infection soared again. Thanks to the robust German economy, the predicted resulting slump in gross domestic product was kept within reasonable limits, the contraction amounting to 5 percent. The financial sector made every effort to help stabilize economic activity under these circumstances. This is well illustrated by the approximately 48,000 applications with a total volume of over €12 billion that the cooperative financial network alone, as a channel for development loans from Germany's KfW development bank and other development banks, quickly processed so that the loans could be disbursed to companies.

While earnings were severely squeezed in the first quarter, the situation changed in the middle of the year as a result of the encouraging performance in nearly all segments of the banking group. Earnings have risen continually since then. Notable positive contributions came from Union Investment and DZ HYP. Union Investment benefited from the buoyant equity markets and recorded high levels of inflows. It also strengthened its portfolio in the important and fast-growing residential real estate market by acquiring a majority stake in the ZBI Group. DZ HYP's operating business performed very well, its government bond portfolio benefiting from reversals of impairment losses, although the impact was much less than in the previous year. DZ BANK – central institution and corporate bank was able to cater to corporate and institutional customers' greater need for liquidity in the crisis and further strengthened its leading position in the capital markets, corporate banking, and transaction banking businesses. Some of the rise in loss allowances at DZ BANK was also due to the current uncertainties, particularly surrounding future economic conditions. In addition, the downturn in the global economy took a particularly heavy toll on DVB Bank's shipping finance portfolio. At the same time, the speed with which the remaining volume of customer loans was reduced in 2020, from €7.4 billion to €3.9 billion, exceeded expectations. We are currently in the midst of an open-ended review to establish whether DVB's remaining activities can be integrated into DZ BANK.

The key results from the DZ BANK Group in detail:

**Net interest income** came to €2.80 billion (2019: €2.74 billion). Whereas DZ BANK – central institution and corporate bank and DZ HYP saw significant increases due to their encouraging operating performance, Bausparkasse Schwäbisch Hall had to recognize further provisions for interest-rate bonuses as a consequence of the persistently low interest rates. **Net fee and commission income** rose to €2.12 billion (2019: €1.98 billion). The main factors in this increase were sustained high demand, especially for mutual funds at Union Investment, and the sound performance of the central institution and corporate bank. **Gains and losses on trading activities** jumped from a net gain of €472 million in 2019 to a net gain of €552 million in the year under review thanks to very satisfying capital markets business at the central institution and corporate bank. A particularly special and successful transaction was the second bond under the European Union's SURE program (Support to mitigate Unemployment Risk in an Emergency). **Gains and losses on investments** fell to a net gain of €166 million (2019: €182 million) due to the absence of the positive one-off items that had arisen in the previous year in connection with the sale of parts of the business. **Other gains and losses on valuation of financial instruments** amounted to a net loss of €22 million (2019: net gain of €255 million). Although there were positive valuation effects in the government bond portfolio of DZ HYP, albeit to a lesser extent than in 2019, they were offset by changes in the valuation of guarantee commitments at Union Investment and by IFRS 9-related effects at DVB Bank. The insurance business reflected a significant rise in premiums earned from all activities. The decline in **net income from insurance business** to €347 million (2019: €1.17 billion) was primarily attributable to greater losses, particularly in the reinsurance business, and a lower net gain on investments held by R+V Versicherung as a consequence of capital market trends. **Loss allowances** rose to €678 million (2019: €329 million). Besides the increased allowances required at DVB Bank, there was also an addition of €220 million arising from the incorporation under IFRS 9 of the macroeconomic trends projected as a result of the COVID-19 pandemic. Despite investment in infrastructure and growth, **administrative expenses** held steady at €4.04 billion (2019: €4.07 billion) thanks to the disciplined management of costs.

The commitment and hard work of our employees was a significant factor in enabling us to generate positive earnings in what was an extraordinary year. We would like to express our great appreciation and thanks to them for being so dedicated and flexible over the last months.

The DZ BANK Group continued to strengthen its capital base in 2020. The common equity Tier 1 capital ratio stood at 15.2 percent as at December 31, 2020 (December 31, 2019: 14.4 percent), the first time the ratio has exceeded 15 percent. The leverage ratio came to 5.6 percent (December 31, 2019: 4.9 percent). This reflects our circumspect approach to managing risk assets and our ability to retain profits. The bank's capital structure also continued to improve, due to the successful placement of Tier 2 bonds with a total volume of €1.5 billion. This provides solid foundations for further capital expenditure aimed at securing our future market success and will enable us to repay all outstanding Tier 1 issues in 2021.

Given its very good level of capital adequacy, the bank has constantly argued that it should be permitted to distribute a reasonable share of the profits achieved in 2019 and 2020 to its shareholders. We welcome the initial leeway that has now been granted by the supervisory authority and will make full use of this opportunity as far as possible.

The first few weeks of the new year have seen continued brisk demand in the capital markets business, whereas the intensive activity in the lending business – that was partly fueled by government subsidy programs – has settled at a moderate level. Across Europe, the increase in pandemic-related restrictions in late 2020 and early 2021 has weakened the economy over the winter. Nevertheless, the vaccination programs that have begun worldwide are providing hope that day-to-day life and economic activity can return to normal, resulting in an economic recovery in the second half of the year. Our economists predict growth of 2.7 percent for the German economy in 2021. We expect our profit before taxes for 2021 to be slightly lower than in 2020 due to the unpredictability of the economic fallout from the pandemic.

Looking ahead, we can see significant opportunities for growth in our banking group. Despite the challenges in 2020, we still devoted a great deal of energy to finding even better ways of exploiting the potential business available in collaboration with the cooperative banks. These included digital solutions to support sales and simplify settlement processes. We also made good progress throughout the group with joint activities to expand platform business. For example, Bausparkasse Schwäbisch Hall is systematically investing in progressive business strategies with the development of a digital ecosystem based on homes and house-building and the establishment of BAUFINEX, a digital home finance platform. The payments processing business will also continue to enjoy dynamic growth. The crisis has given a significant boost to the use of digital, contactless payments. With the future in mind, our concern over the next few months will be to continue to reinforce this area of our business from a strategic perspective. To this end, we are leading players in key initiatives such as the European Payments Initiative (EPI) and the German #DK digital banking project and we are stepping up our efforts to turn groundbreaking solutions, such as the Request to Pay service, into market-ready systems.

Not least, during the pandemic sustainability has also taken on a new dimension and urgency in the economy, society, and politics alike. Over the next few years, sustainability will increasingly become a kind of operating license for the players in the financial industry. Building on the system of cooperative values and equipped with a good ISS ESG rating (C+), the DZ BANK Group is well positioned and working hard to further enhance its sustainability credentials. A classification framework for our lending business and the establishment of an even more comprehensive reporting system are important steps on that path. Furthermore, we are already enjoying great success in leveraging the potential available from sustainable finance business, for example with socially responsible funds and investments and the placement of green bonds as part of the capital markets business. In 2020, DZ BANK issued its second green bond, which generated a huge amount of investor interest.

At the same time, we are pursuing and accelerating a broad range of digitalization projects. Under the umbrella of our 'Verbund First 4.0' strategy, we have created an overarching program known as 'Digital Readiness'. It encompasses strategic initiatives related to the provision of software solutions and the use of new technologies, notably cloud technology. We are also working on blockchain-based solutions in the capital markets and payments processing businesses. One of the benefits is that these solutions could enable us to develop new services in the future. These and other initiatives are the foundation stones that will enable our banking group to remain innovative and competitive.

In addition to the strategic measures we have implemented and the progress we have made, it is above all thanks to the inner strength and flexibility of our organization that we have been able to maintain our stability as we emerge from this crisis year 2020. It is on this basis that we will deal with the challenges ahead with confidence and optimism.

Kind regards,

Uwe Fröhlich
Co-Chief Executive Officer

Dr. Cornelius Riese
Co-Chief Executive Officer