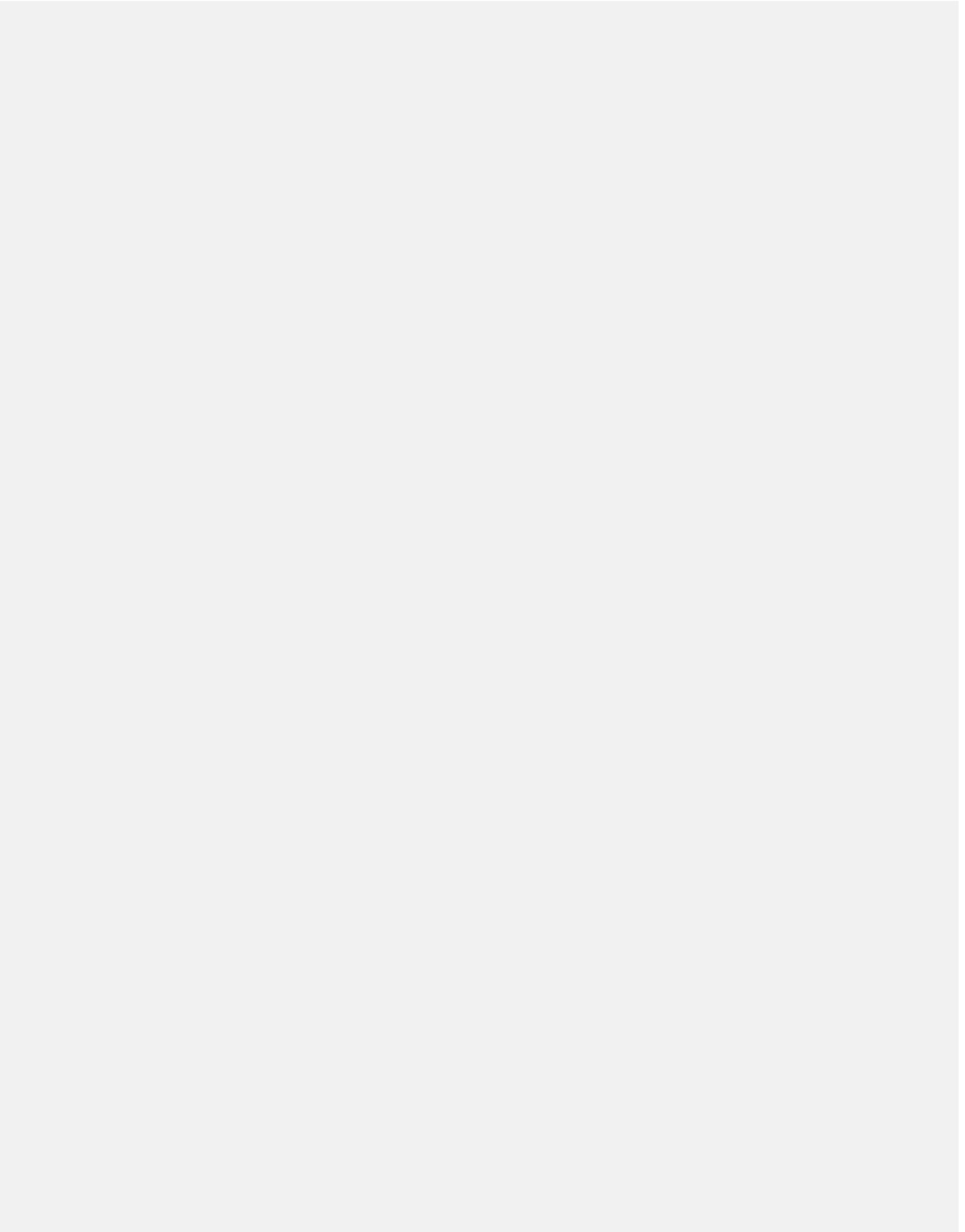


# Group management report

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# I DZ BANK Group fundamentals

## 1 Business model and strategic focus

The DZ BANK Group focuses its strategy on the local cooperative banks. In doing so, it pursues the objective of consolidating the positioning of the Cooperative Financial Network over the long term as one of the leading financial services providers in Germany. The DZ BANK Group supports the cooperative banks by providing extensive financial products and services in the Retail Banking, Corporate Banking, Capital Markets, and Transaction Banking business lines. This partnership is built on the principles of subsidiarity, decentralization, and regional market responsibility.

Strategic initiatives and programs are developed and implemented at the following three levels in the DZ BANK Group: firstly, at the level of the Cooperative Financial Network, with the leading role taken by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V., Berlin, (BVR) [National Association of German Cooperative Banks]; secondly, at the level of the DZ BANK Group; and thirdly, at the level of the individual entities in the DZ BANK Group, which may draw up their own specific strategic programs. As regards overarching strategic projects and initiatives for the entire Cooperative Financial Network, the entities in the DZ BANK Group work in partnership with the cooperative banks, Atruvia AG, Frankfurt am Main, (Atruvia), and the BVR on the action areas in the strategic agenda and other strategically relevant topics, such as digitalization and sustainability. At DZ BANK Group level, the entities have jointly identified – and together will press ahead with – key areas of collaboration that offer the potential for reinforcing the future viability and profitability of all the members of the Cooperative Financial Network. In addition, each individual entity in the DZ BANK Group pursues a range of strategic initiatives, such as the ‘Verbund First 4.0’ strategic program at DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK), the ‘WIR @ R+V – Growth. Innovation. Profitability.’ program at R+V Versicherung AG, Wiesbaden, (R+V Versicherung; subgroup abbreviated to R+V), the ‘Fokus 2020’ program at DZ HYP AG, Hamburg and Münster, (DZ HYP), the ‘Horizont 2025’ program at Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (Bausparkasse Schwäbisch Hall; subgroup abbreviated to BSH), and the ‘FitForFuture’ program at Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding; subgroup abbreviated to UMH).

In 2023, the sustainability targets were expanded across the group and specific climate targets and decarbonization pathways were defined for carbon-intensive sectors. Since 2023, the management and implementation of sustainability in the DZ BANK Group has been the responsibility of the Group Sustainability Committee (GSC) at the level of the Board of Managing Directors. The GSC reports regularly to the Group Coordination Committee, which is the highest-level management and coordination committee in the DZ BANK Group. Detailed information on sustainability management can be found in the DZ BANK Group’s Sustainability Report.

The digitalization of existing business models and processes was another key matter for the DZ BANK Group, as was participation in network-wide strategic initiatives. Unlocking potential for greater efficiency in the DZ BANK Group and in the individual entities is regarded as an ongoing task in this context.

### 1.1 DZ BANK – central institution and corporate bank

DZ BANK consists of DZ BANK – holding function and DZ BANK – central institution and corporate bank. DZ BANK – holding function, which is treated separately in the internal reporting structure, 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. It does not constitute a separate operating segment within the meaning of IFRS 8.5 and is not analyzed separately in this chapter, ‘Business model and strategic focus’.

The strategic focus of DZ BANK, as described below, essentially relates to the activities of DZ BANK – central institution and corporate bank. DZ BANK – central institution and corporate bank comprises both the cooperative central institution function, which supports the operating activities of the local cooperative banks, and the corporate bank function.

For the sake of simplicity, DZ BANK – central institution and corporate bank equates to DZ BANK in this chapter, 'Business model and strategic focus'.

At DZ BANK, the strategic initiatives designed to ensure the bank's resilience for the future are brought together in the 'Verbund First 4.0' strategic program. The program is aimed at improvements in three key areas: market offering, control and production processes, and corporate culture. It is divided into implementation packages, with additional packages due to be added in 2024. These include the 'Fit4Growth' initiative, in which DZ BANK will focus on optimizing and stepping up cross-divisional collaboration on key processes. The activities in the treasury/funding topic area will be expanded, and a new implementation package for activities relating to generative artificial intelligence will be created.

The following sections describe how DZ BANK is implementing its strategy in the various business lines.

#### 1.1.1 Cooperative Banks/Verbund

The cooperative banks are DZ BANK's most important customer group, its shareholders, and its partners in joint activities covering sales and the provision of advisory services. The focus of the Cooperative Banks/Verbund division is to meet the needs of this relationship of support for the cooperative banks. The Regionaldirektoren [regional directors] of DZ BANK are an important point of contact and customer relationship manager for the cooperative banks, with the aim of assisting them with their business activities in the regional markets. Moreover, DZ BANK's presence throughout Germany ensures that it can be physically close to the banks it supports.

DZ BANK offers the cooperative banks consultancy and other services at every stage of strategic bank management and regulatory processes. 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.

The support for the cooperative banks regarding sustainability is provided at various levels. Knowledge is shared using a number of different dialogue formats and events, such as a sustainability conference. In addition, a sustainability portal provides members with a central platform for sustainability information. Collaboration with the cooperative banks on sustainability matters is expected to intensify in the years ahead, particularly in view of increasing regulatory requirements.

In the year under review, the regular strategy events held by Atruvia, the BVR, and DZ BANK in collaboration with the Cooperative Financial Network's regional banking associations were combined for the first time into a multi-company format entitled 'Strategie-Hub Regional 2023' with a series of four regional events. The objective is to facilitate dialogue on shared strategic topics in order to strengthen the Cooperative Financial Network's strategy and, for reasons of efficiency, to reduce the number of events covering similar subjects. Furthermore, network committees ensure that the cooperative banks are closely involved in DZ BANK's strategic considerations and initiatives. The aim of the DZ BANK Group's Central Advisory Council is to enable important strategic matters in the DZ BANK Group to be discussed in depth and to connect the various players and levels in the Cooperative Financial Network. DZ BANK also has five regional Banking Advisory Councils that carry out an advisory and multiplier function.

### 1.1.2 Corporate Banking

In the corporate banking market, DZ BANK supports the cooperative banks. This support concept is geared to the needs of corporate customers and to the individual market situation and is integrated with the activities of the Cooperative Financial Network. DZ BANK has twelve regional branches that look after both its direct customers and its customers in the joint business with the cooperative banks at a regional level. Customer relationship management for multinationals, the agricultural and healthcare sectors, and Cooperative Financial Network customers has been grouped together in the Central Corporate Banking division in Frankfurt am Main.

DZ BANK continually upgrades its existing corporate banking services and processes in Germany. The digital VR GeschäftsNavigator (VR business navigator) application, which is now used by 570 local cooperative banks, was expanded in 2023 to include a module for optimizing joint marketing activities aimed at large and medium-sized companies. A further focus was on updating the future digital workplace for corporate banking relationship managers, which included incorporating new functionality.

DZ BANK is developing new solutions for its corporate customers and their retail customers on the basis of the Europe-wide Request-to-Pay (RtP) system. RtP bridges the gap between billing and bill payment, enabling companies to reduce administrative effort and costs. The benefit of the solution for their retail customers is that they do not need to spend time entering data during the billing process. DZ BANK developed this solution in collaboration with cooperative enterprises, such as Atruvia, and market partners. The pilot project in the Cooperative Financial Network began in 2023 with the aim of being able to roll out the solutions for the cooperative banks' corporate and retail customers from mid-2024 onward.

In addition to digitalization, other areas of focus in 2023 were integrating sustainability into the customer dialogue and helping corporate customers with their transformation in the context of the decarbonization of industry. This is illustrated by the growth of funding for renewable energies. DZ BANK also added to its environmental, social, and corporate governance (ESG) goals, defining specific climate targets and decarbonization pathways in the following carbon-intensive sectors: energy, automotive, steel, cement, aviation, shipping, and real estate. The aim is to reduce the carbon intensity attributable to these sectors in DZ BANK's lending business and in its own-account investments, so as to reduce it to virtually zero by 2050 at the latest.

DZ BANK also aims to support the international business of the Cooperative Financial Network's corporate customers. It offers a range of solutions geared to Germany's internationally oriented economy, including foreign payments processing, import and export credit guarantees and financing, and currency hedging. It has four branches and six representative offices outside Germany. As DZ BANK is seeing increased demand for low-volume export finance for corporate customers of the Cooperative Financial Network, it uses the SmaTiX (Small Ticket Express) portal of AKA Ausfuhrkredit-Gesellschaft mbH to support these customers. In the interest of sustainable export finance, DZ BANK and other banks provided support for the White Paper on Sustainability in Export Finance produced by the International Chamber of Commerce (ICC). DZ BANK also contributed to the update of the White Paper, which the ICC published in February 2023. Not least in view of the recommendations in the White Paper, the Organisation for Economic Co-operation and Development (OECD) decided on extensive reforms to its rules on state-backed export finance in July 2023. The new rules have a particular emphasis on the funding of climate-friendly projects.

DZ BANK is the center of excellence for development lending business within the Cooperative Financial Network. It supports the cooperative banks in two ways. Firstly, its development lending experts help the cooperative banks to advise their end customers. And secondly, it is replacing existing sales and communication channels with digital processes and portal services. The focus of these activities is on stabilizing market share and harnessing potential for growth.

### 1.1.3 Retail Banking

In the Retail Banking business line, DZ BANK offers cooperative banks, cooperation banks, and retail customers a comprehensive range of services based on its financial services concept. One of the primary areas of focus is the marketing of securities business with retail customers, for which DZ BANK provides products, processes, and platforms.

The products provided include customer investment solutions for advisory customers and independent retail investors of all experience levels. The product range consists of DZ BANK's own interest-rate products, derivatives and, in particular, investment certificates relating to particular trends or topics and sustainability. In this context, investment certificates with a charitable income component are issued. This involves DZ BANK and the participating cooperative banks giving up a share of their margin, with the money going to selected organizations in the form of sponsorship. DZ BANK has also added savings plans based on funds, exchange-traded funds (ETFs), and equities to its product range, which also contains investment account price models that are geared to customer needs and cater to market trends. Among these models are traditional investment accounts that are also available online, meinDepot (my investment account) for young customers, and an investment account with a flat-rate fee. This is all designed to further DZ BANK's objective of establishing the brokerage solution in the customer business as a comprehensive depository for securities that can be used by a broad range of customers at the cooperative banks.

DZ BANK offers a management cycle to support the cooperative banks with their strategic planning. This encompasses the planning, implementation, and control of the corporate strategy as well as tools for data and analytics. It also helps the cooperative banks to fulfill their regulatory obligations. As part of its marketing programs for young customers, new investment accounts, and sustainability, DZ BANK offers packages of measures in the form of processes and support services. These also help with the fulfillment of regulatory requirements, for example concerning sustainability in advisory services.

In accordance with its digitalization strategy, DZ BANK is developing platform solutions for advisors and customers of the cooperative banks and cooperation banks. DZ BANK's meinGIS platform provides advisors with access to the latest market information, such as securities prices, price charts, and corporate news. As well as visiting a branch, customers in the securities business can access their bank digitally so that they can quickly open an online investment account themselves and carry out trades online, for example. This brokerage solution is integrated into the VR Banking App, which provides users with a range of information and products, including market data, real-time prices, analysis tools, access to DZ BANK research, and product suggestions. Furthermore, retail customers can use the Meine Anlagezertifikate (my investment certificates) function to obtain detailed information on the investment products in their investment accounts at any time. In 2024, DZ BANK plans to introduce cryptocurrency trading for retail customers.

### 1.1.4 Capital Markets

DZ BANK offers advisory and sales services in relation to investment and risk management products covering the interest-rate, credit, equities, and currency asset classes for the benefit of its institutional customers in Germany and abroad, the cooperative banks in their own-account investing activities, and its corporate customers. Its offering encompasses primary market, secondary market, and research services.

DZ BANK's Group Treasury division is responsible for managing and optimizing liquidity throughout the DZ BANK Group. This ranges from managing the cooperative banks' day-to-day cash inflows and outflows in the context of the cash-pooling function performed by DZ BANK as the cooperative central institution to optimizing the procurement of liquidity by issuing securities. These are sold through the bank's own sales units and through intermediaries to institutional customers, such as insurance companies and fund management companies in Germany and abroad, and to retail customers of the cooperative banks. Group Treasury is also responsible for securities documentation in DZ BANK's capital markets business, which includes equity instruments and debt instruments issued by DZ BANK or by customers.

DZ BANK is working on further expanding its sustainability expertise and ESG activities in its capital markets business with institutional customers. In this context, it plans to continue strengthening its sustainability profile, particularly in primary market business for bonds. The range of sustainable investment products on offer in the securities business with retail customers is also to be extended. DZ BANK supported green, social, sustainability, and sustainability-linked bonds with a total volume of €25.1 billion in 2023, making it one of the leading European syndicate banks in the market segment for sustainable bonds. In the same period, DZ BANK placed sustainable promissory notes with a total volume of €2.4 billion. It is thus one of the leading banks when it comes to providing support for sustainable euro-denominated promissory notes from Germany (market share of roughly 17.4 percent) and for euro-denominated benchmark green covered bonds (market share of over 8 percent) in 2023.

The digitalization of existing business models is also progressing in the capital markets business. For example, DZ BANK continued to develop its smart derivatives contracts as an open standard with an automated payment function. And in October, it went live with its own cryptodepository platform, providing a solution for institutional investors for the settlement and deposit of their current investments in cryptosecurities. The platform will also enable institutional investors to participate in the exploration phase of the European Central Bank (ECB) for the settlement of wholesale transactions in central bank money. DZ BANK has applied to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [German Federal Financial Supervisory Authority] – and the ECB's Joint Supervisory Team (JST) – to have its license extended so that it can expand its depository services to include native cryptoassets, such as Bitcoin and Ether, alongside the existing bond and fund services.

In cooperative network business, DZ BANK is updating its advisory and sales processes to take account of the changing requirements of the cooperative banks and in order to leverage potential efficiencies. The EGon own-account investing platform was also further developed in the reporting year, with the first stage of expansion implemented to transform it into an integrated process platform. EGon provides information, transaction functions, and simulations designed to help the cooperative banks with all of their own-account investing activities.

#### 1.1.5 Transaction Banking

In the Transaction Banking business line, DZ BANK provides its customers with payments processing, card processing, customer-centric solutions, capital markets services, and securities services. It also offers a depository function for investment funds, plus advisory services. DZ BANK's objective in this context is to consolidate and continually improve the competitiveness of the entities within the Cooperative Financial Network with regard to transaction banking.

The focus of this business line is on ensuring that the Cooperative Financial Network is well equipped for the future requirements of transaction banking. In view of the continued strong growth of digital payment processes, DZ BANK has introduced dedicated platforms for providing customer solutions and enters into partnerships in this area. For example, DZ BANK is participating in the European Payments Initiative (EPI) aimed at establishing a European payment system that is based on a digital wallet solution and uses the instant payments infrastructure. The launch of the RtP pilot project at the end of 2023 makes the Cooperative Financial Network one of the first providers in Europe to enable its customers to pay bills digitally through their account (see also section 1.1.2 'Corporate Banking').

DZ BANK is also closely involved in the ECB's planning for a digital euro and is monitoring the associated impact on private-sector solutions and initiatives. It is participating in the development of a market solution for deposit money tokens that are issued by banks on a decentralized basis. This type of deposit money paves the way for the concept of a unified ledger, as described by the Bank for International Settlements (BIS) in its 2023 Annual Economic Report. This market infrastructure makes it possible to manage the flow of goods and services, as well as payments, on a shared programmable platform and to exchange goods for money within smart contracts. A proof of concept was initiated in conjunction with industrial companies in mid-2023.

Key milestones for the consolidation of payments processing as part of the ZV ON€ project were reached in 2023, including the migration of international payments processing, individual payments processing, and large-amount payments processing to a single platform. The migration in SEPA payments processing is due to take place in a number of stages in 2024, with completion scheduled for the autumn. This harmonization is part of the Cooperative Financial Network's strategy and should help to further consolidate the network's payments processing resources, functions, and services and, from DZ BANK's perspective, to create a structure for payments processing that is efficient and fit for the future.

DZ BANK is keeping step with the evolution of card processing by enhancing its portfolio of solutions. Key areas of investment in digitalization solutions for local banks in the reporting year were the online order process and the first self-service options. A project to enable cards to be issued in real time began in 2023. This involves a switch from issuing physical cards to generating virtual credit cards in online banking. This should be made available to the Cooperative Financial Network's end customers in the second half of 2024. Digital debit cards are available for e-commerce in the form of giro pay. And through the Digitale Regionen (digital regions) project, DZ BANK is establishing solutions that local banks can use to support their local authority customers' digital transformation.

DZ BANK is continuing to pursue its strategy of growth in the depository business. In 2023, it consolidated its market position by acquiring the depository business of Deutsche Apotheker- und Ärztebank eG (apoBank). DZ BANK is the third-largest depository bank in Germany, with assets under depository of €313 billion. It also continued to broaden its collaboration in this business with DZ PRIVATBANK S. A., Luxembourg, (DZ PRIVATBANK), and their joint activities were brought together in the Fondshafen (fund haven) campaign.

## 1.2 BSH

BSH is the consumer home finance provider in the DZ BANK Group and offers solutions that enable customers to obtain home finance, build up private retirement or other savings, or own their own home. The long-term objective is to secure BSH's role as the leading product and solutions provider in the homes and housebuilding cooperative ecosystem, working in close collaboration with the cooperative banks on a decentralized basis. BSH also supports its customers with finance solutions and platforms that help them to help themselves.

In its core home finance business, BSH primarily positions itself as a provider of traditional home savings loans, BSH's own instant finance options backed by home savings, building loans, and the brokering of cooperative bank real estate loans, while maintaining a focus on sustainability aspects. ESG key figures are used to measure the sustainability of the credit portfolio, and BSH defined new targets in 2023: SDG impact (proportion of real estate finance with a positive impact on the sustainable development goals (SDGs)), carbon footprint (carbon emissions partly financed by loans), and EU taxonomy ratio (proportion of real estate finance that contributes to achieving the objectives of the EU taxonomy).

In the core home savings business, BSH is further developing its range of products. The home savings tariffs and financing plans offer solutions that cater to different target groups and their individual financial needs. For example, interest on loans can be fixed for the future or for follow-up finance, renovation work aimed at improving energy efficiency and mitigating climate change can be carried out thanks to short saving periods, and there are home savings tariffs that help customers to start saving and to build up their savings.

International business is an integral component of BSH's corporate strategy and is concentrated on selected regions with specific building society regulations. The focus is on maintaining the existing approach to business in Slovakia and China.

BSH's position as the largest German building society and one of Germany's leading home finance providers means that it can make a direct contribution to sustainability through its core business, working in partnership with the cooperative banks. It aims to help its customers to take a climate-friendly approach in their homes

and in their building projects by offering them appropriate products and advice. To this end, BSH provided further skills training for its field sales team in 2023 and, so far, has trained more than 1,700 financial experts as certified modernization advisors.

The Cooperative Financial Network is continuing to develop its homes and housebuilding ecosystem. Impleco GmbH, whose wohnglück.de platform offers digital solutions for building, buying, selling, and modernizing homes, is closely linked to the Cooperative Financial Network. DZ BANK has drawn up the ZuschussGuide (subsidies guide), which is designed to make the complex process of finding and applying for development loans as simple as possible. It is complemented by the SanierungsGuide (renovation guide), which was made available online in 2023. Customers just need to provide a small amount of information to then receive an overview of energy-efficiency measures and their costs.

### 1.3 R+V

R+V is the cooperative center of excellence for insurance, healthcare cover, and retirement pensions in the Cooperative Financial Network. It offers insurance products for retail and corporate customers in its non-life insurance, life insurance and pensions, and health insurance business segments. R+V also provides reinsurance cover for non-life insurance.

The company's strategic objectives are to improve the customer experience, follow a long-term trajectory of stable and income-oriented growth, and maintain an appropriate level of profitability, underpinned by sustainable, sound business operations. R+V intends to become one of the leading sustainable insurance companies. Its insurance products are already generally geared toward economic sustainability because they offer customers either an opportunity for long-term capital formation in a pension plan or a form of financial protection against risk.

One of R+V's goals under its strategy is to support its customers as they transition to greater sustainability. This applies in all of its business segments. In this context, R+V is contributing to the switch to cleaner energy and transportation, for example by offering insurance solutions for electric and hybrid vehicles, photovoltaic systems, geothermal power, and geothermal systems. R+V also makes a valuable contribution to sustainability through its environmental liability and environmental impairment insurance products, insurance against natural hazards, and advice on risk prevention in these areas. In its life insurance business, it offers special investment strategies such as R+V Investmentkonzept Duo Invest, in which sustainability criteria are taken into account. Having signed the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI), R+V joined the Net-Zero Asset Owner Alliance in 2023. This is an alliance of major pension funds and insurance companies that have committed to adopting a climate-neutral investment policy. This underlines R+V's voluntary undertaking to invest on a fully climate-neutral basis by 2050.

R+V plans to continue expanding in growth areas such as healthcare and long-term nursing care, in which it is aiming to evolve from a health insurer into a health partner. This includes not only developing healthcare services but also extending its solutions for companies and their employees. R+V developed a new occupational healthcare concept for these companies in 2023.

R+V is broadening its capital expenditure program, particularly with regard to investment in digitalization, so that it can continue to meet customers' evolving needs going forward. By maintaining a firm focus on omnichannel sales, it intends to offer customers the optimum balance of personal and digital sales channels.

### 1.4 TeamBank

TeamBank AG Nürnberg, Nuremberg, (TeamBank) is the center of excellence in the Cooperative Financial Network for state-of-the-art liquidity management. In Germany, it offers its easyCredit family of consumer finance products. The recognition value of the easyCredit product brand was documented in 2023 when it

was registered as a brand name with the Deutsches Patent- und Markenamt (DPMA) [German Patent and Trade Mark Office] after a market survey found that it achieved the necessary level of recognition.

The product range also includes 'easyCredit-Ratenkauf', which is an installment purchase solution that can be used online, in-store, and in direct sales. According to TeamBank, the installment purchase solution makes it possible to reach new target groups for the Cooperative Financial Network by means of embedded finance. In Austria, TeamBank collaborates with the cooperative banks to offer 'der faire Credit', a consumer finance product.

TeamBank's strategic activities are focused on generating long-term profitable growth for the Cooperative Financial Network. It is striving to transition from a purely ad hoc lending business to a long-term liquidity partner. TeamBank works with the Deutschland im Plus foundation in order to prevent consumers from becoming over-indebted.

TeamBank also focuses on using technologies and laying the technical foundations for its pursuit of growth. Following the success of the completed pilot phase, the cooperative consumer finance platform GENOFLEX was gradually rolled out in the year under review. GENOFLEX is a consumer finance platform that participating cooperative banks can use – if a suitable easyCredit option is not available – to offer either an alternative option from other cooperative banks or a different product from financial institutions outside the cooperative banking sector. This should help the Cooperative Financial Network to generate growth.

### 1.5 UMH

UMH is the asset manager in the Cooperative Financial Network and offers solutions for retail and institutional clients. In both areas of business, it is aiming for further expansion of the volume of assets under management.

For retail clients, UMH is working to extend its range of solutions for partner banks with a view to maintaining its growth trajectory. To this end, it is expanding its omnichannel capability and supporting the efforts of the cooperative banks to develop business on a digital basis by helping them to improve technological platforms and satisfy regulatory requirements. UMH is also responding to changing investor requirements and in recent years, for example, has constantly extended its range of sustainable investment funds.

In the institutional client business, UMH is the central asset manager for the Cooperative Financial Network. It also provides asset management for German and international institutional clients outside the cooperative sector. It offers special funds, institutional mutual funds, asset management, advisory services, capital preservation strategies, and quantitative asset management strategies. Risk management lies at the core of all investment processes. UMH's objective in its institutional client business is to consolidate its positioning as an active risks/returns manager and sustainability manager. The volume of sustainably managed assets has risen steadily in recent years. In 2023, for example, UMH launched an infrastructure fund concentrated on investment in sustainability-oriented technologies of the future and a commodity fund that pursues a sustainability strategy. The latter fund focuses on commodities that are particularly relevant to the sustainable transformation of the economy and the switch to renewable energy.

UMH follows a transparent approach to sustainable investment. This is the responsibility of the ESG committee in portfolio management. UMH has also established an interdisciplinary sustainability team for real estate investment. The properties selected for the funds in both the retail and the institutional real estate business must satisfy certain quality criteria and pursue the objective of generating stable rental income over the long term in order to secure a return for the investor. UMH aims for portfolios that are broadly diversified in terms of geography and usage type.

## 1.6 DZ HYP

The core business policy objective of DZ HYP is to embed real estate finance and public-sector finance in the Cooperative Financial Network and to operate the finance business jointly with the cooperative banks. To this end, DZ HYP offers a range of products and services to the cooperative banks and works together with them to develop business in the regional markets focusing on corporate, retail, and public-sector customers. DZ HYP's sales activities are based on long-term customer relationships in its direct and cooperative network business and on products and services that are defined with a view to their risk and reward.

In its corporate customer business, DZ HYP has its own direct business and also acts as a partner to the cooperative banks. Customers in this business include investors, project developers, property developers, and companies in the housing sector. The focus is on real estate finance in the German market. German customers in selected international markets are supported too. DZ HYP launched the FK Digital project with the aim of further digitalizing its corporate customer business. This should create a modern, digital working environment within this business in order to raise efficiency and cater to the constantly growing requirements of all market players. The result will be a centralized lending workplace with a unified database, incorporating modern user interfaces that will cover all of the key tasks in the lending lifecycle.

DZ HYP also works closely with the local cooperative banks in its retail customer business, where the product portfolio includes initial and follow-up finance for new builds, purchases, and modernization/renovation. A major change in DZ HYP's collaboration with the local cooperative banks in the retail customer business is that they can now use the VR-BaufiComfort product to team up with DZ HYP on business on the Cooperative Financial Network's Genospace and Baufinex portals without entering into a framework agreement. DZ HYP takes over the process immediately after an application has been made. It checks and approves the loan applications and carries out all subsequent processes, including disbursing the loan. This should enable advisors in the cooperative banks to focus more on their customers. In 2024, VR-BaufiComfort is also to be made available on Atruvia's omnichannel platform.

Within the DZ BANK Group, DZ HYP also operates as the center of excellence for collaboration with public-sector customers. The core element of this business with local authorities and their legally dependent subsidiaries is the awarding of short-term loans to local authorities and loans to public-sector entities in collaboration with the cooperative banks.

DZ HYP's sustainability strategy provides guidance on defining key areas of action and suitable initiatives for sustainability management. As part of an annual update, the strategy is being adjusted in terms of the defined level of ambition in order to embed sustainability more firmly within the core business. In this context, DZ HYP placed further green mortgage Pfandbriefe in a benchmark transaction with a total issuance volume of €1 billion in January 2023, followed by an additional €500 million in August. These securities are issued in accordance with the German Pfandbrief Act (PfandBG), the Green Bond Principles of the International Capital Market Association (ICMA), and the minimum standards for green mortgage Pfandbriefe laid down by the Verband deutscher Pfandbriefbanken e. V. (vdp) [Association of German Pfandbrief Banks]. After issuing a green Pfandbrief for the first time in 2022, DZ HYP has since established itself as a permanent issuer of sustainability-oriented bonds. Business processes, together with the internal and external reporting systems, are to be progressively expanded and upgraded to include the various aspects of sustainability. For example, regular allocation and impact reporting has been introduced to provide information on the use of issue proceeds and on the impact that the green Pfandbriefe have had on the climate.

## 1.7 DZ PRIVATBANK

DZ PRIVATBANK, together with its branches at eight locations in Germany, its two subsidiaries DZ PRIVATBANK (Schweiz) AG and IPConcept (Luxemburg) S. A., and IPConcept (Schweiz) AG, a subsidiary of DZ PRIVATBANK (Schweiz) AG, is the international center of excellence for private banking/wealth management, fund services, and lending (LuxCredit) in the Cooperative Financial Network.

DZ PRIVATBANK's products and services encompass asset management and advisory mandates, as well as investment and financing solutions for private banking and wealth management customers, and for entrepreneurs/business owners, foundations, and semi-institutional investors. It also provides fund and depository services for Union Investment, for DZ PRIVATBANK's own fund solutions, and for private-label third-party fund initiators, plus flexible loan solutions denominated in euros and other currencies for retail and corporate customers. DZ PRIVATBANK also offers solutions for sustainability-minded customers. Going forward, it wants to continue increasing the extent to which sustainability factors are taken into account in its asset management activities, offer more solutions in this area, and integrate them into selection processes.

DZ PRIVATBANK has specified targeted areas for sales growth in its sectors of the market. These include financial portfolio management (asset management), for example for sustainability-oriented international client accounts and Switzerland-oriented client accounts. The latter give customers of DZ PRIVATBANK access to top-quality Swiss assets in all asset classes. The Switzerland-oriented investment solutions are now an integral part of the cooperative banks' digital customer transaction processes.

In recent years, DZ PRIVATBANK has consolidated its market position in Germany by working closely with the cooperative banks. The main core growth areas at DZ PRIVATBANK are private banking/wealth management and the fund business relating to liquid and alternative asset classes. LuxCredit financing also offers growth potential in collaboration with the cooperative banks. The main example in this area is the VR ImmoFlex solution, which is targeted at the 50+ age group. These people have a high proportion of their wealth invested in their own home, and VR ImmoFlex makes it easier for them to access liquidity through financing.

DZ PRIVATBANK has launched a strategic project, DZ PRIVATBANK 2030, in which it intends to lay the foundations for continued strong growth and to position the bank in such a way that will secure its long-term future.

### **1.8 VR Smart Finanz**

VR Smart Finanz AG, Eschborn, (VR Smart Finanz) is the digital provider of finance for the self-employed and small businesses in the Cooperative Financial Network. It supports self-employed and small business customers as well as small enterprise customers of its partner banks with their day-to-day financial needs. Its portfolio ranges from finance solutions for leasing, hire purchase, and loans up to €1 million (individual asset value) to the Bonitätsmanager (credit status manager) and VR Smart Guide digital services. The latter is a tool that small enterprises can use for financial planning and bookkeeping. VR Smart Finanz updated its business strategy in 2023 by raising the financing limit for individual assets from €750,000 to €1 million in view of the significant increase in asset prices over the past few years.

VR Smart Finanz attaches particular importance to offering automated, rapid finance decisions within a few minutes and to providing an omnichannel approach for business loans. The loan amount is generally disbursed within 24 hours. Sales partners also benefit from data-supported marketing approaches. VR Smart Finanz's portfolio therefore contributes to the digital and personal banking portfolio and to omnichannel sales in corporate banking.

As part of its strategy, VR Smart Finanz constantly strives to enhance its finance solutions, integrate them into the internal platforms used by the Cooperative Financial Network, and establish new decentralized sales channels and sales partners, such as digital financing platforms, for the Cooperative Financial Network. In July 2023, for example, VR Smart Finanz launched the fully automated hire purchase solution 'VR Smart express Eco' for the financing of investment in sustainability-oriented assets in the fields of electric vehicles and renewable power generation. It has thus expanded the range of products and solutions aimed at supporting the activities of its SME customers in the sustainability sphere.

## 2 Management of the DZ BANK Group

### 2.1 Management units

The DZ BANK Group comprises DZ BANK as the parent company and the DZ BANK Group's subsidiaries in which DZ BANK directly or indirectly exercises control.

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

- BSH
- R+V
- UMH
- TeamBank
- DZ BANK – central institution and corporate bank (DZ BANK – CICB)
- DZ HYP
- DZ PRIVATBANK
- VR Smart Finanz

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.

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. 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). The operating segments presented in the risk report in this group management report (chapter VII.2.2) are consistent with the operating segments in the consolidated financial statements.

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 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 (e.g. the risk and investment committee, the audit committee, and the human resources committee).

### 2.2.3 Corporate management committees

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

FIG. I.1 – MANAGEMENT COMMITTEES IN THE DZ BANK GROUP



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. Its members 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 Group Procurement Committee, the Group Sustainability Committee, the Heads of Internal Audit working group, the Economic Roundtable, and the Innovation Roundtable.

The **Group Risk and Finance Committee** is the central committee in the DZ BANK Group responsible for proper operational organization and, in particular, risk management in accordance with section 25 of the German Supervision of Financial Conglomerates Act (FKAG) and section 25a of the German Banking Act (KWG). It assists DZ BANK with groupwide financial and liquidity management, risk capital management, and recovery and resolution planning. 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 executives at various subsidiaries. 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 Control 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 risk reporting.
- 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 and on ensuring a coordinated roadmap, a transparent project portfolio, and a holistic data governance approach.
- 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 and validation 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 Group Risk and Finance Committee's **Market working group** is responsible for providing implementation support throughout the group in the following areas from the market viewpoint: capital management, balance sheet and balance sheet structure management, liquidity and liquidity risk management, and funding activities. This body also focuses on coordinating and dovetailing funding strategies and liquidity reserve policies, as well as on independently determining funding needs and on preparing consistent investor relations and rating documents within the DZ BANK Group. In addition, the Market working group is responsible for refining the management of centrally measured market risk.
- 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 **Compliance working group** assists DZ BANK with compliance management across the group where this is legally required. It also advises the DZ BANK Group's Group Risk and Finance Committee on fundamental compliance-related issues. One of the primary tasks of the Compliance working group is to draw up common compliance standards for the DZ BANK Group; in addition, it serves as a platform enabling specialists to share information and agree on requirements across the group. When fulfilling its responsibilities, the 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 Compliance working group reports to the Group Risk and Finance Committee, headed by the member of the DZ BANK Board of Managing Directors responsible for compliance and finance, and by the member of the DZ BANK Board of Managing Directors responsible for risk control.

- The **Information Security working group** of the Group Risk and Finance Committee and of the Group IT Committee is the central body responsible for managing information security and information security risk in the DZ BANK Group. It advises the Group Coordination Committee, the Group Risk and Finance Committee, and the Group IT Committee on matters relating to specifying and adjusting information security targets and on the group's corporate strategy in this regard. The working group encourages information and experience relating to information security issues to be shared throughout the group, is responsible for the design of the risk management system for information security in the DZ BANK Group, and signs off the documentation forming part of the rules and regulations for the groupwide information security management system before this documentation is presented, where required, to the Boards of Managing Directors in the DZ BANK Group for approval.
- The **Outsourcing Management working group** is the central committee in the DZ BANK Group responsible for the management of outsourcing and sets out the general parameters for the management of outsourcing risk in the DZ BANK Group. It encourages information and experience relating to issues in connection with the management of outsourcing to be shared throughout the group. The Outsourcing Management working group is responsible for the design of the risk management system from the perspective of the group's minimum requirements for the management of outsourcing in the DZ BANK Group. It signs off the documentation forming part of the rules and regulations for the groupwide outsourcing management system before this documentation is presented, where required, to the Boards of Managing Directors in the DZ BANK Group for approval and assists the Group Coordination Committee, the Group Risk and Finance Committee, and the Group IT Committee with matters relating to specifying and adjusting targets for the management of outsourcing and with the group's corporate strategy in this regard.

The **Group IT Committee (GITC)**, comprising the members of the Boards of Managing Directors of the main group entities with responsibility for IT, supports the Group Coordination Committee in strategic IT matters. It is the highest-level IT management committee in the group and coordinates all overarching IT activities in the DZ BANK Group.

In particular, the Group IT Committee is responsible for the group IT strategy of the DZ BANK Group, makes decisions on collaboration issues between IT units, identifies and realizes synergies, specifies common IT standards, and initiates joint IT projects. The aim of the GITC is to develop a future-proof IT setup for the DZ BANK Group and to support the departments of the group entities and the local cooperative banks in their respective markets. The cooperative principle is practiced both within the DZ BANK Group and in the collaboration with the BVR and Atruvia.

From an operational perspective, the activities are coordinated by the Heads of IT group and implemented in the IT units in the DZ BANK Group.

The **Group HR Committee** normally comprises 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 **Group Procurement Committee**, comprising the members of the Boards of Managing Directors and executives holding power of attorney at DZ BANK and its subsidiaries, supports the Group Coordination Committee in matters relating to procurement strategy in the DZ BANK Group. This committee manages the DZ BANK Group's procurement activities that are relevant throughout the group. In particular, the Group Procurement Committee makes decisions on collaboration issues between procurement units, identifies and realizes synergies, and specifies common standards and procedures with the objective of achieving optimum procurement terms and conditions for the entities of the DZ BANK Group. From an operational perspective, the activities are coordinated by the Procurement Board – the Group Procurement Committee's executive arm consisting of the DZ BANK Group's heads of procurement – and implemented in the procurement units in the DZ BANK Group.

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 Boards 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 **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 subsidiaries. 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 innovation 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 Sustainability Committee (GSC)** at the level of the Board of Managing Directors was created in 2023 and focuses on the management and implementation of sustainability in the DZ BANK Group. In addition to the GSC, there is a sustainability coordination committee made up of the sustainability officers in the management units. The sustainability coordination committee is an operational committee that is subordinate to the GSC and provides a platform for the sharing of information on the latest sustainability-related developments and activities across the group. Led by DZ BANK, the sustainability coordination committee identifies key issues relevant to the whole of the group, initiates joint projects, and prepares decisions to be made by the GSC.

### 2.3 Key performance indicators

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

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

The profitability figures (primarily loss allowances for loans and advances, profit/loss before taxes, net profit/loss) are presented in chapters II.3.1 and 3.2 of this group management report as well as in note 33 of the notes to the consolidated financial statements.

– **IFRS volume figures:**

The main volume-related KPIs include equity and total assets. These are set out in chapter II.4 of the group management report, in the consolidated financial statements (balance sheet as at December 31, 2023), and in note 33 of the notes to the consolidated financial statements.

– **Productivity:**

The KPI for productivity is the cost/income ratio. This KPI is described in chapters II.3.1 and 3.2 of this group management report and in note 33 of the notes to the consolidated financial statements.

– **Liquidity adequacy:**

Appropriate levels of liquidity reserves in relation to the risks associated with future payment obligations are demonstrated using the KPIs for economic and regulatory liquidity adequacy presented in chapters VII.6.2 and VII.6.3 of the risk report in this group management report. The minimum liquidity surplus reflects economic liquidity adequacy. Regulatory liquidity adequacy is expressed in terms of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

– **Capital adequacy:**

The KPIs for economic capital adequacy are described in chapter VII.7.2 of the risk report in this group management report. The KPIs for regulatory capital adequacy are included in chapter VII.7.3. They comprise the coverage ratio for the financial conglomerate, the total capital ratio, the Tier 1 capital ratio, the common equity Tier 1 capital ratio, and the leverage ratio, as well as the metrics for the minimum requirement for own funds and eligible liabilities (MREL), namely the MREL ratio as a percentage of risk-weighted assets, the MREL ratio as a percentage of the leverage ratio exposure, the subordinated MREL ratio as a percentage of risk-weighted assets, and the subordinated MREL ratio as a percentage of the leverage ratio exposure.

– **Regulatory RORAC:**

Regulatory RORAC is a risk-adjusted performance measure. It reflects the relationship between profit before taxes and the average own funds for the year calculated as an average of the figure for the four quarters. It therefore shows the return on the regulatory risk capital employed. This KPI is described in chapters II.3.1 and 3.2 of this group management report and in note 33 of the notes to the consolidated financial statements.

Forecasts for the aforementioned KPIs in the DZ BANK Group are set out in the outlook. Sustainability-specific KPIs are reported on in the DZ BANK Group's separate Sustainability 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 strategic finance and capital 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 primarily 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.

At DZ BANK level, the main divisions involved in the strategic planning process are Strategy & Group Development, Group Risk Control & Services, Group Risk Controlling, Group Finance, Bank Finance, and Research and Economics. The planning coordinators in the front-office divisions of DZ BANK and the subsidiaries are also incorporated into the process. The Strategy & Group Development division is responsible for overall coordination of the strategic planning process.



## II Business report

### 1 Economic conditions

In Germany, 2023 was characterized by a downturn that set in after the outbreak of war in Ukraine in 2022 and the energy crisis triggered by this conflict. High inflation weighed particularly heavily on the economy, reducing consumers' purchasing power and thus forcing them to cut back on spending. Although disposable incomes saw healthy nominal growth over the course of the year, households remained cautious, not only because of the higher prices but also because of the uncertain economic environment. Sources of uncertainty in the reporting year included Germany's controversial Buildings Energy Act (GEG), the conflict in the Middle East, and the German Federal Constitutional Court's highly consequential ruling on the debt brake. These factors had an adverse impact on sales opportunities and investment conditions for businesses that were simultaneously struggling with rising costs. Energy-intensive industries curbed their production in light of persistently high energy prices. The production of energy itself also diminished noticeably, partly in response to widespread efforts to reduce consumption and partly due to the last remaining nuclear power stations in Germany being taken off the grid. In addition, demand from outside Germany was weak as other economies were similarly affected by high inflation and the interest-rate rises. Soaring prices had prompted the European Central Bank (ECB) and other central banks to raise their base rates. The rise in interest rates created more challenging conditions for investment. One of the sectors affected by this was the real estate market, especially residential construction. New planning permissions plunged and in some cases, construction was put on hold even for housing projects that had already been approved.

Whereas Germany's economy had registered growth of 1.8 percent in 2022, gross domestic product (GDP) declined by 0.3 percent in 2023. Over the year as a whole, growth remained close to zero. In the first quarter of 2023, however, Germany's GDP edged up by 0.1 percent compared with the previous quarter. Although consumer spending fell substantially, net exports delivered a positive contribution to growth, but only because exports declined less sharply than imports. Gross investment also increased significantly. The second quarter saw no growth in economic output. Consumer spending picked up and provided some positive momentum, but exports deteriorated. In the third quarter, GDP continued to stagnate. Consumer spending weakened, while investment increased. In the final quarter of the year, the growth picture deteriorated further as GDP fell by 0.3 percent compared with the previous quarter.

High inflation and an increase in interest rates also took their toll on the economy of the eurozone. This was primarily reflected in a marked slowdown in consumer spending and investment, but did not push the bloc's overall economic growth into negative territory. Although the eurozone had recorded GDP growth of 3.4 percent in 2022, this figure fell to just 0.5 percent in 2023. The first and second quarters of 2023 both saw modest quarter-on-quarter growth of 0.1 percent, followed by a 0.1 percent contraction in GDP in the third quarter. Whereas the negative growth trend intensified in Germany in the final quarter of the year, growth in the eurozone remained at 0.0 percent.

The US economy also struggled with high interest rates and rapidly rising consumer prices in 2023. However, its economy remained in surprisingly robust shape. Overall, economic output went up by 2.5 percent in 2023, compared with 1.9 percent in 2022. This was primarily driven by a substantial rise in consumer spending, which, in turn, was mainly attributable to the robust labor market. Employment improved strongly, keeping the unemployment rate at an average of 3.6 percent in 2023 and thus at a similarly low level as in 2022. Inflation had been high in the US in 2022, especially at the start of the year, but slowed steadily over the course of 2023. By the final months of 2023, the rate of inflation had dropped to just above 3.0 percent.

Energy prices played a key role in slowing down inflation. In addition, upward pressure on prices for industrial goods eased thanks to improvements in conditions along companies' supply chains over the course of the year.

China recovered from the impact of its strict zero-COVID policy in 2023, after the associated measures had been lifted by Beijing at the end of 2022. At 5.2 percent, China's economic growth was up strongly compared with 2022, when the Chinese economy had grown by 3.0 percent and thus at a slower rate than the global economy for the first time in decades. However, the growth spurt at the start of 2023 was fueled by strong catch-up effects and proved very short-lived. Following a dip in economic growth around the middle of the year, government stimulus measures helped to push the growth rate up again somewhat in the second half of 2023.

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

The war in Ukraine created uncertainty in the capital markets in both the reporting year and in the previous year. In the first six months of 2023, trading was affected by concerns about inflation, but in the second half of the year, these concerns diminished and paved the way for more upbeat stock market conditions toward the end of the year.

The STOXX Europe 600, a share index comprising 600 large listed European companies, stood at 479.02 points as at December 31, 2023, which was 54.13 points higher than at the end of the previous year (December 31, 2022: 424.89 points). By contrast, the index had dropped by 62.91 points in the previous year.

Some EU countries still exceeded the ratios for new and overall indebtedness required for 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.

At the end of the third quarter of 2023, the total borrowing of the 20 eurozone countries equated to 89.9 percent of their GDP, a decrease of 2.3 percentage points compared with the figure of 92.2 percent as at September 30, 2022.

Italy's public debt as a percentage of GDP stood at 140.6 percent in the third quarter of 2023 (third quarter of 2022: 143.1 percent), which is the highest in the eurozone after that of Greece.

Based on a policy of quantitative easing, the ECB has supported the markets for government bonds in recent years, thereby creating the necessary time over the last few years for the European Monetary Union (EMU) countries burdened with excessive debt to reduce their budget deficits.

By the third quarter of 2022, the central banks in both the US and the eurozone were pursuing more restrictive monetary policy.

At its meeting on December 14, 2023, the ECB decided not to make changes to its three key interest rates. By contrast, at the previous meeting on September 14, 2023, the deposit facility interest rate had been set at 4.00 percent, the main refinancing rate at 4.50 percent, and the marginal lending facility rate at 4.75 percent. At that meeting, the ECB emphasized its determination to swiftly bring inflation back down to its medium-term target of 2.00 percent.

The ECB Governing Council intends to continue to reinvest repayments on maturing securities purchased under the pandemic emergency purchase program (PEPP) in full during the first six months of 2024. Plans for the

second half of 2024 envisage a reduction of the PEPP portfolio by an average of €7.5 billion per month. The reinvestment of repayments under the PEPP is scheduled to stop at the end of 2024.

On December 13, 2023, the US Federal Reserve (Fed) kept the federal funds rate in the range of 5.25 to 5.50 percent, thus maintaining it unchanged for the third consecutive time.

There were differences in the financial performance of Germany's two largest banks in 2023. Whereas one of them registered a doubling of its net profit and a sharp fall in expenses for loss allowances for loans and advances compared with the previous year, the other one saw a significant decrease in its net profit and a marked increase in expenses for loss allowances for loans and advances. Both banks recorded a small rise in administrative expenses in the reporting year.

### 3 Financial performance

#### 3.1 Financial performance at a glance

Despite the persistently challenging market conditions resulting from the sharp rise in interest rates, still elevated inflation, and geopolitical crises, the DZ BANK Group reported an encouraging profit before taxes of €3,189 million in 2023 (2022: €2,252 million).

The year-on-year changes in the key figures that make up the net profit generated by the DZ BANK Group were as described below.

Fig. II.1 – INCOME STATEMENT

| € million  | 2023         | 2022         |
|--|--------------|--------------|
| Net interest income  | 4,333        | 3,322        |
| Net fee and commission income  | 2,807        | 2,749        |
| Gains and losses on trading activities   | -175         | 823          |
| Gains and losses on investments  | -72          | -119         |
| Other gains and losses on valuation of financial instruments                           | 298          | -286         |
| Gains and losses from the derecognition of financial assets measured at amortized cost | 11           | 35           |
| Net income from insurance business   | 891          | 276          |
| Loss allowances  | -362         | -304         |
| Administrative expenses  | -4,597       | -4,447       |
| Staff expenses   | -2,174       | -2,072       |
| Other administrative expenses <sup>1</sup>   | -2,423       | -2,374       |
| Other net operating income   | 56           | 204          |
| <b>Profit before taxes</b>   | <b>3,189</b> | <b>2,252</b> |
| Income taxes   | -955         | -912         |
| <b>Net profit</b>  | <b>2,234</b> | <b>1,341</b> |

<sup>1</sup> General and administrative expenses plus depreciation/amortization expense.

**Operating income** in the DZ BANK Group amounted to €8,149 million (2022: €7,004 million). This figure comprises net interest income, net fee and commission income, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, gains and losses from the derecognition of financial assets measured at amortized cost, net income from insurance business, and other net operating income.

**Net interest income** increased by €1,011 million year on year to €4,333 million (2022: €3,322 million).

Within this figure, interest income from lending and money market business rose by €5,697 million to €11,423 million (2022: €5,726 million) and interest income from bonds and other fixed-income securities went up by €431 million to €916 million (2022: €485 million).

There was a positive change in interest on portfolio hedges of interest-rate risk (portfolios comprising financial assets), which improved by €1,482 million to net income of €1,405 million (2022: net expense of €77 million). By contrast, there was a negative change in interest on portfolio hedges of interest-rate risk (portfolios comprising financial liabilities), which deteriorated by €402 million to a net expense of €421 million (2022: net expense of €19 million).

Interest expense for deposits from banks and customers rose by €4,652 million to €7,180 million (2022: €2,528 million), primarily for volume-related reasons. In 2023, this increase included a higher interest expense on home savings deposits due to a rise of €111 million in additions to provisions relating to building society operations. By contrast, the 2022 figure had mainly been influenced by a positive one-off item of €185 million in connection with the reversal of provisions relating to building society operations. Interest expense on debt certificates issued including bonds went up by €1,260 million to €1,754 million (2022: €494 million), mainly due to expansion of the portfolio of issued commercial paper.

**Net fee and commission income** grew by €58 million to €2,807 million (2022: €2,749 million). Net fee and commission income from lending and trust activities went up by €14 million year on year to €99 million (2022: €85 million) and that from financial guarantee contracts and loan commitments went up by €24 million to €84 million (2022: €60 million). By contrast, net fee and commission income from securities business diminished by €17 million to €2,308 million (2022: €2,325 million). This year-on-year change was mainly attributable to a decrease of €23 million in income from transaction fees for properties in Union Investment's real estate funds to €52 million (2022: €75 million) and a decrease in performance-related management fees of €21 million to €4 million (2022: €25 million) in the Union Investment Group. In payments processing (including card processing), this figure declined by €5 million to €144 million (2022: €149 million). Other net fee and commission income rose by €51 million to €64 million (2022: €13 million), partly due to lower expenses resulting from brokerage of credit insurance policies.

**Gains and losses on trading activities** deteriorated by €998 million to a net loss of €175 million, compared with a net gain of €823 million in the previous year. This change was due to the significant volatility of market prices, which – as a result of risk management – had opposing effects on gains and losses on non-derivative financial instruments and embedded derivatives on the one hand and on gains and losses on derivatives on the other. Gains and losses on non-derivative financial instruments and embedded derivatives deteriorated by €6,903 million to a net loss of €2,430 million (2022: net gain of €4,473 million). Gains and losses on exchange differences came to a net gain of €62 million (2022: net gain of €144 million). Conversely, gains and losses on derivatives improved by €5,987 million to a net gain of €2,193 million (2022: net loss of €3,794 million).

**Gains and losses on investments** amounted to a net loss of €72 million (2022: net loss of €119 million).

Within this figure, gains and losses on the disposal of shares and other variable-yield securities improved by €60 million to a net loss of €2 million (2022: net loss of 62 million), mainly because the prior-year figure had included a realized loss resulting from the disposal of investment fund units from the Union Investment Group's own-account investments. Gains and losses on the disposal of bonds and other fixed-income securities improved by €5 million to a net loss of €36 million (2022: net loss of €41 million).

Gains and losses on investments in associates amounted to a net loss of €5 million (2022: net gain of €15 million). The prior-year figure had, to a large extent, been attributable to a gain realized on the disposal of a direct equity investment held by VR Equitypartner.

**Other gains and losses on valuation of financial instruments** came to a net gain of €298 million (2022: net loss of €286 million). This positive change was predominantly attributable to a year-on-year improvement in the valuation of guarantee commitments and in the fair value measurement of Union Investment's own-account investments. Within the overall line item, gains and losses on financial instruments designated as at fair value through profit or loss improved by €274 million to a net gain of €114 million (2022: net loss of €160 million), gains and losses on derivatives used for purposes other than trading improved by €162 million

to a net gain of €156 million (2022: net loss of €6 million), gains and losses on financial assets mandatorily measured at fair value through profit or loss improved by €146 million to a net gain of €71 million (2022: net loss of €75 million), and gains and losses from fair value hedge accounting improved by €1 million to a net loss of €44 million (2022: net loss of €45 million).

**Net income from insurance business** comprises the insurance service result, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance finance income or expenses, and gains and losses from the derecognition of financial assets measured at amortized cost in the insurance business.

IFRS 17 Insurance Contracts superseded the previous standard for accounting for insurance contracts (IFRS 4 Insurance Contracts) with effect from January 1, 2023. IFRS 17 requires comparative information to be presented for the period immediately preceding the date of initial application of IFRS 17. Retrospective initial application thus resulted in adjustments to the income statement for the previous year.

In 2023, net income from insurance business increased by €615 million to €891 million (2022: €276 million).

The increase was primarily due to the improvement – driven by the situation in the capital markets – in gains and losses on investments held by insurance companies and other insurance company gains and losses of €6,757 million to a net gain of €2,998 million (2022: net loss of €3,759 million). By contrast, insurance finance income or expenses deteriorated by €6,058 million to a net expense of €4,107 million (2022: net income of €1,951 million), largely in relation to policyholders' share of investment returns. The insurance service result amounted to a profit of €1,994 million (2022: profit of €2,077 million).

There was a net addition to **loss allowances** of €362 million (2022: net addition of €304 million).

The net addition to loss allowances for loans and advances to customers was €374 million (2022: net addition of €236 million). Loss allowances for loans and advances to banks came to a net reversal of €14 million (2022: net addition of €30 million). The net addition to other loss allowances for loans and advances was €3 million (2022: net addition of €42 million). Loss allowances for investments amounted to a net reversal of €2 million (2022: net reversal of €4 million).

Further disclosures on the nature and extent of risks arising from financial instruments and insurance contracts can be found in note 86 in the notes to the consolidated financial statements.

**Administrative expenses** went up by €150 million to €4,597 million (2022: €4,447 million). Within this figure, staff expenses advanced to €2,174 million, compared with €2,072 million in 2022. This increase was predominantly due to pay rises and appointments to vacant positions. Other administrative expenses climbed to €2,423 million (2022: €2,374 million), mainly because of higher expenses for consultancy and IT. By contrast, there was a fall in the contributions to the bank levy.

**Other net operating income** amounted to €56 million (2022: €204 million).

Restructuring expenses rose by €89 million to €94 million (2022: €5 million) on the back of additions to provisions for termination benefits linked with restructuring. Income and expense resulting from impairment losses recognized on other intangible assets, and reversals thereof, deteriorated by €53 million to a net expense of €53 million (2022: €0 million), largely owing to impairment of recognized customer relationships in the Union Investment Group. Gains and losses on non-current assets and disposal groups classified as held

for sale deteriorated by €24 million to a net gain of €25 million (2022: net gain of €49 million), which included realized gains on disposals of €25 million (2022: €51 million). Gains on the disposal of other assets also contracted, falling by €22 million to €21 million (2022: €43 million). By contrast, income from the reversal of provisions and accruals rose by €18 million to €175 million (2022: €157 million) and residual other net operating income improved by €21 million to a net expense of €18 million (2022: net expense of €39 million).

**Profit before taxes** for 2023 amounted to €3,189 million, compared with €2,252 million in 2022.

The **cost/income ratio** (i.e. the ratio of administrative expenses to operating income) for the reporting year came to 56.4 percent (2022: 63.5 percent).

The **regulatory return on risk-adjusted capital (RORAC)** was 17.1 percent (2022: 11.6 percent).

**Income taxes** amounted to €955 million in the reporting year (2022: €912 million).

The DZ BANK Group generated an improved **net profit** of €2,234 million in 2023, compared with a net profit of €1,341 million in 2022.

The following provides an explanation of the above information and the details below (section 3.2) concerning the financial performance of the DZ BANK Group with reference to the corresponding presentation in the outlook for 2023 (chapter V of the 2022 group management report).

In 2023, the DZ BANK Group generated profit before taxes that was significantly higher than the budgeted figure. Net interest income in the reporting year was much higher than expected, which was mainly attributable to an increase in customer business at DZ BANK – CICB, distributions from Union Investment's own-account investments, higher money market income, and interest on deposits at DZ PRIVATBANK. A slight fall in net fee and commission income had been forecast in 2022, but it actually increased slightly in 2023, primarily due to higher volume-related income. As had been anticipated in 2022, gains and losses on trading activities deteriorated markedly in the reporting year. Despite a net gain having been predicted in 2022, gains and losses on investments amounted to a net loss once again in the reporting year. This was largely due to the postponement of exits from direct equity investments at VR Equitypartner that were planned for 2023. Other gains and losses on valuation of financial instruments had only been expected to return to a normal level, but in fact improved markedly in the year under review. Net income from insurance business rose substantially in the reporting year, exceeding the budgeted figure. Net additions to loss allowances remained considerably below the budgeted figure for 2023. Administrative expenses saw a marginal increase, which was in line with the previous year's forecast. Other net operating income fell sharply in 2023, as had been forecast in 2022.

### 3.2 Financial performance in detail

The following sections describe the details of the financial performance of the DZ BANK Group's operating segments in 2023 compared with 2022.

#### 3.2.1 BSH

**Net interest income** in the BSH subgroup decreased by €194 million to €550 million (2022: €744 million).

Interest expense in building society operations (including interest expense on hedges) went up by €302 million to €709 million (2022: €407 million).

Within this figure, interest expense for home savings deposits amounted to €653 million (2022: €405 million). This included additions to provisions relating to building society operations of €217 million (2022: €106 million)

and a sum of €434 million attributable to the interest rates applicable to current tariffs (2022: €482 million). The prior-year figure had been influenced by a positive one-off item of €185 million connected to the reversal of provisions relating to building society operations.

The interest-rate swaps used to manage interest income and expense in the context of portfolio fair value hedge accounting reduced net interest income by a total of €47 million (2022: €3 million).

In the case of loans issued under advance or interim financing arrangements and other building loans, income amounted to €1,070 million (2022: €1,039 million). Income from home savings loans amounted to €98 million (2022: €70 million).

Interest income arising on investments rose by €64 million to €361 million (2022: €297 million). Interest expense for borrowing increased by €40 million to €90 million (2022: €50 million), which included income of €55 million from the early redemption of promissory notes issued by BSH.

BSH incorporates the fees, commissions, and transaction costs directly assignable to the acquisition of home savings contracts and loan agreements into the effective interest method applied to home savings deposits and building loans. In the reporting year, this decreased net interest income by €199 million (2022: €209 million). Of this sum, €94 million was attributable to home savings deposits (2022: €106 million) and €105 million to building loans (2022: €103 million).

**Net fee and commission income** declined to a net expense of €13 million (2022: net income of €11 million), primarily owing to the reduction in new home savings business and new home finance business as well as the absence of the annual fees for the Fuchs 03 scale of rates and charges. New home savings business and new home finance business are the main drivers of net fee and commission income.

In the home savings business in 2023, BSH entered into approximately 459 thousand (2022: 463 thousand) new home savings contracts with a volume of €31.0 billion (2022: €34.1 billion) in Germany.

In the home finance business, the realized volume of new business came to €9.2 billion (2022: €16.3 billion) in Germany.

**Gains and losses on investments** amounted to €0 million (2022: net loss of €90 million). The figure for the previous year had been affected by a net loss of €60 million on the disposal of bonds, whereas there were no disposals during the year under review. Furthermore, valuations of joint ventures had led to a net loss of €30 million in 2022.

**Loss allowances** amounted to a net addition of €18 million (2022: net addition of €16 million).

**Administrative expenses** went up by €8 million to €536 million (2022: €528 million). At €283 million, staff expenses were €9 million higher than the prior-year level of €274 million as a result of salary increases. Other administrative expenses amounted to €253 million (2022: €254 million).

**Other net operating income** increased by €22 million to €38 million (2022: €16 million), mainly as a result of lower expenses relating to pre-litigation legal risks of €2 million (2022: €48 million). In 2022, other net operating income had included the recognition of canceled, non-interest-bearing home savings deposits in an amount of €30 million, whereas only €3 million was recognized in 2023.

**Profit before taxes** went down by €123 million to €20 million (2022: €143 million) because of the changes described above.

The **cost/income ratio** in 2023 was 93.4 percent (2022: 76.7 percent).

**Regulatory RORAC** was 1.6 percent (2022: 11.2 percent).

### 3.2.2 R+V

IFRS 17 Insurance Contracts superseded the previous standard for accounting for insurance contracts (IFRS 4 Insurance Contracts) with effect from January 1, 2023. IFRS 17 requires comparative information to be presented for the period immediately preceding the date of initial application of IFRS 17. Retrospective initial application thus resulted in adjustments to the income statement for the previous year.

The **insurance service result** amounted to a profit of 1,972 million (2022: profit of €1,980 million). This figure included insurance revenue amounting to €12,317 million (2022: €12,424 million) and insurance service expenses of €10,267 million (2022: €10,321 million). Net expenses from reinsurance contracts held stood at €78 million (2022: €123 million).

In the life and health insurance business, insurance revenue amounted to €3,042 million (2022: €3,674 million). Insurance service expenses amounted to €1,956 million (2022: €2,282 million). Net expenses from reinsurance contracts held in this business stood at €0 million (2022: €16 million). This included amortization of the contractual service margin in an amount of €273 million (2022: €243 million) and release of the risk adjustment in an amount of €53 million (2022: €36 million).

In the non-life insurance business, insurance revenue amounted to €7,239 million (2022: €6,831 million). The main influence on this revenue was premiums earned on portfolios measured under the premium allocation approach. The insurance service expenses of the non-life insurance business stood at €6,887 million (2022: €6,104 million). Of this sum, €5,104 million (2022: €4,656 million) was attributable to expenses for claims, comprising payments for claims of €4,980 million (2022: €4,614 million) and the change in the liability for incurred claims amounting to a decrease of €124 million (2022: decrease of €42 million). It also included the change in losses on insurance contracts, which amounted to a decrease of €119 million (2022: increase of €136 million). Other insurance service expenses totaled €1,664 million (2022: €1,584 million) and primarily consisted of insurance acquisition cash flows and administration costs of €1,664 million (2022: €1,584 million). Net expenses from reinsurance contracts held in this business came to €63 million (2022: €58 million). The combined ratio (gross), which is the ratio of insurance service expenses to insurance revenue, stood at 95.14 percent (2022: 89.36 percent). Major claims in this business amounted to €246 million as at December 31, 2023.

Insurance revenue in the inward reinsurance business amounted to €2,036 million (2022: €1,920 million). This included not only premium income but also amortization of the contractual service margin in an amount of €231 million (2022: €174 million) under the general measurement model. Insurance service expenses came to €1,424 million (2022: €1,936 million). Net expenses from reinsurance contracts totaled €15 million (2022: €49 million). Expenses of €279 million arose for major claims in the inward reinsurance business.

**Gains and losses on investments held by insurance companies and other insurance company gains and losses** improved by €6,884 million to a net gain of €3,136 million (2022: net loss of €3,748 million). This figure includes the fair value-based gains and losses on investments held by insurance companies in respect of insurance products constituting unit-linked life insurance for the account and at the risk of employees, employers, and holders of life insurance policies (unit-linked contracts), which amounted to a net gain of €2,070 million (2022: net loss of €2,764 million).

Long-term interest rates were lower than in 2022. The ten-year Bund/swap rate was 2.49 percent as at December 31, 2023 (December 31, 2022: 3.20 percent). Spreads on interest-bearing securities largely narrowed during the reporting year and had a more positive impact on gains and losses on investments held

by insurance companies and other insurance company gains and losses than in the previous year, when spreads had widened. A weighted spread calculated in accordance with R+V's portfolio structure stood at 77.0 points as at December 31, 2023 (December 31, 2022: 89.8 points). In the comparative period, this spread had risen from 66.7 points as at December 31, 2021 to 89.8 points as at December 31, 2022.

During the reporting year, equity markets relevant to R+V performed better than in 2022. For example, the EURO STOXX 50, a share index comprising 50 large, listed companies in the eurozone, saw a rise of 728 points from the start of 2023, closing the year under review on 4,522 points (December 31, 2022: 3,794 points). The index had dropped by 504 points in 2022.

In the reporting year, movements in exchange rates between the euro and various currencies were generally less favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2023 was 0.9053 compared with 0.9370 as at December 31, 2022. In the previous year, the exchange rate had moved from 0.8794 as at December 31, 2021 to December 0.9370 as at December 31, 2022.

These trends resulted in a €7,213 million positive change – resulting from the effects of changes in positive fair values – in unrealized gains and losses to a net gain of €1,915 million (2022: net loss of €5,298 million), a €687 million increase in the contribution to earnings from the derecognition of investments to a loss of €255 million (2022: loss of €942 million), and a €145 million rise in net income under current income and expense to €2,423 million (2022: €2,278 million). However, there was a €681 million deterioration in foreign-exchange gains and losses to a net loss of €282 million (2022: net gain of €399 million) and a €133 million decline in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €234 million (2022: net expense of €101 million). Furthermore, other non-insurance gains and losses declined by €346 million to a net loss of €429 million (2022: net loss of €84 million). Changes in gains and losses on investments held by insurance companies are offset to an extent by corresponding changes in insurance finance income or expenses, so the effect on profit or loss is only partial.

**Insurance finance income or expenses** deteriorated by €6,058 million to a net expense of €4,107 million (2022: net income of €1,951 million). In the life and health insurance business, this line item deteriorated by €5,884 million to a net expense of €3,813 million (2022: net income of €2,071 million), which was mainly due to the aforementioned compensatory effect. Insurance finance income or expenses came to a net expense of €179 million in the non-life insurance business (2022: net expense of €48 million) and a net expense of €115 million in inward reinsurance (2022: net expense of €72 million). The amount within insurance finance income or expenses relating to discounting at the discount rate used at initial measurement (locked-in discount rate) amounted to a net expense of €125 million in non-life insurance (2022: net expense of €66 million) and a net expense of €115 million in inward reinsurance (2022: net expense of €73 million).

The factors described above resulted in an increase in **profit before taxes** to €1,008 million (2022: €187 million).

**Regulatory RORAC** was 11.3 percent (2022: 2.0 percent).

### 3.2.3 TeamBank

**Net interest income** amounted to €530 million (2022: €511 million). This year-on-year rise of €19 million was due to volume growth and, above all, the €30 million increase in income from overnight money to €31 million (2022: €1 million). Average loans and advances to customers in the reporting year came to €9,675 million (2022: €9,119 million).

As at December 31, 2023, loans and advances to customers stood at €9,768 million (December 31, 2022: €9,583 million). The number of customers rose to 1,039 thousand (December 31, 2022: 1,010 thousand). As at December 31, 2023, TeamBank was working with 640 (December 31, 2022: 669) of Germany's 690 (December 31, 2022: 729) cooperative banks and with 152 (December 31, 2022: 154) partner banks in Austria.

**Net fee and commission income** declined by €26 million to a net expense of €39 million (2022: net expense of €13 million), mainly owing to the €22 million reduction in fee and commission income from the brokerage of credit insurance policies as a consequence of the German Act on Supporting the Regulation of Crowdfunding Service Providers (SFBG).

The net addition to **loss allowances** amounted to €133 million (2022: net addition of €100 million). Rating downgrades due to customers' poorer payment history led to the rise in loss allowances. The year-on-year fall in new business had a countervailing effect.

**Administrative expenses** amounted to €285 million (2022: €286 million). Within this figure, staff expenses totaled €106 million (2022: €108 million) and other administrative expenses came to €179 million (2022: €178 million).

**Profit before taxes** stood at €81 million and thus decreased by €53 million compared with the prior-year figure of €134 million.

TeamBank's **cost/income ratio** in 2023 was 57.1 percent (2022: 55.1 percent).

**Regulatory RORAC** was 16.3 percent (2022: 22.8 percent).

#### 3.2.4 UMH

**Net interest income** came to €71 million (2022: €12 million), primarily thanks to income of €25 million from credit balances with banks (2022: €1 million) and distributions from own-account investments of €43 million (2022: €6 million).

**Net fee and commission income** declined by €18 million to €2,018 million (2022: €2,036 million). This total included the volume-related income contribution of €1,849 million (2022: €1,801 million), income of €52 million from transaction fees for properties in Union Investment's real estate funds (2022: €75 million), and performance-related management fees of €4 million (2022: €25 million). Expenses for the performance bonus for sales partners came to €57 million (2022: €44 million).

The change in net fee and commission income was predominantly due to the factors described below.

The average assets under management of Union Investment totaled €431.1 billion (2022: €428.7 billion).

Union Investment generated net inflows from its retail business of €12.2 billion (2022: €10.7 billion) in collaboration with the local cooperative banks.

In its institutional business, Union Investment recorded net inflows of €4.6 billion (2022: €6.8 billion).

The number of traditional fund-linked savings plans, which are used by retail customers as investments aimed at long-term capital accumulation, stood at 3.7 million contracts as at December 31, 2023 (December 31, 2022: 3.8 million), with a decrease in the 12-month savings volume to €6.4 billion (December 31, 2022: €7.1 billion).

The total assets in the portfolio of Riester pension products amounted to €26.6 billion (December 31, 2022: €23.3 billion).

The number of fund-linked savings plans managed by Union Investment in its retail business as at December 31, 2023 totaled 6.5 million (December 31, 2022: 6.5 million). These plans included contracts under employer-funded capital formation schemes as well as the traditional savings plans and Riester pension contracts referred to above.

The open-ended real estate funds offered by Union Investment, which are an intrinsic-value-based component of the investment mix, generated net new business totaling €0.1 billion in 2023 (2022 €2.7 billion).

Assets under management in the PrivatFonds family amounted to €22.1 billion as at December 31, 2023 (December 31, 2022: €22.7 billion).

The portfolio volume of funds managed by Union Investment that conform with article 8 or article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) amounted to €128.7 billion (December 31, 2022: €122.4 billion). As at December 31, 2023, this figure included €90.6 billion in product formats defined as sustainable by Union Investment based on its own criteria (December 31, 2022: €81.2 billion).

**Gains and losses on investments** amounted to a net loss of €31 million (2022: net loss of €58 million). Within this figure, the net loss realized on the disposal of investment fund units from own-account investments came to €2 million (2022: €62 million). A net loss of €28 million arose due to the impairment of a joint venture that is included in the consolidated financial statements using the equity method (2022: €0 million).

**Other gains and losses on valuation of financial instruments** improved by €352 million to a net gain of €197 million (2022: net loss of €155 million), which was largely attributable to the net gain of €143 million from the valuation of guarantee commitments (2022: net loss of €125 million) and the net gain of €54 million arising on the valuation of Union Investment's own-account investments (2022: net loss of €30 million).

**Administrative expenses** went up by €37 million to €1,231 million (2022: €1,194 million). Staff expenses increased by €28 million to €595 million (2022: €567 million) owing to higher average pay and appointments to new and vacant posts. Other administrative expenses swelled by €9 million to €636 million (2022: €627 million), largely because of higher amortization and impairment on software.

**Other net operating income** amounted to a net loss of €50 million (2022: net income of €54 million). This change was mainly attributable to impairment losses on recognized customer relationships, restructuring expenses, and smaller reversals of provisions.

Based on the changes described above, **profit before taxes** amounted to €974 million (2022: €695 million).

The **cost/income ratio** in 2023 was 55.8 percent (2022: 63.2 percent).

**Regulatory RORAC** was greater than 100.0 percent (2022: greater than 100.0 percent).

### 3.2.5 DZ BANK – CICB

**Net interest income** is primarily attributable to the lending business portfolios (Corporate Banking business line), the portfolios from the capital markets business (including the portfolios of Group Treasury), and the long-term equity investments allocated to the central institution and corporate bank. Net interest income increased by €370 million to €1,483 million (2022: €1,113 million).

In the Corporate Banking business line, net interest income rose by €6 million to €556 million (2022: €550 million). The net interest income in the four regional corporate customer divisions plus Central Corporate Banking increased to €320 million (2022: €309 million). The rise in net interest income was attributable to the higher lending volume.

Net interest income in the Structured Finance division amounted to €167 million, a decrease of €6 million compared with the prior-year figure of €173 million. The increased volume of lending did not make up for the lower margins, which were partly due to the competitive situation.

In the Investment Promotion division, net interest income advanced by €1 million to €69 million (2022: €68 million). This year-on-year rise was primarily due to a modest level of portfolio growth.

Net interest income from money market and capital markets business increased by €475 million to €858 million (2022: €383 million). This increase was firstly attributable to the deposit-taking operating business in the short-dated maturity segment, particularly deposits from corporate customers. Secondly, the rise in interest rates in the money market led to increased net interest income from the investment of liquidity in the excess of non-interest-bearing liabilities (e.g. equity) over non-interest-bearing assets.

As bonus interest ceased to be paid in connection with participation in the TLTRO III program in the second half of 2022, no such bonus interest was received in 2023 (2022: €71 million).

Other net interest income from loan administration fees fell by €4 million to €25 million (2022: €29 million).

Income from profit-pooling, profit-transfer, and partial profit-transfer agreements, together with income from other shareholdings and current income from investments in subsidiaries, amounted to €44 million (2022: €79 million). The reduction compared with 2022 can be explained by lower income from long-term equity investments at VR Equitypartner GmbH (down by €15 million to €9 million), DZ Beteiligungsgesellschaft mbH Nr. 18 (down by €9 million to €0 million), Deutsche WertpapierService Bank AG (dwpbank) (down by €6 million to €0 million), and IMPETUS Bietergesellschaft mbH (down by €5 million to €0 million).

**Net fee and commission income** rose by €55 million to €544 million (2022: €489 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 (primarily from payments processing including credit card processing, safe custody, and gains from the currency service business).

In the Corporate Banking business line, net fee and commission income was €16 million higher than in the previous year at €199 million (2022: €183 million). This included an increase of €10 million in relation to fees and commissions in connection with loan processing and an increase of €9 million for guarantee contracts / loan commitments.

In the Capital Markets business line, the contribution to net fee and commission income rose by €22 million to €214 million (2022: €192 million). One of the main reasons for this was the increase of €14 million in transaction fees from the securitization business.

Net fee and commission income in the Transaction Banking business line was also up year on year at €176 million, a rise of €6 million compared with the prior-year figure of €170 million. This included a €9 million rise in connection with payments processing fees and a €7 million rise related to safe custody and securities management business. By contrast, income from currency service business declined by €6 million.

As part of service procurement arrangements, DZ BANK has transferred processing services in the payments processing business to equensWorldline SE and Cash Logistik Security AG, and in securities business to Deutsche WertpapierService Bank AG. The expenses arising in connection with obtaining services from the above external processing companies amounted to a total of €217 million (2022: €192 million) and were reported under the net fee and commission income of the Capital Markets / Transaction Banking business lines.

**Gains and losses on trading activities** amounted to a net gain of €674 million (2022: net gain of €871 million).

Gains and losses on trading activities reflect the business activity of the Capital Markets business line and gains and losses on money market business entered into for trading purposes (mainly repurchase agreements) and on derivatives of the Group Treasury division ('financial assets and liabilities measured at fair value through profit or loss' (fair value PL)). The fair value gains and losses on financial assets and liabilities designated as at fair value through profit or loss (fair value option) are – apart from credit rating effects – also included in gains and losses on trading activities. The credit-rating-related effects pertaining to these financial instruments are included in other gains and losses on valuation of financial instruments if the instruments are financial assets or in equity if the instruments are financial liabilities.

Gains and losses on operating trading activities in the Capital Markets business line amounted to a net gain of €595 million, compared with €528 million in 2022.

Gains and losses on trading activities benefited from the benign conditions in the capital markets in 2023. Strong demand from customers also contributed to the very good business performance in foreign exchange trading, in structured products, and in the bond business. At the same time, there was encouraging growth in sales of retail investment certificates compared with the previous year.

IFRS rules on the recognition and measurement of financial instruments can affect the recognition of the bank's internal model for managing market risk and the recognition of income from the operating business in the income statement. These include accounting mismatches that arise when a different basis has been used to measure assets or liabilities or to recognize gains and losses. This means that, in some circumstances, effects cannot be recognized in the same period and, instead, are only recognized correctly in the income statement if the whole term of the affected transactions is considered. IFRS rules can also result in income being recognized in different income items (e.g. net interest income). For internal management purposes, these effects are referred to as 'non-operational, IFRS-related effects'. These effects can have a material impact on the level of gains and losses on trading activities, primarily due to movements in interest rates and spreads (on own issues). In 2023, these effects provided a boost of €79 million to gains and losses on trading activities, which was down on the previous year (2022: €343 million).

**Gains and losses on investments** deteriorated by €29 million to a net loss of €42 million (2022: net loss of €13 million). The net loss in the reporting year resulted from expenses of €211 million from the sale of securities in the category 'financial assets measured at fair value through other comprehensive income' (2022: €145 million) combined with gains of €170 million arising from the unwinding of hedges accounted for in the category 'fair value through other comprehensive income' in the context of portfolio fair value hedge accounting (2022: €131 million). Securities in the category 'fair value through profit or loss' generated a net gain of €5 million (2022: €1 million). The net loss on investments also included the write-down of €6 million on the carrying amount of Union Investment Real Estate GmbH.

**Other gains and losses on valuation of financial instruments** deteriorated to a net loss of €93 million (2022: net loss of €91 million). Within this figure, credit-risk-related measurement effects relating to financial assets measured using the fair value option declined by €61 million to a net loss of €56 million (2022: net gain of €5 million). By contrast, the net loss from ineffectiveness in hedge accounting shrank by €48 million to €41 million (2022: net loss of €89 million) and the valuation of financial assets mandatorily measured at fair value through profit or loss improved by €11 million to a net gain of €4 million (2022: net loss of €7 million).

**Gains and losses from the derecognition of financial assets measured at amortized cost** deteriorated by €67 million to a net loss of €35 million (2022: net gain of €32 million) due to an uptick in repurchases by issuers.

**Loss allowances** amounted to a net addition of €82 million (2022: net addition of €172 million). Within this figure, the net additions in the lending business and in respect of investments amounted to €139 million. Of this total, net reversals of €55 million related to loss allowances in stage 1, net additions of €62 million related to loss allowances in stage 2, and net additions of €132 million related to loss allowances in stage 3. The net reversal in respect of recoveries on loans and advances previously impaired, directly recognized impairment losses, other gains and losses on purchased or originated credit-impaired assets (POCI assets), additions to other provisions for loans and advances, and gains and losses from the credit-risk-related modification was €57 million (2022: net reversal of €27 million).

The net additions of €7 million in stages 1 and 2 in 2023 were attributable to fixed staging (risk-based transfer from stage 1 to stage 2 for construction, home improvement stores, textiles, and other sectors). Furthermore, loss allowances were increased in stage 3 owing to additions in respect of individual counterparties following changes in credit ratings. These were partly offset by reversals as a result of improvements in the credit ratings of some counterparties.

**Administrative expenses** went up by €105 million to €1,455 million (2022: €1,350 million).

Staff expenses went up by €54 million to €676 million (2022: €622 million) on the back of higher wages and salaries – and thus higher social security expenses – resulting from an increase in the number of employees.

Other administrative expenses grew by €51 million to €779 million (2022: €728 million). Within this figure, the expenses for the restructuring fund for banks (bank levy) and contributions to the BVR protection scheme rose by €5 million to €86 million (2022: €81 million).

Furthermore, IT costs increased by €14 million to €206 million (2022: €192 million), office expenses by €14 million to €45 million (2022: €31 million), and consultancy expenses by €15 million to €220 million (2022: €205 million). The depreciation and amortization charges included in other administrative expenses went down by €7 million to €69 million (2022: €76 million). The breakdown of these charges was as follows: depreciation of right-of-use assets €19 million (2022: €29 million), depreciation of property, plant and equipment, and investment property €28 million (2022: €29 million), and amortization of other intangible assets €22 million (2022: €18 million).

**Other net operating income** amounting to €41 million (2022: €26 million) primarily included reversals of provisions and accruals amounting to income of €112 million (2022: income of €67 million), expenses of €54 million for restructuring provisions and for the recognition of provisions for organizational capacity adjustments in connection with ongoing technical progress and the digitalization of processes at DZ BANK (2022: €0 million), and additions to provisions for onerous contracts relating to leased out buildings amounting to an expense of €8 million (2022: expense of €18 million).

**Profit before taxes** amounted to €1,035 million in the reporting year, which was €131 million higher than the figure of €904 million reported for 2022.

The **cost/income ratio** in 2023 was 56.6 percent (2022: 55.6 percent).

**Regulatory RORAC** was 18.9 percent (2022: 15.2 percent).

### 3.2.6 DZ HYP

At €721 million, the **net interest income** of DZ HYP was down by €11 million year on year (2022: €732 million). This change largely related to the lower level of early redemption payments received in 2023, which amounted to €2 million (2022: €34 million).

The volume of new business (including public-sector finance) stood at €8,627 million (2022: €10,439 million). In the corporate customer business, the volume of new business came to €7,439 million (2022: €8,064 million). In the retail customer business, the volume of new commitments amounted to €753 million (2022: €1,624 million). In the public-sector business, DZ HYP generated a new business volume of €435 million (2022: €751 million).

The volume of new lending jointly generated with the local cooperative banks in the corporate customer business amounted to €2,552 million in 2023 (2022: €2,978 million).

**Net fee and commission income** stood at €9 million (2022: €18 million). The figure for the previous year had included income of €11 million from participation in the DZ BANK Group's bidder group in the ECB's TLTRO III tender procedures; there was no such income in the year under review.

**Gains and losses on investments** deteriorated to €0 million (2022: net gain of €31 million). Of the net gain for 2022, €28 million had been linked to the sale of government bonds.

**Other gains and losses on valuation of financial instruments** improved by €101 million to a net gain of €87 million (2022: net loss of €14 million). This was largely thanks to the contribution to earnings of €77 million from issued instruments measured at fair value (2022: €8 million). Moreover, the movement of credit spreads on bonds from eurozone periphery countries resulted in a contribution to earnings of €8 million (2022: €25 million).

**Loss allowances** amounted to a net addition of €111 million (2022: net addition of €78 million). The addition to loss allowances in 2023 was mainly a reflection of specific loan loss allowances on a small number of exposures, whereas the addition in 2022 had predominantly been due to portfolio loan loss allowances.

**Administrative expenses** went down by €9 million to €247 million (2022: €256 million). Staff expenses increased to €111 million (2022: €104 million) as a result of headcount growth and higher provisions for pensions and other post-employment benefits. Other administrative expenses fell to €136 million (2022: €152 million), mainly because of a reduction in the bank levy to €33 million (2022: €48 million).

**Profit before taxes** advanced to €476 million (2022: €455 million).

The **cost/income ratio** in 2023 was 29.6 percent (2022: 32.4 percent).

**Regulatory RORAC** was 35.2 percent (2022: 33.6 percent).

### 3.2.7 DZ PRIVATBANK

The **net interest income** of DZ PRIVATBANK rose by €64 million to €147 million (2022: €83 million), primarily thanks to higher income in the money market business and from interest on deposits due to the changed interest-rate regime.

The average volume of guaranteed LuxCredit loans issued by DZ PRIVATBANK, which acts as the competence center for foreign-currency lending and investing in the interest-earning business, amounted to €5.0 billion (2022: €5.2 billion).

**Net fee and commission income** was unchanged year on year at €220 million. Contributions to earnings in private banking and the fund services business are the main drivers of net fee and commission income.

As at December 31, 2023 high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, came to €23.4 billion (December 31, 2022: €21.2 billion).

The value of funds under management amounted to €189.0 billion as at December 31, 2023 (December 31, 2022: €168.0 billion). The number of fund-related mandates was 582 (December 31, 2022: 565).

**Administrative expenses** increased by €16 million to €293 million (2022: €277 million). Within this figure, staff expenses swelled to €166 million (2022: €160 million), largely due to higher salary costs in connection with the statutory index-linking of salaries in Luxembourg and the growth in the number of employees. Other administrative expenses climbed to €126 million (2022: €116 million) owing to higher regulatory contributions and a rise in costs for IT and consultancy.

**Other net operating income** deteriorated to a net loss of €16 million (2022: net income of €4 million). In 2022, DZ PRIVATBANK S. A. initiated its DZ PRIVATBANK 2030 project in order to forge ahead with the strategy of rapid growth that the bank has been pursuing since 2019 and to further strengthen its positioning for the future. In line with DZ BANK's 'Verbund First 4.0' strategic program, the project's key aims include even closer collaboration with the DZ BANK Group and the Cooperative Financial Network, plus a greater focus on customers in Germany. In 2023, a provision for restructuring of €18 million was recognized in view of the reorganization of the legal structure as part of the planned relocation of the registered office of DZ PRIVATBANK S. A.

**Profit before taxes** climbed to €83 million (2022: €52 million).

The **cost/income ratio** in 2023 was 77.7 percent (2022: 83.7 percent).

**Regulatory RORAC** was 25.3 percent (2022: 14.1 percent).

### 3.2.8 VR Smart Finanz

**Net interest income** at VR Smart Finanz amounted to €123 million (2022: €116 million). The increase in net interest income was mainly due to a year-on-year rise of 3.0 percent in the lending and object finance portfolio volume to €3,007 million (December 31, 2022: €2,919 million) and higher net margins.

New lending and object finance business with customers in the small business, self-employed, and SME segments was encouraging in the reporting year, increasing by €182 million or 17.7 percent to €1,208 million (2022: €1,026 million). The volume of new 'VR Smart express' business came to €516 million (2022: €472 million). New business involving the 'VR Smart flexibel' business loan increased to €471 million (2022: €310 million). Other new leasing and object finance business held steady at €222 million (2022: €220 million).

**Net fee and commission income**, which amounted to a net expense of €29 million, was unchanged year on year.

**Loss allowances** in 2023 amounted to a net addition of €18 million (2022: net addition of €9 million). The growth of expenses was mainly due to the rise in defaults in respect of 'VR Smart flexibel' and 'VR Smart express'. The increase in new business also resulted in higher risk expenses.

**Administrative expenses** decreased to €73 million (2022: €76 million). Staff expenses came to €44 million (2022: €45 million). Other administrative expenses amounted to €29 million (2022: €32 million).

The **profit before taxes** of VR Smart Finanz amounted to €1 million (2022: €3 million).

The **cost/income ratio** in 2023 was 79.3 percent (2022: 86.4 percent).

**Regulatory RORAC** was 0.7 percent (2022: 1.8 percent).

### 3.2.9 DZ BANK – holding function

**Net interest income** contains the interest expense on subordinated capital and senior non-preferred paper purchased by group entities as well as issued subordinated capital and senior non-preferred paper. It also contains the net interest income/expense resulting from obtaining liquidity from the excess of non-interest-bearing assets (e.g. long-term equity investments) over non-interest-bearing liabilities.

Net interest income amounted to a net expense of €103 million in the reporting year (2022: net expense of €51 million).

The net interest expense on purchased and issued subordinated capital and senior non-preferred paper fell by €22 million to €69 million (2022: €47 million).

The net interest expense resulting from obtaining liquidity from the excess of non-interest-bearing assets over non-interest-bearing liabilities amounted to €34 million in the year under review (2022: €4 million). The deterioration was due to higher market interest rates in the short-dated segment.

**Administrative expenses** went up by €25 million year on year to €253 million (2022: €228 million).

The protection levies (in particular the bank levy and contributions to the BVR protection scheme) declined by €18 million to €49 million (2022: €67 million). IT and project expenses increased from €72 million in 2022 to €93 million in 2023. Expenses from the group management function rose by €17 million to €78 million (2022: €61 million). Other expenses for the benefit of the group and local cooperative banks went up by €4 million to €33 million (2022: €28 million).

### 3.2.10 Other/Consolidation

The consolidation-related adjustments shown under Other/Consolidation to reconcile operating segment profit/loss before taxes to consolidated profit/loss before taxes are attributable to the elimination of intragroup transactions and to the fact that investments in joint ventures and associates were accounted for using the equity method. Differences between the figures in internal management reporting and those reported in the consolidated financial statements that arise from the recognition of internal transactions in the DZ BANK – CICB operating segment are also eliminated.

The adjustments to net interest income were primarily the result of the elimination of intragroup dividend payments and profit distributions in connection with intragroup liabilities to dormant partners and were also attributable to the early redemption of issued bonds and commercial paper that had been acquired by entities in the DZ BANK Group other than the issuer. Internal transactions in the DZ BANK – CICB operating segment were also eliminated in net interest income and with offsetting entries under gains and losses on trading activities.

The figure under Other/Consolidation for net fee and commission income largely relates to the fee and commission business of TeamBank and the BSH subgroup with the R+V subgroup.

The remaining adjustments are mostly also attributable to the consolidation of income and expenses.

## 4 Net assets

As at December 31, 2023, the DZ BANK Group's **total assets** had increased by €16,224 million to €644,589 million (December 31, 2022: €628,365 million).

The **volume of business** amounted to €1,195,012 million (December 31, 2022: €1,132,269 million). This figure comprised the total assets, the assets under management at UMH as at December 31, 2023 amounting to €455,152 million (December 31, 2022: €413,115 million), the financial guarantee contracts and loan commitments amounting to €93,327 million (December 31, 2022: €88,618 million), and the volume of trust activities amounting to €1,944 million (December 31, 2022: €2,171 million).

**Cash and cash equivalents** went up by €8,113 million to €101,830 million (December 31, 2022: €93,717 million) as a result of the corresponding rise in balances with central banks. The increase was predominantly attributable to DZ BANK – CICB (liquidity management function).

**Loans and advances to banks** rose to €128,867 million (December 31, 2022: €123,444 million). Loans and advances to banks in Germany swelled to €122,502 million (December 31, 2022: €114,015 million), largely because of the increased volume of funding for the local cooperative banks, whereas loans and advances to foreign banks decreased to €6,364 million (December 31, 2022: €9,429 million).

**Loans and advances to customers** amounted to €204,776 million, which was higher than the figure of €203,646 million reported as at December 31, 2022. Loans and advances to customers in Germany grew to €178,389 million (December 31, 2022: €176,145 million), whereas loans and advances to foreign customers declined to €26,388 million (December 31, 2022: €27,501 million).

**Financial assets held for trading** amounted to €34,961 million (December 31, 2022: €48,909 million). Within this amount, derivatives (positive fair values) stood at €16,482 million (December 31, 2022: €21,474 million), bonds and other fixed-income securities at €8,334 million (December 31, 2022: €7,729 million), shares and other variable-yield securities at €1,329 million (December 31, 2022: €1,388 million), money market placements at €7,815 million (December 31, 2022: €17,058 million), and promissory notes and registered bonds at €1,000 million (December 31, 2022: €1,259 million).

**Investments** increased by €4,577 million to €47,970 million (December 31, 2022: €43,393 million). The main reasons for this change were an increase of €3,722 million in bonds and other fixed-income securities to €44,453 million (December 31, 2022: €40,731 million) and an increase of €918 million in shares and other variable-yield securities to €2,880 million (December 31, 2022: €1,962 million).

**Investments held by insurance companies** grew by €10,020 million to €115,568 million (December 31, 2022: €105,548 million). This was due to a €5,995 million rise in fixed-income securities to €53,647 million (December 31, 2022: €47,652 million), a €4,134 million rise in assets related to unit-linked contracts to €20,563 million (December 31, 2022: €16,429 million), a €1,048 million rise in mortgage loans to €12,008 million (December 31, 2022: €10,960 million), a €180 million rise in other loans to €1,014 million (December 31, 2022: €834 million), and a €101 million rise in registered bonds to €5,531 million (December 31, 2022: €5,430 million). The overall increase was partly offset by, in particular, a €1,152 million decrease in variable-yield securities to €11,871 million (December 31, 2022: €13,023 million), a €162 million decrease in investment property to €3,866 million (December 31, 2022: €4,028 million), and a €119 million decrease in derivatives (positive fair values) to €159 million (December 31, 2022: €278 million).

**Deposits from banks** as at December 31, 2023 amounted to €174,580 million, which was €12,207 million lower than the figure reported as at December 31, 2022 of €186,787 million. Deposits from domestic banks

went down by €13,345 million to €157,367 million (December 31, 2022: €170,712 million), whereas deposits from foreign banks rose by €1,139 million to €17,214 million (December 31, 2022: €16,075 million). As at December 31, 2023, the nominal value of the DZ BANK Group's participation in the ECB's TLTRO III program was €0.5 billion (December 31, 2022: €11.0 billion).

**Deposits from customers** grew by €212 million to €159,641 million (December 31, 2022: €159,429 million). Deposits from domestic customers grew by €6,609 million to €136,288 million (December 31, 2022: €129,679 million). By contrast, deposits from foreign customers shrank by €6,396 million to €23,354 million (December 31, 2022: €29,750 million).

At the end of the reporting year, the carrying amount of **debt certificates issued including bonds** was €103,768 million (December 31, 2022: €82,349 million), predominantly because of increased issues of mortgage Pfandbriefe and rises in capital market paper and commercial paper. Within the total figure, bonds issued came to €88,011 million (December 31, 2022: €68,271 million), while the portfolio of other debt certificates stood at €15,757 million (December 31, 2022: €14,077 million).

**Financial liabilities held for trading** went down by €4,803 million to €47,675 million (December 31, 2022: €52,478 million). Within this figure, derivatives (negative fair values) decreased by €9,510 million and short positions by €316 million. However, money market deposits went up by €4,202 million and bonds issued by €822 million.

**Insurance contract liabilities** increased by €6,823 million to €105,151 million (December 31, 2022: €98,328 million). This was predominantly due to the €6,293 million rise in the liability for remaining coverage to €93,033 million (December 31, 2022: €86,740 million).

As at December 31, 2023, **equity** had advanced by €3,444 million to €31,069 million (December 31, 2022: €27,625 million). The increase was mainly due to growth of €1,615 million in retained earnings to €15,977 million (December 31, 2022: €14,362 million) and to the €1,143 million rise in additional equity components to €3,293 million (December 31, 2022: €2,150 million) resulting from the issue of a tranche of additional Tier 1 notes by DZ BANK AG. The reserve from other comprehensive income amounted to minus €642 million (December 31, 2022: minus €1,171 million).

The **capital adequacy** of the DZ BANK financial conglomerate, the DZ BANK banking group, and the R+V Versicherung AG insurance group is described in the risk report within this group management report (chapter VII.7).

## 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 the Group Treasury division 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).

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 local cooperative banks. This enables cooperative banks to invest available liquidity with DZ BANK or obtain liquidity from DZ BANK if they need it. This regularly results in a liquidity surplus, which provides one of the main bases for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for covering operational liquidity requirements.

For funding purposes, the DZ BANK Group also issues money market products based on debt certificates under a standardized groupwide multi-issuer euro commercial paper program through its offices and branches in Frankfurt, New York, Hong Kong, London, and Luxembourg. In addition, a US CP head office program is used centrally by DZ BANK Frankfurt.

Key repo and securities lending activities, together with the collateral management process, are managed centrally in DZ BANK's Group Treasury division as a basis for secured money market financing activities. Funding on the interbank market is not strategically important to the DZ BANK Group.

The DZ BANK Group also has at its disposal liquid securities that form part of its counterbalancing capacity. These securities can be used as collateral in monetary policy funding transactions with central banks, or in connection with secured funding in private markets.

**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.

As at December 31, 2023, the nominal value of the DZ BANK Group's participation in the ECB's TLTRO III program was €0.5 billion (December 31, 2022: €11.0 billion).

Group Risk Controlling prepares an annual internal funding plan, which is based on the funding requirements calculated for the DZ BANK Group and DZ BANK for the next three years. The funding plan is calculated for a baseline scenario (matching the baseline scenario for strategic planning) and for at least one adverse scenario. The funding requirements are updated monthly and the adopted planning is backtested.

The risk report within this group management report includes disclosures on **liquidity adequacy** (chapter VII.6). The year-on-year changes in cash flows from operating activities, investing activities, and financing activities are shown in the **statement of cash flows** in the consolidated financial statements. Contractual cash inflows and cash outflows are set out in the **maturity analysis** in note 87 of the notes to the consolidated financial statements.

## 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 report of the DZ BANK Group in accordance with section 340i in conjunction with section 315b of the German Commercial Code (HGB) is combined with the non-financial report of DZ BANK AG in accordance with section 340a in conjunction with section 289b HGB and integrated into the 2023 Sustainability Report.

The 2023 Sustainability Report is published in German at [www.dzbank.de/berichte](http://www.dzbank.de/berichte) and in English at [www.dzbank.com/reports](http://www.dzbank.com/reports).

# V Outlook

## 1 Economic conditions

The outlook for the macroeconomic environment provides the basis for projections for 2024 regarding financial position and financial performance as well as expected liquidity and capital adequacy. Any adverse macroeconomic factors that present a material risk to the DZ BANK Group are addressed and examined in detail in chapter VII.4.2 of the risk report. Opportunities arising from favorable factors are presented in chapter VI.2.1 of the opportunity report.

### 1.1 Global economic trends

The energy crisis triggered by the Russia-Ukraine war is not over yet but has abated somewhat. This is reflected, for example, in noticeably lower energy prices (including electricity prices) and well-filled gas storage facilities. Interest rates have risen strongly and rapidly, resulting in more challenging investment conditions. One of the sectors most keenly affected by this is residential construction. At the same time, structural problems in China, for example in the real estate sector, are holding back the country's economic growth and, by extension, global trade. As inflation rates continue to fall, the economy of the eurozone is predicted to stage a recovery in 2024. From the second half of the year, this upturn should enjoy a tailwind from the first interest-rate cuts but is nonetheless expected to remain relatively weak in 2024.

Threats to global economic growth include the risk of fresh protectionist measures being imposed on trade between the US, China, and Europe. This is reflected in the debate about the Inflation Reduction Act in the US and the ever-growing list of sensitive raw materials for which Chinese export licenses are required. Geopolitical tensions, such as over the position of Taiwan, may also prompt a further escalation of trade disputes. This would adversely affect the global economy and hit the heavily export-dependent German economy particularly hard. Supply chain problems and renewed upswings in energy prices could prolong the phase of elevated inflation rates.

In many parts of the world, the dramatic rise in inflation had already reached its peak at the end of 2022. Consequently, inflation rates came down noticeably in 2023, but still remained well above the target levels of major central banks. For many products, it took a while for the impact of the extreme energy price spike during the energy squeeze to filter through the various production stages to the retail prices charged to end customers. In addition, healthy wage increases – designed to offset the inflation-linked erosion of purchasing power – prompted businesses in the service sector and other industries to raise their prices, which consequently slowed down the fall in inflation rates. In 2024, inflation should generally continue to come down but will likely still remain above central bank targets.

### 1.2 Trends in the USA

The US economy remained in surprisingly robust shape over the course of 2023. Quarter-on-quarter GDP growth was particularly pronounced in the third quarter of 2023. The fact that the US economy continued to perform well in spite of rising interest rates is likely attributable to a significant upturn in employment, the favorable long-term mortgage finance deals that many private households had secured when interest rates were still low, and – last but not least – government spending measures. Thanks to these sources of support, a recession now looks avoidable, although it remains a risk.

For 2024, DZ BANK predicts a marked slowdown in economic growth. Strongly elevated interest rates can be expected to put a damper on investment and consumer spending, thereby holding back economic growth. Against this backdrop, gross domestic product will likely grow by only 1.5 percent. US politics also remain a risk factor. As the government's majority in the House of Representatives is wafer-thin, the budget negotiation process is proving long and arduous. A temporary government shutdown cannot be ruled out for 2024. One driver of the discord in the US political arena may well be the upcoming presidential and

congressional elections in November 2024. This environment could heighten concerns about a potential fiscal policy crisis. The sustainability of US government debt levels may be called into question. And further interest-rate hikes in the US would certainly also take their toll on other economies.

The trajectory of inflation is a further risk factor. Inflation is trending downward, but high wage demands and efforts to boost production in the US make it likely that heightened inflationary pressures will persist for some time yet. DZ BANK thus expects inflation to remain at clearly elevated levels beyond 2023. On this basis, it projects an average inflation rate of 3.0 percent for the US in 2024.

### 1.3 Trends in the eurozone

Overall, the eurozone economy performed sluggishly in 2023. Consumer spending was weakened by persistently high inflation, while higher interest rates continued to act as a drag on investment over the course of the year. In addition, exports faced increasingly strong headwinds in connection with weak global economic growth. The eurozone recorded economic growth of 0.5 percent in 2023.

Over the course of 2024, the bloc should gradually emerge from its economic weak patch. Upward pressures on consumer prices should continue to ease, which – paired with continuing wage growth – should improve the spending headroom of private households. The fact that interest rates have reached their peak and may start to be cut again in the second half of the year should reduce adverse pressures on investment. However, there is a risk of interest rates remaining high or even being raised further. This could also have unfavorable fiscal policy implications, as highly indebted countries in the eurozone are vulnerable to the pressures arising from a growing interest burden.

Provided the global economy starts to gather pace in the second half of 2024, even if only moderately, European exports should enjoy a small boost. DZ BANK anticipates that the eurozone economy will grow at a rate of 0.8 percent in 2024 as a whole.

The normalization of previously overblown gas and electricity prices also started to push down consumer prices, a trend that still remains intact. This led to a reduction in the inflation rate to an average of 5.4 percent in 2023. In 2024, inflation should continue to slow, albeit only very gradually. Government measures implemented to mitigate soaring energy prices are set to expire in a number of eurozone countries. In addition, upward pressure on prices in the service sector due to wage increases remains strong and will abate only slowly. DZ BANK predicts an inflation rate of 3.0 percent for the eurozone in 2024.

### 1.4 Trends in Germany

Amid a perfect storm of adverse factors ranging from high energy prices and interest-rate hikes to weak global economic growth, Germany's economy has slid into recession. Although survey-based leading indicators seemed to be showing small signs of improvement in the autumn, they closed 2023 at very low levels. Uncertainty also stemmed from the debate about budgetary funding in the wake of the German Federal Constitutional Court's ruling on the debt brake. There is no immediate prospect of an upturn. In 2023 as a whole, economic output shrank by 0.3 percent.

The outlook for the coming year is similarly bleak. Energy prices are still higher than before Russia's war of aggression against Ukraine, meaning that Germany's industrial sector remains burdened with a competitive disadvantage. The health of the global economy also remains precarious and exports are consequently unlikely to bounce back to the strong levels seen before the pandemic. In addition, bureaucratic barriers to investment will take time to dismantle. Nonetheless, the economy should be able to stage a modest recovery in 2024. The marked easing of inflationary pressures is a positive signal. DZ BANK expects inflation to gradually fall in 2024. It anticipates that consumer prices will rise by 3.2 percent in 2024, compared with an average inflation rate for 2023 of 6.0 percent.

Demand in the real estate market has been depressed significantly by the sharp rise in interest rates. Compared with 2021, new business in the consumer home finance segment has fallen by almost half while investment

in commercial real estate and residential property portfolios has diminished by nearly two-thirds. Property prices have been falling across all market segments since mid-2022. In 2024, the year-on-year reduction in prices should slow to between 2 and 4 percent for residential real estate and between 5 and 7 percent for commercial real estate. The combination of high interest rates and sharp increases in construction costs meant that many construction projects were put on hold as building of rented housing has become unprofitable. There were many insolvencies among project developers in 2023. The housing market is likely to see much fewer completions in 2024, in spite of substantial demand for housing. The extremely sparse supply of homes is causing a marked rise in rental prices. Consequently, the housing market environment is set to be even more fraught in 2024.

Conditions for investment remain challenging. The construction sector is struggling with high interest rates and increased construction costs. However, slowing inflation and robust wage growth are easing the pressure on consumers' purses. In addition, the ECB looks likely to start cutting interest rates again from the second half of the year. Headwinds for exporters should diminish as the international trade environment begins to improve in the second half of 2024. All in all, DZ BANK expects the German economy to grow by 0.5 percent in 2024.

### 1.5 Trends in the financial sector

In 2023, major central banks around the world maintained the new policy direction that they had embarked on in the previous year. The US Fed had already discontinued its bond-buying program and had begun to trim its balance sheet in 2022. The ECB followed suit in 2023, gradually reducing its holdings under the asset purchase program and terminating the pandemic emergency purchase program (PEPP). Repayments under the PEPP will continue to be reinvested until the end of 2024 but can be allocated in a flexible manner. This cautious approach from the ECB, which has been designed with flexibility in mind and is complemented by the transmission protection instrument (TPI), has helped to prevent the excessive widening of spreads on the bonds of individual eurozone countries and thus to counter potential fragmentation risk. Current spread levels also reflect the somewhat muted economic environment. As economic conditions brighten over the course of 2024, spreads could narrow.

The Fed raised the upper end of the federal funds rate range to 5.5 percent in 2023. This appears to be the highest that it will go, and interest-rate cuts are likely in 2024. Moreover, the ECB increased its main refinancing rate to 4.5 percent in 2023. With inflation coming down faster than originally anticipated, the first reductions in key eurozone interest rates are predicted for the second half of 2024. Consequently, interest-related business probably reached its maximum upside potential in 2023. Although the developments described above may stimulate the real estate market, the growth of this market will be held back by interest rates remaining at a high level, the general economic situation, and high investment costs.

Despite the headwinds created by geopolitical turmoil and the related trade disputes on the global economic stage, DZ BANK expects the German economy to grow slightly (see also chapter 1.4 of the outlook). Given that the uncertainty factors – which are relevant to the major economic areas (United States, Europe, and China) – are occurring simultaneously, it is impossible to rule out unexpected adverse effects on companies and households, which in turn would have negative implications for the financial position and financial performance of the financial sector in 2024.

The year ahead is therefore likely to be challenging for the financial sector. Regardless of the aforementioned macroeconomic conditions, the financial sector has also faced considerable pressures in terms of both adjustment and costs in recent years. These arise from structural changes and regulatory requirements and could be intensified by upward pressure on prices and the potential threat of a wage/price spiral. This environment is 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 processes.

The agenda of regulatory reforms initiated in response to the financial crisis has a range of objectives, including making the financial sector more resilient in the event of a crisis – mainly through improved capital and

liquidity adequacy – and ensuring that the risks arising from the business activities in the financial industry are not borne by the public sector. As a result, the financial industry has progressively reduced its leverage and substantially bolstered its risk-bearing capacity by improving liquidity and capital adequacy. The planned implementation of EU banking regulations must also be seen in this light.

The issue that is likely to continue shaping activities in the financial industry in the long term is the implementation of the multifaceted ESG standards and their implications for the business models used in the sector. At present, the primary challenge faced by the financial sector is to implement the relevant requirements at an operational level throughout the value chain, which includes business management, risk management, and the internal and external reporting systems. The consideration of ESG aspects in the financial and capital markets is, on the one hand, opening up new market opportunities for the financial sector. On the other, events in the various ESG categories should also be seen as risks and managed accordingly. Information on the handling of ESG risks can be found in the risk report (chapter VII.5).

## 2 Financial position and financial performance

In 2024, the DZ BANK Group will continue to pursue its strategic objectives in the context of its role within the Cooperative Financial Network. In an environment that remains challenging in terms of both market and competition, this means, for example, rigorously exploiting potential business in collaboration with the cooperative banks, while at the same time maintaining the planned implementation of various initiatives focused on the digitalization and sustainability of the DZ BANK Group along the entire value chain.

The forecasts below are based on the outcome of the DZ BANK Group's annual planning process. Further information on the planning process can be found under 'DZ BANK Group fundamentals' (chapter I.2.4). Potential variances during 2024 from the underlying planning scenario, in the form of opportunities and risks, may have an influence on financial position and financial performance. These uncertainties are monitored continuously and factored into the DZ BANK Group's planning, reporting system, and management.

According to the planning for 2024, **total assets** will hold steady compared with the figure as at the end of 2023.

In light of the muted economic outlook and expected change in interest-rate levels, **net interest income** (including net income from long-term equity investments) is predicted to fall substantially in 2024 compared with the high level recorded in 2023. The figure for the reporting year received a significant boost not only from the good level of income from the operating business but also from accounting-related effects that had a positive impact on net interest income but a countervailing impact on gains and losses on trading activities.

Although **net fee and commission income** is projected to diminish slightly year on year in 2024 owing to the anticipated uncertain capital market environment, it will still make a hefty contribution to the earnings of the DZ BANK Group.

**Gains and losses on trading activities** will amount to a substantial net gain in 2024, which represents a significant improvement compared with 2023. This can be explained by the accounting-related effects mentioned above in connection with net interest income, which resulted in a net loss on trading activities in the reporting year.

**Gains and losses on investments** are anticipated to improve noticeably to a net gain in 2024, partly because the figure for the reporting year included losses on the sale of securities and impairment losses on a joint venture (see chapters II 3.2.4 'UMH' and 3.2.5 'DZ BANK – CICB' of the business report).

**Other gains and losses on valuation of financial instruments** will deteriorate markedly in 2024, returning to a normal level. This will largely be driven by the anticipated slight widening of credit spreads in public-sector finance.

**Net income from insurance business** is predicted to rise sharply in 2024. This projection is based on the expectation of a healthy operating performance in the insurance business.

Expenses for **loss allowances** are expected to be much higher in 2024 in view of the targeted volume of new business, the likely reduction in reversals of loss allowances, and the decline in income from loans and advances previously impaired.

**Administrative expenses** are expected to rise only marginally in 2024 compared with 2023, primarily because higher general and administrative expenses and staff expenses will be largely offset by savings in connection with the bank levy.

The DZ BANK Group's **other net operating income** will increase in 2024, returning to a normal level. This is mainly because the 2023 figure was affected by non-recurring items (see chapters II 3.2.4 'UMH' and 3.2.7 'DZ PRIVATBANK' of the business report).

In spite of the challenging geopolitical conditions, accompanied with further interest-rate hikes, the DZ BANK Group was able to generate significantly higher profit before taxes in the reporting year than originally projected. Based on current assessments, **profit before taxes** in 2024 is predicted to be within the long-term target range – which has been raised to between €2 billion and €2.5 billion – as the macroeconomic environment is expected to remain challenging.

The **cost/income ratio** for the DZ BANK Group is likely to be a little higher in 2024 as a result of the expected small year-on-year decrease in income and simultaneous slight rise in administrative expenses.

**Regulatory RORAC** is predicted to fall sharply in 2024 owing to the expected decrease in income, the rising regulatory base rate of return used in the calculation, and R+V's growing solvency capital requirement.

### 3 Liquidity and capital adequacy

Based on the position at the end of the reporting year and the funding measures planned for 2024, the DZ BANK Group predicts that it will be able to continue maintaining an appropriate level of economic and regulatory **liquidity adequacy** in 2024.

Further information on liquidity adequacy can be found in the risk report (chapter VII.6).

As matters currently stand, the DZ BANK Group's **capital adequacy** will continue to be assured for 2024 from both economic and regulatory perspectives; that is to say, it will continue to have at its disposal the available internal capital and eligible own funds necessary to cover the risks associated with the finance business and other risks arising from the group's business operations.

Over the last few years, the DZ BANK Group has greatly strengthened its capital base from its own resources (through the retention of profits) and through corporate action. In 2024, a high priority will once again be given to strengthening the capital base in order to ensure stable capital ratios.

For 2024, DZ BANK anticipates that the DZ BANK Group's **common equity Tier 1 capital ratio** will hold steady at above 15 percent.

Further information on capital adequacy can be found in the risk report (chapter VII.7).

## 4 Operating segments in detail

### 4.1 BSH

For years, housing starts enjoyed a healthy tailwind from exceptionally low interest rates on residential real estate loans and substantial excess demand. However, this dynamic collapsed under the combined pressure of the interest-rate policy turnaround, rising prices, supply bottlenecks, and high energy costs. Around the end of 2023 and the start of 2024, some of the regressive factors that had dominated the market environment in the recent past, such as the COVID-19 pandemic, high inflation, and supply chain disruption, began to fade into the background. But the significantly higher level of interest rates and the increase in costs look set to remain a drag on residential construction in 2024. The Zentralverband des Deutschen Baugewerbes e. V. (ZDB) [German Construction Confederation] is therefore forecasting the completion of just 235,000 or so homes in 2024, which equates to a year-on-year decline of 4.1 percent. This forecast is subject to significant uncertainty though. Geopolitical challenges could cause inflation and interest rates to rise again, which would put additional adverse pressure on loan-financed housing starts.

By contrast, the market for renovation work and energy efficiency measures will continue to act as an anchor of stability in 2024 amid the prevailing construction crisis. The roadmaps set out for achieving official climate targets will require buildings to be made compliant with higher energy efficiency standards going forward. The European Energy Performance of Buildings Directive (EPBD) envisages a reduction in primary energy consumption of 16 percent by 2030 and 22 percent by 2035. Measures to improve the energy performance of the least efficient residential buildings are expected to deliver 55 percent of the total planned reduction. From 2024, Riester savings products will be eligible as a means of funding for building renovation projects.

The weak economic environment will likely also be reflected in lower demand for labor from businesses. However, companies will be keen to retain skilled staff, meaning that unemployment is expected to rise in 2024 only to the extent that the overall labor force is set to grow. Consequently, a significant increase in payment difficulties within BSH's existing building loans portfolio is not anticipated in the forecast period.

The core home finance business is expected to pick up again slightly in 2024 following the slump induced by the crisis in 2023. Statutory requirements aimed at climate change mitigation are becoming noticeably tougher and having a positive impact. New business in the home savings segment, the other area of core business, declined in 2023 but remained at a good level and is expected to trend sideways in 2024 as macroeconomic conditions are likely to remain challenging.

The subsidiary Fundamenta-Lakáskassza Lakástakarékpénztár Zrt. (FLK), Budapest, is scheduled to be removed from the scope of consolidation in the first half of 2024 following its sale. At group level, FLK was treated as a disposal group not qualifying as a discontinued operation in accordance with IFRS 5 in the year under review. Consequently, FLK is not included in the analysis below.

Taking these various factors into account, BSH anticipates a higher, albeit still low, **profit before taxes** in 2024 that will comprise the following.

The sharp rise in interest rates will have a growing positive impact on own-account investing and building loan business at BSH in 2024. Whereas funding measures relating to regulatory requirements had a significant negative impact on interest expense in the reporting year due to soaring interest rates, no substantial increase is expected in this regard in 2024. Based on these expectations, **net interest income** is forecast to rise markedly in 2024.

**Net fee and commission income** is likely to decline sharply in 2024 in percentage terms, primarily due to a contraction in new home savings business.

With regard to loss allowances, BSH will benefit from the expected solidity of the labor market, despite volatile economic conditions in Germany. Interest rates peaked in 2023, as anticipated, and the trajectory of inflation

is looking moderate for 2024. These circumstances should have a stabilizing effect. Against this backdrop, **loss allowances** should remain virtually unchanged, even though the loan portfolio has grown substantially in recent years.

In 2024, **administrative expenses** are projected to be a little lower than in 2023, partly as a result of strategic and operational adjustments to the management of costs at BSH.

Based on current assessments, the **cost/income ratio** will fall slightly.

**Regulatory RORAC** is expected to record a mild increase.

#### 4.2 R+V

Given the macroeconomic risk factors and geopolitical tensions, 2024 will be another very challenging year. Nonetheless, R+V – the composite insurer in the Cooperative Financial Network – is planning to continue on its trajectory of profitable growth in 2024.

Overall, R+V anticipates a small year-on-year increase in the insurance segment's **profit before taxes** in 2024. Insurance revenue is forecast to decline slightly. The premiums included in insurance revenue, which comprise the premiums actually received, will hold steady compared with the reporting year.

**Gains and losses on investments held by insurance companies** are expected to deteriorate markedly year on year based on the capital market parameters forecast for 2024. Insurance finance income or expenses will also deteriorate sharply.

The **non-life insurance** division is expected to continue to grow as planned in 2024. A significant increase in insurance revenue is predicted for 2024. Premiums received should show significant growth too. The combined ratio (net) is projected to improve, falling to just below the level of the reporting year.

Insurance revenue in the **life and health insurance** division is expected to be a little lower in 2024 than in 2023. For reasons of comparability, this does not take account of the experience adjustments for 2023. These adjustments are defined in Appendix A to IFRS 17. Premiums received are expected to fall sharply in 2024. The contractual service margin will be on a par with the 2023 level in 2024. The amortization of the contractual service margin will increase substantially.

In the **inward reinsurance** division, the improvement in prices for reinsurance cover is expected to continue in 2024. This should result in significant growth of insurance revenue and a jump in the volume of premiums received, which are included in this revenue. The forecast shows a sharp rise in the combined ratio (net).

**Regulatory RORAC** will see a substantial decline in 2024 owing to the higher base rate of return used in the calculation.

#### 4.3 TeamBank

The overall economic environment is expected to improve slightly in 2024 and inflation should continue to slow. Moreover, the labor market remains stable and wages have recently risen – sharply in some cases. All of these factors may boost consumers' purchasing power and willingness to spend. As a result, both the inclination to make purchases and the inclination to borrow may strengthen.

In collaboration with the cooperative banks, TeamBank is aiming in 2024 to generate profitable, sustainable growth at a rate that is higher than that of the market. This may result in a noticeable increase in **net interest income**.

**Net fee and commission income** is predicted to fall substantially year on year, mainly because of the expected increase in bonus payments to partner banks in line with the higher level of new business.

The reversals in 2023, which were mainly attributable to changed expectations resulting from new insights into the impact of insolvency law reforms, are likely to give way to a significant rise in the **expense for loss allowances** in 2024, especially in view of the strong portfolio growth being targeted.

**Administrative expenses** are expected to remain steady in 2024.

In view of the changes described above, TeamBank forecasts a significant increase in **profit before taxes**.

The **cost/income ratio** for 2024 is predicted to improve substantially year on year.

There is likely to be a marked fall in **regulatory RORAC** in 2024, primarily because of the strong growth in the base rate of return used in the calculation.

#### 4.4 UMH

The capital market environment has improved in recent weeks. Inflation looks set to continue to slow in 2024, albeit only very gradually. Although geopolitical risks remain elevated, conditions in the capital markets are improving on balance when considering key factors such as growth, inflation, monetary policy, and financial market stability. Consequently, 2024 is shaping up to be both a challenging and a promising year for the capital markets.

In this environment, UMH plans to continue on its profitable growth path in 2024 and to boost its success relative to its competitors. It intends to do so by becoming more agile and innovative. Progress is also being made with the digitalization of offerings and processes and the use of artificial intelligence. At the same time, efforts are being made to improve effectiveness, for example through the creation of the FitForFuture program. Under this program, measures have been developed to wind down activities that are not delivering much benefit and instead focus resources on more promising activities. The first measures are expected to contribute to making UMH more robust in 2024.

UMH is aiming for a significantly higher average level of assets under management in 2024. New business is expected to be down year on year and overall performance to be just into positive territory in 2024.

**Net fee and commission income** for 2024 is projected to be up slightly compared with the year under review.

A significant deterioration in **net financial income/net finance costs** – comprising net interest income, gains and losses on investments, and other gains and losses on valuation of financial instruments – is likely in 2024, largely because of an anticipated sharp negative change in the effect from the valuation of guarantee commitments for investment products and from a much lower contribution from the investment fund units held as part of own-account investing activities.

**Administrative expenses** are projected to rise slightly in 2024. UMH intends to keep staff expenses at the same level as in 2023 but, based on current assessments, general and administrative expenses will rise markedly, largely because of higher expenses for consultancy. Depreciation and amortization charges are predicted to be on a par with 2023.

A sharp increase in **other net operating income** is expected. This is mainly because non-recurring items, such as non-recurring write-offs or restructuring expenses, are no longer included in the planning.

Based on the factors described above, **profit before taxes** in 2024 is projected to be a little lower than in 2023.

From the current perspective, a slight increase in the **cost/income ratio** and a significant fall in **regulatory RORAC** are expected.

#### 4.5 DZ BANK – CICB

Energy prices are coming down again compared with 2023, allowing inflation in the eurozone to slow and easing upward pressure on prices. This will bring about a slight improvement in economic growth. Against this backdrop, the ECB is expected to start to gradually lower its key interest rates in late 2024 and share prices are projected to edge up.

**Net interest income** (excluding income from long-term equity investments) for 2024 is predicted to be below the 2023 figure. In the reporting year, net interest income was boosted by volume growth in the Corporate Banking business line and increases in income from the money market and capital markets business. The lending volume in the Corporate Banking business line is predicted to remain level with 2023. In the Structured Finance division, the contribution margin is expected to remain stable in spite of an even more competitive market environment and higher funding costs due to the expansion of the business in key product fields. Net interest income in the money market and capital markets business will likely fall sharply due to anticipated interest-rate cuts by the ECB.

**Net fee and commission income** is projected to not quite match the high level of 2023 and will probably decline significantly in 2024. This is largely the result of slightly more conservative estimates for service fees in the individual operating units within DZ BANK – CICB in response to the general market uncertainty. The Corporate Banking business line's net fee and commission income for 2024 is expected to be slightly below the strong 2023 figure. In the Transaction Banking business line, net fee and commission income is likely to stabilize in 2024 due to the strong positioning of this business in the market resulting from the sustained trend toward the use of credit cards and additional mobile payment options, driven mainly by advancing digitalization and connectivity. Net fee and commission income in the Capital Markets business line is projected to fall. One of the sources of such income is the underwriting business, in which brokerage fees are collected from retail and institutional customers. The approach for generating operating fee and commission income remains focused on strengthening existing customer relationships, signing up new Depot-B-customers, and expanding the product range.

**Gains and losses on trading activities** are generated from margins and trading volume in customer business involving investment and risk management products and from the related customer-initiated trading contributions. In the operating business in the Capital Markets business line, a key income driver in 2024 is likely to be the further exploitation of capital-markets-related cross-selling potential in corporate banking. Moreover, measures to intensify collaboration with the cooperative banks in the Depot-B-customer business will be taken to leverage additional potential in the securities business. Trading activity is anticipated to remain at a high level in 2024, with the market as a whole subject to significant volatility. Consequently, and due to pull-to-par effects on own issues, gains and losses on trading activities will probably deteriorate sharply in 2024.

Loss allowances for 2023 included not only reversals but also a significant volume of income from recoveries on loans and advances previously impaired. This income is not expected to be at the same level in 2024, so there is likely to be a much greater need for net additions to **loss allowances** in 2024.

**Administrative expenses** are projected to rise slightly in 2024.

In view of these circumstances, **profit before taxes** in the DZ BANK – CICB operating segment is expected to fall sharply in 2024.

Current assessments show that the **cost/income ratio** will go up significantly in 2024 as a result of the pronounced decline in financial performance that is forecast relative to 2023 and a slight rise in administrative expenses.

As things stand, **regulatory RORAC** will probably decrease markedly in 2024 – despite slightly lower capital requirements – owing to the reduction in profit before taxes.

#### 4.6 DZ HYP

Further interest-rate increases by the central banks in 2023 and soaring prices for construction products and services have put a damper on real estate investment. However, the fall in purchase prices began to slow in the fourth quarter of 2023 and the ECB is expected to cut interest rates. These and other factors suggest that the real estate market will start to stabilize in 2024, which will result in a higher volume of transactions. Moreover, real estate is maintaining its appeal as an investment product.

**Net interest income** in 2024 is projected to be on a par with the 2023 figure. DZ HYP anticipates that business activities will remain stable, based on reasonable lending margins combined with a marked increase in the volume of new real estate finance business compared with 2023.

Current assessments show that credit spreads in public-sector finance are likely to widen slightly in 2024. Consequently, **other gains and losses on valuation of financial instruments** are expected to amount to a small net loss in 2024.

**Loss allowances** in 2024 are projected to be on a par with 2023.

Greater regulatory requirements and the digital transformation of DZ HYP are having a negative impact on **administrative expenses**, with the result that this figure is expected to be up noticeably on the corresponding 2023 figure.

Based on a stable operating performance, but particularly because of the deterioration in **other gains and losses on valuation of financial instruments** and rising administrative expenses, **profit before taxes** in 2024 is predicted to be well below the 2023 figure.

Accordingly, the **cost/income ratio** is expected to rise significantly.

**Regulatory RORAC** is likely to decline markedly due to the fall in profit before taxes forecast for 2024.

#### 4.7 DZ PRIVATBANK

DZ PRIVATBANK's operating business is expected to perform well thanks to the projected rise in the volume-related key figures in its various areas of business.

**Net interest income** will probably decline considerably in 2024 as certain items of non-recurring income that had a positive effect in 2023 will not be repeated.

**Net fee and commission income** is likely to rise slightly in 2024. The assets under management in private banking are also projected to rise because of planned increases in inflow rates. The main value driver is fund volume, and the volume of funds from Union Asset Management Holding AG that are held by DZ PRIVATBANK is expected to grow markedly.

**Gains and losses on trading activities** are forecast to improve significantly in 2024 because customer-driven transaction figures are likely to be higher.

DZ PRIVATBANK's **administrative expenses** are projected to hold steady in 2024.

As the 2023 figure included non-recurring items, DZ PRIVATBANK's other **net operating income** will increase in 2024, returning to a normal level.

Based on current forecasts, a modest increase in **profit before taxes** is expected for 2024 despite challenging market conditions.

The **cost/income ratio** for 2024 is likely to be on a par with the reporting year, while **regulatory RORAC** will probably be down slightly due to the higher base rate of return used in the calculation.

#### 4.8 VR Smart Finanz

As the economic environment begins to normalize and the German economy gradually returns to growth, VR Smart Finanz intends to significantly expand its finance business in 2024, as it did in 2023. Demand for object finance is expected to continue to increase in view of the rise in asset prices and a persistently high need for investment, particularly in energy efficiency measures and digitalization.

VR Smart Finanz intends to respond to the ever-fiercer competition by stepping up its collaboration with the cooperative banks and other sales partners, such as digital financing platform providers. Sustainability-related activities will also be intensified. Further sales potential can be unlocked by expanding omnichannel capabilities and gradually integrating solutions and digital services into the Cooperative Financial Network's omnichannel platform. VR Smart Finanz also aims to expand data-driven analysis and the digital market reach with a view to further strengthening the marketing of the cooperative banks in the target customer segment.

To ensure a state-of-the-art IT infrastructure, VR Smart Finanz will continue to drive forward the implementation of SAP S/4HANA. Contract processing will be further automated in order to improve efficiency and thus help to stabilize costs.

Risks arising from the emerging renewed upturn in insolvencies are actively managed using a proactive, IT-supported risk management system. Measures to prevent fraud are also being expanded to counter the increasing risks arising in connection with digital environments.

In the context of SME customers' growing need for liquidity and finance, the planned initiatives to generate new business growth and accelerate collaboration with the cooperative banks and other partners are likely to result in a strong increase in **net interest income**.

A sharp rise in **loss allowances** is also projected for 2024, reflecting the planned growth in the volume of existing and new business.

On the basis of a jump in administrative expenses compared with 2023 and a significant increase in income, there will be a noticeable improvement in the **cost/income ratio**.

The developments described above should mean a substantial improvement in **profit before taxes** in 2024, accompanied by slightly higher **regulatory RORAC** resulting from a sharply rising base rate of return used in the calculation.

#### 4.9 DZ BANK – holding function

**Net interest income** is predicted to fall markedly in 2024. This forecast is mainly due to changes in average interest rates and in the balance of expenses for the funding of long-term equity investment carrying amounts and income from the investment of capital.

**Administrative expenses** are projected to decrease substantially in 2024. This can be explained, for the most part, by an expected fall in protection levies (bank levy).

A significantly smaller **loss before taxes** is forecast for 2024.



## VI DZ BANK Group and DZ BANK opportunity report

The details relating to DZ BANK are included in the opportunity report for the DZ BANK Group. A separate opportunity report is not prepared for DZ BANK. Unless stated otherwise, the disclosures relating to the DZ BANK Group also apply to DZ BANK.

### 1 Management of opportunities

The DZ BANK Group defines **opportunities** as situations in which potential income can be unlocked and/or potential cost savings can be achieved.

The management of opportunities is integrated into the **annual strategic planning process**. The potential for returns is identified and analyzed on the basis of various macroeconomic scenarios, trends, and changes in the market environment, and then included in strategic financial planning. Details about the strategic planning process are presented in chapter I.2.4 in 'DZ BANK Group fundamentals' in this (group) management report.

Opportunity management is an integral component of **governance** and is therefore taken into account in the general management approach, in the management of subsidiaries via appointments to key posts, and in the DZ BANK Group's committees. Details about the governance of the DZ BANK Group can be found in chapter I.2.2 in 'DZ BANK Group fundamentals' in the 2023 (group) management report.

### 2 Potential opportunities

#### 2.1 Potential opportunities from macroeconomic developments

The statements made in the outlook on the expected business performance of the DZ BANK Group in the year ahead are based on the macroeconomic scenario that DZ BANK considers to be the most likely.

If economic conditions in the relevant markets are better than expected, opportunities may arise for the DZ BANK Group. In a positive scenario such as this, the easing of the trade disputes between China and the US would avoid further barriers to trade affecting, in particular, the EU and Germany, the latter being heavily dependent on exports. The global economic downturn, especially in China, would be milder and shorter than expected and would not materialize in the US, which would lessen the risk of a global recession. Political stability and continuity in the US and a rapid end to the war between Israel and Hamas could also have a positive impact on the situation.

In spite of populist governments and high levels of government debt in the EU, stability in the eurozone – forged through European economic policy, joint solutions, and a gradual fall in interest rates – would drive growth in the European economy. Effective use of transmission protection instruments of the European Central Bank (ECB) would also mean that countries in the eurozone could continue to obtain finance easily. This would have a positive knock-on effect on the financial and capital markets. Furthermore, a gradual fall in interest rates would lessen the impact of factors that drive inflation, such as wage/price spirals. In the US, too, a downward movement in interest rates would have a positive effect on the country's budget and government debt. If interest rates remained high or even edged up further, however, net interest income and the net interest margin in the Bank sector and life insurance business in the Insurance sector would be positively impacted.

Consumer confidence could increase and improve if the German government's ongoing budget crisis can be remedied in the near term. A decline in energy and commodity prices – potentially supported by a foreseeable

end to the war in Ukraine – could help to boost confidence further. In combination with a fall in the rate of inflation toward the level targeted by the ECB, this would have a positive impact on the German economy. Moreover, an absence of further price corrections in the real estate markets coupled with declining interest rates would benefit the DZ BANK Group's financial performance and provide stability, above all for the commercial real estate market.

All of the positive factors outlined above are highly unlikely to materialize together. From the DZ BANK Group's perspective, however, even the occurrence of individual factors would create an environment for the financial sector that would probably benefit the individual business models and the financial position and financial performance of the DZ BANK Group as a whole. Stable conditions in the financial and capital markets would have a positive impact on the net interest income and net fee and commission income generated from customer business and on net income from insurance business. In particular, an assumed economic recovery could potentially limit the net expense recognized for loss allowances and thereby help to increase the Group's net profit.

## 2.2 Potential opportunities from regulatory initiatives

Regulatory changes and initiatives may provide banks and insurance companies with the opportunity to offer products or services that are better tailored to customers' needs. For example, sustainability aspects are becoming increasingly important for many customers when making purchases and investments. Initiatives at European level, such as sustainable finance strategies and proposals for an EU green bond standard, underline the significance of sustainability aspects for the financial sector. Further development of these initiatives may lead to customers and the markets participating in sustainable finance initiatives on a greater scale, which would provide banks and insurance companies with the opportunity to strengthen the unique selling points of their products and services and to unlock potential growth in sustainable finance. This would have a positive impact on, for example, net fee and commission income and net interest income.

## 2.3 Potential opportunities from strategic initiatives

The strategic focus in the DZ BANK Group (see chapter I.1 in 'DZ BANK Group fundamentals' in the 2023 (group) management report) 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. The partnership between the cooperative banks and the entities in the DZ BANK Group is built on the principles of subsidiarity, decentralization, and regional market responsibility.

The DZ BANK Group develops and implements **strategic initiatives and programs** at three levels:

Firstly, the entities in the DZ BANK Group work on strategic projects and initiatives in collaboration with the cooperative banks and Atruvia, with the BVR taking a leading role. The strategy agenda entitled 'Shaping the future cooperatively' provides a framework within which the entities of the Cooperative Financial Network are implementing the initiatives in the strategic KundenFokus (customer focus) project with the aim of establishing an omnichannel model to strengthen their competitiveness.

Secondly, the entities in the DZ BANK Group have jointly identified key areas of collaboration (such as operating models and sustainability) that offer potential to reinforce their future viability and profitability. The aim is to continue to develop and take action in these areas of collaboration over the coming years.

Thirdly, each individual entity in the DZ BANK Group pursues its own strategic initiatives. One example is the 'Verbund First 4.0' strategic program at DZ BANK, which is designed to ensure the organization's resilience for the future. The program is aimed at improvements in three key areas: market presence (network-focused, customer-oriented, and digital), control and production processes (efficient, effective, and focused), and corporate culture (performance-driven and integrative). The 'Verbund First 4.0' strategic program is updated

continually in line with requirements. This transformation is being driven predominantly by key topics such as sustainability, digitalization, and employer branding.

**BSH** describes its long-term objective through its vision of being the leading product and solutions provider in the homes and housebuilding cooperative ecosystem. It intends to remain the market leader in the home savings market and, together with the cooperative banks, become the no. 1 in the home finance market. In addition, it is making inroads into new areas of growth for homes and housebuilding by maintaining a firm focus on customers and facilitating close collaboration between the cooperative banks and BSH's field staff on marketing. BSH is a center of excellence (provider of products and solutions) for consumer home finance, supporting the cooperative banks and playing an important part in strengthening the Cooperative Financial Network's market position. The evolution of BSH's role into that of a solutions provider for its bank partners and its integration into the homes and housebuilding cooperative ecosystem address the demand for end-to-end solutions and the development of new business models centered around customers' basic needs alongside financial products and extending the value chain.

**DZ HYP** is forging ahead with digitalization in many areas of its business. In consumer home finance, it is further expanding its role as a decentralized product supplier for the banks in the Cooperative Financial Network. Competitive products, rapid processes, and a risk-adjusted pricing model give banks scope to generate income through fees and commissions and through cross-selling options. The integration of Atruvia's omnichannel platform will be a central focus in 2024, enabling DZ HYP to support local cooperative banks with best-in-class products and services on this platform that they can use to advise customers on consumer home finance. The main aspects of DZ HYP's FK Digital project in its corporate customer business are deploying data optimally within processes, improving interfaces, and unlocking the associated potential for greater efficiency while, at the same time, catering to the current and future requirements of market players and supervisory authorities alike. The initial implementation phase of FK Digital began in July 2023 and is expected to be completed in spring 2025. This should also help to further optimize the bank's streamlined, profitable approach incorporating intensive customer relationship management. The bank has also drawn up a strategy for implementing the DZ HYP cloud infrastructure. In 2024, it plans to finish establishing the fundamental cloud infrastructure and migrate the majority of the IT landscape to the future operating model. The real estate sector has the potential to play a key role in combating climate change. DZ HYP sees its own role as supporting the green transformation of the economy in order to channel cash flows toward more sustainable business, for example by financing more energy-efficient real estate.

**R+V's** vision is to be the cooperative center of excellence for insurance, healthcare cover, and retirement pensions, working closely with its sales partners. Making customers happy is the cornerstone of future success under its strategic program, WIR@R+V. The program is designed to boost R+V's earnings power by putting a greater emphasis on profitability so that it can continue to make a significant contribution to the success of business in the Cooperative Financial Network. R+V also remains firmly focused on its growth strategy of strengthening areas of importance for the future, such as healthcare and long-term nursing care, membership, sustainability, and the omnichannel approach. By delivering a consistently robust business performance, it can maintain sufficient financial strength to be able to remain a reliable partner and deliver on its value propositions in the long term.

In response to the changing conditions in which it operates, **Union Investment** has created the internal FitForFuture program, which establishes the strategic areas of investment going forward. These areas of investment include not only sustainability and digitalization but also a 'learning organization'. Other key areas are the cementing of Union Investment's positioning as an active asset manager and the Masterplan platform in its retail business, which chimes with the aim of harnessing the potential of high-net-worth customers and the related product range. This investment in the future will be cost-neutral and will thus help to secure the profitable growth of the Union Investment Group.

Positive effects from the strategic programs and initiatives could have a beneficial impact on, for example, net fee and commission income, net interest income, or administrative expenses.

## VII DZ BANK Group and DZ BANK risk report

### 1 Disclosure principles

In its capacity as the parent company in the DZ BANK Group, DZ BANK is publishing this risk report in order to meet the transparency requirements for risks applicable to the DZ BANK Group as specified in **section 114 and section 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 risk report meets the transparency requirements regarding risks applicable to DZ BANK as a separate entity that are specified in **section 289 HGB** in accordance with GAS 20. Based on the requirements set out in GAS 20.A1.3, this risk report is structured according to risk type. The chapters about the individual risk types are preceded by general information and information relating to all risk types.

With this report, DZ BANK also meets the risk reporting requirements specified in the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), specifically those set out in the following legal standards:

- **IAS 1.134–136** (capital)
- **IFRS 7.31–42** (nature and extent of risks arising from financial instruments)
- **IFRS 17.121–132** (nature and extent of risks arising from contracts within the scope of IFRS 17); at the start of 2023, the provisions of IFRS 17.121–132 replaced the rules that had applied until the previous year (IFRS 4.38–39A)

This information is referred to in the notes to the consolidated financial statements and, as such, is also formally part of the notes to the consolidated financial statements.

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

- Accounting-related credit disclosures in accordance with **IFRS 7.35F(a)–36(b)**: note 86
- Maturity analysis in respect of financial assets and financial liabilities in accordance with **IFRS 7.39(a) and (b)**: note 87
- Sensitivity analyses in accordance with **IFRS 17.128**: note 97
- Claims rate trend for direct non-life insurance business and for the inward reinsurance business in accordance with **IFRS 17.130**: note 95
- Maturity analysis for insurance contracts issued and for reinsurance contracts held in accordance with **IFRS 17.132(b) and (c)**: note 97

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 this risk report.

In preparing this risk report, DZ BANK also takes account of the **recommended risk-related disclosures** issued by the Financial Stability Board (FSB), the European Banking Authority (EBA), and the European Securities and Markets Authority (ESMA) that are designed to improve the usefulness of disclosures in the decision-making process.

The quantitative disclosures in this 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**). The

disclosure of this information, which is important for knowledgeable users, is designed to ensure that external reporting is useful when such users need to make decisions.

The details relating to DZ BANK are included in the risk report for the DZ BANK Group. A separate 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. References in this risk report to governing bodies (Board of Managing Directors and Supervisory Board), committees, or organizational units relate to DZ BANK. If the governing bodies, committees, or organizational units of subsidiaries are meant, however, this is indicated by stating the name of the relevant subsidiary.

Detailed information on individual subsidiaries of DZ BANK is only provided if the subsidiaries are of material significance to risk management, 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, subsidiaries are always 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 the separate combined non-financial report of the DZ BANK Group and DZ BANK, which forms part of the Sustainability Report. The report analyzes the impact 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 risk report. Non-financial risks subject to regulatory standards comprise reputational risk and operational risk. Details on the management of these risks are included in chapters VII.13 and VII.19 'Reputational risk' and in chapters VII.14 and VII.20 'Operational risk'.

# DZ BANK Group

## 2 Summary

### 2.1 Risk management system

#### 2.1.1 Regulatory framework for risk management

The DZ BANK Group's 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 of the German Banking Act (KWG) and the German Minimum Requirements for Risk Management for Banks and Financial Services Institutions (MaRisk BA). Furthermore, in light of the different business models in place in parts of the DZ BANK Group, other specific legal requirements have also been observed. These include sections 26 and 27 of the German Act on the Supervision of Insurance Undertakings (VAG) in conjunction with the German Minimum Requirements for the System of Governance of Insurance Undertakings (MaGo) 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 the DZ BANK Group designed the risk management system, 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 FSB on risk management issues.

### 2.1.2 Fundamental features of risk management

**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.

DZ BANK and its subsidiaries have a **risk management system** that is updated on an ongoing basis in line with changes to the business and regulatory environment. The risk management system is designed to enable them to identify material risks – particularly risks to their ability to continue as a going concern – at an early stage and to initiate the necessary control measures. The main elements of the risk management system are organizational arrangements, methods, IT systems, the limit system based on economic risk-bearing capacity, stress testing of all material risk types, and internal reporting.

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 and additions in **risk strategies**, which are consistent with the business strategy and are approved by the Board of Managing Directors. The risk appetite statement contains risk policy guidelines and strategy requirements that are applicable throughout the group. It also sets out quantitative requirements reflecting risk appetite.

The DZ BANK Group strives to avoid **concentrations of risk** that are not the conscious result of business policy.

The methods used to **measure risk** are an integral element of the risk management system. They are regularly reviewed, refined where necessary, and adapted to changes in internal and external requirements. Risk model calculations are used to manage the DZ BANK Group.

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**. For example, the market data used for the centralized, model-driven measurement of market risk is updated every trading day and significant market movements therefore lead to an immediate increase in the volatility of risk factors and, consequently, changes in market risk. In addition, changes in credit ratings and correlations affect the modeled level of credit risk. Conservative crisis scenarios for short-term and medium-term liquidity are intended to ensure that liquidity risk management takes adequate account of market crises.

### 2.1.3 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 respect of **liquidity** are the minimum liquidity surplus, the liquidity coverage ratio (LCR), and the net stable funding ratio (NSFR). The key risk management figures used in respect of **capital** are economic capital adequacy, the coverage ratio for the financial conglomerate, the regulatory capital ratios, the leverage ratio, and the metrics for the minimum requirement for own funds and eligible liabilities (MREL). These metrics are the MREL ratio as a percentage of risk-weighted assets, the MREL ratio as a percentage of the leverage ratio exposure, the subordinated MREL ratio as a percentage of risk-weighted assets, and the subordinated MREL ratio as a percentage of the leverage ratio exposure.

#### 2.1.4 Management units and sectors

The DZ BANK Group is managed using the main types of risk, taking into account particular features relating to DZ BANK and its material subsidiaries (also referred to below as management units). Where a subsidiary acts as the parent company of a subgroup, the entire subgroup comprising the parent company plus its subsidiaries and second-tier subsidiaries is considered to be the management unit.

The management units represent the operating segments in the consolidated financial statements of the DZ BANK Group and form the core of the financial services group. All entities in the DZ BANK Group are integrated into the groupwide risk management system. Risk is managed groupwide on a consolidated basis. From a risk perspective, the 'DZ BANK' management unit equates to the central institution and corporate bank operating segment and the holding function.

The management units are deemed to be material in terms of their contribution to the DZ BANK Group's aggregate risk and are directly incorporated into the group's risk management system. The other subsidiaries and investee entities of DZ BANK are integrated into the risk management system either indirectly as part of equity investment risk or directly as part of other types of risk. This is decided for each of them annually.

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.

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 the risks typically assumed in banking business. Furthermore, policyholders have a share in any gains or losses from investments in connection with life insurance, health insurance, and casualty insurance as specified under statutory or contractual arrangements, 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 economic risk management. The management units are assigned to these sectors as follows:

**Bank sector:**

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

**Insurance sector:**

- R+V

**DZ BANK** and **DZ HYP** have elected to apply the **liquidity waiver** pursuant to article 8 of the Capital Requirements Regulation (CRR). The waiver enables the LCR and NSFR to be applied at the level of a single liquidity subgroup consisting of DZ BANK and DZ HYP. This means that it is no longer necessary to comply with the regulatory liquidity requirements at the level of the two individual institutions.

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

## 2.2 Risk factors and risks

The entities in the DZ BANK Group are exposed to a number of risk factors. These include adverse factors concerning the entity's environment that either affect multiple types of risk (general risk factors) or are limited to specific types of risk (specific risk factors). Disclosures on **general risk factors** can be found in chapter VII.4. The **specific risk factors** are shown in the risk-type-specific chapters of this risk report.

The main features of the directly managed **risks** in the Bank and Insurance sectors and how they break down across the **operating segments** reported in note 33 of the notes to the consolidated financial statements are shown in Fig. VII.1 and Fig. VII.2. The risks shown there correspond to the outcome of the risk inventory check and reflect the risks that are material to the DZ BANK Group.

To ensure that the presentation of the disclosures remains clear, the risk management system disclosures included in the risk report are limited to the main material entities in the group (indicated in Fig. VII.1 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 risk report cover all the management units included in the internal reporting system (indicated additionally in Fig. VII.1 by a dot on a light gray background).

## 2.3 Risk profile and risk appetite

The DZ BANK Group's **business model** and the associated business models used by the management units (see chapter I.1 in 'DZ BANK Group fundamentals') determine the risk profile. The main risks associated with the business models are shown in Fig. VII.1 and Fig. VII.2. The businesses operated by the management units that have a significant impact on the risk profile are described under 'Business background and risk strategy' within the chapters of the risk report covering the different risk types.

The values for the measurement of **liquidity and capital adequacy** presented in Fig. VII.3 and Fig. VII.4 reflect the liquidity risks and the risks backed by capital assumed by the DZ BANK Group. 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 – also referred to below as **risk appetite** – and against the (external) minimum targets laid down by the supervisory authorities. The KPIs are explained in more detail later in this risk report.

The **MREL ratio as a percentage of the leverage ratio exposure** and the **subordinated MREL ratio as a percentage of the leverage ratio exposure** were added to the liquidity and capital adequacy KPI systems at the start of 2023.

FIG. VII.1 – RISKS AND OPERATING SEGMENTS IN THE BANK SECTOR<sup>1</sup>

| Risks                              |   |  |   |
|------------------------------------|---|--|---|
| Risk type                          | Definition  | Risk factors   |   |
| <b>RISK NOT COVERED BY CAPITAL</b> |   |  |   |
| 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"> <li>– Follow-up funding risk</li> <li>– Collateral risk</li> <li>– Fair value risk</li> <li>– Drawdown risk</li> <li>– Termination risk</li> <li>– New business risk</li> <li>– Repurchase risk</li> <li>– Intraday risk</li> <li>– Foreign currency funding risk</li> </ul>  |   |
| <b>RISK COVERED BY CAPITAL</b>     |   |  |   |
| Financial risks                    | <b>Credit risk</b><br><ul style="list-style-type: none"> <li>– Traditional credit risk</li> <li>– Issuer risk</li> <li>– Replacement risk</li> </ul>  | Risk of losses arising from the default of counterparties (borrowers, issuers, other counterparties) and of losses in connection with the recovery of loans, advances, receivables, or collateral  | General credit risk factors:<br><ul style="list-style-type: none"> <li>– Increase in the concentration of volume in counterparties, industries, or countries</li> <li>– Accumulation of exposures with longer terms to maturity</li> </ul> Specific credit risk factors:<br><ul style="list-style-type: none"> <li>– Negative macroeconomic and environmental trends</li> <li>– Physical and transition risks related to climate and the environment</li> </ul>   |
|                                    | 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   | Increased requirement for the recognition of impairment losses on the carrying amounts of investments<br><ul style="list-style-type: none"> <li>– as a result of impaired carrying amounts</li> <li>– as a result of a lack of information in the case of non-controlling interests</li> </ul>  |
|                                    | <b>Market risk</b><br><ul style="list-style-type: none"> <li>– Interest-rate risk</li> <li>– Equity risk</li> <li>– Fund price risk</li> <li>– Currency risk</li> <li>– Commodity risk</li> <li>– Spread risk and migration risk</li> <li>– Asset-management risk</li> <li>– Market liquidity risk</li> </ul> | <ul style="list-style-type: none"> <li>– 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)</li> <li>– Risk of losses that could arise from adverse changes in market liquidity such that assets can only be liquidated in markets if they are discounted and that it is only possible to carry out active risk management on a limited basis (market liquidity risk)</li> </ul> | General market risk factors:<br><ul style="list-style-type: none"> <li>– Changes in the yield curve</li> <li>– Changes in credit spreads</li> <li>– Changes in exchange rates</li> <li>– Changes in share prices</li> </ul> Specific market risk factors:<br><ul style="list-style-type: none"> <li>– A further unexpected rise in interest rates</li> <li>– Risks to the global economy</li> </ul>   |
|                                    | <b>Technical risk of a home savings and loan company<sup>2</sup></b><br><ul style="list-style-type: none"> <li>– New business risk</li> <li>– Collective risk</li> </ul>  | <ul style="list-style-type: none"> <li>– Risk of a negative impact from possible variances compared with the planned new business volume (new business risk)</li> <li>– 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)</li> </ul>                                 | <ul style="list-style-type: none"> <li>– Decline in new business</li> <li>– Changed customer behavior (unrelated to changes in interest rates)</li> </ul>   |
|                                    | Business risk   | Risk that financial performance is not in line with expectations, and this is not covered by other types of risk   | <ul style="list-style-type: none"> <li>– Costs of regulation</li> <li>– Competition based on pricing and terms</li> </ul>   |
|                                    | Reputational risk <sup>3</sup>  | 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"> <li>– Decrease in new and existing business</li> <li>– Backing of stakeholders is no longer guaranteed</li> <li>– Materialization of the risks assessed in connection with ESG risks</li> </ul>  |
| 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"> <li>– Compliance risk including conduct risk:<br/>Violations of legal provisions; failure to comply with corporate policies</li> <li>– Legal risk:<br/>Violations of legal provisions or failures in applying such provisions; adverse changes in the legal environment</li> <li>– Information risk including ICT risk:<br/>Failure to maintain the confidentiality, integrity, availability, or authenticity of information or data</li> <li>– Security risk:<br/>Inadequate protection of individuals, premises, assets, or time-critical processes</li> <li>– Outsourcing risk:<br/>Disruptions to outsourced processes and services</li> <li>– Project risk:<br/>Failure to complete projects on schedule</li> </ul> |

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

<sup>2</sup> Including business risk and reputational risk of BSH.

<sup>3</sup> 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   |   |         |     |        |               |          |     |                 |
|---|---|---------|-----|--------|---------------|----------|-----|-----------------|
| Risk management KPIs disclosed  |   | DZ BANK | BSH | DZ HYP | DZ PRIVATBANK | TeamBank | UMH | VR Smart Finanz |
| <ul style="list-style-type: none"> <li>- Liquid securities</li> <li>- Unsecured short-term and medium-term funding</li> <li>- Minimum liquidity surplus</li> <li>- LCR</li> <li>- NSFR</li> </ul> | Chapter VII.6.2.6<br>Chapter VII.6.2.6<br><br>Chapter VII.6.2.7<br>Chapter VII.6.3.3<br>Chapter VII.6.3.4 | •       | •   | •      | •             | •        |     | •               |
| <ul style="list-style-type: none"> <li>- Lending volume</li> <li>- Risk capital requirement for credit risk</li> </ul>  | Chapters VII.8.6 to VII.8.9<br>Chapter VII.8.10   | •       | •   | •      | •             | •        |     | •               |
| <ul style="list-style-type: none"> <li>- Carrying amounts of investments</li> <li>- Risk capital requirement for equity investment risk</li> </ul>  | Chapter VII.9.5<br>Chapter VII.9.5  | •       | •   | •      |               | •        | •   | •               |
| <ul style="list-style-type: none"> <li>- Value-at-risk for market risk</li> <li>- Risk capital requirement for market risk</li> </ul>   | Chapter VII.10.7.1<br>Chapter VII.10.7.2  | •       | •   | •      | •             | •        | •   | •               |
| Risk capital requirement for the technical risk of a home savings and loan company  | Chapter VII.11.5  |         | •   |        |               |          |     |                 |
| Risk capital requirement for business risk  | Chapter VII.12.6  | •       |     | •      | •             | •        |     | •               |
|   |   | •       | •   | •      | •             | •        | •   | •               |
| <ul style="list-style-type: none"> <li>- Losses from operational risk</li> <li>- Risk capital requirement for operational risk</li> </ul>   | Chapter VII.14.7<br>Chapter VII.14.8  | •       | •   | •      | •             | •        | •   | •               |

Management unit disclosures in the risk report:



Quantitative and qualitative disclosures



Quantitative disclosures



Not relevant

FIG. VII.2 – RISKS IN THE INSURANCE OPERATING SEGMENT AND SECTOR

| Risk type  | Definition  | Risk factors   | Risk management KPIs disclosed   |  |                                      |
|--|---|--|--|--|--------------------------------------|
| <b>RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY II</b> |   |  |  |  |                                      |
| Financial risks  | Actuarial risk<br>– 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   | – Adverse change in the calculation assumptions for life insurance over the lifetime of the contract<br>– Increase in claim events as a result of pollution and climate change   | – Claims rates and settlements in non-life insurance<br>– Overall solvency requirement | Chapter VII.16.6<br>Chapter VII.16.7 |
|  | – 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                                    | – Higher drawdown of benefits by health insurance policyholders<br>– Increase in claim events as a result of pollution and climate change  |  |                                      |
|  | – 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   | – Unexpected rise in claims incurred, e.g. due to weather-related natural disasters attributable to climate change<br>– Rise in claims incurred as a result of silent cyber risk   |  |                                      |
|  | Market risk<br>– Interest-rate risk<br>– Spread risk<br>– Equity risk<br>– Currency risk<br>– Real-estate risk  | 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 becomes difficult to generate a guaranteed rate of return because of a narrowing of spreads on investments<br><br>The fair values of investments fall because of<br>– a further unexpected rise in interest rates<br>– a widening of spreads on investments<br>– the issuer's transition risk   | – Lending volume<br><br>– Overall solvency requirement                                 | Chapter VII.17.4<br>Chapter VII.17.5 |
| Counterparty default risk                              | Risk of losses due to unexpected default or deterioration in the credit standing of counterparties or debtors of insurance or reinsurance companies over the subsequent twelve months | Deterioration of counterparties' financial circumstances   | – Lending volume<br>– Overall solvency requirement   | Chapter VII.18.4   |                                      |
| Non-financial risks                                    | Reputational risk <sup>1</sup>  | Risk of losses that could arise from 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<br>– Backing of stakeholders is no longer guaranteed<br>– Materialization of the risks assessed in connection with ESG risks   |  |                                      |
|  | Operational risk  | Risk of losses arising from inadequate or failed internal processes, personnel, or systems, or from external events  | – Legal and compliance risk: Violations of legal provisions or failures in applying such provisions; adverse changes in the legal environment; violations of statutory provisions; failure to comply with corporate policies<br>– Information risk, including ICT risk: Malfunctions or breakdowns in IT systems<br>– Security risk: Business interruptions could result in lasting disruptions to processes and workflows<br>– Outsourcing risk: Disruptions to outsourced processes and services<br>– Project risk: Failure to complete projects on schedule | Overall solvency requirement   | Chapter VII.20.4                     |
| <b>RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY I</b>  |   |  |  |  |                                      |
| 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   | Chapter VII.21   |                                      |

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

In addition, an **internal observation threshold** was introduced for each KPI included in Fig. VII.3 and Fig. VII.4 at the start of 2023. These observation thresholds mark the transition point from a comfortable risk situation to a state of heightened alert, whereas the minimum thresholds represent a mandatory internal limit that must be maintained. Both thresholds are elements of the risk appetite statement. The internal minimum thresholds in the risk appetite statement largely represent the warning thresholds in the recovery plan. They are defined by the Board of Managing Directors and presented to the Supervisory Board's Risk Committee for acknowledgement. Depending on the situation and significance, the Chief Risk Officer, the Chief Financial Officer, the relevant committee of the Board of Managing Directors, or the full Board of Managing Directors may initiate operational

measures if observation thresholds are crossed. If the minimum thresholds are crossed, the escalation mechanisms set out in the recovery plan are triggered.

FIG. VII.3 – LIQUIDITY AND CAPITAL ADEQUACY KPIs OF THE DZ BANK GROUP

|  | Measured figure |               | External minimum target |       | Internal minimum threshold |       | Internal observation threshold |      |
|--|-----------------|---------------|-------------------------|-------|----------------------------|-------|--------------------------------|------|
|  | Dec. 31, 2023   | Dec. 31, 2022 | 2023                    | 2022  | 2023                       | 2022  | 2023                           | 2022 |
| <b>LIQUIDITY ADEQUACY</b>  |                 |               |                         |       |                            |       |                                |      |
| <b>DZ BANK Group (economic perspective)</b>                                  |                 |               |                         |       |                            |       |                                |      |
| Minimum liquidity surplus (€ billion) <sup>1</sup>                           | 18.5            | 14.3          | 0.0                     | 0.0   | 4.0                        | 4.0   | 5.0                            |      |
| <b>DZ BANK banking group (normative perspective)</b>                         |                 |               |                         |       |                            |       |                                |      |
| Liquidity coverage ratio (LCR, percent)                                      | 145.8           | 145.9         | 100.0                   | 100.0 | 110.0                      | 110.0 | 120.0                          |      |
| Net stable funding ratio (NSFR, percent)                                     | 126.5           | 122.3         | 100.0                   | 100.0 | 106.0                      | 105.0 | 107.0                          |      |
| <b>CAPITAL ADEQUACY</b>  |                 |               |                         |       |                            |       |                                |      |
| <b>DZ BANK Group (economic perspective)</b>                                  |                 |               |                         |       |                            |       |                                |      |
| Economic capital adequacy (percent)  | 213.8           | 222.4         | 100.0                   | 100.0 | 120.0                      | 120.0 | 140.0                          |      |
| <b>DZ BANK financial conglomerate (normative perspective)</b>                |                 |               |                         |       |                            |       |                                |      |
| Coverage ratio (percent)   | 154.6           | 151.2         | 100.0                   | 100.0 | 113.0                      | 110.0 | 121.0                          |      |
| <b>DZ BANK banking group (normative perspective)</b>                         |                 |               |                         |       |                            |       |                                |      |
| Common equity Tier 1 capital ratio (percent) <sup>2</sup>                    | 15.5            | 13.7          | 9.8                     | 9.0   | 11.3                       | 10.0  | 12.5                           |      |
| Tier 1 capital ratio (percent) <sup>2</sup>                                  | 17.7            | 15.2          | 11.7                    | 10.8  | 13.3                       | 11.9  | 14.3                           |      |
| Total capital ratio (percent) <sup>2</sup>                                   | 20.1            | 18.0          | 14.1                    | 13.2  | 15.8                       | 14.3  | 16.8                           |      |
| Leverage ratio (percent) <sup>2</sup>  | 6.2             | 4.7           | 3.0                     | 3.0   | 4.0                        | 4.0   | 4.3                            |      |
| MREL ratio as a percentage of risk-weighted assets <sup>3</sup>              | 42.4            | 38.3          | 25.1                    | 25.1  | 26.8                       | 26.8  | 27.1                           |      |
| MREL ratio as a percentage of the leverage ratio exposure                    | 14.9            | 11.9          | 7.3                     | 7.3   | 9.7                        |       | 10.0                           |      |
| Subordinated MREL ratio as a percentage of risk-weighted assets <sup>3</sup> | 31.0            | 28.5          | 23.8                    | 23.8  | 26.6                       | 25.5  | 27.1                           |      |
| Subordinated MREL ratio as a percentage of the leverage ratio exposure       | 10.9            | 8.9           | 7.1                     | 7.1   | 9.7                        |       | 10.0                           |      |

Not available

<sup>1</sup> The measured value relates to the stress scenario with the lowest minimum liquidity surplus.

<sup>2</sup> The external minimum targets are the binding regulatory minimum capital requirements. Further details can be found in chapter VII.7.3.3.

<sup>3</sup> Calculated as the ratio of the total of regulatory own funds and eligible bail-in-able liabilities to the total risk exposure amount.

With the entry into effect of **IFRS 17** (previous standard: IFRS 4) on January 1, 2023, the accounting treatment of insurance contracts, in particular the treatment of liabilities to policyholders recognized under equity and liabilities, has been changed at R+V. The first regulatory key figures affected by the transition to IFRS 17 were those reported as at June 30, 2023 following the review of the interim consolidated financial statements. Until this point, a temporary accounting effect had applied, as only financial instruments that are predominantly recognized on the asset side of the balance sheet were measured at fair value under IFRS 9 as at December 31, 2022.

Fig. VII.5 shows the material regulatory key figures affected by the implementation of IFRS 17, assuming for regulatory purposes that the new standard had already been applied as at December 31, 2022 (column 'Dec. 31, 2022 including effect of IFRS 17'), and, as a comparison, the actual regulatory key figures reported for this balance sheet date.

The other key figures included in Fig. VII.3 are not affected by the transition to IFRS 17. The coverage ratio for the DZ BANK financial conglomerate and economic capital adequacy are based on the provisions of Solvency II, meaning that both assets and equity and liabilities are already measured at fair value. The LCR and the minimum liquidity surplus are also unaffected by the transition. The LCR involves only a comparison of liquid assets and net

outflows, while the minimum liquidity surplus is based on a cash flow analysis that is independent of the accounting treatment.

FIG. VII.4 – LIQUIDITY AND CAPITAL ADEQUACY KPIS (NORMATIVE PERSPECTIVE) OF DZ BANK

|   | Measured figure |               | External minimum target |       | Internal observation threshold |      |
|---|-----------------|---------------|-------------------------|-------|--------------------------------|------|
|   | Dec. 31, 2023   | Dec. 31, 2022 | 2023                    | 2022  | 2023                           | 2022 |
| <b>LIQUIDITY ADEQUACY</b>   |                 |               |                         |       |                                |      |
| <b>Economic perspective</b>   |                 |               |                         |       |                                |      |
| Minimum liquidity surplus of DZ BANK (€ billion) <sup>1</sup>       | 4.8             | 4.2           | 0.0                     | 0.0   | 1.86                           |      |
| Minimum liquidity surplus of the liquidity subgroup (€ billion)     | 6.8             | 7.8           | 0.0                     | 0.0   | 1.86                           |      |
| <b>Normative perspective</b>  |                 |               |                         |       |                                |      |
| Liquidity coverage ratio (LCR) of the liquidity subgroup (percent)  | 143.1           | 142.7         | 100.0                   | 100.0 | 115.0                          |      |
| Net stable funding ratio (NSFR) of the liquidity subgroup (percent) | 119.0           | 113.4         | 100.0                   | 100.0 | 106.0                          |      |
| <b>CAPITAL ADEQUACY</b>   |                 |               |                         |       |                                |      |
| <b>Normative perspective</b>  |                 |               |                         |       |                                |      |
| Common equity Tier 1 capital ratio (percent) <sup>2</sup>           | 14.6            | 14.8          | 7.7                     | 7.0   | 10.3                           |      |
| Tier 1 capital ratio (percent) <sup>2</sup>                         | 17.6            | 16.6          | 9.2                     | 8.5   | 11.8                           |      |
| Total capital ratio (percent) <sup>2</sup>                          | 21.4            | 20.3          | 11.2                    | 10.5  | 13.8                           |      |
| Leverage ratio (percent) <sup>2</sup>                               | 6.8             | 6.3           | 3.0                     | 3.0   | 4.3                            |      |

Not available

<sup>1</sup> The measured value relates to the stress scenario with the lowest minimum liquidity surplus.

<sup>2</sup> The external minimum targets are the binding regulatory minimum capital requirements. Further details can be found in chapter VII.7.3.3.

FIG. VII.5 – LIQUIDITY AND CAPITAL ADEQUACY KPIS (NORMATIVE PERSPECTIVE) OF THE DZ BANK BANKING GROUP, TAKING ACCOUNT OF THE IFRS 17 EFFECT AS AT DECEMBER 31, 2022

|  | Dec. 31, 2023 | Dec. 31, 2022 including effect of IFRS 17 <sup>1</sup> | Dec. 31, 2022 |
|--|---------------|--|---------------|
| <b>Liquidity adequacy of the DZ BANK banking group</b>                 |               |  |               |
| Net stable funding ratio (NSFR, percent)                               | 126.5         | 122.0  | 122.3         |
| <b>Capital adequacy of the DZ BANK banking group</b>                   |               |  |               |
| Common equity Tier 1 capital ratio (percent)                           | 15.5          | 15.1   | 13.7          |
| Tier 1 capital ratio (percent)   | 17.7          | 16.6   | 15.2          |
| Total capital ratio (percent)  | 20.1          | 19.1   | 18.0          |
| Leverage ratio (percent)   | 6.2           | 5.6  | 4.7           |
| MREL ratio as a percentage of risk-weighted assets                     | 42.4          | 37.9   | 38.3          |
| MREL ratio as a percentage of the leverage ratio exposure              | 14.9          | 12.7   | 11.9          |
| Subordinated MREL ratio as a percentage of risk-weighted assets        | 31.0          | 28.8   | 28.5          |
| Subordinated MREL ratio as a percentage of the leverage ratio exposure | 10.9          | 9.7  | 8.9           |

<sup>1</sup> The values differ from those shown in the risk report in the 2023 interim group management report due to retrospective measurement adjustments.

## 2.4 Solvency and risk-bearing capacity

The **solvency** of DZ BANK and its subsidiaries was never in jeopardy at any point during the reporting period. They also complied with regulatory requirements for liquidity adequacy. By holding ample liquidity reserves, the group aims to be able to protect its liquidity against any threats in the event of a crisis.

The DZ BANK Group remained within its economic **risk-bearing capacity** in 2023 and also complied with regulatory requirements for capital adequacy on every reporting date.

## 3 Fundamental principles of risk management

### 3.1 Risk culture

The DZ BANK Group's risk culture is shaped by the high degree of responsibility assumed by the Cooperative Financial Network for its members and for society, by the values of sustainability, stability, and diversity, and by a strong culture of dialogue. The priority for the day-to-day handling of risk is compliance with strategic and associated operating requirements.

The following **principles** apply in respect of the day-to-day handling of risk:

- **Leadership culture:** The management must set out clear expectations regarding the handling of risk and lead by example.
- **Risk appetite:** Every individual at DZ BANK must understand their role 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:** DZ BANK 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.

### 3.2 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 within their risk capacity when implementing their business models and business objectives. The term 'risk appetite' equates to the term 'risk tolerance' used by the supervisory authorities in a disclosure context. Risk capacity is the maximum risk that the DZ BANK Group can take on based on its capital adequacy, liquidity adequacy, capacity for risk management and control, and regulatory restrictions. Risk capacity is therefore largely determined by the DZ BANK Group's available internal capital, own funds, and available liquid assets. Risk capacity should always exceed risk appetite. The difference between risk capacity and risk appetite reflects the DZ BANK Group's need for security.

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. The values for the KPIs and the internal threshold values are shown in Fig. VII.3. The overall risk report is used to monitor the internal threshold values.

### 3.3 Risk strategies

The **systematic controlled assumption of risk in relation to target returns** is an integral part of corporate control in the DZ BANK Group. The activities resulting from the business model require the ability to identify, measure, assess, manage, monitor, and communicate 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.

For each of the material risks, the Board of Managing Directors draws up risk strategies that are linked to the **business strategy**. 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, Group Risk Control & Services, and Group Finance divisions in close consultation with other relevant divisions at DZ BANK and its subsidiaries.

The risk strategies are described in the chapters covering the individual risk types in this risk report.

### 3.4 Risk-oriented corporate governance

#### 3.4.1 Governance structure

The DZ BANK Group's **risk management system** builds on the risk appetite statement and risk strategies. It is based on three lines of defense that are interlinked and well established in the monitoring and control environment. Fig. VII.6 shows the governance structure for risk management. R+V has implemented a modified governance structure because it is subject to different regulatory requirements.

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 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

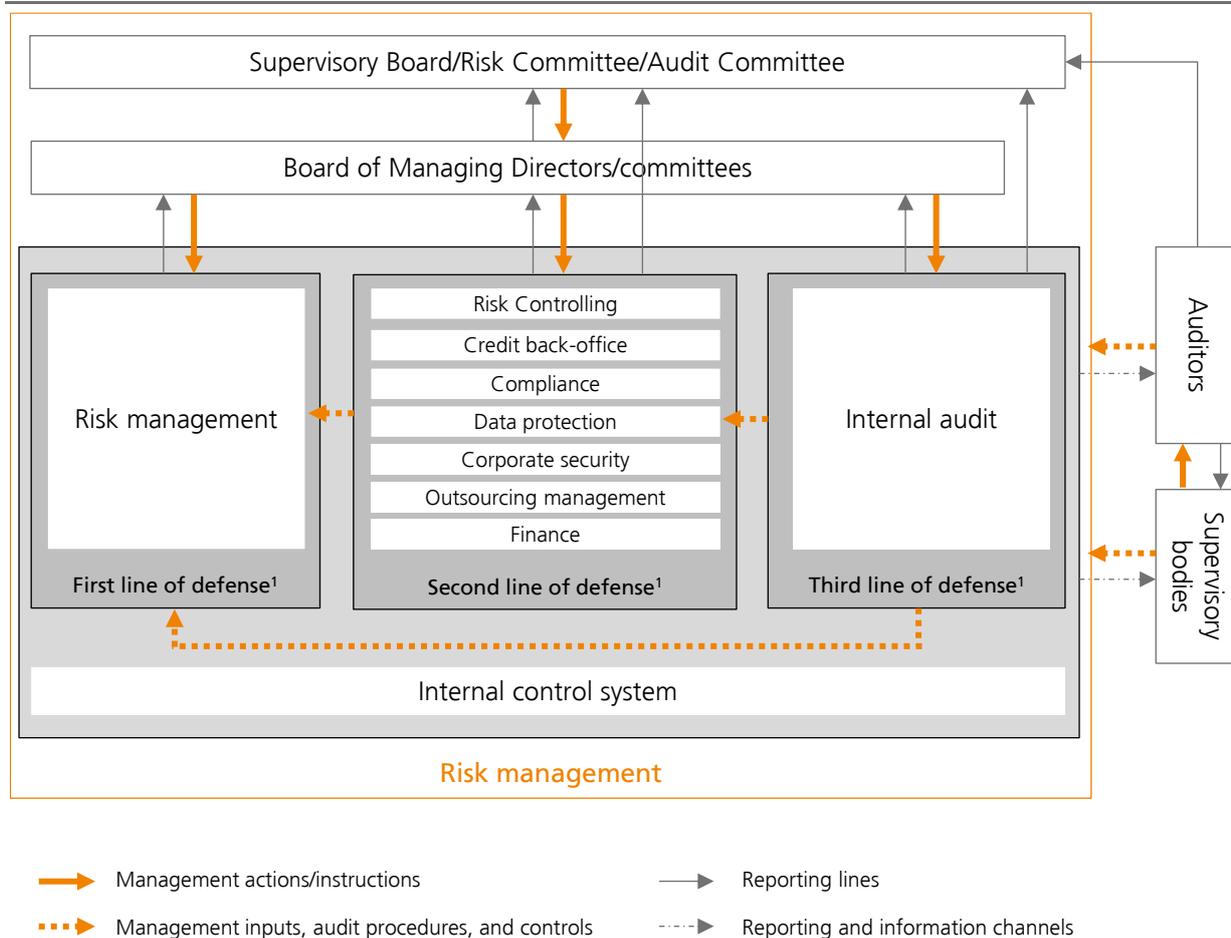
#### **Second line of defense:**

- Establishment and enhancement of a framework for risk management
- Monitoring of compliance with the framework in the first line of defense and related reporting to the Supervisory Board and Board of Managing Directors
- Second vote in credit decisions as defined in MaRisk BA and other specific legal requirements, such as KAMaRisk
- Development and monitoring of principles for compliance with data protection requirements and structuring and monitoring of corporate security and external procurement management (referred to as outsourcing management at the level of the DZ BANK Group). These rules do not limit the data protection officers' freedom to operate independently.
- The tasks listed are primarily carried out by the Group Risk Controlling, Group Risk Control & Services, Credit, Compliance, Group Finance, and Group Financial Services divisions. They are also part of the remit of the Group IT Governance department.
- The Group Risk Controlling, Group Risk Control & Services, and Credit divisions together form the risk management function.

#### **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
- Communication with external control functions
- Tasks in the third line of defense are primarily carried out by Group Audit.

FIG. VII.6 – GOVERNANCE STRUCTURE OF RISK MANAGEMENT IN THE DZ BANK GROUP



<sup>1</sup> The names reflect corporate functions; they are not necessarily identical to the names of these functions in the organizational structure.

Independent auditors, together with 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.

Risk management is an integral component of governance and is therefore taken into account in the general management approach, in the management of subsidiaries via appointments to key posts, and in the DZ BANK Group’s committees. The governance of the DZ BANK Group is described in chapter I.2.2 in ‘DZ BANK Group fundamentals’.

### 3.4.2 Risk management

Risk management refers to the operational **implementation of the risk strategies** 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. 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.

### 3.4.3 Risk control

The Group Risk Controlling and Group Risk Control & Services divisions, which form DZ BANK’s central risk control function, are 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. The risk control function lays down the fundamental requirements for the risk measurement methods to be used throughout the group and coordinates implementation with the risk control functions in the other management units. This structure is designed to ensure that risk is managed consistently throughout the group. DZ BANK's risk control function also draws up groupwide rules for the credit risk processes.

Both at DZ BANK and in the other management units, the risk control function is responsible for the transparency of risks assumed and aims to ensure that all risk measurement methods used are up to date. In cooperation with the other management units, the risk control function at DZ BANK therefore prepares groupwide **risk reports** covering all material types of risk. The risk reports are compiled for the Supervisory Board and the Board of Managing Directors and for the other management units.

The risk control units in the management units **monitor** compliance with the limits defined for the minimum liquidity surplus and with the entity-related limits that have been set based on the risk capital allocated by DZ BANK.

#### 3.4.4 Credit back-office division

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

#### 3.4.5 Compliance

##### Compliance function

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 with 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, the entities in the DZ BANK Group, and their employees against breaches of legal provisions and requirements. The compliance function is also responsible for mitigating risks arising from non-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), there is a single compliance framework for the material entities in the DZ BANK Group. This framework lays down rules on cooperation between the individual compliance functions and sets out their authority and responsibilities. The compliance framework comprises the compliance policy of the DZ BANK Group and compliance standards.

The compliance policy sets out 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. Special circumstances may arise because R+V is subject to different legal and regulatory requirements. The DZ BANK Group's compliance framework is reviewed annually and on an ad hoc basis to check that it is up to date.

Further disclosures relating to compliance risk can be found in chapters VII.14.5.1 and VII.20.3.1.

#### Code of conduct

The risk culture principles (see chapter VII.3.1) are mirrored in the DZ BANK Group's code of conduct. The code of conduct represents a framework for the group entities. Its content is implemented in the management units by means of internal regulations and policies that are tailored to their respective core businesses and entity-specific requirements.

The code of conduct encompasses the responsibility to stakeholders who are directly affected by the management unit concerned. These stakeholders include customers, business partners, shareholders, and employees. Compliance with social and ethical standards also forms part of the code of conduct, as do aspects of sustainability.

The subsidiaries of DZ BANK have undertaken to comply with DZ BANK's standards on preventing money laundering, the financing of terrorism, and other criminal offenses where required by law. The measures required by the German Anti-Money Laundering Act (GwG) have been put in place and implemented. They are reviewed regularly to check that they are up to date and, if necessary, amended. No corruption is tolerated, either in the entities of the DZ BANK Group or at business partners or other third parties. The DZ BANK Group implements appropriate organizational arrangements designed to ensure compliance with all applicable sanctions and embargoes.

#### 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. The data protection officers required by law have been appointed and their names have been submitted to the competent data protection authorities. Standard data protection principles have been issued within the DZ BANK Group. 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. The Data Protection Officers working group in the DZ BANK Group generally meets three times a year. The working group deals with current issues relating to data protection.

#### 3.4.6 Corporate security

The entities in the DZ BANK Group take into account the relevant regulatory requirements in the following areas of corporate security:

- Information security
- Business continuity management (contingency and crisis management)

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 aim of information security is to safeguard the confidentiality, integrity, authenticity, and availability of the data and information (information assets) used in business processes. Technical and organizational measures must be taken to adequately protect these information assets against unauthorized access, disclosure, or modification and against loss or theft.

To manage information security, the **DZ BANK Group** has established a groupwide information security management system (Group ISMS) based on ISO/IEC 27001:2013.

**DZ BANK** has implemented an information security management system (ISMS). The rules that it contains, along with the methodological framework that it provides, are also based on the ISO/IEC 27001:2013 standard. The ISMS is designed to ensure the confidentiality, integrity, availability, and authenticity of the data and information (information assets) used in DZ BANK's core processes, management processes, and support processes. 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.

Further disclosures relating to information risk, including ICT risk, can be found in chapters VII.14.5.3 and VII.20.3.2.

#### Business continuity management

A groupwide business continuity management system has been set up to implement regulatory requirements throughout the group and to mitigate security risk relating to time-critical processes. Group standards are applied to address the regulatory minimum requirements for this system, and a governance process is used to track compliance with the standards.

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 protect people, premises, and assets 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, significant parts of the buildings or IT infrastructure, or the procurement of services are affected.

At DZ BANK, time-critical business processes are identified in accordance with the rules of 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 standard.

Further disclosures relating to security risk can be found in chapters VII.14.5.4 and VII.20.3.3.

#### 3.4.7 Outsourcing management

At DZ BANK, the Central Outsourcing Management unit acts as the central point of contact for all issues relating to risk management for 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 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 sector-wide rules on 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 relating to outsourcing risk can be found in chapters VII.14.5.5 and VII.20.3.4.

#### 3.4.8 Finance

DZ BANK's **finance function** comprises the Group Finance, Bank Finance, and Group Financial Services divisions. These divisions are responsible for managing the DZ BANK Group and DZ BANK from a commercial-law,

regulatory, and business perspective. This includes, in particular, preparing the consolidated and separate financial statements and undertaking regulatory reporting.

From a regulatory perspective, the Group Finance and Group Financial Services divisions are responsible – as part of the tasks specified for risk management governance under the three-lines-of-defense model – for the complete and consistent groupwide and bank-wide preparation, reporting, management, and monitoring of the key figures required under the EU Financial Conglomerates Directive and Basel Pillar 1.

The internal management reporting process is cross-functional and used to report to the Supervisory Board, the Board of Managing Directors, and the subsidiaries. The finance function provides and enhances the requisite IT systems to ensure that it can receive the data it needs. Commercial-law and regulatory matters are handled with the assistance of dedicated organizational units.

The aforementioned tasks are carried out by the finance or risk control functions in the subsidiaries.

### 3.4.9 Control functions

#### Internal audit

The internal audit departments of the management units are responsible for control and monitoring tasks. Independently of individual processes and with a focus on risk, they review and assess compliance with statutory and regulatory requirements and the effectiveness and appropriateness of risk management in general and the internal control system in particular. They also check that all activities and processes are carried out properly, regardless of whether they are outsourced or not. The internal audit departments also ensure that problems identified in audit findings are rectified.

The internal audit departments at the entities in the DZ BANK Group report to the chief executive officer or other senior managers of the entity concerned.

DZ BANK's internal audit department is responsible for internal audit tasks at group level. These tasks include, in particular, the design and 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 general parameters, the operational details of which are set out in a separate group audit manual. DZ BANK's internal audit department also carries out audit activities for selected subsidiaries under service agreements.

#### Supervisory Board

The Board of Managing Directors reports in detail to the Supervisory Board of DZ BANK once a year about the updating of the risk strategies and the status and further development of the risk management system of DZ BANK and the DZ BANK Group. Using the overall risk report, the Board of Managing Directors reports to the Supervisory Board about the risk situation four times a year. At the same intervals, the Board of Managing Directors also reports portfolio-specific and exposure-specific management information and reports on the credit portfolio using the credit risk report. The Supervisory Board is also regularly informed about significant investment exposures. 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. In addition, the Audit Committee regularly examines the effectiveness of the internal control system, risk management system, and internal audit. It passes on important information to the other Supervisory Board members in the Audit Committee Chairman's reports at Supervisory Board meetings and by distributing the minutes from Audit Committee meetings to the other Supervisory Board members.

#### 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, an audit of the Solvency II balance sheet is carried out pursuant to section 35 (2) VAG and an audit of the early-warning system for monitoring risks that may jeopardize the ability to continue as a going concern, 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 **supervisory authorities**, particularly the banking and insurance supervisory authorities, also conduct risk-based audits.

#### 3.4.10 General internal control system

The objective of the internal control systems operated in the entities of the DZ BANK Group is to ensure the effectiveness and efficiency of business activity and compliance with the relevant legal provisions by means of suitable basic principles, action plans, and procedures.

**DZ BANK** has a bank-wide internal control system that is able to adapt to changing business and operating environments. The methodology of this control system is based on the Internal Control – Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a comprehensive and internationally accepted framework for the appropriate design of internal control systems.

As part of the control system, regular updates and assessments are carried out in respect of the internal controls for reducing material risk in the business processes documented in the written set of procedural rules. The outcome of the assessments provides a statement on the appropriateness and effectiveness of the bank-wide internal control system for the Board of Managing Directors and Supervisory Board. The organizational and technical measures integrated into DZ BANK's operational and organizational structure are the starting point for the design of the controls.

The internal control system for the (consolidated) financial reporting process, which is described in chapter VII.3.4.11 below, is a sub-system of the bank-wide internal control system.

#### 3.4.11 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 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, the entities in the DZ BANK Group 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 with DZ BANK's Group Finance division, 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 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 for minimizing risk

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. DZ BANK implements the relevant controls and checks in respect of data quality and compliance with the DZ BANK Group rules.

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 subsidiaries. These plans set out the procedures for collating and generating the quantitative and qualitative information required for the preparation of statutory financial reports. The plans also apply to the financial reports prepared for DZ BANK.

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 IT security principles in the 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 of the 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 in the entities of 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.

### 3.5 Risk management tools

#### 3.5.1 Accounting basis for risk management

##### Accounting basis for risk measurement

The transaction data that is used to prepare the DZ BANK Group's consolidated financial statements forms the basis for the measurement of risk in the Bank sector and Insurance sector. Similarly, the transaction data used by the entities in the DZ BANK Group to prepare separate financial statements and subgroup financial statements is also used for the measurement of risk in the management units. 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 risk report.

The line items in the consolidated financial statements significant to risk measurement are shown in Fig. VII.7. 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 chapter VII.8.6.2.

The investments used for the purposes of measuring **equity investment risk** are the following items reported in note 54 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 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 issuer and 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 62 and 63 of the notes to the consolidated financial statements.

Insurance contract 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 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 in the Bank sector**, **business risk** (Bank sector), and **reputational risk** (Bank sector and Insurance sector) are measured without a direct link to balance sheet line items reported in the consolidated financial statements. On the other hand, **operational risk in the Insurance sector** is based on insurance contract liabilities.

The calculation of **liquidity risk** is derived from future cash flows, which in general terms are determined from all of the on-balance-sheet and off-balance-sheet items in the consolidated financial statements.

#### Accounting basis for risk coverage

The link between the counterbalancing capacity, which is used to determine economic liquidity adequacy, and the consolidated balance sheet is described in chapter VII.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 chapter VII.7.2.1.

### 3.5.2 Risk measurement

#### 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). This involves dovetailing between the economic and normative perspectives within the ILAAP and ICAAP.

FIG. VII.7 – RISK-BEARING LINE ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS<sup>1</sup>

| Consolidated financial statements   | 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 | Equity risk | Fund price risk | Currency risk | Commodity risk | Spread risk and migration | Asset-management risk | 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 | Operational risk |
|   |                         |             |                  |                        |                    |             |                 |               |                |                           |                       |   |      |             |          |                    |             |             |               |                  |                           |                  |
| 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                                     |                         |             |                  |                        |                    |             |                 |               |                |                           |                       |   |      |             | •        | •                  | •           | •           | •             | •                | •                         |                  |
| Property, plant and equipment, investment property, and right-of-use assets |                         |             |                  | •                      |                    |             |                 |               |                |                           |                       |   |      |             |          |                    |             |             |               |                  |                           |                  |
| Other assets  | •                       |             | •                |                        |                    |             |                 |               |                |                           |                       | •   | •    | •           |          |                    |             |             |               |                  | •                         |                  |
| Financial guarantee contracts and loan commitments                          | •                       |             |                  |                        | •                  |             |                 |               | •              |                           |                       |   |      |             |          |                    |             |             |               |                  |                           |                  |
| Deposits from banks   |                         |             |                  |                        | •                  |             |                 |               | •              |                           | •                     |   |      |             |          |                    |             |             |               |                  |                           |                  |
| Deposits from customers   |                         |             |                  |                        | •                  |             |                 |               | •              |                           | •                     |   |      |             |          |                    |             |             |               |                  |                           |                  |
| Debt certificates issued including bonds                                    |                         |             |                  |                        | •                  | •           | •               | •             |                |                           |                       |   |      |             |          |                    |             |             |               |                  |                           |                  |
| Derivatives used for hedging (negative fair values)                         |                         |             | •                |                        | •                  | •           | •               | •             | •              | •                         | •                     |   |      |             |          |                    |             |             |               |                  |                           |                  |
| Financial liabilities held for trading                                      |                         |             | •                |                        | •                  | •           | •               | •             | •              | •                         | •                     |   |      |             |          |                    |             |             |               |                  |                           |                  |
| Insurance contract liabilities  |                         |             |                  |                        |                    |             |                 |               |                |                           |                       | •   | •    | •           | •        |                    |             |             |               |                  | •                         |                  |

<sup>1</sup> The details for liquidity risk are not provided here for reasons of clarity as liquidity risk is generally determined on the basis of all line items in the consolidated financial statements.

A distinction is also made between **economic and normative liquidity adequacy and between economic and normative 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**. There is no capital requirement in connection with 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).

R+V (Insurance sector) is not material with regard to liquidity risk in the DZ BANK Group. This is because liquidity is typically tied up in liabilities with maturities of five years or more in insurance business.

#### Economic capital adequacy

In the **Bank sector**, the **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 confidence level of 99.9 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.

#### Normative perspective

The normative perspective is a forward-looking multi-year analysis of regulatory KPIs for liquidity adequacy and capital adequacy that are used to manage the DZ BANK banking group and its entities. It comprises the following management dimensions: monitoring of the actual figures for regulatory KPIs, liquidity planning, funding planning, capital planning, and adverse stress tests.

#### 3.5.3 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. They also help to identify and quantify specific risks and potential risk concentrations in the DZ BANK Group or in individual portfolios and to assess risk factors, vulnerabilities, and threats.

The stress tests include scenarios for the purposes of liquidity management, capital planning, and internal capital and risk management. Stress tests are also carried out as part of bank recovery and resolution planning. Furthermore, the DZ BANK Group takes part in supervisory stress tests organized by the EBA and ECB. The outcome of the stress tests provides guidance for the management of risk, business planning, and decisions on liquidity measures or corporate action.

#### 3.5.4 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 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 the risk capital requirement measured with an economic model, volume limits are applied additionally in lending and

trading transactions to limit credit risk. Risk management is also supported by the setting of limits for relevant key performance indicators.

### 3.5.5 Hedging objectives and hedging transactions

**Hedging activities** can be undertaken where appropriate in order to transfer 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. 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 uses derivatives to hedge **interest-rate risk**. It uses micro hedges between securities in the liquidity reserve and derivatives used for hedging in order to account for economic hedging in accordance with the provisions of section 254 HGB. Internal hedging instruments are included by means of the deputization principle.

### 3.5.6 Risk reporting and risk manual

The quarterly **overall risk report** includes the risks throughout the group identified by DZ BANK. Together with the **DZ BANK Group stress tests report**, which is also compiled on a quarterly basis, the overall risk report is the main channel through which risks incurred by the DZ BANK Group and the management units are communicated to the Supervisory Board's Risk Committee, the Board of Managing Directors, and the Group Risk and Finance Committee. Economic and regulatory key risk indicators are also 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**. The Board of Managing Directors also receives monthly information on **liquidity risk** in the DZ BANK Group and in the management units.

To complement the above, the management units 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 material subsidiaries also have their own risk manuals covering special aspects of risk related specifically to these management units. R+V has Solvency II guidelines.

### 3.5.7 Risk inventory check and appropriateness test

Every year, DZ BANK conducts a **risk inventory check**, 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 aim is to check 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 check 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 material subsidiaries.

### 3.6 Management of risk concentrations

Based on an analysis of portfolios, the sector-specific and cross-sectoral identification 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, which aim to provide a holistic view across all types of risk.

Standard processes are in place to manage **sector-specific risk concentrations**. Those processes are presented in the risk-type-specific chapters of this risk report. In the event of major, extraordinary events occurring in **cross-sectoral risk concentrations**, necessary management measures are initiated, coordinated, and monitored, for example by task forces made up of representatives from the risk management and risk control teams in the affected management units. The Board of Managing Directors is notified of such cases on an ad hoc basis. To support the cross-sectoral identification and management of risk, the members of the Board of Managing Directors of DZ BANK hold seats on the Supervisory Boards of its subsidiaries.

### 3.7 Recovery and resolution planning

In the reporting year, DZ BANK updated its **group recovery plan** for the DZ BANK Group in accordance with the requirements specified by banking supervisors and submitted it to the ECB. 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) 2016/1075, various EBA guidelines, and the German Regulation on Minimum Requirements for the Design of Recovery Plans (MaSanV). The recovery plan is closely linked to the risk appetite statement of the DZ BANK Group as it uses the same KPIs. R+V prepares a hypothetical recovery plan in accordance with section 26 (1) VAG in conjunction with section 275 (1) VAG. **R+V's recovery plan** was voluntarily updated in 2023.

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 (this is BaFin in Germany).

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, DZ BANK supported the ongoing preparation of the resolution plan for the DZ BANK Group in 2023. It supplied the resolution authority with numerous analyses related to DZ BANK and completed standardized questionnaires.

## 4 General risk factors

The entities in the DZ BANK Group are exposed to a range of risk factors that affect multiple risk types. These general risk factors are presented below.

### 4.1 Regulatory risk factors

DZ BANK and its subsidiaries are exposed to changes in the regulatory environment. This applies especially to regulation of the financial services sector, which is subject to rapid change. The term 'regulation' refers to all aspects of intervention in the financial services industry involving the imposition of rules. Regulation may involve standards related to supervisory law, commercial law, capital markets law, company law, or tax law. Changes in the regulatory environment could have a negative impact on the business activities of DZ BANK and its subsidiaries.

#### 4.1.1 Regulatory capital buffers

BaFin decided to introduce a sectoral systemic risk buffer of 2.0 percent of risk-weighted assets for domestic loans secured by residential real estate and to raise the countercyclical capital buffer rate for Germany from 0.0 percent to 0.75 percent. Since February 1, 2023, these two capital buffers are to be met entirely from common equity Tier 1 capital and result in higher minimum requirements for the common equity Tier 1 capital ratio, Tier 1 capital ratio, and total capital ratio.

All credit institutions in the Bank sector are affected by the countercyclical capital buffer. The sectoral systemic risk buffer affects DZ BANK, BSH, and DZ HYP. The two capital buffers also apply at the level of the DZ BANK banking group.

As at December 31, 2023, BaFin ordered the capital buffer for systemic risk of 4.5 percent enacted in Norway to be applied to exposures located in Norway. Accordingly, institutions must apply the systemic risk buffer if their risk-weighted exposures in Norway exceed NOK 5.0 billion (approximately €435 million). As at December 31, 2023, the risk-weighted exposures of the DZ BANK banking group and DZ BANK did not reach the threshold and the systemic risk buffer for exposures located in Norway has therefore not been applied to date.

There is a risk that, in the face of higher minimum requirements, it is not possible to obtain the necessary additional own funds needed to comply with the stricter requirements, it is possible to obtain them only at increased cost, or existing risk-weighted assets have to be scaled back. This could reduce profitability and limit the flexibility enjoyed by the management units in the Bank sector and by the DZ BANK Group as a whole in the operation of their business. However, this would only be the case if the capital ratios measured in the future were significantly lower than at present. This scenario is not currently foreseeable.

#### 4.1.2 Switch in interest-rate benchmarks

The publication of US dollar Libor was discontinued by the administrator with effect from June 30, 2023. For the 1-month, 3-month, and 6-month tenors, a non-representative 'synthetic US dollar Libor' will be published until September 30, 2024, which can be used on an interim basis for existing business that is difficult to amend ('tough legacy').

Most of the outstanding transactions and contracts referencing US dollar Libor as well as measurement and risk calculation methods have been amended by DZ BANK as planned and in keeping with relevant deadlines so that they use SOFR-based interest rates and yield curves instead. Certain individual contracts were switched over after June 30, 2023 but before the end of the current interest period in which the interest rate is still based on US dollar Libor, or alternatively with the help of the synthetic US dollar Libor.

These steps were implemented in 2023, thereby completing the replacement of US dollar Libor at DZ BANK. Risks associated with this process will therefore no longer apply to the DZ BANK Group going forward. Further information on the switch in interest-rate benchmarks is contained in note 85 of the notes to the consolidated financial statements.

## 4.2 Macroeconomic risk factors

### 4.2.1 Geopolitical tensions and resulting trade friction

Some regions of the world are experiencing conflict that extends beyond their borders and is resulting in tensions between superpowers. It is impossible to rule out adverse financial effects on the real economy in the European Union (EU) including Germany.

The political implications of the war between **Israel and the terrorist organization Hamas** are much more far-reaching than previous disputes between the two sides. The biggest military, and economic, risk lies in Iran entering the war. That would pit the region's two largest armies against each other, and Israel's close ally, the USA, would in theory be prepared to intervene militarily if necessary. This would have serious consequences for the global economy. Major bottlenecks would be expected in the supply of crude oil and liquefied petroleum gas, which could send global market prices soaring and push up inflation again.

The economic impact of the **war in Ukraine** can be felt globally. Russia's invasion of Ukraine triggered the biggest commodity price shock since 1973 and caused one of the most serious interruptions to wheat supply in a century.

Attention has recently shifted back to the dispute between **China and Taiwan**, in which Taiwan believes it is at constant risk of invasion. The US reiterated its security guarantees for Taiwan in response to a more aggressive stance from the Chinese government and a series of military maneuvers. As China does not recognize Taiwan's independence, this dispute is likely to continue fueling tensions between China and the US. However, it is difficult to gauge China's willingness to escalate the dispute. There is also potential for conflict with other neighboring countries due to China's territorial claims in the South China Sea.

In addition, the protracted dispute on the **Korean peninsula** flares up repeatedly due to North Korea's nuclear weapons program and its many military provocations. Any escalation would directly affect the interests of the superpowers China and the US and could widen into a conflict with global consequences.

The aforementioned geopolitical tensions can **adversely affect global trade**. In addition to the effects of disrupted supply chains described in chapter V.1 of the outlook, there is a risk of a renewed escalation of trade disputes between the US, China, and the EU. This could have negative consequences for the global economy, and for the export-dependent German economy in particular. The sanctions imposed on Russia by western countries in response to the war in Ukraine create further potential for tension between the EU and the US on the one hand and, on the other, countries that either fail to implement these sanctions or only partially impose them, for example China. For companies in Germany, restrictions on global trade could lead to higher import prices and a shortage of input products, and conversely, cause a decline in exports.

The geopolitical tensions particularly affect **credit risk** and **equity investment risk** in the Bank sector and **market risk** in the Insurance sector.

#### 4.2.2 Global economic downturn

In the last few months of 2023, the **Chinese economy** in particular struggled with the weakness in the global environment. Its exports fell sharply year on year, with exports to the US taking an especially big hit. However, that was not just due to weak demand but also because the US has already begun to progressively reduce its reliance on Chinese imports. China's homegrown problems also hampered growth. The Chinese real estate market has been in crisis for a couple of years and investment in housing construction continues to slide. But demand for housing is also not there as there has been a deep loss of confidence among China's population, which has increased its propensity to save. This is not only evident in the real estate market, it is also a key reason why the initial recovery from the COVID-19 pandemic dissipated so quickly and the Chinese economy is now experiencing a period of deflation.

The comparatively high level of stability of the **US economy** is attributable to vast government support programs. The annual US budget deficit is currently running at 7 percent of GDP. Because Congress will not tackle the problem in 2024, which is an election year, the high level of indebtedness is expected to persist. The potential re-election of Donald Trump would probably lead to more tax cuts and thus push up debt even further. A second term of office for Trump would also likely exacerbate existing trade disputes, with negative implications for Germany's export-driven economy. If debt levels remain high in the US, the interest burden could grow and damage market confidence in the long term. This would, in turn, see capital spending fall, dampen market activity, and ultimately bring about a recession in the US. A weakening of the US economy would have far-reaching consequences for the world economy as the US plays a key role in global trade and is an important sales market for many countries. If US demand falls and economic uncertainty rises, other countries could also be impacted by lower exports and economic headwinds, potentially triggering a global recession.

A global recession would in particular affect **credit risk** and **equity investment risk** in the Bank sector and **market risk** in the Insurance sector.

#### 4.2.3 Economic policy divergence in the eurozone

The ongoing **fiscal problems** in Spain, Italy, and Portugal have produced high levels of debt and mounting interest burdens. This is weighing on these countries' budgets and limiting the financial headroom for capital investment and public spending.

The outlook is particularly negative for **Italy**. The return to rising interest rates has pushed up Italy's funding costs substantially. A reduction in the ECB's bond purchases or the absence of progress with bringing down government debt could make it much more difficult for Italy and its banks to access the capital markets.

In the last few years, the **expansionary monetary policy of the ECB**, and particularly its buying programs in various bond segments, largely prevented the structural problems in some European Monetary Union (EMU) member countries from being reflected in the capital markets. This may change as a result of the tightening of monetary policy and the expiry of the pandemic emergency purchase program. The ECB has developed the transmission protection instrument so that it can intervene in the markets in order to counteract any excessive rise in risk premiums. However, if it is unable to do so, the risk premiums of more highly indebted member states could increase sharply, which would make it considerably more difficult for these countries to obtain funding through the capital markets.

The effects of economic policy divergence in the eurozone particularly impact on **market risk** in the Insurance sector.

#### 4.2.4 Economic slowdown in Germany

In 2023, GDP in Germany fell by 0.3 percentage points compared with 2022. The **phase of weakness in the German economy**, with growth at around zero, could well continue for the time being, especially given the dampening effect of elevated interest rates.

There is also a risk that **structural problems**, such as labor shortages and persistently high energy prices, could cause inflation to rise again, and that the resulting inflation may not just be a temporary phenomenon but could remain firmly above the ECB's inflation target for an extended period. This would be particularly problematic if the higher prices, combined with the reduction in manufacturing output, made consumers reluctant to spend and wages simultaneously rose as this would result in a wage/price spiral. This could ultimately lead to a protracted period of stagflation, i.e. a combination of elevated inflation, stagnant output and demand, and rising unemployment. Moreover, the ECB's latitude for tackling inflation is probably more limited than in the past, not least because the pandemic has resulted in further increases in government debt in vulnerable eurozone countries.

Stagflation may impact on **credit risk** and **equity investment risk** in the Bank sector and on **market risk** in the Insurance sector, in particular. As at the reporting date, no stagflation-related increase in these risks was evident.

#### 4.2.5 Correction in real estate markets

The real estate markets are suffering from the jump in prices for construction work and building materials coupled with much higher interest rates. Elevated interest rates are increasing the financial burden on real estate buyers, while inflation is reducing the income that households and investors have available for repayments. Transaction activity is very muted, with moderate declines in market values.

In the commercial real estate market, project developers and property developers are especially affected by the increasing costs of construction and borrowing. With the market for property development and project development work largely at a standstill, there is heightened marketing risk for plots of land. Furthermore, uncertainty persists about the effect of economic trends and inflation and about structural changes in terms of demand for space. This uncertainty particularly affects hotel real estate, office real estate, department stores, shopping malls, and inner-city commercial properties mainly used for retail/wholesale businesses not offering day-to-day essentials.

These developments mainly relate to **credit risk** and **equity investment risk** in the Bank sector, and **market risk** in the Insurance sector.

#### 4.2.6 Unpredictable interest-rate market

##### Scenarios involving interest-rate cuts

Following **interest-rate hikes** by the Federal Reserve Board (Fed) and the ECB in the past two years, market interest rates have reached levels last seen prior to the financial crisis. Interest rates are having an effect on the rate of inflation, which fell more rapidly than anticipated by the markets at the end of 2023 due to the weak state of the economy and base effects in energy prices. With the central banks' inflation target of 2 percent moving back within reach, interest rates could fall more quickly than expected over the coming year. If interest rates are cut too quickly, there is a risk that inflationary effects, such as a wage/price spiral, may push inflation back up.

A reduction in interest rates could negatively impact on net interest income and net interest margin in the **Bank sector**. In the **Insurance sector**, a fall in interest rates would have a positive valuation effect on R+V's portfolio of interest-bearing exposures in the near term. A renewed period of low interest rates could, in the medium term, pose additional challenges for R+V in its life insurance business in respect of the guaranteed returns that it needs to generate.

##### Scenarios involving interest-rate hikes

**US public debt** rose significantly in 2023. This was accompanied by a substantial fall in demand for US government bonds from institutional investors. If this trend continues, the disparity between supply and demand will increase and lead to rising, structurally higher yields. This would exacerbate concerns about a fiscal policy crisis in the US if the budget deficit remains high, and the sustainability of US government debt levels could be

called into question. In the event of a renewed interest-rate hike in the US, it is likely that interest rates would also rise in the eurozone, which would call the sustainability of government debt levels of some European countries into question too. Unexpectedly strong **economic growth in Europe** could also lead to an interest-rate hike in the eurozone.

Higher rates of interest could lead to cash outflows in collective building society operations, thereby increasing liquidity risk. In the **Bank sector**, a further rapid rise in interest rates could heighten market risk. Fair value losses on the securities portfolios of BSH and UMH could impact on DZ BANK's capital. In the **Insurance sector**, a rise in interest rates would also result in fair value losses on investments. There would also be a risk that policyholders could increasingly allow existing life insurance contracts to lapse and that new business declines.

#### 4.3 Rating downgrades for DZ BANK

For the entities in the DZ BANK Group, their own credit rating is an important element in any comparison with competitor banks. A downgrade or even just the possibility of a downgrade in the rating for a management unit could have a detrimental effect in all entities in the DZ BANK Group on the relationship with customers and on the sale of products and services.

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 management units could face a situation in which they 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 they were no longer considered suitable **counterparties for derivative transactions** at all.

If the credit rating for a management unit were to fall out of the range covered by the top four rating categories (investment-grade ratings, disregarding rating subcategories), the operating businesses of all the entities in the DZ BANK Group 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**. The effects of downgrades of long-term ratings are discussed in the chapter covering the measurement of liquidity risk (see chapter VII.6.2.5).

The rating agencies S&P Global Ratings, Moody's, and Fitch Ratings confirmed **DZ BANK's ratings** in 2023. The outlooks for the ratings also remained stable.

## 5 ESG risks

### 5.1 Expansion of ESG risk management

ESG risks are defined as events or circumstances in the climate-related and environmental ('E'), social ('S'), or corporate governance ('G') spheres that, if they materialized, would definitely or potentially have an adverse impact on the financial position or financial performance of the DZ BANK Group and on its reputation. ESG risks are also referred to as sustainability risks.

The areas of focus include climate-related and environmental risks resulting from climate change. These risks comprise both physical risks, such as more frequent natural disasters and floods, and transition risks, which can arise particularly as a result of legislative initiatives and changes in consumer behavior. ESG risks primarily have medium- to long-term effects.

The DZ BANK Group does not classify ESG risks as a risk type in their own right. In accordance with the regulatory definitions, it instead views them as drivers of the classic financial and non-financial risk types. Economic, societal, and (geo)political events and conditions are examples of risk factors.

These ESG risk factors are analyzed as part of the **risk inventory check**. This makes it possible to assess each year which potentially material risk factors in the climate-related and environmental, social, and corporate governance spheres the DZ BANK Group is exposed to. The analysis was refined and backed up by quantitative data in 2023. Potentially material ESG risk factors affect the risk types credit risk, operational risk, and reputational risk in the Bank sector and actuarial risk and market risk in the Insurance sector.

ESG risks are **managed** centrally at the level of the DZ BANK Group and on a decentralized basis at the level of the management units. DZ BANK is currently working on implementing various regulatory requirements regarding the management of ESG risks as part of its sustainability umbrella program. The main program requirements are the Guide on climate-related and environmental risks published by the ECB, the EBA's Guidelines on loan origination and monitoring, the delegated regulation on the EU taxonomy, and the ESG disclosure requirements issued by the EBA.

Having participated in the ECB's climate stress test in 2022, DZ BANK has gradually integrated sustainability risks in its internal stress test. With the help of exploratory scenario analyses, the internal stress test examines the impact of physical and transition climate-related risks on the main types of risk affected, taking the channels of impact into account.

DZ BANK also uses an **internal classification tool** based on the 17 sustainable development goals (SDGs) of the United Nations to assess the sustainability of the lending business. The tool measures the positive and adverse SDG impacts of DZ BANK's business from an ESG perspective. This primarily relates to the traditional corporate customer lending business, in which the positive impacts outweigh the adverse impacts overall. Building on this, DZ BANK has set itself the target of ensuring that, by 2026, at least two-thirds of the volume of lending to corporate customers make a positive contribution to at least one of the sustainable development goals.

## 5.2 Climate-related and environmental risks

The significant risks in relation to the climate and environmental aspect are physical climate-related and environmental risks and transition risks.

### 5.2.1 Physical climate-related and environmental risks

The physical climate-related and environmental risks may relate to acute events, for example more frequent natural disasters such as flooding, or (chronic) negative effects attributable to long-term climate change.

Losses in the **lending business** may arise, for example, if the recoverability of collateral for loan exposures is adversely impacted by climate events. Further information on the impact on credit risk if physical climate-related and environmental risks were to materialize is provided in chapter 8.3.2.

In the Insurance sector, **non-life actuarial risk** (catastrophe risk) at R+V is the main type of risk that could be significantly affected by physical climate-related risk. Specifically, in any one year, the actual impact from the size and frequency of losses could exceed the forecast impact. Details can be found in chapters VII.16.2 and VII.16.5.

In both the Bank sector and the Insurance sector, physical climate-related risk could also give rise to **operational risk**, for example in connection with the non-availability of buildings or IT systems due to weather or environmental events. This type of security risk is described for the Bank sector in chapter VII.14.5.4 and for the Insurance sector in chapter VII.20.3.3.

### 5.2.2 Transition risks

Transition risks are a major risk factor. They may occur in connection with the switch to a lower-carbon and more environmentally friendly economy, particularly if business partners in industries with particular relevance to climate change do not transition to the necessary extent or with the necessary speed. The causes of transition risk include political conditions and transformation targets, changes to legislation, changes in consumer preferences, and the accompanying technological shift.

The transition to a low-emission economy is resulting in a changed business and regulatory environment that creates risks for the real economy and could have a negative impact on the financial system and on banks. As a result, climate-related transition risks have a substantial impact on the DZ BANK Group's customers and, in turn, have an indirect impact on the DZ BANK Group too. The medium-term nature of these effects means that they are particularly relevant to the lending business. Furthermore, negative effects from transition risks on the reputation of the DZ BANK Group and DZ BANK cannot be ruled out.

Transition risks are relevant to **credit risk** in the Bank sector (see chapter VII.8.3.2), to **market risk** in the Insurance sector (see chapter VII.17.3.3), and to **reputational risk** (see chapter VII.13.3) and **operational risk** in both sectors.

As a result of transition effects, there is a risk in the **lending business** that the earnings power of corporate finance borrowers could diminish. These effects could lead to a deterioration of the borrowers' credit quality and thus to higher impairment losses. Further information on the significance of climate-related and environmental risks is provided in chapter VII.8.3.2.

### 5.3 Social risks and corporate governance risks

**Social risks** could arise due to inadequate standards for upholding DZ BANK Group employees' **basic rights** and for **protecting them against discrimination** or due to inappropriate **customer practices**. If social risks materialize, employees may bring financial claims against entities in the DZ BANK Group or employees may leave who are particularly crucial to the success of the business. Ineffective or disruptive **business processes** may also lead to the loss of key employees. Other potential sources of social risk are unfair, opaque, or improper business practices in respect of customers, especially if these lead to changes in customer behavior or in demand.

Social risk may also have a financial impact in the long term with regard to borrowers and business partners. At individual loan level, social risk in DZ BANK's lending business is assessed as part of the **lending processes**. For example, it is prohibited to maintain business relationships with customers if significant breaches of human rights in their business practices cannot be ruled out.

Potential causes of **corporate governance risks** include **governance structures** that are inadequate or lack transparency. Another possibility is if an entity has an inadequate **code of conduct** or does not have one at all. These shortcomings may weaken employees' confidence in the effectiveness of the entity's senior management and lead to ineffective business processes. A lack of, or only inadequate, measures to tackle **money laundering** and all forms of **corruption** (acceptance of advantages, granting of advantages, active bribery, and passive bribery) constitute further forms of corporate governance risk. They may damage the DZ BANK Group entities' reputation among employees, customers, and business partners.

Corporate governance risks can also arise for **borrowers and business partners** if there are indications that the company in question is not being run in an orderly fashion. The relevant factors include suspected corruption, tax evasion proceedings, and ongoing antitrust proceedings. Similarly to social risk, the risk here lies in the effects of possible judicial proceedings and in a potential drop in revenue as a result of declining demand. The lending process is designed to ensure that transactions with customers that do not satisfy the minimum corporate governance requirements defined by the DZ BANK Group are prohibited. Checks for critical corporate governance aspects, such as in the anti-corruption and competition/tax categories, are conducted and evaluated in a standardized manner.

Social and corporate governance risks alike may have negative effects on the **reputation** of individual entities in the DZ BANK Group or on the DZ BANK Group as a whole.

### 5.4 Management of ESG risks in the loan origination and monitoring process

ESG risks may adversely impact on – and compound – reputational risk, credit risk, and other risk types. The section below explains how ESG risks are taken into consideration in credit risk processes.

The DZ BANK Group has developed sector-specific, groupwide exclusion criteria for **lending activities** in order to prohibit lending that does not satisfy the minimum ESG requirements or entails a greater reputational risk for the DZ BANK Group. Among the excluded industries are arms trading, arms production (mines, anti-personnel mines, depleted uranium munitions, cluster bombs, and nuclear, biological, and chemical weapons), the sex industry (pornography, prostitution), and controversial gambling. Moreover, project funding for new coal-fired power plants cannot be provided. In addition, it is prohibited to enter into business relationships with customers if significant breaches of human rights or significant breaches of environmental standards in their business practices cannot be ruled out.

DZ BANK applies further sector-specific requirements – **sector criteria** – for certain industries that are particularly vulnerable from a sustainability perspective. These criteria specify the details to be reviewed with reference to international industry-specific conventions, recognized standards and certification, and optimum production processes.

The **ad hoc exclusion criteria committee** supports DZ BANK in the interpretation of exclusion criteria and sector criteria in its lending decisions. Its members are points of contact for the Credit, Corporate Banking, Structured Finance, and Strategy & Group Development divisions and meet weekly.

At DZ BANK, loan applications are systematically assessed against relevant sustainability criteria as part of the credit check process. Factors of relevance to the financing arrangement in question are assessed in relation to social, ethical, and environmental risks using the **ESG checklist**, which is based on the ten principles of the UN Global Compact. The ESG checklist helps to gauge the sustainability efforts of a customer or project and determines the reputational impact on DZ BANK. It also enables possible negative environmental impacts (such as air pollution and water shortages), including on biodiversity, to be identified and mitigated. Various asset-specific ESG checklists exist for corporates, project finance (aligned or not with the Equator Principles), finance companies, and countries. The Equator Principles are a voluntary set of guidelines adopted by banks to ensure compliance with environmental and social standards in project finance.

In addition to gauging the ESG-related reputational impact on DZ BANK, the processes for the extension and monitoring of loans also involve assessing the effects of ESG aspects on customers' credit risk. DZ BANK has used the **ESG credit risk score** for this purpose since October 2023. This score supplements the credit rating for corporate customers by providing an additional relative statement on creditworthiness with respect to ESG risks. The ESG credit risk score encompasses transition and physical environmental risks, social risks, and corporate governance risks, providing a separate subscore for each risk type.

The findings from application of the ESG tools (check against the exclusion criteria and sector criteria, ESG checklist, ESG credit risk score) are factored to varying degrees into the separate **ESG vote** within the loan application process. The aim is to provide decision-makers with an overview of the customer's ESG aspects so that they can be taken into account in the lending decision.

The management of ESG-related risks in **R+V's** investment process is described in chapter VII. 17.3.3.

## 6 Liquidity adequacy

### 6.1 Strategy

The management of liquidity adequacy is an integral component of business management in the DZ BANK Group and the management units. 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 normative (regulatory) perspective. Whereas the economic perspective takes into account the requirements of the ECB Guide to the ILAAP and MaRisk BA, the normative perspective – while also taking account of the ECB

Guide to the ILAAP – additionally applies the requirements from the CRR and the German national requirements for the implementation of the Capital Requirements Directive (CRD) in 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. 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. 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. Liquidity risk at DZ BANK to a large degree determines liquidity risk in the DZ BANK Group.

### 6.2.1 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.

### 6.2.2 Business background and risk strategy

The activities of DZ BANK and the management units BSH, DZ HYP, DZ PRIVATBANK, TeamBank, VR Smart Finanz, and the liquidity subgroup consisting of DZ BANK and DZ HYP (due to the liquidity waiver) are relevant to the level of liquidity risk in the DZ BANK Group.

Specifying and monitoring risk appetite for liquidity risk are key aspects of the liquidity risk strategy, which aims to establish a binding basis for implementing these specifications at operational level.

The operations of the entities in the DZ BANK Group are governed by the principle that liquidity risk must only be assumed if it is in compliance 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 by the key figures and internal threshold values in the risk appetite statement and by the stress scenarios defined for risk measurement in the economic perspective within the ILAAP. The stress 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 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 (**follow-up funding risk**).
- Derivatives result in greater collateral requirements that involve cash outflows (**collateral risk**).
- Changes in the fair value of financial instruments mean that less liquidity can be generated (**fair value risk**).
- Cash is paid out earlier than expected because drawing rights are exercised (**drawdown risk**).
- Cash outflows are earlier than expected or cash inflows later than expected because termination rights are exercised (**termination risk**).
- New business is entered into on a significant scale, resulting in cash outflows (**new business risk**).
- Products are repurchased on a significant scale, resulting in cash outflows (**repurchase risk**).
- The liquidity requirement to ensure intraday payment obligations can be satisfied is greater than expected (**intraday risk**).
- There has been a negative impact on opportunities for funding in foreign currencies, for example the generation of currency-related liquidity through currency swaps (**foreign currency funding risk**).

These and other events are incorporated into the calculation of liquidity risk as **stress scenarios** (see chapter VII.6.2.5).

### 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 **Asset/Liability Committee**.

**Liquidity risk control** in the DZ BANK Group is coordinated by the Group Risk Control 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 intragroup 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 by liquidity risk control at DZ BANK on a daily basis to the **members of the Board of Managing Directors** of DZ BANK responsible for the Group Treasury and Group Risk Controlling divisions. 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 **Group Risk and Finance Committee** receives a quarterly report on the liquidity risk of the DZ BANK Group and the individual management units. 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 in the unsecured money markets. This is reported to the **Asset/Liability Committee** and the **Board of Managing Directors** on a monthly basis. These reports make a distinction between customers and banks, ensuring 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 for the DZ BANK Group and DZ BANK over a time horizon of 1 year. Using this model, four stress scenarios and one risk scenario are simulated on a daily basis. In addition to DZ BANK, all other entities in the DZ BANK Group that are material in terms of liquidity risk are integrated into the groupwide measurement of this risk.

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 financial year. 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.

DZ BANK's internal liquidity risk model is validated using an **appropriateness test** independently of the organizational unit responsible for developing the model. Furthermore, the model is adjusted in line with changes in the market, products, and processes. Validation is carried out for each entity in the DZ BANK Group and aggregated at group level.

### Liquidity risk stress tests

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 are defined as follows:

- **Downgrading:** Long-term ratings awarded by Standard & Poor's, Moody's, and Fitch Ratings to one or more entities in the DZ BANK Group downgraded by one notch. The downgrade is triggered by a deterioration in profitability or in the earnings forecast or by a preceding loss of confidence among customers and banks.
- **Corporate crisis:** Serious entity-specific crisis, for example caused by reputational damage. The main consequences of this scenario could be a considerable negative impact on customer behavior and the downgrading by three notches of the long-term ratings awarded by all of the aforementioned rating agencies.
- **Market crisis:** Turmoil in global money and capital markets. The primary feature of this scenario is a sudden, sharp fall in the value of assets traded in these markets. The scenario assumes, for example, a loss of confidence among money market players, which could lead to a liquidity squeeze.
- **Combination crisis:** Analysis of a combination of bank-specific and market-related factors. However, it does not constitute a mere aggregation of the two stress scenarios arising from a market crisis and a corporate crisis. Instead, the interaction between the two scenarios is taken into account. The combination crisis assumes that the financial sector would be particularly badly affected. The underlying scenario is also based on a deterioration in the reputation of the entities in the DZ BANK Group. It assumes there would only be very limited access to unsecured funding from customers, banks, and institutional investors over the forecast period of 1 year.

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.

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. In addition, **adverse stress tests** are carried out to provide a forward-looking assessment of liquidity risk. They involve analyzing whether the DZ BANK Group would be able to ensure an adequate level of liquidity even in the event of exceptional, but plausible, developments over a medium-term horizon. The adverse stress test scenarios underlying this forecast are also used in ICAAP stress testing.

#### 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 has set, at the level of the **DZ BANK Group**, a limit for liquidity risk (€1.0 billion; December 31, 2022: €1.0 billion) and an internal observation threshold (€5.0 billion; December 31, 2022: €4.0 billion) that is higher than the limit.

The Board of Managing Directors has also specified a limit for each management unit. The limit for both **DZ BANK** and the **liquidity subgroup** was €0.86 billion as at December 31, 2023 (December 31, 2022: €0.7 billion). As at January 1, 2023, an internal observation threshold of €1.86 billion was set for both of them for the first time.

The limits and the observation thresholds 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 treasury units of the subsidiaries. Active liquidity risk management is made possible by holding 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 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 for all significant products. The transfer pricing system takes into account the holding period and market liquidity of the products and has an impact on risk/return management.

### 6.2.6 Quantitative variables in liquidity risk

#### Liquid securities

The available liquid securities have a significant influence on the level of the minimum liquidity surplus. Liquid securities are a component of the **counterbalancing capacity** and are largely held in the portfolios managed by DZ BANK's Group Treasury and Capital Markets Trading divisions or in the portfolios of the treasury units at the subsidiaries of DZ BANK. Only bearer bonds are counted 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 as liquid securities if 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.

Liquid securities represent a large proportion of the counterbalancing capacity and make a major contribution to maintaining solvency 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 are almost exclusively responsible for maintaining solvency in the stress scenarios with defined limits.

Fig. VII.8 shows the liquidity value of the liquid securities that would result from secured funding or if the securities were sold.

As at December 31, 2023, the total liquidity value at the level of the **DZ BANK Group** was €37.3 billion (December 31, 2022: €35.4 billion). The total liquidity value attributable to **DZ BANK** as at December 31, 2023 was €26.9 billion (December 31, 2022: €26.6 billion). The increase in liquid securities eligible as collateral for central bank loans mainly resulted from early repayment of targeted longer-term refinancing operations (TLTRO), which led to a substantial reduction in the volume of pledged collateral. The decline in liquid securities eligible for GC Pooling resulted from a reduction in reverse repo transactions.

#### Unsecured short- and medium-term funding

Other than liquid securities, the main factors determining the minimum liquidity surplus are the availability and composition of the sources of funding.

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 **local cooperative banks**. Under these arrangements, the cooperative banks can invest excess liquidity with DZ BANK at any time. Conversely, if the cooperative banks need liquidity, they can obtain it from DZ BANK. Overall, this regularly results in a liquidity surplus in the DZ BANK Group and at DZ BANK, which provides one of the main bases for short-term funding in the unsecured money markets.

FIG. VII.8 – LIQUID SECURITIES

| € billion   | DZ BANK Group |               | DZ BANK       |               |
|---|---------------|---------------|---------------|---------------|
|   | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| <b>Liquid securities eligible for GC Pooling (ECB Basket)<sup>1</sup></b> | <b>15.8</b>   | <b>22.3</b>   | <b>9.9</b>    | <b>17.4</b>   |
| Securities in own portfolio   | 20.5          | 16.0          | 12.0          | 8.4           |
| Securities received as collateral   | 5.9           | 17.4          | 5.9           | 17.4          |
| Securities provided as collateral   | -10.6         | -11.1         | -8.0          | -8.4          |
| <b>Liquid securities eligible as collateral for central bank loans</b>    | <b>17.9</b>   | <b>9.1</b>    | <b>13.6</b>   | <b>5.5</b>    |
| Securities in own portfolio   | 18.0          | 16.7          | 13.2          | 11.8          |
| Securities received as collateral   | 3.5           | 4.1           | 3.5           | 4.1           |
| Securities provided as collateral   | -3.6          | -11.7         | -3.2          | -10.3         |
| <b>Other liquid securities</b>  | <b>3.7</b>    | <b>3.9</b>    | <b>3.5</b>    | <b>3.7</b>    |
| Securities in own portfolio   | 3.3           | 3.7           | 3.0           | 3.4           |
| Securities received as collateral   | 0.6           | 0.3           | 0.6           | 0.3           |
| Securities provided as collateral   | -0.2          | -0.1          | -0.1          | -0.1          |
| <b>Total</b>  | <b>37.3</b>   | <b>35.4</b>   | <b>26.9</b>   | <b>26.6</b>   |
| Securities in own portfolio   | 41.8          | 36.4          | 28.3          | 23.6          |
| Securities received as collateral   | 9.9           | 21.8          | 9.9           | 21.8          |
| Securities provided as collateral   | -14.4         | -22.9         | -11.3         | -18.7         |

<sup>1</sup> GC = general collateral, ECB Basket = eligible collateral for ECB funding.

**Corporate customers** and **institutional customers** are another important source of funding for covering operational liquidity requirements in the DZ BANK Group. In the context of liquidity risk, corporate customers are those customers that are not banks and are not classified as institutional customers.

For funding purposes, the management units also issue **money market products based on debt certificates** under a standardized groupwide multi-issuer euro commercial paper program through the offices and branches in Frankfurt am Main, New York, Hong Kong, London, and Luxembourg. DZ BANK also runs a US-dollar-denominated commercial paper program for Frankfurt am Main. Key repo and securities lending activities, together with the collateral management process, are managed centrally in DZ BANK's Group Treasury division.

Funding on the **interbank market** is not strategically important, either to the DZ BANK Group or to DZ BANK.

The range of funding sources in the unsecured money markets is shown in Fig. VII.9.

FIG. VII.9 – UNSECURED SHORT-TERM AND MEDIUM-TERM FUNDING

| € billion                                       | DZ BANK Group |               | DZ BANK       |               |
|---|---------------|---------------|---------------|---------------|
|   | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| <b>Deposits</b>                                 | <b>99.7</b>   | <b>98.7</b>   | <b>85.3</b>   | <b>84.2</b>   |
| Deposits of local cooperative banks             | 59.7          | 57.3          | 59.1          | 56.6          |
| Current account deposits of other customers     | 40.0          | 41.4          | 26.1          | 27.6          |
| <b>Money market borrowing</b>                   | <b>59.8</b>   | <b>57.1</b>   | <b>57.9</b>   | <b>54.5</b>   |
| Central banks, interbank, and customer banks    | 7.8           | 9.4           | 7.8           | 9.3           |
| Corporate customers and institutional customers | 36.2          | 33.6          | 36.0          | 32.8          |
| Certificates of deposit/commercial paper        | 15.8          | 14.1          | 14.1          | 12.3          |

The changes in the composition of the sources of funding compared with December 31, 2022 arose because customers and investors were more focused on diversification than in the previous year due to the interest-rate situation. The changes included reallocations from current account deposits to fixed-term deposits, which were made in light of ECB monetary policy measures.

Further information on liquidity management and funding can be found in chapter II.5 of the business report.

The **maturity analysis of contractual cash inflows and cash outflows** is set out in note 87 of the notes to the consolidated financial statements. However, the cash flows in these disclosures are not the same as the expected and unexpected cash flows used for internal liquidity risk management.

### 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 key risk indicator 'minimum liquidity surplus'. Fig. VII.10 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.

FIG. VII.10 – LIQUIDITY UP TO 1 YEAR IN THE STRESS SCENARIOS WITH DEFINED LIMITS:  
MINIMUM LIQUIDITY SURPLUSES FOR THE DZ BANK GROUP

| € billion          | Forward cash exposure |               | Counterbalancing capacity |               | Minimum liquidity surplus <sup>1</sup> |               |
|--------------------|-----------------------|---------------|---------------------------|---------------|--|---------------|
|                    | Dec. 31, 2023         | Dec. 31, 2022 | Dec. 31, 2023             | Dec. 31, 2022 | Dec. 31, 2023                          | Dec. 31, 2022 |
| Downgrading        | -43.6                 | -39.1         | 90.6                      | 67.8          | 46.9                                   | 28.7          |
| Corporate crisis   | -45.6                 | -30.2         | 64.1                      | 44.5          | 18.5                                   | 14.3          |
| Market crisis      | -47.9                 | -32.9         | 78.9                      | 57.6          | 31.0                                   | 24.7          |
| Combination crisis | -47.4                 | -31.8         | 72.1                      | 51.4          | 24.7                                   | 19.6          |

<sup>1</sup> The values with an orange background are the minimum liquidity surplus in the squeeze scenario.

The reduction in the forward cash exposure and the increase in the counterbalancing capacity mainly resulted from the early repayment of TLTRO.

The liquidity risk value measured for the **DZ BANK Group** as at December 31, 2023 for the stress scenario with defined limits with the lowest minimum liquidity surplus (squeeze scenario) was €18.5 billion (December 31, 2022: €14.3 billion). The liquidity risk value attributable to **DZ BANK** as at December 31, 2023 was €4.8 billion (December 31, 2022: €4.2 billion). The liquidity risk value attributable to the liquidity subgroup as at December 31, 2023 was €6.8 billion (December 31, 2022: €7.8 billion). The change in the minimum liquidity surplus was largely due to a multitude of individual changes in the underlying exposures on which the calculation of the minimum liquidity surplus is based.

The minimum liquidity surplus for the DZ BANK Group, DZ BANK, and the liquidity subgroup exceeded the **external minimum targets** laid down by the supervisory authorities, the **internal observation thresholds**, and the **internal minimum thresholds**. The target/threshold values are shown in Fig. VII.3 and Fig. VII.4.

The minimum liquidity surplus as at December 31, 2023 for all management levels – the DZ BANK Group, DZ BANK, and the liquidity subgroup – was positive in the stress scenarios with defined limits. This is due to the fact that the counterbalancing capacity was above the cumulative cash outflows on each day of the defined forecast period in every scenario, which indicates that the cash outflows assumed to take place in a crisis could be comfortably covered. The limits for the minimum liquidity surplus at all management levels were thus adhered to.

The rise in interest rates during the reporting year led to significant movements in the market for interest-rate derivatives and to funding changes, making the DZ BANK Group's minimum liquidity surplus more volatile. **A further unexpected rise in interest rates**, which is described as a risk factor affecting all types of risk in chapter VII.4.2.6, could potentially result in the continuation in 2024 of the effects described for 2023 and may even cause them to become more pronounced.

### 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 rating 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 perspective

### 6.3.1 Regulatory framework

The normative perspective is based on the liquidity ratios required under Basel 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). Internal liquidity risk management is supplemented by the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) calculated in line with the CRR requirements.

### 6.3.2 Organization, responsibility, and reporting

The **Group Financial Services** division calculates the liquidity ratios reported for supervisory purposes resulting from the CRR and Commission Delegated Regulation (EU) 2015/61 for the liquidity subgroup and, using the corresponding values for the management units, for the DZ BANK banking group.

Both the **Asset/Liability Committee** and the **Board of Managing Directors** are notified of the LCR and the NSFR each month.

### 6.3.3 Liquidity coverage ratio

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. DZ BANK reports the LCR of the liquidity subgroup and that of the banking group, calculated in accordance with the CRR in conjunction with Commission Delegated Regulation (EU) 2015/61, to the supervisory authority on a monthly basis.

The LCR figure for the **DZ BANK banking group** and **DZ BANK** (including DZ HYP) can be found in Fig. VII.11.

FIG. VII.11 – LIQUIDITY COVERAGE RATIOS AND THEIR COMPONENTS

|  | DZ BANK banking group |               | DZ BANK<br>(including DZ HYP) <sup>1</sup> |               |
|--|-----------------------|---------------|--|---------------|
|  | Dec. 31, 2023         | Dec. 31, 2022 | Dec. 31, 2023                              | Dec. 31, 2022 |
| Total liquidity buffer (€ billion)       | 125.6                 | 122.0         | 105.8                                      | 103.7         |
| Total net liquidity outflows (€ billion) | 86.1                  | 83.6          | 74.0                                       | 72.6          |
| <b>LCR (percent)</b>                     | <b>145.8</b>          | <b>145.9</b>  | <b>143.1</b>                               | <b>142.7</b>  |

<sup>1</sup> DZ BANK and DZ HYP form a liquidity subgroup pursuant to article 8 CRR.

The slight decrease in the LCR for the **DZ BANK banking group** from 145.9 percent as at December 31, 2022 to 145.8 percent as at December 31, 2023 resulted from the LCR's greater sensitivity in respect of the increased net liquidity outflows. This effect outweighs the greater increase in the liquidity buffer and the associated increase in excess liquidity cover (calculated by deducting the net liquidity outflows from the liquidity buffer).

The expansion of the liquidity buffer was mainly due to the growth of balances with central banks on the back of higher volumes of unsecured funding. In particular, deposits from banks in the Cooperative Financial Network and corporate customers increased, which – given their low outflow factors of 25 percent and 40 percent respectively compared with the associated rise in the liquidity buffer – led to a lower rise in weighted net liquidity outflows. As the LCR is more sensitive to changes in liquidity outflows than to changes in the liquidity buffer, the two opposing effects resulted in an overall reduction in the KPI.

As at the reporting date, the **external minimum target** laid down by the supervisory authorities, the **internal observation threshold**, and the **internal minimum threshold** for the LCR were exceeded for both the DZ BANK banking group and DZ BANK (including DZ HYP). The target/threshold values are shown in Fig. VII.3 and Fig. VII.4.

#### 6.3.4 Net stable funding ratio

The net stable funding ratio has a long-term focus and is intended to identify mismatches between the maturity structures of assets-side and liabilities-side business. The 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.

The NSFR calculated for the **DZ BANK banking group** and **DZ BANK** (including DZ HYP) is shown in Fig. VII.12.

Excess cover in relation to the NSFR is the difference between the available stable funding and the required stable funding.

The rises in the NSFR for the DZ BANK banking group and DZ BANK (including DZ HYP) are attributable to an increase in excess cover. The greater excess cover is mainly the result of an increase in available stable funding sources, which in turn is chiefly due to a higher volume of deposits from the Cooperative Financial Network and the privileged inclusion of certain own issues. The overall rise was partly offset by an increase in funding requirements relating to loans and advances and the early repayment of outstanding TLTRO tranches.

FIG. VII.12 – NET STABLE FUNDING RATIO AND ITS COMPONENTS

|   | DZ BANK banking group |               | DZ BANK<br>(including DZ HYP) <sup>1</sup> |               |
|---|-----------------------|---------------|--|---------------|
|   | Dec. 31, 2023         | Dec. 31, 2022 | Dec. 31, 2023                              | Dec. 31, 2022 |
| Available stable funding (weighted equity and liabilities; € billion) | 287.9                 | 269.5         | 212.7                                      | 199.6         |
| Required stable funding (weighted assets; € billion)                  | 227.6                 | 220.3         | 178.7                                      | 176.1         |
| Excess cover/shortfall (€ billion) <sup>2</sup>                       | 60.3                  | 49.2          | 34.0                                       | 23.5          |
| <b>NSFR (percent)</b>   | <b>126.5</b>          | <b>122.3</b>  | <b>119.0</b>                               | <b>113.4</b>  |

<sup>1</sup> DZ BANK and DZ HYP form a liquidity subgroup pursuant to article 8 CRR.

<sup>2</sup> Excess cover = positive values, shortfall = negative values.

As at the reporting date, the **external minimum target** laid down by the supervisory authorities, the **internal observation threshold**, and the **internal minimum threshold** for the NSFR were exceeded for both the DZ BANK banking group and DZ BANK (including DZ HYP). The target/threshold values are shown in Fig. VII.3 and Fig. VII.4.

## 7 Capital adequacy

### 7.1 Strategy, organization, and responsibility

#### 7.1.1 Strategy

The management of capital adequacy is an integral component of business management in the DZ BANK Group and the management units. 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 normative perspective. Whereas the economic perspective takes into account the requirements of the ECB Guide to the ICAAP and MaRisk BA, the normative perspective – while also taking account of the ECB Guide to the ICAAP – additionally applies the requirements from the CRR and the German national requirements for the implementation of the CRD.

The aim of the ICAAP is to ensure that, from two complementary perspectives (the economic and the normative 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.

All management units are included in the groupwide management of capital adequacy. Management of economic and normative capital adequacy 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.

#### 7.1.2 Organization and responsibility

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

The management of economic and normative 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 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. Any corresponding measures to raise capital are approved by the Asset/Liability Committee or recommended to the Board of Managing Directors for approval. The implementation of the measures is then coordinated by **Group Treasury** at DZ BANK.

At DZ BANK, the **Group Finance** division is responsible for monitoring and reporting on 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

The **economic perspective** is an internally defined management perspective aimed at ensuring that all of the DZ BANK Group's material capital risks are fully backed by capital plus an internally specified management buffer. The economic perspective is based on the assumption that an institution will continue to operate as a going concern.

The economic perspective is based on internal risk measurement methods that take into account all types of risk that are material with regard to capital adequacy. The methods selected ensure that risk capital management is integrated across the group.

In the **risk-bearing-capacity analysis**, the risk capital requirement is compared with the available internal capital. The risk capital requirement is determined by aggregating the capital required for the various risk types relevant to the DZ BANK Group.

**Available internal capital** is the economic value of equity. The equity used to determine available internal capital is the equity recognized on the balance sheet as calculated in accordance with the relevant accounting standards, plus/minus reserves and liabilities in respect of assets and liabilities, measured at present value. Adjustments are also made, in particular the deduction of components of additional Tier 1 capital.

The available internal capital is determined as follows:

- The available internal capital of 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 of 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 available internal capital is reviewed on a quarterly basis and, to some extent, on a monthly basis.

The Board of Managing Directors determines the risk capital requirement **limits** for the year on the basis of the available internal capital. If necessary, the limits can be adjusted during the year, e.g. if economic conditions change.

The purpose of the **capital buffer** is to cover the lack of precision in some areas of risk measurement. 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.

**R+V** uses two measures defined by the supervisory authorities – the transitional measure on technical provisions and the volatility adjustment – for individual personal insurance companies. The transitional measure on technical provisions is a time-limited measure designed to make it easier for insurance companies to transition from Solvency I to the current regulatory regime, Solvency II. The volatility adjustment, which can be used indefinitely, prevents a brief phase of heightened market volatility from affecting the valuation of long-term insurance guarantees. Both measures have a positive impact on economic capital adequacy.

### 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 2023 was unchanged compared with the previous year at 120.0 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 2022. 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

The annual recalculation of the overall solvency requirement took place as at December 31, 2022 owing to scheduled changes to the parameters for the risk measurement procedures carried out in the second quarter of 2023 for the Insurance sector on the basis of R+V's 2022 consolidated financial statements and the updating of actuarial assumptions. 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, 2022 given in this risk report have been restated accordingly and are not directly comparable with the figures in the 2022 risk report.

#### Available internal capital and limit

The DZ BANK Group's **available internal capital** as at December 31, 2023 stood at €32,290 million. The comparable figure as at December 31, 2022 was €30,879 million.

The **limit** derived from the available internal capital was specified at €19,698 million as at December 31, 2023 (December 31, 2022: €22,215 million).

As at December 31, 2023, **aggregate risk** was calculated at €15,102 million. The comparable figure as at December 31, 2022 was €13,886 million. The increase was primarily driven by higher market risk and business risk in the Bank sector.

#### Economic capital adequacy

As at December 31, 2023, the **economic capital adequacy ratio** for the DZ BANK Group was calculated at 213.8 percent. The comparable figure as at December 31, 2022 was 222.4 percent. As at the reporting date, the ratio was above the **external minimum target**, the **internal observation threshold**, and the **internal minimum threshold**. The target/threshold values are shown in Fig. VII.3.

In the case of the risk types in the Bank sector and Insurance sector, the risk capital requirement also contains any decentralized **capital buffer requirement** that has been assigned. To simplify matters, only the terms 'risk capital requirement' and 'overall solvency requirement' will be used in the remainder of this risk report. These include the decentralized capital buffer requirement.

Fig. VII.13 provides an overview of economic capital adequacy and its components.

The limits and risk capital requirements for the **Bank sector**, broken down by risk type, are shown in Fig. VII.14.

FIG. VII.13 – ECONOMIC CAPITAL ADEQUACY OF THE DZ BANK GROUP

|  | Dec. 31, 2023 | Dec. 31, 2022 |
|--|---------------|---------------|
| Available internal capital (€ million) <sup>1</sup>    | 32,290        | 30,879        |
| Limit (€ million)                                      | 19,698        | 22,215        |
| Aggregate risk (€ million) <sup>1</sup>                | 15,102        | 13,886        |
| <b>Economic capital adequacy (percent)<sup>1</sup></b> | <b>213.8</b>  | <b>222.4</b>  |

<sup>1</sup> Value as at December 31, 2022 after recalculation of R+V's overall solvency requirement. Different values were stated in the 2022 risk report.

FIG. VII.14 – LIMITS AND RISK CAPITAL REQUIREMENTS IN THE BANK SECTOR

| € million  | Bank sector   |               |                          |               | DZ BANK       |               |                          |               |
|--|---------------|---------------|--------------------------|---------------|---------------|---------------|--------------------------|---------------|
|  | Limit         |               | Risk capital requirement |               | Limit         |               | Risk capital requirement |               |
|  | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023            | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023            | Dec. 31, 2022 |
| Credit risk  | 4,988         | 6,387         | 3,971                    | 3,766         | 2,760         | 2,854         | 2,359                    | 2,254         |
| Equity investment risk   | 1,281         | 1,230         | 998                      | 997           | 795           | 767           | 664                      | 632           |
| Market risk  | 6,470         | 6,680         | 4,169                    | 3,730         | 3,000         | 3,175         | 1,757                    | 1,481         |
| Technical risk of a home savings and loan company <sup>1</sup> | 820           | 785           | 730                      | 698           |               |               |                          |               |
| Business risk <sup>2</sup>                                     | 450           | 280           | 363                      | 43            | 410           | 235           | 335                      | 43            |
| Operational risk   | 1,148         | 1,112         | 978                      | 966           | 651           | 625           | 550                      | 554           |
| <b>Total (after diversification)</b>                           | <b>14,218</b> | <b>15,380</b> | <b>10,471</b>            | <b>9,485</b>  |               |               |                          |               |

Not relevant

<sup>1</sup> Including business risk and reputational risk of BSH.

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

Fig. VII.15 sets out the limits and overall solvency requirements for the **Insurance sector**, broken down by risk type, and includes policyholder participation features. 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.

FIG. VII.15 – LIMITS AND OVERALL SOLVENCY REQUIREMENTS IN THE INSURANCE SECTOR

| € million                                      | Limit         |               | Overall solvency requirement |                            |
|--|---------------|---------------|------------------------------|----------------------------|
|  | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023                | Dec. 31, 2022 <sup>1</sup> |
| Life actuarial risk <sup>2</sup>               | 1,060         | 1,200         | 946                          | 1,060                      |
| Health actuarial risk                          | 285           | 300           | 253                          | 167                        |
| Non-life actuarial risk                        | 1,900         | 3,000         | 1,707                        | 1,878                      |
| Market risk                                    | 3,695         | 3,880         | 3,376                        | 3,415                      |
| Counterparty default risk                      | 245           | 350           | 219                          | 224                        |
| Operational risk                               | 700           | 1,000         | 629                          | 598                        |
| Risks from entities in other financial sectors | 225           | 180           | 210                          | 135                        |
| <b>Total (after diversification)</b>           | <b>4,800</b>  | <b>6,155</b>  | <b>4,241</b>                 | <b>3,930</b>               |

<sup>1</sup> Values after recalculation of the overall solvency requirement. Different values were stated in the 2022 risk report.

<sup>2</sup> Reputational risk is implicitly included in the overall solvency requirement for life actuarial risk (lapse risk).

In addition to the figures shown in Fig. VII.14 and Fig. VII.15, the aggregate risk includes a **centralized capital buffer requirement across all types of risk**, which was calculated at €391 million as at December 31, 2023 (December 31, 2022: €470 million). The corresponding **limit** was unchanged year on year at €680 million. The decrease in the centralized capital buffer requirement was predominantly due to the annual adjustment of the measurement of the longevity risk resulting from provisions for pensions and other post-employment benefits in the Bank sector to the higher discount rate.

#### 7.2.4 Possible impact from crystallized risk covered by capital

If risk were to materialize and associated losses be incurred, there would be a risk that the risk capital requirement would exceed the available internal capital and the DZ BANK Group would thus **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. 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. 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 perspective

#### 7.3.1 Regulatory framework

The normative perspective is based on the capital ratios laid down by the supervisory authorities. It comprises three management dimensions: monitoring of actual regulatory KPIs, capital planning, and adverse stress tests.

Whereas the monitoring of actual and projected figures, together with capital planning, in the baseline scenario focuses on the current regulatory ratios and their changes in probable scenarios, the analysis of these ratios in adverse scenarios is based on capital planning and the quarterly adverse stress tests.

From the normative perspective, the DZ BANK Group's risk-bearing capacity is assured if, in the medium term, the group is in a position to meet all regulatory minimum solvency requirements, even in crisis situations. An internal management buffer over and above the regulatory requirements for each ratio is also included in order to ensure that the group has an adequate level of capital.

The normative perspective is an integral part of the ICAAP. The key risk indicators in the normative perspective are specified by the regulatory requirements, mainly the CRR and the CRD, but the selection and specific design of the scenarios are internal decisions. With due regard to regulatory and supervisory guidance, such as the ECB Guide to the ICAAP and the EBA Guidelines on stress testing, the DZ BANK Group selects and simulates scenarios that adequately reflect the vulnerabilities of the business models operated in the group. The scenarios to be analyzed are determined at least once a year.

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 those that are required under the CRR transitional guidance.

#### 7.3.2 DZ BANK financial conglomerate

The DZ BANK financial conglomerate comprises the DZ BANK banking group and the R+V Versicherung AG insurance group.

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 100.0 percent.

The changes in the coverage ratio and in the own funds and solvency requirements of the DZ BANK financial conglomerate are shown in Fig. VII.16.

FIG. VII.16 – REGULATORY CAPITAL ADEQUACY OF THE DZ BANK FINANCIAL CONGLOMERATE<sup>1</sup>

|                                   | Dec. 31, 2023 <sup>2</sup> | Dec. 31, 2022 <sup>3</sup> |
|-----------------------------------|----------------------------|----------------------------|
| Own funds (€ million)             | 39,884                     | 36,458                     |
| Solvency requirements (€ million) | 25,805                     | 24,119                     |
| <b>Coverage ratio (percent)</b>   | <b>154.6</b>               | <b>151.2</b>               |

<sup>1</sup> The values for the DZ BANK banking group included in the calculations were determined in accordance with the CRR transitional guidance.

<sup>2</sup> Preliminary figures.

<sup>3</sup> Final figures.

The rise in the coverage ratio calculated for the DZ BANK financial conglomerate from 151.2 percent as at December 31, 2022 to 154.6 percent as at December 31, 2023 was attributable, in particular, to the increase in own funds. The effects that led to this change in the coverage ratio were attributable to the DZ BANK banking group and the R+V Versicherung AG insurance group (see also chapter VII.7.3.3 and chapter VII.7.3.4).

The preliminary coverage ratio calculated for the financial conglomerate as at December 31, 2023 was higher than the **external minimum target** laid down by the supervisory authorities, the **internal observation threshold**, and the **internal minimum threshold**. The target/threshold values are shown in Fig. VII.3.

### 7.3.3 DZ BANK banking group

The banking group for regulatory purposes pursuant to section 10a KWG in conjunction with articles 11 and 18 CRR consists of DZ BANK as the superordinated entity plus other institutions, financial institutions, and ancillary services undertakings that qualify as subsidiaries according to article 4 (1) no. 16 CRR. Insurance companies and companies not in the financial sector are not required to be consolidated in the banking group for regulatory purposes. In this context, R+V is fully consolidated for commercial-law purposes but is not included in the banking group for regulatory purposes.

#### Procedure for determining regulatory risk-weighted assets

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

- **Credit risk:** Primarily the foundation internal ratings-based (IRB) approach, the IRB approach for the retail business and, in some cases, the Standardized Approach to credit risk
- **Market risk:** Predominantly the group's own internal models and, to a minor extent, the Standardized Approaches
- **Operational risk:** Primarily the Standardized Approach

#### Regulatory capital ratios

The regulatory **own funds** of the **DZ BANK banking group** as at December 31, 2023 determined in accordance with the CRR transitional guidance amounted to a total of €30,647 million (December 31, 2022: €24,719 million). This equated to a rise in own funds of €5,928 million compared with the end of 2022, mainly comprising an increase in common equity Tier 1 capital of €4,870 million and an increase in additional Tier 1 capital of €1,143 million.

The biggest factors contributing to the rise in **common equity Tier 1 capital** from €18,762 million as at December 31, 2022 to €23,632 million as at the reporting date were the initial application of IFRS 17 at R+V at €3,851 million and the profit – calculated net of all dividends assumed by the supervisory authority and charges, and verified in accordance with Decision (EU) 2015/656 of the ECB – of €1,214 million as at December 31, 2023.

The rise of €1,143 million in **additional Tier 1 capital**, from €2,150 million as at December 31, 2022 to €3,293 million as at December 31, 2023, was due to the AT1 bond issued by DZ BANK in 2023.

**Tier 2 capital** declined from €3,807 million as at December 31, 2022 to €3,722 million as at December 31, 2023, a year-on-year decrease of €85 million. In the second half of 2023, Tier 2 capital totaling €271 million was issued. This was offset by amortization of existing Tier 2 capital instruments and negative effects from the utilization of the IFRS 9 transitional guidance pursuant to article 473a CRR.

The rise of €14,769 million in **risk-weighted assets** from €137,379 million as at December 31, 2022 to €152,148 million as at December 31, 2023 was largely attributable to the initial application of IFRS 17 and the associated positive effect on the equity-accounted long-term equity investment of DZ BANK in R+V. The latter led to an increase in risk-weighted assets of €18,838 million. The rise in risk-weighted assets was partly offset by a reduction in the capital charges for operational risk (€1,510 million) and market risk (€2,686 million) and the reduction in deferred tax assets (€2,676 million), which stemmed from temporary differences between carrying amounts on the IFRS balance sheet and in the tax accounts.

As at December 31, 2023, the DZ BANK banking group's **common equity Tier 1 capital ratio** was 15.5 percent, an increase of 1.8 percentage points compared with December 31, 2022 (13.7 percent). The **Tier 1 capital ratio** of 17.7 percent calculated as at the reporting date was 2.5 percentage points higher than the figure as at December 31, 2022 (15.2 percent). The **total capital ratio** also went up, from 18.0 percent as at December 31, 2022 to 20.1 percent as at December 31, 2023.

The aforementioned capital ratios take into account the supervisory authority's assumed dividend payout ratio for 2023 in accordance with Decision (EU) 2015/656 of the ECB. Using the actual dividend planned and based on DZ BANK's dividend policy, the common equity Tier 1 capital ratio would amount to 15.8 percent as at the reporting date.

Fig. VII.17 provides an overview of the regulatory capital ratios for the DZ BANK banking group and for DZ BANK.

FIG. VII.17 – REGULATORY CAPITAL RATIOS<sup>1</sup>

|  | DZ BANK banking group |                | DZ BANK        |                |
|--|-----------------------|----------------|----------------|----------------|
|  | Dec. 31, 2023         | Dec. 31, 2022  | Dec. 31, 2023  | Dec. 31, 2022  |
| <b>Capital</b>   |                       |                |                |                |
| Common equity Tier 1 capital (€ million)                       | 23,632                | 18,762         | 14,871         | 15,259         |
| Additional Tier 1 capital (€ million)                          | 3,293                 | 2,150          | 3,043          | 1,900          |
| <b>Tier 1 capital (€ million)</b>                              | <b>26,925</b>         | <b>20,912</b>  | <b>17,914</b>  | <b>17,159</b>  |
| Total Tier 2 capital (€ million)                               | 3,722                 | 3,807          | 3,836          | 3,794          |
| <b>Own funds (€ million)</b>                                   | <b>30,647</b>         | <b>24,719</b>  | <b>21,751</b>  | <b>20,953</b>  |
| <b>Risk-weighted assets</b>                                    |                       |                |                |                |
| Credit risk including long-term equity investments (€ million) | 138,249               | 119,283        | 93,332         | 92,608         |
| Market risk (€ million)  | 4,683                 | 7,369          | 4,296          | 6,944          |
| Operational risk (€ million)                                   | 9,217                 | 10,727         | 4,110          | 3,630          |
| <b>Total (€ million)</b>                                       | <b>152,148</b>        | <b>137,379</b> | <b>101,738</b> | <b>103,182</b> |
| <b>Capital ratios</b>  |                       |                |                |                |
| Common equity Tier 1 capital ratio (percent)                   | 15.5                  | 13.7           | 14.6           | 14.8           |
| Tier 1 capital ratio (percent)                                 | 17.7                  | 15.2           | 17.6           | 16.6           |
| Total capital ratio (percent)                                  | 20.1                  | 18.0           | 21.4           | 20.3           |

<sup>1</sup> In accordance with the CRR transitional guidance.

Regulatory minimum capital requirements specified by the SREP

The minimum capital requirements that the DZ BANK banking group had to comply with in 2023 under the Supervisory Review and Evaluation Process for Basel Pillar 2 (SREP) 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 2022, also had to be satisfied. In this process, the banking supervisor specifies a mandatory add-on (**Pillar 2 requirement**) that is factored into the external minimum targets for the capital ratios and 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.

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 2023.

The minimum capital requirements applicable to **DZ BANK** comprised those components of **Pillar 1** laid down as mandatory by law and those individually specified by the banking supervisor. Pillar 2 add-ons are currently not relevant to DZ BANK.

The mandatory minimum capital requirements relevant to the DZ BANK banking group and DZ BANK under the SREP, and their components, are shown in Fig. VII.18.

FIG. VII.18 – REGULATORY MINIMUM CAPITAL REQUIREMENTS ACCORDING TO THE SREP

| Percent   | DZ BANK banking group |              | DZ BANK      |              |
|---|-----------------------|--------------|--------------|--------------|
|   | 2023                  | 2022         | 2023         | 2022         |
| Minimum requirement for common equity Tier 1 capital                  | 4.50                  | 4.50         | 4.50         | 4.50         |
| Additional Pillar 2 capital requirement                               | 1.02                  | 0.96         |              |              |
| Capital conservation buffer   | 2.50                  | 2.50         | 2.50         | 2.50         |
| Countercyclical capital buffer <sup>1</sup>                           | 0.69                  | 0.05         | 0.67         | 0.03         |
| Systemic risk buffer <sup>1</sup>                                     | 0.19                  |              | –            |              |
| O-SII capital buffer  | 1.00                  | 1.00         |              |              |
| <b>Mandatory minimum requirement for common equity Tier 1 capital</b> | <b>9.90</b>           | <b>9.00</b>  | <b>7.67</b>  | <b>7.03</b>  |
| Minimum requirement for additional Tier 1 capital <sup>2</sup>        | 1.50                  | 1.50         | 1.50         | 1.50         |
| Additional Pillar 2 capital requirement <sup>2</sup>                  | 0.34                  | 0.32         |              |              |
| <b>Mandatory minimum requirement for Tier 1 capital</b>               | <b>11.75</b>          | <b>10.82</b> | <b>9.17</b>  | <b>8.53</b>  |
| Minimum requirement for Tier 2 capital <sup>2</sup>                   | 2.00                  | 2.00         | 2.00         | 2.00         |
| Additional Pillar 2 capital requirement <sup>2</sup>                  | 0.46                  | 0.43         |              |              |
| <b>Mandatory minimum requirement for total capital</b>                | <b>14.20</b>          | <b>13.25</b> | <b>11.17</b> | <b>10.53</b> |

Not available

<sup>1</sup> The amount of the countercyclical capital buffer and the systemic risk buffer is recalculated at each reporting date. Unlike the other reported values, which apply to the entire financial year, the countercyclical capital buffers shown for 2023 and 2022 relate solely to the reporting dates. The systemic risk buffer was not relevant in 2022.

<sup>2</sup> The minimum requirement and additional capital requirement can also be satisfied with own funds from higher categories.

Compared with December 31, 2022, the minimum capital requirements were up by 0.95 percentage points as at the reporting date. This is primarily due to an increase in the additional capital requirements in Pillar 2 from January 1, 2023 and an increase in the countercyclical capital buffer and the introduction of the systemic risk buffer from February 1, 2023. In a general administrative act dated January 31, 2022, BaFin raised Germany's countercyclical capital buffer rate from 0.0 percent to 0.75 percent. In a general administrative act dated March 30, 2022, BaFin then introduced a systemic risk buffer for the domestic residential real estate sector of 2 percent of the risk-weighted assets attributable to these exposures.

#### Compliance with the minimum capital requirements

The **internal threshold values** and **external minimum targets** applicable 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 exceeded at the level of the DZ BANK banking group and DZ BANK as at December 31, 2023. The target/threshold values are shown in Fig. VII.3 and Fig. VII.4.

#### 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 exposures in the calculation of the leverage ratio are not allocated their own risk weight but are generally included in the total exposure without any risk weight at all.

The leverage ratio of the **DZ BANK banking group** determined in accordance with the CRR transitional guidance went up by 1.5 percentage points from 4.7 percent as at December 31, 2022 to 6.2 percent as at December 31, 2023. This was mainly due to a sharp rise of €6.0 billion in Tier 1 capital in connection with the implementation of IFRS 17 at R+V. Conversely, the total exposure declined by €8.3 billion.

The dividend payout ratio for 2023 assumed by the supervisory authority in accordance with Decision (EU) 2015/656 of the ECB was used to calculate the leverage ratio. Using the actual dividend planned and based on DZ BANK's dividend policy, the leverage ratio would amount to 6.3 percent as at the reporting date.

**DZ BANK's** leverage ratio as at December 31, 2023 was calculated at 6.8 percent (December 31, 2022: 6.3 percent). The rise of 0.5 percentage points was attributable to a decline of €10.9 billion in the total exposure and an increase of €755 million in Tier 1 capital.

The lower limits applicable to the DZ BANK banking group and DZ BANK in respect of the regulatory capital ratios – the **external minimum target**, the **internal observation threshold**, and the **internal minimum threshold** – were all exceeded as at the reporting date. The target/threshold values are shown in Fig. VII.3 and Fig. VII.4.

#### Minimum requirement for own funds and eligible liabilities

The Bank Recovery and Resolution Directive (BRRD), Implementing Regulation (EU) No. 806/2014 establishing a Single Resolution Mechanism, and the transposition of the BRRD into German law in the form of SAG created the legal basis at European and national level for a single resolution mechanism for banks and the regulatory MREL ratio as a percentage of risk-weighted assets.

The MREL requirements are 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 DZ BANK banking group's **MREL ratio as a percentage of risk-weighted assets** is the ratio of the total of the regulatory own funds of the DZ BANK banking group and the eligible external MREL liabilities of DZ BANK to the total risk exposure amount (risk-weighted assets) of the DZ BANK banking group.

Since January 1, 2023, the **MREL ratio as a percentage of the leverage ratio exposure** has been used alongside the MREL ratio as a percentage of risk-weighted assets for the purposes of managing the DZ BANK banking group. This MREL ratio is the ratio of the total of the regulatory own funds of the DZ BANK banking group and the eligible external, subordinated MREL liabilities of DZ BANK to the leverage ratio exposure of the DZ BANK banking group.

#### MREL ratio

The MREL ratio as a percentage of risk-weighted assets measured for the DZ BANK banking group was 42.4 percent as at December 31, 2023 (December 31, 2022: 38.3 percent). The year-on-year increase in this key figure was attributable to a rise of €4,163 million in MREL-eligible senior preferred liabilities and growth in own funds of €5,928 million. As at December 31, 2023, the MREL volume stood at €64,533 million, which was up by €11,892 million compared with December 31, 2022.

As at December 31, 2023, the MREL ratio as a percentage of the leverage ratio exposure was 14.9 percent (December 31, 2022: 11.9 percent). The rise in this ratio was attributable to an increase in the MREL volume.

The **external minimum targets**, **internal observation thresholds**, and **internal minimum thresholds** applicable to the two MREL ratios were exceeded as at December 31, 2023. The target/threshold values and measured values are shown in Fig. VII.3.

#### Subordinated MREL ratio

The **subordinated MREL ratio as a percentage of risk-weighted assets** is the ratio of the total of the regulatory own funds of the DZ BANK banking group and the eligible external, subordinated MREL liabilities of DZ BANK to the total risk exposure amount (risk-weighted assets) of the DZ BANK banking group. As at December 31, 2023, this key figure stood at 31.0 percent (December 31, 2022: 28.5 percent). The rise in the subordinated MREL ratio as a percentage of risk-weighted assets was predominantly driven by the substantial growth of the subordinated volume, which – in turn – was mainly attributable to an increase of €2,485 million in the portfolio of senior non-preferred liabilities and an increase of €5,928 million in own funds.

Since January 1, 2023, the **subordinated MREL ratio as a percentage of the leverage ratio exposure** has been used alongside the subordinated MREL ratio as a percentage of risk-weighted assets for the purposes of managing the DZ BANK banking group. It is the ratio of the total of the regulatory own funds of the DZ BANK banking group and the eligible external, subordinated MREL liabilities of DZ BANK to the leverage ratio exposure of the DZ BANK banking group. As at December 31, 2023, the subordinated MREL ratio as a percentage of the leverage ratio exposure was 10.9 percent (December 31, 2022: 8.9 percent). The rise in this ratio was also attributable to the marked increase in the subordinated volume.

The **external minimum targets, internal observation thresholds, and internal minimum thresholds** applicable to the two subordinated MREL ratios were exceeded as at December 31, 2023. The target/threshold values and measured values are shown in Fig. VII.3.

#### 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.

R+V uses two measures defined by the supervisory authorities – the transitional measure on technical provisions and the volatility adjustment – for individual personal insurance companies. Both measures have a positive impact on regulatory and economic capital adequacy. Further disclosures on these measures can be found in chapter VII.7.2.1.

The preliminary figure for the **regulatory risk-bearing capacity** of the R+V Versicherung AG insurance group as at December 31, 2023 was calculated at 230.2 percent. The coverage ratio was thus above the external minimum target of 100.0 percent, which was the same target as had applied in 2022. The final figure as at December 31, 2022 was 212.7 percent (preliminary figure given in the 2022 risk report: 219.8 percent). Fig. VII.19 shows how the solvency requirements are covered by eligible own funds.

FIG. VII.19 – REGULATORY CAPITAL ADEQUACY OF THE R+V VERSICHERUNG AG INSURANCE GROUP

|                                   | Dec. 31, 2023 <sup>1</sup> | Dec. 31, 2022 <sup>2</sup> |
|-----------------------------------|----------------------------|----------------------------|
| Own funds (€ million)             | 18,379                     | 15,918                     |
| Solvency requirements (€ million) | 7,982                      | 7,484                      |
| <b>Coverage ratio (percent)</b>   | <b>230.2</b>               | <b>212.7</b>               |

<sup>1</sup> Preliminary figures.

<sup>2</sup> Final figures. The preliminary figures were stated in the 2022 risk report.

The changes in the regulatory risk-bearing capacity are primarily due to movements in interest rates and equities in the capital markets in 2023. The increase in solvency requirements is primarily attributable to higher actuarial risk.

The **recalculation of the overall solvency requirement** described in chapter VII.7.2.3 for economic risk-bearing capacity 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 2022. The prior-year figures as at December 31, 2022 given in this risk report have been restated accordingly and are not directly comparable with the figures in the 2022 risk report.

## 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, liquidity, and risk from potential **crisis scenarios** that are exceptional, but plausible, and particularly relevant to the DZ BANK Group's value drivers and risk factors. 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 drivers and risk factors are material for the DZ BANK Group.

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 submitted in the DZ BANK Group stress tests report and 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 DZ BANK Group's ability to continue 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 ability to continue as a going concern, and secondly, to estimate the probability and plausibility of a specific, sufficiently serious scenario of this nature.

Reverse stress tests are generally carried out annually. The results are submitted in the DZ BANK Group stress tests report and 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

The quarterly report on stress tests in the DZ BANK Group is supplemented by a credit risk stress test in the normative perspective and by various scenario analyses in the risk types in the economic perspective. These analyses serve as a link between vulnerabilities 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 vulnerabilities, 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.

Scenario analyses in the risk types are carried out quarterly. The results are submitted in the DZ BANK Group stress tests report and are noted by the **Board of Managing Directors** and by the DZ BANK **Supervisory Board's Risk Committee**.

# 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) or from the migration of the credit ratings of these counterparties, or of losses in connection with the recovery of loans, advances, receivables, or collateral.

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** refer to securities business in the banking book and trading book, money market business, transactions involving tradable loans and advances (such as promissory notes), currency transactions, transactions involving derivatives, and transactions involving commodities (such as precious metals).

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. It also includes risks arising from contingent liabilities (such as issued guarantees and indemnities). The calculation of the exposure encompasses loan facilities promised to third parties and any existing overdrawn accounts in addition to loans that have already been drawn down. Migration risk is a sub-risk within traditional credit risk and reflects the risk of changes in fair value 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 investment fund units or their underlying instruments.

**Replacement risk** on derivatives is the risk of a counterparty defaulting during the term of a trading transaction.

Transaction processing risk is a default risk subcategory of replacement risk. It is factored into the exposure calculation for replacement risk. Transaction processing risk arises in connection with both delivery-versus-payment (DVP) settlement and unilateral payments in a trading transaction. It arises when the counterparty in a trading transaction cannot perform its contractual obligation.

**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.

**Recovery risk** forms part of credit risk. It cannot be determined as an exposure amount but increases the risk capital requirement for traditional credit risk, issuer risk, and replacement risk. Recovery risk results from uncertainty regarding the recovery rate for existing collateral and uncertainty regarding the recovery rate for unsecured receivables (or partial receivables).

**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. In the broader sense of the term, country risk refers to sovereign risk (the risk arising from exposure to a government itself) or the risk that the quality of the overall exposure in a country may be impaired as a result of country-specific events (country-related borrower risk). In this case, it is not viewed as a separate risk type but as a component of credit risk and is thus recorded within traditional credit risk, issuer risk, and replacement risk.

## 8.2 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 a **broad 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, retail customers, the public sector, international companies, and banks and institutions both in Germany and abroad.

**Default risk from traditional lending business** arises primarily at DZ BANK, BSH, 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. Replacement risk arises for the most part at DZ BANK and DZ PRIVATBANK.

The entities in the Bank sector pursue a 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.

The management units aim to ensure that their credit portfolios always have a **sound credit quality and risk structure**. One of the objectives is to make sure that the portfolios remain highly diversified going forward.

## 8.3 Risk factors

### 8.3.1 General credit risk factors

Key values used in determining credit risk include the concentrations of lending volume in terms of counterparties, sectors, country groups, and residual 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.

### 8.3.2 Specific credit risk factors

In addition to the general risk factors, **negative macroeconomic and environmental trends** could lead to higher credit risk, more defaults among individual counterparties, and therefore to a greater requirement for the recognition of impairment losses in the lending business.

The biggest threats to general borrower credit quality stem from the adverse factors described in chapter VII.4.2. If the macroeconomic trends described there persist for a while longer yet, or escalate, credit risk in the Bank sector would likely rise significantly.

The lending exposures affected to differing extents by these macroeconomic risk factors are described in chapters 8.7 (Credit portfolios particularly affected by negative macroeconomic conditions), 8.8 (Credit portfolios particularly affected by acute global crises), and 8.9 (Credit portfolios with increased risk content).

There is also a risk that collateral for loan exposures could become impaired as a result of transition risk or if physical climate-related and environmental risks were to materialize. In addition, transition effects could diminish the earnings power of corporate finance borrowers. A resulting deterioration of the borrowers' credit quality could lead to a greater requirement for the recognition of impairment losses.

## 8.4 Organization, responsibility, and 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 termination, 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 the risk structure of credit portfolios and changes therein 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 credit rating class, industry, country group, and the lending volume to single borrowers. In addition, the report includes details on specific exposures. In the context of the risk limit, the credit value-at-risk is also included in the credit risk report.

## 8.5 Risk management

### 8.5.1 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 aims to ensure that all the entities in the network apply a sophisticated uniform methodology producing ratings that are comparable.

DZ BANK primarily uses rating systems in its credit risk management system to assess major corporations, banks, investment funds, and project finance (slotting approach). 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** or the **slotting 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 corporations. Rating systems for specific business segments are also used by individual subsidiaries.

#### Development and expansion of rating systems

All internal rating systems and those approved by the banking supervisor for solvency reporting were validated in the reporting year. The new VR rating system for major corporations and a substantially revised version of the rating system for local cooperative banks were introduced.

#### 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. VII.20 shows DZ BANK's credit rating master scale and matches the internal credit ratings to the ratings used by Moody's, Standard & Poor's, and Fitch Ratings. 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 chart 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. VII.20 – 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-          |                  |                      |
| 3B                    | 0.75%   | Ba1                     | BB+               | BB+           |                  | Non-investment grade |
| 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   |                         |                   |               |                  |                      |

### 8.5.2 Lending business pricing

The management units in the Bank sector use **risk-adjusted pricing** as a key decision-making criterion for the management of the lending business. Adequate standard risk costs and risk-adjusted capital costs are taken into account. The methods used by the management units to manage the lending business reflect the particular features of their products and business.

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, **economic and regulatory costs of capital** based on the capital requirement are integrated into the contribution margin costing carried out by the entities in the Bank sector. This enables the Bank sector 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.

### 8.5.3 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. 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.

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.

#### 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; measures to reduce them must also be initiated 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.

### 8.5.4 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, 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, these add-ons are 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. The add-ons for the remaining derivatives not included in the portfolio simulation are determined on the basis of

a product-specific allocation, which also takes into account specific risk factors and residual maturities. Transaction processing risk is additionally factored into the exposure calculation for replacement risk. This risk is largely determined as the net present value of the reciprocally required performance.

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 settlement by the two parties at points of time 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. The transaction processing risk forming part of the replacement risk is included in the shortest maturity band. 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. The specific limit can also be broken down into seniority bands; in the case of asset-backed securities, the specific limit can be broken down into rating bands. Issuer risk relating to cover assets is subject to separate limits, as are settlement risk and replacement risk attaching to cover assets. Issuer risk in connection with the trading book and issuer risk in connection with the banking book are subject to separate limits. The material subsidiaries have their own comparable limit systems.

The standardized methodology for measuring and monitoring trading exposure at DZ BANK (**post-transaction control**) is included in an IT-supported limit monitoring system, to which all relevant trading systems are directly or indirectly connected. A second IT system is used solely for most of the **pre-transaction control**. This functionality is currently being migrated to the system used for post-transaction control. 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. The material subsidiaries have their own comparable processes.

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.

### 8.5.5 Management of risk concentrations and correlation risks

#### Identifying risk concentrations

One of the Bank sector's key concerns in the management of credit risk is to avoid undesirable concentrations and correlations of risks in the credit portfolio. To this end, it has established credit risk strategies, policies, and

principles that must be applied in the various areas of business. The main structural elements are managed on this basis with the aim of ensuring that the credit portfolio is appropriately diversified. The structural elements include specifications for rating-related maximum exposures, strategic borrower limits, restriction of areas of business to specified countries or regions, maturity limits, specific requirements for certain operating segments and industries, and requirements relating to collateral, loan agreement clauses, and key credit-risk-related figures.

#### Measurement and monitoring of risk concentrations

The structural requirements include general parameters to ensure that the credit portfolio in the Bank sector is comprehensively diversified. They therefore provide important guidance for managing new business. The ongoing monitoring of potential risk concentrations is also of fundamental importance. With this in mind, the Bank sector's credit portfolio is constantly checked for concentrations in terms of asset class, area of business, industry, country, country group, residual maturity, size category, and rating class. Significant attention is also paid to monitoring concentrations linked to individual borrowers. Exposures are analyzed and managed using monitoring lists, particularly to identify if specified volume limits are exceeded.

Besides volume-oriented parameters, the credit value-at-risk for individual exposures and borrowers is a core parameter used in modeling concentration risk. A key factor 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 protection provider, garnishee, or issuer forms a group of connected clients or a similar economic entity with the borrower or counterparty.

#### Wrong-way risk in trading activities

**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.

#### Other measures to prevent concentration risk and wrong-way risk in trading activities

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**. Both policies are explained in chapter VII.8.5.6.

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.

### 8.5.6 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. In particular, collateral received reduces the credit value-at-risk (see chapter VII.8.5.8).

Collateral in line with the level of risk is generally sought where the rating category is 3B or below on the credit rating master scale and in medium-term or long-term financing arrangements. In addition, recoverable collateral equivalent to 50.0 percent of the finance volume is expected in the joint credit business with the local cooperative banks for new business entered into with SME customers in rating category 3E 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 limit defaults in these transactions, a decision on whether to obtain traditional collateral is 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, 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. Entities in the Bank sector also enter 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.

Credit derivatives, such as credit default swaps, are used to reduce the issuer risk arising on bonds and derivatives. 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 protection providers/counterparties in credit derivatives are financial institutions, namely investment-grade banks and funds in the VR rating classes 1A to 2E.

#### 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 monitored 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), both collateral agreements for variation margin (Credit Support Annex to the ISDA Master Agreement and Collateralization Annex to the German Master Agreement for Financial Futures) and collateral agreements for initial margin are entered into as instruments to reduce credit exposure in OTC transactions.

DZ BANK's **collateral policy** regulates the economic aspects of collateral agreements and the responsibilities and authorization levels. This policy specifies contractual parameters, such as the type and quality of collateral, minimum transfer amounts, and delivery deadlines as permitted by regulatory requirements. As a rule, the collateral policy permits only collateral in the form of cash (in euros) to be accepted for mitigating risks arising from OTC derivatives on the basis of the Credit Support Annex or the German Collateralization Annex. General exceptions to this rule exist for older contracts entered into before the collateral agreement obligation came into force and, in particular, for contracts with local cooperative banks that permit thresholds and securities collateral. Securities collateral must be eligible as collateral with the ECB and have a minimum credit rating of A3 (Moody's) or A- (Standard & Poor's, Fitch Ratings). Exceptions to the standard conditions are approved on the basis of the authorization levels specified in the collateral policy.

High-grade collateral is also required for repo and securities lending transactions in compliance with generally accepted master agreements and DZ BANK's own internal **minimum requirements for bilateral reverse repo transactions and securities lending transactions**, although the range of collateral is somewhat broader here than in the case of OTC derivatives. There are a few individual exceptions for banks in the Cooperative Financial Network.

Furthermore, the minimum requirements applicable at DZ BANK 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.

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 requirements.

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'). The supervisory authorities have specified these contractual provisions as standard for EMIR-compliant agreements.

EMIR requires the exchange of an initial margin in bilateral OTC derivatives transactions in addition to the variation margin. The transfer of initial margin takes account of counterparty-specific thresholds.

#### Central counterparties

Under EMIR, 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 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 clearing 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. DZ 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 London Clearing House, Paris, (LCH S.A) via clearing broker Deutsche Bank.

#### 8.5.7 Management of closely monitored and non-performing lending exposures

The following descriptions apply to **DZ BANK**. Where required, similar procedures have been implemented in the material **subsidiaries**, which adapt them to the characteristics of the risks faced in their particular business.

##### Management and monitoring

Early identification of risk is a key component of the management and monitoring of traditional lending business. The system for identifying risk at an early stage is designed to detect emerging risks at the earliest opportunity and return the affected lending exposures to acceptable levels of risk quality. Another objective is to minimize losses from loan defaults.

In order to identify risk at an early stage, criteria are defined as early-warning indicators that should show when exposures must become subject to special, closer monitoring (intensified loan management) and when lending exposures must be transferred to the specialist units responsible for loan restructuring and workout.

The following lists are maintained to closely monitor lending exposures that are subject to intensified management and lending exposures that are in default:

- The **yellow list** for exposures with latent risk
- The **watchlist** for exposures with heightened risk
- The **default list** for exposures with acute risk (exposures that are classified as in default and thus non-performing)

Borrowers are classified as in default and thus **non-performing** either if a material portion of their overall obligation under the loan agreement is past due by more than 90 consecutive calendar days or if it is unlikely that they will meet their payment obligations under the loan agreement in full without the management unit in the Bank sector that granted the loan having recourse to actions such as the recovery of any available collateral. This corresponds to the definition of default specified by the CRR. Borrowers in default are assigned a rating of between 5A and 5E on the VR credit rating master scale.

Non-performing loan exposures are also referred to by the abbreviation NPL. They are monitored using the following key figures:

- **Coverage ratio** (specific loan loss allowances plus collateral as a proportion of the volume of non-performing loans)
- **NPL ratio** (volume of non-performing loans as a proportion of total lending volume)

**Workout units** become involved at an early stage of identified difficulties. By providing intensified loan management for critical exposures and applying problem-solving strategies, these special units aim to establish the basis for securing and optimizing exposures with heightened risk.

Exposures with heightened risk are generally reviewed, updated, and reported on a quarterly basis. The process is also carried out at shorter intervals if required. This process is supported by IT systems. Prompt internal reporting focused on target groups is a key component of this approach.

#### Forbearance

Forbearance is a tool for managing non-performing exposures or those close to non-performing. Forbearance measures include **concessions** regarding the obligations under a loan agreement of a borrower in financial difficulties. Such concessions may consist of **contractual modifications**, such as adjustments to covenants or changes to the interest rate, repayment structure, or loan maturity. They may also amount to **refinancing measures**, such as debt-equity swaps, further loan facilities, turnaround or bridging financing, or debt restructuring. The aim of such concessions is to ensure that borrowers who cannot satisfy the terms and conditions of their loan agreements because of their financial circumstances are placed in a position whereby they can repay the loans granted by DZ BANK.

Concessions qualify as forbearance measures if a borrower is found to meet one of the following **criteria** during the monitoring of credit risk:

- The borrower is included in the default list, watchlist, or yellow list with a rating of 4A.
- The borrower is classified with a rating of 4B or worse, regardless of whether the borrower is on one of the lists or not.
- Payments are past due by more than 30 days within a period of 3 months prior to the concession.

The borrower must satisfy all of the following criteria before **exiting forbearance status**:

- The borrower is classified as performing.
- The borrower has undergone a probation period of at least two years. In the case of borrowers who have recovered from a default, the probation period begins with their reclassification as 'recovered'. Borrowers not previously in default begin the probation period when forbearance measures are initiated.
- The borrower has made regular interest payments or repayments of principal during at least half of the probation period.
- No payments are past due by more than 30 days.

#### 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.

#### 8.5.8 Credit-portfolio management

**Internal credit-portfolio models** operated on a decentralized basis in the material management units are used together with value-at-risk methods to quantify unexpected losses from lending and trading business. The **credit value-at-risk** reduced by the expected loss is referred to as the risk capital requirement for transactions subject to credit risk. The risk capital requirement quantifies the risk of unexpected losses if default or migration events were to materialize.

**Expected loss** is calculated by multiplying the exposure at default (EAD) by the loss given default (LGD) and by the probability of default (PD). **Exposure at default** equates to the expected outstanding loan or receivable or the potential economic loss in respect of a counterparty if the counterparty defaults, without taking into account

any collateral. **Loss given default** refers to the expected percentage loss on default of a borrower, whereby the loss is reduced by any proceeds anticipated from the recovery of **collateral**. **Probability of default** is the probability, calculated on the basis of historical data, that a borrower will not be able to meet their payment obligations within a particular, future period. For the purposes of credit-portfolio management in the Bank sector, this period is 1 year. The probability of default reflects the borrower's current rating and, in individual cases, also takes into account business-specific factors.

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 credit value-at-risk amounts determined for the management units are aggregated by DZ BANK at **Bank sector** level.

For the purposes of **managing** the credit portfolio, the credit value-at-risk and the decentralized capital buffer requirement are restricted by the **credit risk limit**. The calculation of the decentralized capital buffer requirement is explained in chapter VII.7.2.1. A **traffic light system** is used to monitor Bank sector management units' compliance with the limits specified for credit risk.

## 8.6 Lending volume

### 8.6.1 Definition of lending volume

One of the ways in which credit risk is managed is on the basis of the **lending volume**. In the traditional lending business, the lending volume is no more than the total amount of loans already drawn down, plus commitments to third parties. In the trading business (securities business, together with derivatives business and money market business), the lending volume largely equates to the exposure at default.

### 8.6.2 Reconciliation of lending volume to the consolidated financial statements

To reconcile the lending volume managed at Bank sector level with the lending volume reported on the balance sheet, the volume is broken down by traditional lending business, securities business, derivatives business, and money market business, because this breakdown corresponds to the classes of risks from financial instruments used for external reporting purposes.

Fig. VII.21 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. For some financial instruments, there are discrepancies in **recognition** and **measurement** between the internal management and external consolidated financial reporting figures owing to the focus on the risk content of the items.

Another reason for the discrepancies between the internal management figures and those in the external consolidated financial statements are differences in the **scope of consolidation**. These differences 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, whereas, in the consolidated financial statements, all entities subject to consolidation in the Bank 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.

**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.

### 8.6.3 Asset class structure of the credit portfolio

The reporting to the Board of Managing Directors on concentrations of credit risk includes a presentation of the credit portfolio broken down by asset class.

This is done by dividing the credit portfolio into business-related homogeneous segments on the basis of characteristics such as industry code to reflect the sector, product type, and the rating system used to determine the credit rating. The characteristics are selected in such a way that the segments are subject to uniform risk factors.

In its role as central institution for the 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, which are assigned to the asset class **entities within the Cooperative Financial Network**, account for one of the largest loans and receivables items in the group's credit portfolio.

DZ BANK also supports the cooperative banks in the provision of larger-scale funding to corporate customers. Corporate banking exposures relate to business with commercial customers, which is assigned mainly to one of the following asset classes: corporates, commercial real estate customers, and asset-based lending / project finance. The syndicated business resulting from the corporate customer lending business, the direct business of DZ BANK, the real estate lending business of DZ HYP and BSH, and DZ HYP's local authority lending business determine the asset-class breakdown for the remainder of the portfolio.

The total lending volume of the **Bank sector** increased by 5 percent in the year under review, from €447.7 billion as at December 31, 2022 to €471.0 billion as at December 31, 2023. The rise in the lending volume was mainly due to an increase in volume in the 'entities within the Cooperative Financial Network' and 'corporates' asset classes, which went up by €15.7 billion and €4.7 billion respectively compared with the end of 2022.

FIG. VII.21 – BANK SECTOR: RECONCILIATION OF THE LENDING VOLUME

| Lending volume for internal management accounts | € billion     |               | Reconciliation         |               |                                 |               |               |                                    |               |               |
|---|---------------|---------------|------------------------|---------------|---------------------------------|---------------|---------------|------------------------------------|---------------|---------------|
|   | Dec. 31, 2023 | Dec. 31, 2022 | Scope of consolidation |               | Carrying amount and measurement |               | Dec. 31, 2023 | Dec. 31, 2022                      | Dec. 31, 2023 | Dec. 31, 2022 |
|   |               |               | Dec. 31, 2023          | Dec. 31, 2022 | Dec. 31, 2023                   | Dec. 31, 2022 |               |                                    |               |               |
| Traditional lending business                    | 379.8         | 358.9         | 6.3                    | 14.2          | 18.5                            | 18.3          | 404.7         | 111.0                              | 103.4         |               |
|   |               |               |                        |               |                                 |               |               | 111.0                              | 103.5         |               |
|   |               |               |                        |               |                                 |               |               | -                                  | -0.1          |               |
|   |               |               |                        |               |                                 |               |               | 200.4                              | 198.8         |               |
|   |               |               |                        |               |                                 |               |               | 202.6                              | 200.8         |               |
|   |               |               |                        |               |                                 |               |               | -2.2                               | -2.0          |               |
| Securities business                             | 70.6          | 66.3          | -                      | -             | -17.8                           | -17.9         | 52.8          | 52.8                               | 48.4          |               |
|   |               |               |                        |               |                                 |               |               | 8.3                                | 7.5           |               |
|   |               |               |                        |               |                                 |               |               | 1.0                                | 1.3           |               |
|   |               |               |                        |               |                                 |               |               | 43.5                               | 39.7          |               |
|   |               |               |                        |               |                                 |               |               | -0.3                               | -4.0          |               |
| Derivatives business                            | 13.1          | 15.4          | -0.1                   | -0.3          | -13.3                           | -19.1         | -0.3          | 0.9                                | 1.6           |               |
|   |               |               |                        |               |                                 |               |               | 16.5                               | -4.0          |               |
|   |               |               |                        |               |                                 |               |               | -0.6                               | -0.4          |               |
|   |               |               |                        |               |                                 |               |               | -17.1                              | -26.6         |               |
| Money market business                           | 7.4           | 7.1           | -                      | 0.8           | 21.4                            | 33.3          | 28.8          | 28.8                               | 41.2          |               |
|   |               |               |                        |               |                                 |               |               | 17.8                               | 20.0          |               |
|   |               |               |                        |               |                                 |               |               | 2.2                                | 2.9           |               |
|   |               |               |                        |               |                                 |               |               | 0.1                                | 0.2           |               |
|   |               |               |                        |               |                                 |               |               | 7.8                                | 17.1          |               |
| 0.9   | 1.1           |               |                        |               |                                 |               |               |                                    |               |               |
| <b>Total</b>                                    | <b>471.0</b>  | <b>447.7</b>  | <b>6.2</b>             | <b>14.7</b>   | <b>8.8</b>                      | <b>14.6</b>   | <b>486.0</b>  |                                    | <b>477.0</b>  |               |
|   |               |               |                        |               |                                 |               |               | <b>Balance as at Dec. 31, 2023</b> | <b>15.0</b>   | <b>3.2%</b>   |
|   |               |               |                        |               |                                 |               |               | <b>Balance as at Dec. 31, 2022</b> | <b>29.3</b>   | <b>6.5%</b>   |

Not relevant

DZ BANK accounted for most of the increase, which was driven by its lending business (primarily loans, money market lending, and development loans) with entities in the Cooperative Financial Network. Volumes in the Corporate Banking and Structured Finance divisions grew as well.

As at December 31, 2023, a significant proportion (41 percent) of the Bank sector's lending volume was concentrated in the financial sector (December 31, 2022: 39 percent). 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.

Fig. VII.22 shows the breakdown of the credit portfolio by asset class.

As at December 31, 2023, a significant proportion (62 percent) of **DZ BANK's** lending volume was also concentrated in the **financials** asset class (December 31, 2022: 62 percent). The composition of this asset class is the same both at DZ BANK and in the Bank sector.

| <b>Lending volume for the consolidated financial statements</b>                     | <b>Note</b> |
|---|-------------|
| <b>Loans and advances to banks</b>  |             |
| of which: loans and advances to banks excluding money market placements             | 50          |
| of which: loss allowances for loans and advances to banks                           | 59          |
| <b>Loans and advances to customers</b>  |             |
| Loans and advances to customers excluding money market placements                   | 51          |
| of which: loss allowances for loans and advances to customers                       | 59          |
| <b>Financial guarantee contracts and loan commitments</b>                           |             |
| <b>Bonds and other securities</b>   |             |
| of which: financial assets held for trading/bonds excluding money market placements | 53          |
| of which: financial assets held for trading/promissory notes and registered bonds   | 53          |
| of which: investments/bonds excluding money market placements                       | 54          |
| <b>Derivatives</b>  |             |
| of which: derivatives used for hedging (positive fair values)                       | 52          |
| of which: financial assets held for trading/derivatives (positive fair values)      | 53          |
| of which: derivatives used for hedging (negative fair values)                       | 65          |
| of which: financial liabilities held for trading/derivatives (negative fair values) | 66          |
| <b>Money market placements</b>  |             |
| of which: loans and advances to banks/money market placements                       | 50          |
| of which: loans and advances to customers/money market placements                   | 51          |
| of which: financial assets held for trading/money market instruments                | 53          |
| of which: financial assets held for trading/money market placements                 | 53          |
| of which: investments/money market instruments                                      | 54          |

FIG. VII.22 – BANK SECTOR: LENDING VOLUME, BY ASSET CLASS

| € billion   | Bank sector   |               | DZ BANK       |               |
|---|---------------|---------------|---------------|---------------|
|   | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Entities within the Cooperative Financial Network | 148.6         | 132.9         | 148.2         | 132.5         |
| Financials  | 44.5          | 42.7          | 32.6          | 31.6          |
| Corporates  | 80.9          | 76.1          | 75.3          | 70.7          |
| Asset-based lending/project finance               | 12.7          | 11.9          | 12.7          | 11.9          |
| Public sector                                     | 36.0          | 36.0          | 12.6          | 10.6          |
| Real estate (commercial and retail customers)     | 118.4         | 119.0         | –             | –             |
| Retail business (excluding real estate customers) | 18.0          | 18.0          | –             | –             |
| ABSs and ABCPs <sup>1</sup>                       | 9.2           | 8.5           | 9.0           | 8.2           |
| Other   | 2.6           | 2.7           | 1.0           | 1.0           |
| <b>Total</b>                                      | <b>471.0</b>  | <b>447.7</b>  | <b>291.5</b>  | <b>266.6</b>  |

<sup>1</sup> ABSs = asset-backed securities, ABCPs = asset-backed commercial paper.

#### 8.6.4 Geographical structure of the credit portfolio (excluding Germany)

Fig. VII.23 shows the geographical distribution of the credit portfolio by country group. Borrowers based in Germany are not included in this breakdown. The relevant country for the assignment to a country group is the one in which the economic risk arises. As at December 31, 2023, 67 percent of lending in the Bank sector outside Germany (December 31, 2022: 66 percent) and 62 percent of lending by DZ BANK outside Germany (December 31, 2022: 60 percent) was concentrated in Europe.

FIG. VII.23 – BANK SECTOR: LENDING VOLUME, BY COUNTRY GROUP

| € billion          | Bank sector   |               | DZ BANK       |               |
|--------------------|---------------|---------------|---------------|---------------|
|                    | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Europe             | 54.5          | 50.3          | 39.7          | 36.6          |
| of which: eurozone | 35.1          | 31.5          | 23.8          | 21.2          |
| North America      | 14.5          | 14.0          | 13.2          | 12.7          |
| Central America    | 0.2           | 0.2           | 0.2           | 0.2           |
| South America      | 1.0           | 1.0           | 1.0           | 1.0           |
| Asia               | 7.8           | 7.3           | 7.6           | 7.1           |
| Africa             | 1.3           | 1.3           | 1.3           | 1.3           |
| Other              | 2.0           | 2.2           | 1.6           | 1.8           |
| <b>Total</b>       | <b>81.2</b>   | <b>76.4</b>   | <b>64.3</b>   | <b>60.6</b>   |

#### 8.6.5 Rating structure of the credit portfolio

In the **Bank sector**, the proportion of the total lending volume accounted for by rating classes 1A to 3A (investment grade) was 89 percent as at the reporting date (December 31, 2022: 87 percent). Rating classes 3B to 4E (non-investment grade) represented 10 percent (December 31, 2022: 11 percent). Defaults, represented by rating classes 5A to 5E, accounted for less than 1 percent of the total lending volume, as had also been the case at the end of 2022.

Rating classes 1A to 3A (investment grade) also dominated lending at **DZ BANK**, where they accounted for 92 percent of the total lending volume (December 31, 2022: 90 percent). Rating classes 3B to 4E (non-investment grade) represented 7 percent as at the reporting date (December 31, 2022: 9 percent). Defaults (rating classes 5A to 5E) accounted for less than 1 percent of the total lending volume as at December 31, 2023, as had also been the case at the end of 2022.

Fig. VII.24 shows the lending volume in the Bank sector and at DZ BANK by rating class according to the VR credit rating master scale.

FIG. VII.24 – BANK SECTOR: LENDING VOLUME, BY INTERNAL RATING CLASS

| € billion            |    | Bank sector   |               | DZ BANK       |               |
|----------------------|----|---------------|---------------|---------------|---------------|
|                      |    | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Investment grade     | 1A | 31.9          | 29.5          | 15.6          | 11.9          |
|                      | 1B | 6.2           | 8.5           | 4.1           | 5.0           |
|                      | 1C | 162.7         | 146.6         | 154.1         | 139.2         |
|                      | 1D | 14.4          | 13.2          | 9.1           | 5.8           |
|                      | 1E | 23.9          | 18.1          | 13.2          | 6.4           |
|                      | 2A | 25.4          | 19.4          | 12.6          | 7.3           |
|                      | 2B | 33.5          | 26.6          | 14.6          | 11.1          |
|                      | 2C | 27.7          | 28.5          | 13.6          | 13.8          |
|                      | 2D | 32.2          | 32.9          | 11.6          | 12.9          |
|                      | 2E | 35.4          | 41.2          | 12.7          | 15.7          |
|                      | 3A | 23.6          | 26.8          | 5.8           | 10.0          |
| Non-investment grade | 3B | 13.4          | 14.7          | 5.6           | 7.5           |
|                      | 3C | 10.0          | 11.9          | 3.4           | 4.6           |
|                      | 3D | 8.4           | 8.6           | 4.8           | 4.2           |
|                      | 3E | 5.9           | 4.2           | 3.2           | 2.0           |
|                      | 4A | 3.1           | 2.3           | 1.4           | 0.7           |
|                      | 4B | 2.8           | 3.7           | 1.6           | 2.3           |
|                      | 4C | 1.3           | 1.2           | 0.7           | 0.6           |
|                      | 4D | 0.6           | 0.9           | 0.3           | 0.5           |
|                      | 4E | 2.1           | 3.3           | 1.0           | 2.4           |
| Default              |    | 3.8           | 3.1           | 2.2           | 2.0           |
| Not rated            |    | 2.6           | 2.6           | 0.7           | 0.6           |
| <b>Total</b>         |    | <b>471.0</b>  | <b>447.7</b>  | <b>291.5</b>  | <b>266.6</b>  |

### 8.6.6 Collateralized lending volume

Fig. VII.25 shows the breakdown of the collateralized lending volume at overall portfolio level by type of collateral.

FIG. VII.25 – BANK SECTOR: COLLATERAL VALUE, BY TYPE OF COLLATERAL

| € billion   | Bank sector   |               | DZ BANK       |               |
|---|---------------|---------------|---------------|---------------|
|   | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Guarantees, indemnities, risk subparticipation                  | 7.0           | 7.4           | 1.7           | 1.8           |
| Credit insurance  | 6.0           | 5.6           | 6.0           | 5.6           |
| Land charges, mortgages, registered ship and aircraft mortgages | 114.1         | 116.2         | 1.9           | 2.4           |
| Pledged loans and advances, assignments, other pledged assets   | 2.0           | 2.0           | 1.2           | 1.2           |
| Financial collateral  | 1.4           | 1.4           | 0.4           | 0.9           |
| Other collateral  | 0.4           | 0.4           | 0.3           | 0.3           |
| <b>Total collateral</b>   | <b>130.8</b>  | <b>133.0</b>  | <b>11.4</b>   | <b>12.2</b>   |
| Lending volume  | 400.3         | 381.4         | 246.3         | 225.8         |
| <b>Uncollateralized lending volume</b>                          | <b>269.5</b>  | <b>248.3</b>  | <b>234.8</b>  | <b>213.5</b>  |
| <b>Collateralization rate (percent)</b>                         | <b>32.7</b>   | <b>34.9</b>   | <b>4.6</b>    | <b>5.4</b>    |

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.

Total collateral value in the **Bank sector** fell from €133.0 billion as at December 31, 2022 to €130.8 billion as at December 31, 2023. The collateralization rate was 32.7 percent as at the reporting date (December 31, 2022: 34.9 percent).

At €11.4 billion, **DZ BANK's** total collateral value as at December 31, 2023 was also down year on year (December 31, 2022: €12.2 billion). The collateralization rate had declined to 4.6 percent as at the reporting date (December 31, 2022: 5.4 percent).

### 8.6.7 Volume of closely monitored and non-performing loans

Closely monitored loans and forborne exposure

Fig. VII.26 shows the volume of loans on the three monitoring lists – **yellow list**, **watchlist**, and **default list** – and the forborne exposure also included in these lists. A further item in the table shows the exposure managed as forborne but not subject to intensified loan management, i.e. not included in the lists.

FIG. VII.26 – BANK SECTOR: CLOSELY MONITORED LENDING VOLUME AND FORBORNE EXPOSURE

| € million                                       | Bank sector   |               | DZ BANK       |               |
|---|---------------|---------------|---------------|---------------|
|   | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| <b>Yellow list lending volume</b>               | <b>3,786</b>  | 3,458         | <b>2,665</b>  | 2,608         |
| of which: forborne exposure                     | 626           | 151           | 463           | 149           |
| <b>Watchlist lending volume</b>                 | <b>4,901</b>  | 6,221         | <b>3,094</b>  | 4,458         |
| of which: forborne exposure                     | 999           | 919           | 741           | 763           |
| <b>Default list lending volume</b>              | <b>3,792</b>  | 3,124         | <b>2,185</b>  | 2,021         |
| of which: forborne exposure                     | 1,473         | 1,536         | 884           | 1,063         |
| <b>Total lending volume on monitoring lists</b> | <b>12,479</b> | 12,804        | <b>7,943</b>  | 9,086         |
| of which: forborne exposure                     | 3,097         | 2,606         | 2,088         | 1,975         |
| <b>Off-monitoring-list forborne exposure</b>    | 327           | 394           | –             | –             |
| <b>Total forborne exposure<sup>1</sup></b>      | <b>3,424</b>  | 2,999         | <b>2,088</b>  | 1,975         |

<sup>1</sup> Both on and off the monitoring lists.

The **closely monitored lending volume** in the **Bank sector** declined by 3 percent from December 31, 2022 to December 31, 2023. This is primarily attributable to a reduction of €1,144 million at DZ BANK. By contrast, the lending volume increased by €488 million at DZ HYP and by €263 million at TeamBank.

The **forborne exposure** rose from €2,999 million as at December 31, 2022 to €3,424 million as at December 31, 2023. The rise was mainly attributable to an increase of €552 million in the forborne exposure at DZ HYP.

At **DZ BANK**, the closely monitored lending volume as at December 31, 2023 was down by €1,144 million year on year, which constituted a decrease of 13 percent. This reduction was mainly attributable to a decline of €1,365 million in the lending volume on the watchlist. That lending volume, in turn, fell as a result of exposures being removed from the closely monitored category and some exposures being transferred to the yellow list or

the default list. Ultimately, the yellow-list lending volume increased by €57 million and the default-list lending volume rose by €164 million.

#### Non-performing loans

As at December 31, 2023, the volume of non-performing loans (NPLs) in the **Bank sector** had risen to €3.8 billion from €3.1 billion as at December 31, 2022. This increase is chiefly due to the rise in non-performing loans of €461 million at DZ HYP, €164 million at DZ BANK, and €83 million at TeamBank. This caused the NPL ratio to advance from 0.7 percent as at December 31, 2022 to 0.8 percent as at December 31, 2023.

Non-performing loans at **DZ BANK** amounted to €2.2 billion as at December 31, 2023 (December 31, 2022: €2.0 billion). Due to the increase in the overall lending volume at DZ Bank, the NPL ratio fell to 0.7 percent (December 31, 2022: 0.8 percent).

Fig. VII.27 shows key figures relating to the volume of non-performing loans.

FIG. VII.27 – BANK SECTOR: KEY FIGURES FOR NON-PERFORMING LOANS

|   | Bank sector   |               | DZ BANK       |               |
|---|---------------|---------------|---------------|---------------|
|   | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Total lending volume (€ billion)                        | 471.0         | 447.7         | 291.5         | 266.6         |
| Volume of non-performing loans (€ billion) <sup>1</sup> | 3.8           | 3.1           | 2.2           | 2.0           |
| Balance of loss allowances (€ billion) <sup>2</sup>     | 1.6           | 1.3           | 1.0           | 0.9           |
| Coverage ratio (percent) <sup>3</sup>                   | 79.7          | 75.7          | 78.8          | 75.5          |
| NPL ratio (percent) <sup>4</sup>                        | 0.8           | 0.7           | 0.7           | 0.8           |

<sup>1</sup> Volume of non-performing loans excluding collateral.

<sup>2</sup> IFRS specific loan loss allowances at stage 3, including provisions.

<sup>3</sup> Loss allowances as specified in footnote 2, plus collateral, as a proportion of the volume of non-performing loans.

<sup>4</sup> Volume of non-performing loans as a proportion of total lending volume.

## 8.7 Credit portfolios particularly affected by negative macroeconomic conditions

The following sections describe credit portfolios in which the effects of negative macroeconomic conditions were more noticeable than in the rest of the credit portfolios. The figures presented below are included in the disclosures for the lending volume as a whole (see chapter VII.8.6).

The credit risk stemming from the **economic divergence in the eurozone** has lessened considerably thanks to improvements in the credit ratings of Portugal, Italy, and Spain over the course of the year, which means that this portfolio is no longer a special focus of credit risk management. As a result, the disclosures on loans and advances in the Bank sector to corporate borrowers from eurozone periphery countries, which were made in the risk report of the 2023 interim group management report, have now been omitted.

### 8.7.1 Structural change in the automotive sector

The automotive sector has been in a state of upheaval for a number of years and faces certain challenges compared with other industries, such as low profit margins and a need for high levels of capital, coupled with long investment cycles. The European Parliament's decision to end the sale of passenger cars with internal combustion engines by 2035 will, in the next few years, further accelerate the switch to alternative drives – especially electric vehicles – and keep the pressure on the industry to transform.

Car manufacturers' production operations were particularly impacted by the supply chain disruptions that occurred in 2022 and were caused primarily by shortages of input products (especially semiconductors) and the war in Ukraine. Increased costs for commodities, energy, and transportation also weighed heavily on the industry.

Since the start of 2023, supply chains have stabilized and outstanding orders have been completed. As a result, global passenger car sales recovered in the first half of 2023, before plummeting new car orders – particularly in Germany – heralded a slowdown in demand in the second half of the reporting year. Nevertheless, registrations were up for the year as a whole, including in Germany, but the outlook for 2024 is muted.

The volume of lending in DZ BANK's automotive finance portfolio came to €5.3 billion as at December 31, 2023 (December 31, 2022: €5.0 billion). This portfolio includes loans to automotive suppliers, which are analyzed separately in chapter VII.8.9.3

## 8.7.2 Commercial real estate finance

### Business model and macroeconomic risks

**DZ HYP's** lending business with corporates includes financing for hotels, office real estate, department stores, shopping malls, and inner-city commercial properties that are mainly used for retail/wholesale businesses not offering day-to-day essentials (retail/wholesale segment). In addition, DZ HYP provides financing to property developers and project developers. It also finances purchases of land for which development plans have been drawn up.

Since 2020, these asset classes have been impacted by a number of general and specific sources of uncertainty. Chief among them was the COVID-19 pandemic initially, although it no longer plays a significant role. Since 2023, the main risk factors have been the jump in prices for construction work and building materials, coupled with much higher interest rates. General political and macroeconomic headwinds are also adding to the uncertainty. Transaction activity was very muted, with predominantly moderate declines in market values in 2023.

The portfolios in question have so far proven to be crisis-resistant with no structural anomalies. Heightened requirements in terms of the underlying value and cash flow performance of the financed real estate have a risk-mitigating effect. Nevertheless, uncertainty persists for commercial real estate finance with regard to the viability of rents and to rising interest rates. This could adversely impact on cash flow, capital expenditure, and market values. For a return to a normal level, a significant and protracted economic recovery and a fall in inflation are required, as well as the sustained stabilization of interest rates.

### Risks specific to individual real estate finance segments

In 2022, **hotel** occupancy was almost back at the levels seen before the pandemic and that level was maintained in 2023. The weak economy and high rate of inflation, combined with pressure from competitors and rising costs, continue to be material risk factors for hotel real estate.

**Office real estate** is subject to uncertainty in terms of the wishes of tenants going forward and their space requirements in light of the new ways of working that involve new space concepts and remote working. In addition, because a huge part of the value creation process of businesses takes place in office real estate, ongoing weakness in the economy can also have an adverse effect on this segment by causing business demand for office space to fall.

**Department stores, shopping malls, and inner-city commercial properties** that are mainly used for retail/wholesale businesses not offering day-to-day essentials have been seeing a concentration of demand in top locations for some time. The recent upward trend in rents on new contracts is tempered by the uncertainty caused by the sluggish economy and the sharp rise in consumer price levels. Higher energy costs are placing an additional strain on retailers.

Transaction levels in the **property development and project development** market are currently very muted. Prices for construction work and building materials have stabilized significantly but remain higher than at the

start of 2021. With the market for property development and project development work largely at a standstill, there is now heightened marketing risk for **plots of land**.

#### Lending volume by finance segment

As at December 31, 2023, the volume of corporate loans extended by DZ HYP amounted to a total of €46.7 billion (December 31, 2022: €46.8 billion). Of this total, the following amounts were attributable to the aforementioned asset classes as at the reporting date (figures as at December 31, 2022 shown in parentheses):

- Hotel financing: €2.2 billion (€2.4 billion)
- Office real estate financing: €14.8 billion (€14.6 billion)
- Department store financing: €0.5 billion (€0.6 billion)
- Shopping mall financing: €2.6 billion (€2.7 billion)
- Financing for inner-city commercial properties mainly used for retail/wholesale businesses not offering day-to-day essentials: €0.9 billion (€0.8 billion)
- Property developer and project developer financing and financing for land purchases: €5.7 billion (€6.3 billion)

Financing for property developers and project developers and financing for land purchases also include certain portions of the financing for the aforementioned asset classes, in particular the financing of office real estate with a volume of €2.6 billion as at December 31, 2023 (December 31, 2022: €2.5 billion) and residential properties of €1.6 billion (December 31, 2022: €2.1 billion).

#### 8.7.3 Financing for retail customer in the consumer finance business

The economic conditions described in chapter VII.4.2 also impact on the financial strength of retail customers. This was especially apparent in TeamBank's consumer finance business. Some key risk indicators deteriorated over the course of 2023. Among other things, this led to a rise in non-performing loans.

#### 8.8 Credit portfolios particularly affected by acute global crises

The following sections describe credit portfolios in which the effects of acute global crises were more noticeable than in the rest of the credit portfolios. The figures presented below are included in the disclosures for the lending volume as a whole (see chapter VII.8.6).

The lending volume of the **Bank sector** in countries affected by global crises amounted to €4,182 million as at December 31, 2023 (December 31, 2022: €3,983 million). This equates to 0.9 percent of the total lending volume in the Bank sector as at the reporting date, which is unchanged year on year. Taking account of recoverable collateral, the net lending volume was €1,634 million as at December 31, 2023 (December 31, 2022: €1,688 million).

The exposure of **DZ BANK** in countries affected by global crises broke down as at the reporting date as follows (figures as at December 31, 2022 shown in parentheses):

- Gross lending volume: €4,142 million (€3,933 million)
- Equating to 1.4 percent of the total lending volume (1.5 percent)
- Net lending volume: €1,597 million (€1,643 million)

This exposure mainly comprised short-dated trade finance, project finance backed by export credit agencies, and syndicated bank loans.

Fig. VII.28 shows the breakdown of the net lending volume in countries affected by the various crises.

FIG. VII.28 – BANK SECTOR: NET LENDING VOLUME IN COUNTRIES PARTICULARLY AFFECTED BY ACUTE GLOBAL CRISES

| € million  | Bank sector   |               | DZ BANK       |               |
|--|---------------|---------------|---------------|---------------|
|  | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| <b>Net lending volume in countries affected directly by the war in Ukraine</b>                   | <b>94</b>     | 139           | <b>86</b>     | 136           |
| of which: Russia   | 91            | 130           | 83            | 128           |
| of which: Belarus  | 2             | 6             | 2             | 6             |
| of which: Ukraine  | 2             | 2             | 2             | 2             |
| <b>Net lending volume in countries affected directly by the Israel-Hamas war</b>                 | <b>432</b>    | 548           | <b>431</b>    | 548           |
| of which: Israel   | 1             | 5             | 1             | 5             |
| of which: Iraq   | 2             | –             | 2             | –             |
| of which: Egypt  | 58            | 144           | 57            | 144           |
| of which: Turkey   | 371           | 399           | 371           | 399           |
| <b>Net lending volume in countries affected directly by the dispute between China and Taiwan</b> | <b>1,107</b>  | 1,002         | <b>1,080</b>  | 960           |
| of which: China  | 1,008         | 923           | 982           | 881           |
| of which: Taiwan   | 100           | 80            | 97            | 79            |
| <b>Total</b>   | <b>1,634</b>  | 1,688         | <b>1,597</b>  | 1,643         |

## 8.9 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 below are included in the disclosures for the lending volume as a whole (see chapter VII.8.6).

### 8.9.1 Finance for cruise ships

Cruise ship companies benefited from strong growth in bookings and prices in 2023, which lifted their capacity utilization and booking figures to, or even above, the levels seen in 2019 before the pandemic. Thanks to this return to positive operating results and the comprehensive corporate action taken in the recent past, cruise ship companies' liquidity levels are largely comfortable once more. These companies do need to regain their former strength promptly so that they can service the debt they built up during the pandemic and pay for fleet expansions, some of which are already scheduled, and regain investment-grade credit status in the medium term. In the long term, the industry should continue to capitalize on the appeal of cruises compared with land-based trips in order to combat the effects of inflation, high marketing expenditure, and fluctuating fuel prices.

Cruise ship finance in the Bank sector is mainly brought together under **DZ BANK**. As at December 31, 2023, the volume of cruise ship finance amounted to €994 million (December 31, 2022: €1,052 million). Collateral worth €644 million was available as at December 31, 2023 (December 31, 2022: €722 million). Of this amount, €612 million was attributable to export credit insurance (December 31, 2022: €652 million).

### 8.9.2 Finance for cruise ship building

A distinction is made between cruise ship finance and the financing of cruise ship building. This segment, which only affects **DZ BANK** in the Bank sector, is still undergoing a large-scale transformation process. In consultation with the parties ordering cruise ships, a base level of capacity utilization has been secured for the period until 2025/2026 by spreading out orders on hand. Substantial reductions in production capacity and headcount are planned in order to counteract low capacity utilization over the medium term. Price renegotiations with cruise ship buyers helped to offset the impact of rising energy and procurement costs for the most part. Funding for the cost of the transformation process in this industry is backed by government guarantees. On the back of a number of challenging years, the credit quality of customers in this business segment remains troubled. This will likely still be the case in 2024, meaning that finance for cruise ship building continues to be classified as a portfolio with increased risk content.

The lending volume related to the financing of cruise ship building stood at €337 million as at December 31, 2023 (December 31, 2022: €332 million). Collateral worth €258 million was available as at December 31, 2023 (December 31, 2022: €181 million). Of this amount, €179 million was attributable to export credit insurance (December 31, 2022: €155 million).

### 8.9.3 Finance for automotive suppliers

In addition to the factors described in chapter VII.8.7.1 that apply to the automotive sector as a whole, conditions remain particularly challenging for automotive suppliers in Germany.

Historical data shows that the automotive supply industry is characterized by high capital requirements but has comparatively low margins and a relatively weak competitive position due to oligopoly-style structures in the automotive manufacturing industry.

It had become clear in 2022 that, compared with their suppliers, car manufacturers are significantly better positioned to be able to adapt to global supply chain disruptions, for example by changing their product mix. Financial performance in the automotive supply industry hinges primarily on the number of manufactured vehicles, which in 2023 was much higher year on year across Europe due to the backlog of orders being processed, but it was still well below its record level from 2017.

The technology and development expertise of major global suppliers will ensure that they remain the partner of choice for vehicle manufacturers around the world. Over the medium term, Asia is expected to be a significant source of growth stimulus in the coming years, even though growth rates in China are slowing. The same goes for Chinese manufacturers, who are operating more and more on a global scale. As new technologies and the demand associated with these often evolve in a very dynamic and unpredictable manner, such opportunities for growth also come with increased risks. The risks include the uncertainty surrounding future drive systems and vehicle designs, as well as geopolitical tensions, especially with regard to China. Against this backdrop, finance for automotive suppliers continues to be classified as a portfolio with increased risk content.

As at December 31, 2023, loans to companies in the automotive supply industry, which fall into **DZ BANK's** 'corporates' asset class, totaled €3,338 million (December 31, 2022: €3,113 million).

### 8.9.4 Finance for borrowers in the clothing and textile industry

The clothing and textile industry tends to be sensitive to changes in the economic environment and inflation, and is also marked by fierce competition. The industry suffered from lengthy store closures during the pandemic. Since the middle of 2022, high prices have particularly eroded household purchasing power, with risks concentrated in the mid-range price segment. Demand in the upper and lower price segments, by contrast, has fared better. High freight costs, increased commodity prices, and high energy and rental costs in brick-and-mortar retail, combined with the weak euro at the start of the retail season, led to a significant rise in costs and weighed heavily on the affected companies' financial performance. Current revenue growth is price-led or attributable to the release of pent-up demand following the end of the pandemic.

The decline in revenue (adjusted for inflation) seen in 2023 and the cautious consumer mood will likely continue in 2024 and affect all sales formats (brick-and-mortar retail and online sales). Deteriorating macroeconomic fundamentals do not make a turnaround likely in 2024 either. As a result, finance for borrowers in the clothing and textile industry is classified as a portfolio with increased risk content. Within the Bank sector, the lending exposure to the clothing and textile industry is concentrated at **DZ BANK**.

As at December 31, 2023, DZ BANK's lending volume in this industry was €1,690 million (December 31, 2022: €2,077 million).

### 8.9.5 Finance for borrowers in the construction industry and for home improvement stores

Given their above-average sensitivity (with a time lag) to changes in the wider economy and the fierce level of competition, the construction industry and home improvement stores have been battling several negative factors for quite a while.

The rise in construction costs, the current interest-rate environment, and the policy situation are placing a particular burden on residential construction. These factors have significantly depressed demand across the entire industry.

The number of completed homes is expected to keep falling in 2024 and the number of residential planning permissions is also expected to decline further. The forecast level of orders on hand in industrial, commercial, and public-sector construction has also been adjusted downward and therefore will not make up for the reduction in orders for residential construction. Overall, capacity utilization is expected to go down in the construction segment.

Since the middle of 2022, substantial price increases and the rise in interest rates have severely dampened the level of consumer demand experienced by **home improvement stores**. The situation has been further exacerbated by current geopolitical tensions and the resulting uncertainty spreading among consumers. In light of these developments, a turnaround in consumer demand is not currently foreseeable.

Against this backdrop, finance for borrowers in the construction industry and for home improvement stores is now classified as a portfolio with increased risk content.

The lending volume in this portfolio is mainly attributable to **DZ BANK**. DZ BANK's exposure as at December 31, 2023 amounted to €6,776 million (December 31, 2022: €5,985 million).

## 8.10 Risk position

### 8.10.1 Risks in the entire credit portfolio

The risk capital requirement for credit risk is based on a number of factors, including the size of single-borrower exposures, individual ratings, collateral, and the industry sector of each exposure.

As at December 31, 2023, the **risk capital requirement** in the Bank sector was €3,971 million (December 31, 2022: €3,766 million). The year-on-year rise was mainly attributable to DZ BANK. The corresponding **limit** was €4,988 million (December 31, 2022: €6,387 million). A scheduled review and adjustment of credit risk limits was carried out at the start of the year. At the level of the DZ BANK Group, the limits were reduced by €1,399 million to €4,988 million overall, in accordance with the risk limit utilization.

**DZ BANK's** credit value-at-risk as at December 31, 2023 amounted to €2,359 million (December 31, 2022: €2,254 million). The year-on-year rise in credit risk was mainly attributable to higher volumes of lending in business with cooperative banks. The corresponding **limit** was €2,760 million (December 31, 2022: €2,854 million).

Fig. VII.29 shows the credit value-at-risk together with the average probability of default and expected loss.

FIG. VII.29 – BANK SECTOR: FACTORS DETERMINING THE CREDIT VALUE-AT-RISK

|  | Bank sector   |               | DZ BANK       |               |
|--|---------------|---------------|---------------|---------------|
|  | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Average probability of default (percent) | 0.3           | 0.3           | 0.2           | 0.2           |
| Expected loss (€ million)                | 440           | 460           | 186           | 217           |
| Credit value-at-risk (€ million)         | 3,971         | 3,766         | 2,359         | 2,254         |

In the analysis of **individual concentrations**, the 20 counterparties associated with the largest credit value-at-risk accounted for 28 percent of the total credit value-at-risk in the **Bank sector** and 40 percent of the total credit value-at-risk at **DZ BANK** as at December 31, 2023. These shares were unchanged compared with the end of 2022 for the Bank sector and DZ BANK. In both cases, the counterparties almost exclusively comprised borrowers from the financial sector (including the cooperative banks) with an investment-grade rating.

#### 8.10.2 Risks in the credit portfolios with increased risk content

The risk capital required in the **Bank sector** and at **DZ BANK** for credit portfolios exposed to increased credit risk is shown in Fig. VII.30.

FIG. VII.30 – BANK SECTOR: CREDIT VALUE-AT-RISK<sup>1</sup> FOR CREDIT PORTFOLIOS WITH INCREASED RISK CONTENT

| € million  | Bank sector   |               | DZ BANK       |               |
|--|---------------|---------------|---------------|---------------|
|  | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Finance for cruise ships   | 2             | 14            | 2             | 14            |
| Finance for cruise ship building   | 4             | 3             | 4             | 3             |
| Finance for automotive suppliers   | 46            | 32            | 45            | 31            |
| Finance for borrowers in the clothing and textile industry                             | 10            | 13            | 9             | 12            |
| Finance for borrowers in the construction industry (including home improvement stores) | 50            | 38            | 35            | 25            |

<sup>1</sup> Excluding decentralized capital buffer requirement.

The decline in credit value-at-risk for **finance for cruise ships** was mainly attributable to improved economic conditions in the industry and resulting rating upgrades.

## 9 Equity investment risk

### 9.1 Definition and business background

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. Equity investment risk also includes the risk of losses arising from negative changes in the fair value of the management units' real estate portfolios caused by a deterioration in the general real estate situation or specific factors relating to individual properties (such as vacancy, tenant default, loss of use).

In the Bank sector, equity investment risk arises primarily at DZ BANK, BSH, and TeamBank.

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.

## 9.2 Risk strategy, responsibility, and reporting

**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 the risk remains below the existing limits.

The **investment portfolio is managed** in line with the provisions of the equity investment risk strategy. At DZ BANK, these provisions are supplemented by rules and instructions, which stipulate, for example, that ongoing investment management and the monitoring of the performance of long-term equity investments are subject to MaRisk requirements.

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 Group Finance 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 TeamBank, the investments are mainly the responsibility of the Corporate Development division.

Equity investment risk in the Bank sector is **measured and monitored** by DZ BANK. The Board of Managing Directors is kept up to date through the overall risk reports.

## 9.3 Risk factors

Besides the macroeconomic risk factors described in chapter VII. 4.2, specific risk factors – such as the long-term equity investment's industry, the location of its registered office, and the amount of the investment – are key factors for determining equity investment risk. 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.

## 9.4 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.

For the real estate directly owned by DZ BANK, the Bank Finance division and the central facility management team perform an impairment test every six months based on the carrying amounts and current valuation reports. If there are any indications during the course of the year of possible impairment, more frequent impairment tests are also carried out.

The risk capital requirement for the vast majority of the long-term equity investments is determined using a Monte Carlo simulation with a 1-year observation period and a confidence level of 99.9 percent (portfolio risk measurement). 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. For a minority of the long-term equity investments, a look-through approach is taken in which the individual risk types that exist in each long-term equity investment are measured (differentiated risk measurement).

## 9.5 Carrying amounts of long-term equity investments and risk position

The **carrying amounts of long-term equity investments** in the **Bank sector** relevant for the measurement of equity investment risk amounted to €3,046 million as at December 31, 2023 (December 31, 2022: €2,858 million). As at December 31, 2023, the carrying amounts of the long-term equity investments of **DZ BANK** came to €2,175 million (December 31, 2022: €1,880 million).

The **risk capital requirement** for equity investment risk in the **Bank sector** was calculated to be €998 million as at the reporting date (December 31, 2022: €997 million). The **limit** was €1,281 million (December 31, 2022: €1,230 million). The **risk capital requirement** for **DZ BANK** as at December 31, 2023 came to €664 million (December 31, 2022: €632 million) with a **limit** of €795 million (December 31, 2022: €767 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 loss arising from adverse movements in market prices or in the parameters that influence prices. Market risk encompasses a number of risk subtypes, including interest-rate risk (interest-rate risk in the banking book, interest-rate risk in the trading book), spread risk (constantly monitored component) and migration risk (as intermittent spread risk), currency risk, equity risk, fund price risk, commodity risk, and asset-management risk. Parameters that determine market risk also include a category of risk factors referred to as ‘opaque’. These risk factors are parameters that are relevant to measurement but cannot be directly observed and must therefore be derived from quoted market prices using models. For the purposes of measuring and managing risk, market risk is broken down into spread and migration risk, asset-management risk, and general market risk, the last of which encompasses all the other risk subtypes.

**Market liquidity risk** is the risk of losses that could arise from adverse changes in market liquidity – for example, because of market disruption or a reduction in market depth – such that assets can only be liquidated in markets if they are discounted and that it is only possible to carry out active risk management on a limited basis.

### 10.2 Business background and risk strategy

#### 10.2.1 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 arises in the Bank sector mainly as a consequence of the following business activities:

- **DZ BANK**: own trading activities; traditional lending business with non-retail customers
- **BSH**: building society operations aimed at financing privately owned real estate; traditional lending business; securities portfolios
- **DZ HYP**: financing for real estate and local authorities; portfolios of securities held to manage liquidity and cover assets
- **UMH**: own-account investing activities; guarantee obligations to customers contained in Riester fund-linked savings plans and guarantee funds

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.

### 10.2.2 Risk strategy

The following principles for managing market risk apply to the entities in the **Bank sector**:

- 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.
- 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.

The entities in the Bank sector pursue the following strategies in relation to the individual **types of market risk**:

- Spread and migration risk is consciously and selectively assumed and managed within the limits.
- Interest-rate risk associated with the original business purpose of the management units is kept within defined limits.
- In contrast, interest-rate risk from pension obligations and market risk from assets (generally funds) held to meet defined benefit obligations are accepted and included in the calculation of risk-bearing capacity.
- Equity risk and fund price risk are consciously assumed within the limits in place and actively managed.
- 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 liquidity.

### 10.3 Risk factors

Spread and migration risk, interest-rate risk, equity risk, fund price risk, and currency risk are caused by changes in the **yield curve, credit spreads, exchange rates, and share prices**.

Spread risk, including migration risk, is the most significant type of market risk for 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. Fair value losses of this nature could have a temporary or permanent adverse impact on capital. The widening of credit spreads can be triggered by the macroeconomic risk factors described in chapter VII.4.2.

In the context of the **asset management activities** brought together under UMH, the **geopolitical tensions** described in chapter VII.4.2.1 could cause stock market turbulence, which could, in turn, negatively affect the shares held as part of pension products if the turbulence gave rise to fair value losses.

There is also a risk that **rising interest rates** (see chapter VII.4.2.6) could cause the fair values of fixed-income funds to fall. Particularly in the case of pension schemes with an unfavorable duration asymmetry and a high volume of fixed-income funds, this may mean that the guarantee commitments given to customers cannot be met from the investment instruments in the products. 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. If UMH has to provide additional capital to be able to meet its guarantee commitments, this could have a detrimental impact on the financial performance of the DZ BANK Group.

#### 10.4 Organization, responsibility, and 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** in the quarterly overall risk report.

#### 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. The models are 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 are in place to 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. VII.31.

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 one day and with a unilateral confidence level of 99.0 percent. The day-by-day calculation of market risk is based on a historical observation period of 250 trading days. A number of risk factors, categorized into groups, are included in the risk calculation. The most important risk factor groups include yield curves, 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 turns the operational key risk indicators (also taking account of stress events) into a strategic perspective in which a one-year holding period and a confidence level of 99.9 percent are 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 and key risk indicators used, the frequency of risk measurement, and the main risk measurement parameters. To supplement this risk measurement approach in which the banking and trading books are analyzed holistically, interest-rate risk in the banking books of the entities in the Bank sector from a regulatory perspective 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

#### Decentralized measurement of general market risk and spread risk

In addition to the models specified in chapter VII.10.5.1, the material **management units** operate their own risk models to satisfy ICAAP requirements from the perspective of the individual institution. With the exception of asset-management risk at UMH, the results from these models are not used to manage market risk on a present value basis in the Bank sector and therefore do not form part of this risk report.

#### Decentralized measurement of asset-management risk

The risk capital requirement for asset-management risk is determined locally by **UMH** and then added to the risk capital requirement for general market risk and spread risk calculated centrally for the Bank sector. Asset-management risk comprises risks related to guarantee funds and Riester pensions. Following the approach used for the central measurement of market risk, the risk capital requirement for asset-management risk is calculated on the basis of a Monte Carlo simulation, using a confidence level of 99.9 percent and a one-year holding period, and taking into account the specific investment selections made in the customer investment account.

### 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. For UniProfiRente, backtesting is carried out on the basis of monthly changes in the value of the portfolio.

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, currency risk, equity risk, and commodity 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** 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 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, on the basis of either individual transactions or portfolios. At **BSH**, an asset/liability management approach based on the maturities of the securities in the investment portfolio is the predominant method 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 also used for risk management purposes but are currently 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. Asset-management risk is reported using a separate internal system and is monitored regularly by UMH.

#### 10.6 Management of market liquidity risk

The calculation of general market risk in the Bank sector 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 transferred 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 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

FIG. VII.31 Fig. VII.31 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. In addition, Fig. VII.32 shows the change in market risk for the Bank sector by trading day in the reporting period. In both figures, the value-at-risk relates to the **trading and banking books for regulatory purposes**.

As at December 31, 2023, the value-at-risk for the **interest-rate risk in the banking book for regulatory purposes** was as follows (prior-year figures in parentheses):

- **Bank sector:** €48 million (€54 million)
- **DZ BANK:** €9 million (€11 million)

The decline in interest-rate risk in the banking book for regulatory purposes in the Bank sector and at DZ BANK is due to particular scenarios no longer being included in the rolling observation period in the risk model.

The value-at-risk for interest-rate risk in all of the portfolios and the value-at-risk for interest-rate risk in the banking book for regulatory purposes are calculated using identical risk models. Variations in risk values are attributable directly to differences in the calculation bases used for the various portfolios.

The decrease in value-at-risk in the Bank sector from €107 million as at December 31, 2022 to €74 million as at December 31, 2023 is mainly attributable to a reduction in spread risk, in addition to the diversification effect. This is due to particular scenarios no longer being included in the rolling observation period in the risk model.

FIG. VII.31 – BANK SECTOR: CHANGE IN MARKET RISK BY RISK SUBTYPE<sup>1, 2, 3</sup>

| € million     | Interest-rate risk |         | Spread risk |         | Equity risk |         | Currency risk |         | Commodity risk |         | Aggregate risk <sup>4</sup> |         |
|---------------|--------------------|---------|-------------|---------|-------------|---------|---------------|---------|----------------|---------|-----------------------------|---------|
|               | 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, 2023 | 49                 | 10      | 58          | 31      | 9           | 3       | 5             | 4       | 2              | 1       | 74                          | 37      |
| Average       | 56                 | 13      | 68          | 34      | 11          | 3       | 4             | 3       | 2              | 1       | 88                          | 36      |
| Maximum       | 69                 | 26      | 75          | 39      | 16          | 5       | 6             | 5       | 3              | 2       | 109                         | 42      |
| Minimum       | 42                 | 7       | 52          | 26      | 7           | 2       | 1             | 1       | 2              | 1       | 62                          | 31      |
| Dec. 31, 2022 | 53                 | 12      | 70          | 31      | 11          | 2       | 3             | 3       | 3              | 2       | 107                         | 34      |

<sup>1</sup> The disclosures relate to general market risk and spread risk. Asset-management risk is not included.

<sup>2</sup> Value-at-risk with 99.0% 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.

<sup>3</sup> Including funds, if not broken down into constituent parts.

<sup>4</sup> Due to the diversification effect between the market risk subtypes, the aggregate risk does not tally with the total of the individual risks.

FIG. VII.32 – BANK SECTOR: CHANGE IN MARKET RISK BY TRADING DAY<sup>1</sup>



<sup>1</sup> Value-at-risk with 99.0% 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.

### 10.7.2 Risk capital requirement

As at December 31, 2023, the risk capital requirement for **market risk** in the **Bank sector** and at **DZ BANK** amounted to €4,169 million (December 31, 2022: €3,730 million) and €1,757 million (December 31, 2022: €1,481 million) respectively, with **limits** of €6,470 million (December 31, 2022: €6,680 million) and €3,000 million (December 31, 2022: €3,175 million) respectively. The rise in risk capital requirements was largely attributable to higher stress test results due to the sharp fall in interest rates in the last quarter of 2023.

The Bank sector's risk capital requirement encompasses the **asset-management risk of UMH**. Asset-management risk as at December 31, 2023 amounted to €273 million (December 31, 2022: €342 million). This decline in risk was mainly due to a model adjustment.

## 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.

BSH's business risk and reputational risk are included within the technical risk of a home savings and loan company.

### 11.2 Business background and risk strategy

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 (which may be subsidized under statutory arrangements) is completed at a later point and a loan is allocated under the contract, they can receive a home savings loan with a fixed rate of interest. A home savings agreement is therefore a combined asset/liability product with a 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.

### 11.3 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 operations 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 lead to a fall in earnings and therefore to a decline in capital.

### 11.4 Responsibility, reporting, and risk management

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**.

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.

Technical risk of a home savings and loan company 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, 2023, the **risk capital requirement** for the technical risk of a home savings and loan company amounted to €730 million (December 31, 2022: €698 million) with a **limit** of €820 million (December 31, 2022: €785 million). At present, the changes in the parameters 'customer behavior' and 'decline in new business' that are simulated in the risk calculation give rise to stable risk values at a high level.

## 12 Business risk

### 12.1 Definition and business background

Business risk refers to the risk that financial performance is not in line with expectations, and this is not covered by other types of risk. In particular, this comprises the risk that, as a result of changes in material circumstances (for example, economic conditions, product environment, customer behavior, market competitors) or inadequate strategic positioning, corrective action cannot be taken to prevent losses.

Business risk mainly affects DZ BANK. DZ BANK's core functions as a **central institution and 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.

## 12.2 Risk strategy

The objective of the business risk strategy is to specify how business risk is to be managed, taking into account the relevant **business drivers**, and thus contribute to achieving the targets set out in the business strategy. The focus is on preventing both an unplanned increase in risk and potential losses arising from a slump in income or from increases in staff expenses or operating costs.

The following **instruments** are used to support the attainment of targets:

- Forward-looking assessment of success factors and specification of targets as part of the strategic planning process
- Groupwide coordination of risk management, capital allocation, and corporate strategy, together with the leveraging of synergies
- Setting of limits and monitoring

## 12.3 Risk factors

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**.

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.

## 12.4 Organization, responsibility, and reporting

The management of business risk is a primary responsibility of the **Board of Managing Directors** and is carried out in consultation with the senior management of the material 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 Group Finance division supports the Board of Managing Directors as part of its role in supervising the activities of the subsidiaries. Details of the committee structure and the supervision of subsidiaries can be found in chapter I.2.2 in 'DZ BANK Group fundamentals'.

Business risk is **reported** to the Board of Managing Directors quarterly as part of the overall risk report. The Board of Managing Directors is also updated monthly about the risk situation and capital situation and about the income situation from an HGB perspective.

## 12.5 Risk management

The management of business risk is closely linked with 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. The strategic planning process is described in chapter I.2.4 in 'DZ BANK Group fundamentals'.

To identify regulatory initiatives with a material impact on the DZ BANK Group and its entities, 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 the other management units, and organizes regular bank-wide and groupwide dialogue on identified and new strategic regulatory initiatives. It also uses a 'regulatory map' to report to the relevant steering committees, the Board of Managing Directors, and the Supervisory Board.

Business risk in the Bank sector is **quantified** with a confidence level of 99.9 percent using a risk model operated by DZ BANK and centralized data at the level of the DZ BANK Group. The risk model is based on an earnings-at-risk approach with due regard to the definition of economic available internal capital. A Monte Carlo simulation is used to model a probability distribution for the earnings relevant to business risk, which comprise

selected income and expense items from the IFRS income statement, with an analysis period of 1 year. This distribution produces the risk capital requirement in the amount of the modeled actual loss.

The broad diversification and sustainability of the business models used by the entities in the Bank sector are intended to prevent excessive **concentrations of income**. As part of a groupwide risk concentration analysis, which itself forms part of the risk inventory check, a review is carried out annually, and on an ad hoc basis as required, to identify concentrations of income and assess their materiality. This aims to ensure that income concentrations are appropriately taken into account in risk-bearing capacity.

## 12.6 Risk position

As at December 31, 2023, the **risk capital requirement** for business risk (including reputational risk) in the **Bank sector** and at **DZ BANK** amounted to €363 million (December 31, 2022: €43 million) and €335 million (December 31, 2022: €43 million) respectively. The **limit** in the **Bank sector** was €450 million as at the reporting date (December 31, 2022: €280 million). At **DZ BANK**, the **limit** was €410 million (December 31, 2022: €235 million). Reputational risk is included in the figures shown.

The risk capital requirement for business risk increased significantly compared with the end of 2022 due to more conservative planning assumptions concerning parameters with business risk implications. The limit was raised to tie in with this increase in risk.

## 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 either as an independent risk (primary reputational risk) or as an indirect or direct consequence of other types of risk (secondary reputational risk).

Reputational risk can arise in connection with any of the business activities in the entities within the Bank sector.

### 13.2 Risk strategy

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 (potential) 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.

### 13.3 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.

If the transition risks, social risks, and corporate governance risks assessed in connection with **ESG risks** were to materialize, this could give rise to heightened reputational risk.

### 13.4 Responsibility and risk management

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 the management units. 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.

Reputational risk in the Bank sector is 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.

The management units 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 refers to the risk of losses from human behavior, technological failure, weaknesses in process or project management, or external events.

In the reporting year, the following subtypes of operational risk were material for the Bank sector:

- Compliance risk including conduct risk
- Legal risk
- Information risk including ICT risk
- Security risk
- Outsourcing risk
- Project risk

Other subtypes of operational risk that are not material when viewed in isolation are categorized as 'Other operational risk'. This category is used to cover operational risks that cannot be allocated to the other subtypes of operational risk and – measured on the basis of risk profile – are of lesser importance.

### 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 DZ HYP and UMH are particularly subject to operational risk.

The management units 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
- Manage operational risk on a decentralized basis but within the limits set out in the framework for operational risk
- Ensure that the impact of corporate policy decisions on operational risk is taken into account

### 14.3 Organization, responsibility, and reporting

Each management unit is responsible for managing its operational risk. The principle of **decentralized** responsibility applies equally within the management units.

One of the purposes of the **framework for operational risk** is to harmonize risk management throughout the sector. The sector-wide coordinated approach to operational risk is also managed by a **committee** assigned to the Group Risk Control working group.

A **DZ BANK** organizational unit responsible for controlling operational risk located within the Group Risk Control & Services division develops the management and control methods based on regulatory requirements and business needs applicable to the Bank sector. This organizational unit ensures that operational risk is monitored independently and is responsible for central reporting on operational risk in the Bank sector and at DZ BANK. Similar organizational units are also in place at the other material entities in the **Bank sector**.

**Specialist divisions with central risk management functions** are also assigned tasks relating to the management of operational risk. As part of their overarching responsibility, these specialist divisions also perform an advisory and guiding function for the matters within their remit in the relevant entities of the Bank sector.

Because operational risk can affect all divisions in the management units, **local operational risk coordinators** are located in each division and they liaise with central Risk Controlling.

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 with the aim of facilitating effective management of operational risk on a timely basis.

## 14.4 Central risk management

### 14.4.1 Identifying operational risk

The main tools used to manage and control operational risk in the DZ BANK Group's Bank sector are described below.

#### Loss database

The 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. In particular, data is recorded for operational risk that materializes and results in a gross loss of €1,000 or more.

#### Risk self-assessment

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 event categories as defined by the CRR are calculated and described using risk scenarios. The scenarios are also designed to enable risk concentrations to be identified.

#### Risk indicators

In addition to the loss database and risk self-assessment, risk indicators are intended to enable risk trends and concentrations to be identified 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. Risk indicators within the Bank sector are collected systematically and regularly.

### 14.4.2 Measurement of operational risk

An **internal 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. Within the portfolio model, the distributions of loss frequency and amount are brought together in a Monte Carlo simulation. This

determines potential losses that could arise over a period of 1 year with a confidence level of 99.9 percent. The results from the model, combined with the tools used to identify risk, are used to manage operational risk centrally. Alongside the economic risk capital requirement, the model also calculates specific risk contributions for each management unit.

In addition, **risk concentrations** are identified by using separate model-based analyses, taking into account event categories and areas of business specified by regulatory requirements. These risk concentrations could occur in the different areas of business within the entities of the Bank sector.

In addition, a simplified procedure based on the allocation mechanism in the capital model is used to identify **risk factors**. The subsequent analysis is carried out for all standard scenarios. The list of standard scenarios is maintained for use throughout the group and contains a list of general scenario descriptions that are relevant to operational risk in the Bank sector entities.

#### 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 and control 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.

### 14.5 Operational risk subtypes

#### 14.5.1 Compliance risk including conduct risk

##### Risk factors

Compliance risk could arise if the compliance and risk management systems implemented in the Bank sector entities prove insufficient to completely prevent or detect breaches of obligations to third parties. Such obligations include legal requirements (laws, regulations) as well as both internal and external agreements. Examples are misuse of confidential information, failure to comply with sanctions or embargoes, data protection infringements, and support – or inadequate preventive measures – for money laundering, terrorist financing, or other criminal offenses. Wrongdoing by employees (conduct risk) forms part of compliance risk.

##### Effects if risk materializes

Violations of internal rules or legal provisions could render contracts null and void or 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 consequently lead to losses in value.

##### Risk management

The basic principles for managing compliance risk applicable to the entities in the DZ BANK Group are described in chapter VII.3.4.5. The data protection measures in place and the code of conduct are also explained in the

same chapter. Measures such as the strict separation of functions, the requirement for verification by a second person, restrictions on IT and building access authorizations, and a sustainability-oriented remuneration system are designed to contain risk, in particular the risk of internal fraud.

#### 14.5.2 Legal risk

##### Risk factors

Legal risk can arise from legal violations or incorrect application of legal provisions. Legal risk can also arise from changes to the legal position (laws or judgments by the courts) relating to transactions completed in the past.

##### Effects if risk materializes

If legal risk were to materialize, this could result in official sanctions or the need to pay damages. It is also possible that existing contractual rights could be lost retrospectively or could otherwise not be enforced for legal reasons. These effects could lead to losses and reduce the Bank sector entities' appeal as partners in business transactions.

##### Risk management

The entities in the Bank sector pursue a strategy of avoiding legal risk. Identified risks are limited and mitigated by means of legal or procedural organizational measures. If the legal position is uncertain, the management units generally adopt a defensive approach.

In the entities of the Bank sector, responsibility for managing legal disputes normally lies with their organizational units responsible for dealing with legal issues. These units continuously monitor proposed legislation and regulatory requirements that are legally relevant, as well as developments in decisions by the courts. Their responsibilities include reviewing and assessing circumstances from a legal perspective and also 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.

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.

##### Accounting for legal risk

In accordance with the relevant (group) accounting rules, loss allowances – or provisions – are recognized to account for potential losses from legal risk.

Disclosures covering the provisions recognized for risks arising from ongoing legal disputes and pre-litigation risks – in particular in connection with capital market, home savings, and credit products – and for risks arising from general banking operations are included in note 67 of the notes to the consolidated financial statements under 'Other provisions'.

#### 14.5.3 Information risk including ICT risk

##### Risk factors

Information risk arises from a failure to maintain the confidentiality, integrity, availability, or authenticity of information assets. If the risk is in connection with the use of information or communication technology (data media), it is referred to as ICT risk. This also includes cyber risk.

#### Effects if risk materializes

The processes necessary to conduct operating activities could be impaired if the confidentiality, integrity, availability, and authenticity of information assets is not maintained or if IT systems malfunction or break down. This could, in turn, inflict reputational damage and lead to losses from operational risk.

#### Risk management

The basic principles for managing information security applicable to the entities in the DZ BANK Group are described in chapter VII.3.4.6. The nature of these principles is described below.

Practically all business processes are carried out electronically using appropriate IT systems. The supporting IT systems are networked with each other and are operationally interdependent.

Processes in the IT divisions 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 information 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.

The IT processes are designed, through comprehensive physical and logical precautionary measures, to guarantee the security of information assets and IT systems 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.

Further details on information security management can be found in chapter VII.3.4.6.

DZ BANK's risk assessment methodology for information risk is made available centrally by information security management and applied locally by the managers responsible for the various IT systems using tool-supported control processes. All variances identified in these processes are assessed from the perspective of the associated risks. All information risks classified as material are included in regular information security reports to the Board of Managing Directors.

### 14.5.4 Security risk

#### Risk factors

Security risk can arise from inadequate protection of individuals, premises, assets, or time-critical processes. Examples are epidemics or pandemics resulting from the spread of pathogens over a huge area, restrictions on access to workplaces caused by natural disasters or demonstrations, or limitations on the use of resources because of a power outage or other interruption to energy supply. Climate change could lead to more frequent and more severe natural disasters.

#### Effects if risk materializes

If security risk were to materialize, this could lead to a range of problems from staff shortages to restrictions, or even the loss, of the use of buildings and resources such as IT systems and third-party services. In such eventualities, it is possible that mission-critical processes could not be carried out or could not be carried out on time, which could lead to loss of business and/or compensation claims from customers. Furthermore, such scenarios could also have a negative impact on reputation.

#### Risk management

The relevant organizational units in the management units prepare requirements for the protection of time-critical business processes, people, premises, and other assets. These requirements are implemented by the departments responsible in each case. In all relevant management units, a comprehensive business continuity management system (with business continuity plans covering time-critical activities and processes) has been established to ensure the continuation of business in the event of process disruption or IT system breakdown. These business continuity plans are regularly reviewed and tested to ensure they are fully functional.

Further details on business continuity management can be found in chapter VII.3.4.6.

### 14.5.5 Outsourcing risk

#### Risk factors

The entities in the Bank sector have outsourced activities and processes to third-party service providers to a considerable extent. Outsourcing risk can arise if the service provider fails to comply with the strategic principles established by the management units or the related operational requirements when carrying out the outsourced activities.

The reasons may be as follows:

- Failure of the relevant service provider to comply with regulatory requirements
- Lack of transparency regarding the delivery of the services and little opportunity for control over outsourcing outside the home market
- Highly complex outsourced processes that are far from a standard service
- Potential loss of expertise because of outsourcing of core competencies or knowledge processes
- Defective performance caused by service provider failures or the loss of service provider
  - Inadequate management or monitoring of service providers, in particular as a result of a lack of transparency regarding service delivery

#### Effects if risk materializes

If these risk factors were to materialize, they could lead to a loss of business and to claims for damages from customers. They could also result in a negative impact on reputation.

#### Risk management

The basic principles for managing outsourcing applicable to the entities in the DZ BANK Group are described in chapter VII.3.4.7.

The process of assessing the risk and determining the degree to which an outsourcing arrangement is material is carried out as part of the analysis of outsourcing risk by the division responsible for the outsourcing with the involvement of a number of reviewing and control units, including compliance, information security, and business continuity management, and in consultation with the local coordinators for operational risk. Internal audit is also involved as part of its auditing activities.

At DZ BANK, external service providers are managed by the department responsible for the outsourcing in accordance with the currently applicable policy 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, for example, by means of status reports and uptime statistics. The external service providers submit regular 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 some of the approaches used to reduce outsourcing risk.

#### 14.5.6 Project risk

##### Risk factors

Project risk refers to the risk that project requirements will not be completed on schedule. Project risk could arise, for example, from the inadequate clarification of project targets or orders, from deficiencies in subsequent implementation, from communication shortcomings both inside and outside the project, or from unexpected changes in the general parameters applicable to a project.

##### Effects if risk materializes

If project risk were to materialize, this could mean that the implementation of the project could require exceptional additional funds in excess of the budget (primary project risk). It could also give rise to further costs attributable to the failure to complete project requirements on schedule (secondary project risk). Examples of such costs are additional costs or reduced earnings in the line organization, impairment losses on capital investment related to the project, and penalty payments.

##### Risk management

In accordance with the statutory requirements that need to be observed, the project organization serves as the framework for implementing projects. The projects as a whole are broken down into portfolios with shared characteristics to enable the projects to be managed in a focused, efficient manner. A committee structure with defined roles and responsibilities is designed to look after the detailed management of the portfolios and the projects assigned to them.

The management of project risk is an ongoing process over the lifecycle of a project and is a component of project management and project portfolio management. Accepting a project risk is a valid option if the project customer believes that the measures to eliminate, reduce, or mitigate the risk are not reasonable in relation to their expected benefit.

#### 14.6 Impact of the war in Ukraine

The monitoring of sanctions necessitates manual transaction checks that entail an increased workload. This may result, for example, in delays to the execution of transactions or, if applicable, penalty interest payments for trading that involves securities subject to sanctions. The resulting operational risks are factored in by means of the hypothetical risk scenarios 'breaches of sanctions and embargoes' and 'incorrect execution of transactions and processes'.

#### 14.7 Losses

Losses from operational risk do not follow a consistent pattern. 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. Over the course of time, regular fluctuations are evident 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 selected from the loss history for the past four quarters and on the basis of the date on which the expense is recognized in the income statement.

The past four quarters – that is, the period from January 1 to December 31, 2023 – represent the relevant reporting period for an analysis of net losses. Fig. VII.33 shows the internal net losses from loss events reported in this period, classified by operational risk subtype, and a comparison with their long-term mean. Unlike in the 2022 risk report, the distribution of net losses by operational risk subtype is stated as an absolute figure rather than as a proportion of total net losses. Losses that are allocable to more than one subtype are split equally between the relevant subtypes.

In the past four quarters, internal losses both in the **Bank sector** and at **DZ BANK** were dominated by **compliance risk, legal risk, and other operational risk**. The losses for these risk subtypes were higher than in

the prior period. The main reason for the rise in other operational risk is that a mistake was made in the process of adjusting the documents.

Losses did not reach a critical level relative to the expected loss from operational risk at any point during 2023, either in the Bank sector or at DZ BANK.

FIG. VII.33 – BANK SECTOR: NET LOSSES<sup>1</sup> BY OPERATIONAL RISK SUBTYPE

| € million                           | Bank sector                  |                             | DZ BANK                      |                             |
|-------------------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|
|                                     | Jan. 1, 2023 – Dec. 31, 2023 | Long-term mean <sup>2</sup> | Jan. 1, 2023 – Dec. 31, 2023 | Long-term mean <sup>2</sup> |
| Compliance risk                     | 8                            | 23                          | 3                            | 14                          |
| Legal risk                          | 6                            | 22                          | 4                            | 13                          |
| Information risk including ICT risk | 3                            | 3                           | 1                            | 1                           |
| Security risk                       | 2                            | 2                           | 1                            | 1                           |
| Outsourcing risk                    | 3                            | 1                           | 1                            | 0                           |
| Project risk                        | –                            | 1                           | –                            | –                           |
| Other operational risk              | 14                           | 8                           | 9                            | 5                           |
| <b>Total<sup>3</sup></b>            | <b>35</b>                    | <b>58</b>                   | <b>19</b>                    | <b>34</b>                   |

<sup>1</sup> Internal losses. Operational losses related to credit risk are not included in this breakdown.

<sup>2</sup> The long-term mean is derived from loss data recorded since 2006.

<sup>3</sup> Losses that are allocable to more than one operational risk subtype are split equally between the relevant subtypes.

## 14.8 Risk position

As at December 31, 2023, the capital requirement for operational risk at **Bank sector** level was calculated at €978 million (December 31, 2022: €966 million) with a **limit** of €1,148 million (December 31, 2022: €1,112 million).

As at December 31, 2023, the corresponding requirement at **DZ BANK** was €550 million (December 31, 2022: €554 million). The **limit** as at December 31, 2023 was €651 million (December 31, 2022: €625 million).

Fig. VII.34 shows the structure of the risk profile for operational risk in the Bank sector and at DZ BANK based on **risk subtypes**.

FIG. VII.34 – BANK SECTOR: DISTRIBUTION OF RISK CAPITAL REQUIREMENT FOR OPERATIONAL RISK, BY RISK SUBTYPE<sup>1</sup>

| Percent                             | Bank sector   |               | DZ BANK       |               |
|-------------------------------------|---------------|---------------|---------------|---------------|
|                                     | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2023 | Dec. 31, 2022 |
| Compliance risk                     | 30.4          | 31.7          | 13.4          | 15.0          |
| Legal risk                          | 19.4          | 19.2          | 8.4           | 9.3           |
| Information risk including ICT risk | 16.9          | 15.5          | 6.1           | 5.3           |
| Security risk                       | 5.0           | 5.5           | 1.8           | 1.9           |
| Outsourcing risk                    | 5.9           | 5.6           | 2.3           | 2.1           |
| Project risk                        | 6.3           | 6.6           | 2.6           | 2.8           |
| Other operational risk              | 16.0          | 15.9          | 8.5           | 8.1           |

<sup>1</sup> Proportion of the Bank sector's total operational risk capital requirement attributable to each operational risk subtype.

The distribution of the risk capital requirement among the operational risk subtypes in the Bank sector and at DZ BANK remained largely unchanged as at December 31, 2023 compared with the end of the previous year.

**Compliance risk** and **legal risk** accounted for the most significant proportions of the risk capital requirement. A large proportion of the risk capital requirement for these two risk subtypes was determined by the recorded

losses and by the hypothetical risk scenarios for changes to case law and for breaches of sanctions and embargoes. The small decrease in the share of risk capital for compliance risk was predominantly due to adjustments to the underlying hypothetical scenarios for changes to case law and for breaches of sanctions and embargoes. The largest increase in the risk capital requirement was seen in **information risk** including ICT risk. This was mainly attributable to adjustments to the hypothetical hacker-attack scenarios.

## 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, which is closely interlinked with the business strategy. Under its risk strategy, R+V aims to assume risk on a conscious, calculated basis within the constraints of the specified risk appetite.

**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, index-linked products, and unit-linked products are underwritten in order to diversify the life insurance and pension provision portfolios.

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.

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.

In **inward non-life reinsurance business**, R+V also aims to achieve a broad balance of risk across all sectors, diversify geographically around the globe, and optimize the portfolio from a risk/reward perspective.

The management of **market risk** is connected with the following fundamental objectives of risk policy: optimizing the economic risk/return profile, ensuring required returns on investments taking into account individual risk-bearing capacities, achieving defined minimum investment returns in stress scenarios, and conserving hidden assets to ensure consistent earnings. The aim is also to guarantee that there is a sufficient proportion of fungible investments.

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 reporting

As specified in the own risk and solvency assessment (ORSA), the risk management process encompasses all the steps involved in identifying, analyzing, assessing, managing, monitoring, reporting, and communicating risk. 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 assessed and, where necessary, 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. The following subtypes of life actuarial risk are material for R+V:

- **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.
- **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 contract 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. The following subtypes of non-life actuarial risk are material for R+V:

- **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.

#### 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 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, disproportionately sharp cost increases, and a rise in contract lapses. If the actual trends in life expectancy, disability-morbidity, costs, or contract lapses 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. Subject to certain legal requirements, there is a possibility of adjusting the premiums in the health insurance business, a process in which all actuarial assumptions can be reviewed and modified. Significant premium adjustments could have a negative impact on future new business if rate scales lose their appeal because of high premiums. The number of lapses in the portfolio could also increase as a result.

Environmental pollution and climate change represent additional risk factors in respect of **life and health actuarial risks** because they could have a negative impact on the health of policyholders and increase the number of claim events.

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.

The persistently high level of inflation in 2023 represents a cost driver for claims incurred because higher prices for procuring commodities and other items result in higher claims settlement expenses. This may lead to further adjustments to premiums, primarily in residential building insurance and motor vehicle insurance.

Cyber risk is becoming increasingly significant within the underwriting business as a consequence of ongoing digitalization. There is a risk that cyber risk may not be comprehensively set out, or may not be mentioned at all, in insurance terms and conditions, or that it may not be expressly included or excluded (referred to as silent cyber risk).

#### 16.3 Management of life actuarial risk

##### 16.3.1 Risk measurement

The risk for insurance contracts subject to **mortality risk** is modeled with the assumption of a 15 percent permanent increase in mortality.

The risk for insurance contracts subject to **longevity risk** is modeled with the assumption of a 20 percent permanent increase in longevity.

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 and 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 risk**. 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 features and, in particular, the final bonus also counteracts lapse risk.

In addition, advance notice of **policyholder participation features** 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 chapters on life actuarial risk (chapter VII.16.3) and non-life actuarial risk (chapter VII.16.5) 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. The risk exposure in the case of large individual risks may be limited by taking out appropriate reinsurance. 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 (KVAV), 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, 2023, R+V used the new PKV mortality table valid for 2023 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 most parts of the 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.

In the case of catastrophe risk in connection with the **direct insurance business**, 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.

For the catastrophe risk in its **inward reinsurance business**, R+V deploys a simulation tool for stochastic risk modeling. 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.

#### 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 insurance contract 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.

R+V uses a prospective limit system to verify whether prescribed limits for the risk from natural disasters will be adhered to. The risk exposure reached on the basis of projected business growth is compared against a limit determined from the allocated internal risk capital.

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. The effects of inflation are factored into the costing of insurance rate scales for new business and into premium and index adjustments for in-force business.

### 16.5.3 Risk management in inward non-life business

R+V counters premium and reserve risk by continuously monitoring 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 and reserve risk, and also far-reaching changes in the trends underlying the main markets.

Limits are set to support the central management and mitigation of cumulative risks. One of the mechanisms for managing risk is a systematic check on the cumulative authorized limits. If limits are overrun, R+V's Limit Committee is responsible for discussing and making decisions on appropriate action. The portfolio is continuously monitored for material concentrations of risk.

Action that can be taken to mitigate the risk includes management of gross risk and retrocession of parts of the portfolio, 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 cumulative risk in connection with natural disasters in Europe, the United States, and other regions of the world to which it is exposed, R+V has entered into a number of retrocession agreements 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 rates and settlements in non-life insurance

As a result of **IFRS 4 being replaced by IFRS 17**, new principles for the recognition, measurement, and disclosure of insurance contracts have applied since the start of 2023, which differ materially from the method of presentation used until the prior year. The previous basis for calculating the claims rate and settlements under IFRS 4 no longer applies. As a result of the differences in methods between IFRS 17 and IFRS 4, the 2022 figures can only be compared with those for 2023 to a very limited extent.

The **claims rate in direct non-life insurance and inward non-life reinsurance business** under **IFRS 4** was calculated as the ratio of claims incurred (including claim payments and changes in the provision for claims outstanding in accordance with section 341g HGB), net of reinsurance, to the premiums earned. Under **IFRS 17**, this figure is now calculated as the ratio of changes in the liabilities for incurred claims (including payments for claims) to insurance revenue.

**Settlements** under **IFRS 4** were calculated as the ratio of insurance expense for prior years in which claims were incurred to provisions for claims outstanding for prior years in which claims were incurred, including inward reinsurance. Under **IFRS 17**, by contrast, settlements are calculated as the ratio of liabilities for incurred claims for prior years in which claims were incurred to the actual payments for those years – net of changes in claims and benefits and risk adjustments – excluding inward reinsurance.

Changes in claims rates and settlements (net of reinsurance) in direct non-life insurance and inward non-life reinsurance business are shown in Fig. VII.35.

FIG. VII.35 – INSURANCE SECTOR: CLAIMS RATES<sup>1</sup> AND SETTLEMENTS<sup>2</sup> IN NON-LIFE INSURANCE

|   | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------|------|------|------|------|------|------|------|------|------|
| <b>Claims rate according to IFRS 4</b>  |      |      |      |      |      |      |      |      |      |      |
| Including major/natural disaster claims |      | 73.9 | 73.8 | 76.5 | 76.3 | 76.2 | 76.6 | 76.1 | 76.2 | 75.5 |
| Excluding major/natural disaster claims |      | 66.1 | 68.0 | 70.4 | 72.7 | 71.1 | 72.8 | 72.3 | 74.0 | 73.8 |
| <b>Claims rate according to IFRS 17</b> |      |      |      |      |      |      |      |      |      |      |
| Including major/natural disaster claims | 77.3 | 73.2 |      |      |      |      |      |      |      |      |
| Excluding major/natural disaster claims | 68.4 | 64.3 |      |      |      |      |      |      |      |      |
| <b>Settlements according to IFRS 4</b>  |      | 2.9  | 2.9  | 1.9  | 0.6  | 1.1  | 3.1  | 3.6  | 1.6  | 2.1  |
| <b>Settlements according to IFRS 17</b> | 1.0  | 2.4  |      |      |      |      |      |      |      |      |

Not available

<sup>1</sup> Direct non-life insurance business and inward non-life reinsurance.

<sup>2</sup> IFRS 4: direct non-life insurance business and inward non-life reinsurance; IFRS 17: direct non-life insurance business.

## 16.7 Risk position

As at December 31, 2023, the **overall solvency requirement** for **life actuarial risk** amounted to €946 million (December 31, 2022: €1,060 million) with a **limit** of €1,060 million (December 31, 2022: €1,200 million). The decrease in risk was due to lower lapse risk resulting from the fall in interest rates for longer maturities.

As at the reporting date, the **overall solvency requirement** for **health actuarial risk** was €253 million (December 31, 2022: €167 million) with a **limit** of €285 million (December 31, 2022: €300 million). This increase in risk was due to the higher volume of insurance liabilities, which was also a consequence of the aforementioned fall in interest rates.

The **overall solvency requirement** for **non-life actuarial risk** amounted to €1,707 million as at December 31, 2023 (December 31, 2022: €1,878 million) with a **limit** of €1,900 million (December 31, 2022: €3,000 million). This reduction in risk resulted primarily from changes to the reinsurance structure.

## 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).

#### 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 Risk factors

The **widening of spreads** could be triggered by macroeconomic risk factors. These factors are the risks to the economy from geopolitical tensions and resulting trade friction and from a widespread economic downturn in Germany, in Europe, or worldwide (see chapters VII.4.2.1 and VII.4.2.2).

A further **rise in interest rates** and a widening of bond spreads could lead to a further reduction in the fair values of investments. Falls in fair value caused by a rapid rise in interest rates or the widening of spreads could have a temporary impact on operating profit at R+V, or a permanent impact if investments have to be sold. A negative change in the fair values of investments associated with a widening of spreads in isolation could also have an adverse impact on R+V's solvency situation.

A **fall in interest rates** would have a positive valuation effect on R+V's portfolio of interest-bearing exposures in the near term. A renewed period of low interest rates could, in the medium term, pose additional challenges for R+V in its life insurance business in respect of the guaranteed returns that it needs to generate.

Further information about unexpected movements in the interest-rate market can be found in chapter VII.4.2.6.

Other risk factors associated with investing activities could arise from **sustainability risk**. For example, action by policymakers, decisions by the courts, or the withdrawal of licenses could have an adverse effect on the price of corporate bonds or on the share prices of equities held in the R+V portfolio and exposed to transition risk. The value of the portfolio could also be hit by rising inflation as a consequence of higher energy and carbon prices.

Furthermore, R+V is exposed to a risk of reputational damage if it invests in businesses that are responsible for environmental pollution, fail to adhere to social norms, neglect their data protection responsibilities, or inadequately implement measures to prevent corruption, fraud, or tax evasion.

The **real estate markets underwent a correction** in 2023, which was reflected in impairment losses on individual investments at R+V.

## 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. It also includes a capital buffer that takes into account changes in the direction of interest-rate trends.

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, 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. 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.

### 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 VAG, the information provided in regulatory circulars, and internal investment guidelines (see also the disclosures on market risk strategy in chapter VII.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 rules 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 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.

In addition to 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 further increase in 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.

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. VII.40 in chapter VII.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.

**Equity risk** is mitigated by diversifying holdings across different equity asset classes and regions. 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.

R+V's investment portfolio is regularly evaluated on the basis of **key sustainability figures**, including ESG scores obtained from third-party data providers. These are drawn from assessments of climate-related risk, controversies, and breaches of standards, such as the UN Global Compact. R+V can initiate processes to engage with individual issuers in order to mitigate ESG risks. These processes serve to clarify sustainability-related matters or controversies. R+V set itself a science-based climate target in 2021 for its investment activity, which involves cutting greenhouse gas emissions from investment activities to (net) zero by 2050.

ESG-related risks in R+V's **investment process** are monitored and managed by two committees. The ESG task force monitors general ESG-related risks at individual issuer level; the carbon task force manages climate targets at portfolio level. This includes implicit management of transition risk. The amount of climate risk from various asset classes is also taken into account in the risk capital calculation.

### 17.3.4 Management of risk concentrations

R+V's investment approach focuses on avoiding risk concentrations in the portfolio and optimizing its risk profile by broadly diversifying investments. To achieve this, it applies the principle of an appropriate mix and diversification of investments and complies with the quantitative limits specified through the internal rules in the risk management guidelines for investment risk.

Risk concentrations are analyzed at least annually to assess whether they are material or not. Potential risk concentrations arise from the combination of analyzed risk type and type of concentration (e.g. individual exposure, sector, country, or region). The analysis pays particular attention to the risk-adjusted view, i.e. risk remaining after the risk-mitigating effects of insurance liabilities have been taken into account. Items currently of particular note in this regard are the portfolios of Italian government bonds combined with the shares held in the Italian Assimoco companies for business-policy reasons and the long-term interest-rate risks arising from pension products in force for a long period of time. These risks are consciously assumed.

#### 17.3.5 Distinctive features of managing market risk in personal insurance business

For life insurance contracts and for casualty insurance contracts with premium refund clauses that guarantee minimum returns, there is a risk that the guaranteed minimum return agreed for certain products when contracts are signed cannot be generated in the capital markets over the long term. 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.

Market risk can be countered by writing new business that takes into account the current capital market situation and by taking 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. Policyholder participation features in the form of future declarations of bonuses are also a key instrument used to reduce market risk attaching to life insurance.

The R+V insurance companies' liabilities for remaining coverage as required by German commercial law, broken down by discount rate, is shown in Fig. VII.36 for the main life and casualty insurance portfolios. The method for calculating insurance contract liabilities in life and casualty insurance is explained in note 11 of the notes to the consolidated financial statements.

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 imputed health insurance discount rate. This procedure is based on a fundamental professional principle issued by the DAV for determining an appropriate discount rate.

FIG. VII.36 – INSURANCE SECTOR: LIABILITIES FOR REMAINING COVERAGE AS REQUIRED BY GERMAN COMMERCIAL LAW, BY DISCOUNT RATE, FOR THE MAIN INSURANCE PORTFOLIOS<sup>1,2</sup>

| Discount rate | Proportion of liabilities for remaining coverage as required by German commercial law in 2023 |         | Proportion of liabilities for remaining coverage as required by German commercial law in 2022 |         |
|---------------|---|---------|---|---------|
|               | € million   | Percent | € million   | Percent |
| 0.00%         | 6,759   | 9.6     | 7,074   | 10.0    |
| 0.01%         | 47  | 0.1     | 73  | 0.1     |
| 0.08%         | 5   | –       | 5   | –       |
| 0.10%         | 18  | –       | 38  | 0.1     |
| 0.15%         | 153   | 0.2     | 65  | 0.1     |
| 0.25%         | 3,858   | 5.5     | 2,438   | 3.5     |
| 0.30%         | 160   | 0.2     | 160   | 0.2     |
| 0.35%         | 962   | 1.4     | 1,026   | 1.5     |
| 0.40%         | 63  | 0.1     | 60  | 0.1     |
| 0.50%         | 244   | 0.3     | 215   | 0.3     |
| 0.75%         | 34  | –       | 1   | –       |
| 0.90%         | 8,118   | 11.5    | 8,675   | 12.3    |
| 1.00%         | 59  | 0.1     | 93  | 0.1     |
| 1.10%         | 468   | 0.7     | 372   | 0.5     |
| 1.25%         | 2,844   | 4.0     | 2,780   | 3.9     |
| 1.50%         | 57  | 0.1     | 47  | 0.1     |
| 1.55%         | 4   | –       | 8   | –       |
| 1.75%         | 6,861   | 9.8     | 6,643   | 9.4     |
| 1.80%         | 251   | 0.4     | 285   | 0.4     |
| 2.00%         | 825   | 1.2     | 858   | 1.2     |
| 2.25%         | 11,821  | 16.8    | 11,922  | 16.9    |
| 2.50%         | 94  | 0.1     | 95  | 0.1     |
| 2.75%         | 9,334   | 13.3    | 9,194   | 13.0    |
| 3.00%         | 1,218   | 1.7     | 1,468   | 2.1     |
| 3.25%         | 7,021   | 10.0    | 7,209   | 10.2    |
| 3.50%         | 2,382   | 3.4     | 2,704   | 3.8     |
| 3.75%         | 105   | 0.1     | 120   | 0.2     |
| 4.00%         | 6,570   | 9.3     | 6,865   | 9.7     |

<sup>1</sup> 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

<sup>2</sup> The share attributable to supplementary insurance contracts is listed under the relevant actuarial assumptions for the associated main insurance contract.

### 17.3.6 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. The plan assets at R+V are assets in reinsured pension schemes and funds, 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 rating class, industry sector, and country group.

Fig. VII.37 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. The differences in methods used in the external consolidated financial statements and the internal management accounts are explained in chapter 8.6.2.

FIG. VII.37 – INSURANCE SECTOR: RECONCILIATION OF THE LENDING VOLUME

| € billion<br>Lending volume<br>for internal<br>management<br>accounts |                  | Reconciliation            |                  |                                     |                  |                                       |                  | Lending volume for the consolidated financial<br>statements |                  | Investments held by insurance<br>companies<br>(note 55 of the notes to the<br>consolidated financial statements) |
|---|------------------|---------------------------|------------------|-------------------------------------|------------------|---------------------------------------|------------------|---|------------------|--|
|   |                  | Scope of<br>consolidation |                  | Definition of the<br>lending volume |                  | Carrying amount<br>and<br>measurement |                  | Dec. 31,<br>2023  | Dec. 31,<br>2022 |  |
| Dec. 31,<br>2023  | Dec. 31,<br>2022 | Dec. 31,<br>2023          | Dec. 31,<br>2022 | Dec. 31,<br>2023                    | Dec. 31,<br>2022 | Dec. 31,<br>2023                      | Dec. 31,<br>2022 | Dec. 31,<br>2023  | Dec. 31,<br>2022 |  |
|   |                  |                           |                  |                                     |                  |                                       |                  | 12.0  | 11.0             | of which: mortgage loans   |
|   |                  |                           |                  |                                     |                  |                                       |                  | 6.0   | 5.9              | of which: promissory notes and<br>loans  |
|   |                  |                           |                  |                                     |                  |                                       |                  | 5.5   | 5.4              | of which: registered bonds   |
|   |                  |                           |                  |                                     |                  |                                       |                  | 1.0   | 0.8              | of which: other loans  |
|   |                  |                           |                  |                                     |                  |                                       |                  | 11.9  | 13.0             | of which: variable-yield securities  |
|   |                  |                           |                  |                                     |                  |                                       |                  | 53.6  | 47.7             | of which: fixed-income securities  |
|   |                  |                           |                  |                                     |                  |                                       |                  | 0.2   | 0.3              | of which: derivatives (positive fair<br>values)  |
|   |                  |                           |                  |                                     |                  |                                       |                  | –   | 0.4              | of which: deposits with ceding<br>insurers   |
| 89.8  | 84.4             | -1.8                      | -1.5             | -0.7                                | –                | 3.0                                   | 1.6              | 90.2  | 84.5             | <b>Total</b>   |
|   |                  |                           |                  |                                     |                  |                                       |                  | 0.5   | 0.5%             | Balance as at Dec. 31, 2023  |
|   |                  |                           |                  |                                     |                  |                                       |                  | 0.1   | 0.1%             | Balance as at Dec. 31, 2022  |

Not relevant

### 17.4.2 Change in lending volume

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.

As at December 31, 2023, the **total lending volume** of R+V had increased by 6 percent to €89.8 billion (December 31, 2022: €84.4 billion). This increase was primarily the result of a rise in the fair values of fixed-income securities.

The volume of lending in the **home finance** business came to €14.2 billion as at December 31, 2023 (December 31, 2022: €13.7 billion). Of this amount, 87 percent was accounted for by loans for less than 60 percent of the value of the property, a situation that was unchanged compared with December 31, 2022.

The volume of home finance was broken down by finance type as at the reporting date as follows (figures as at December 31, 2022 shown in parentheses):

– Consumer home finance: €12.8 billion (€12.3 billion)

- Commercial home finance: €0.1 billion (€0.1 billion)
- Commercial finance: €1.3 billion (€1.3 billion)

In the case of home finance, the entire volume disbursed is backed by traditional loan collateral.

The financial sector and the public sector, which are the dominant **asset classes**, together accounted for 67 percent of the total lending volume as at December 31, 2023 (December 31, 2022: 64 percent).

The explanation of the asset class concept in the Bank sector (see chapter VII.8.6.3) applies analogously to the Insurance sector. Fig. VII.38 shows the breakdown of the lending volume by asset class.

FIG. VII.38 – INSURANCE SECTOR: LENDING VOLUME, BY ASSET CLASS

| € billion                                     | Dec. 31, 2023 | Dec. 31, 2022 |
|---|---------------|---------------|
| Financials                                    | 40.1          | 36.4          |
| Corporates                                    | 12.3          | 12.2          |
| Public sector                                 | 19.7          | 17.5          |
| Real estate (commercial and retail customers) | 16.5          | 16.8          |
| Other retail business                         | 0.1           | –             |
| ABSs and ABCPs <sup>1</sup>                   | 1.2           | 1.6           |
| Other   | –             | –             |
| <b>Total</b>                                  | <b>89.8</b>   | <b>84.4</b>   |

<sup>1</sup> ABSs = asset-backed securities, ABCPs = asset-backed commercial paper.

Fig. VII.39 shows the **geographical distribution** of the credit portfolio by country group. Borrowers based in Germany are not included in this breakdown. The relevant country for the assignment to a country group is the one in which the economic risk arises. As at December 31, 2023, 74 percent of the total lending outside Germany continued to be concentrated in Europe.

FIG. VII.39 – INSURANCE SECTOR: LENDING VOLUME, BY COUNTRY GROUP

| € billion          | Dec. 31, 2023 | Dec. 31, 2022 |
|--------------------|---------------|---------------|
| Europe             | 43.9          | 40.2          |
| of which: eurozone | 34.9          | 31.6          |
| North America      | 8.2           | 7.5           |
| Central America    | 0.5           | 0.5           |
| South America      | 1.0           | 0.8           |
| Asia               | 3.5           | 3.0           |
| Africa             | 0.3           | 0.3           |
| Other              | 1.9           | 1.6           |
| <b>Total</b>       | <b>59.3</b>   | <b>54.0</b>   |

For **credit ratings**, R+V generally uses ratings from rating agencies approved by the supervisory authorities. 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 (chapter VII.8.5.1).

The **rating structure** of the lending volume in the Insurance sector is shown in Fig. VII.40. Of the total lending volume as at December 31, 2023, 75 percent was attributable to investment-grade borrowers, which was the same percentage as at the end of 2022. The lending volume that is not rated, which made up 23 percent of the total lending volume (December 31, 2022: 24 percent), essentially comprised consumer home finance for which external ratings were not available. This volume is deemed to be low-risk because the lending is based on a selective approach and the mortgageable value of the assets is limited.

In the analysis of **individual concentrations**, the 10 counterparties associated with the largest lending volumes accounted for 17 percent of R+V's total lending volume as at December 31, 2023. This was the same percentage as at the end of 2022.

FIG. VII.40 – INSURANCE SECTOR: LENDING VOLUME, BY INTERNAL RATING CLASS

| € billion            |             | Dec. 31, 2023 | Dec. 31, 2022 |
|----------------------|-------------|---------------|---------------|
| Investment grade     | 1A          | 23.0          | 21.2          |
|                      | 1B          | 11.4          | 9.0           |
|                      | 1C          | –             | –             |
|                      | 1D          | 10.6          | 9.9           |
|                      | 1E          | –             | –             |
|                      | 2A          | 6.3           | 7.9           |
|                      | 2B          | 5.6           | 4.8           |
|                      | 2C          | 4.9           | 5.1           |
|                      | 2D          | 2.7           | 2.6           |
|                      | 2E          | –             | –             |
|                      | 3A          | 3.0           | 2.6           |
| Non-investment grade | 3B          | 0.4           | 0.3           |
|                      | 3C          | 0.3           | 0.3           |
|                      | 3D          | –             | –             |
|                      | 3E          | 0.2           | 0.2           |
|                      | 4A          | 0.2           | 0.1           |
|                      | 4B          | –             | 0.3           |
|                      | 4C          | –             | 0.1           |
|                      | 4D          | –             | –             |
| 4E                   | –           | –             |               |
| Default              | –           | –             |               |
| Not rated            | 21.0        | 20.1          |               |
| <b>Total</b>         | <b>89.8</b> | <b>84.4</b>   |               |

#### 17.4.3 Credit portfolios particularly affected by negative macroeconomic conditions

Differences in economic policy in the eurozone are particularly affecting investments of R+V in **Italy**. R+V's exposure as at December 31, 2023 amounted to €2,493 million (December 31, 2022: €2,082 million). The increase in the exposure compared with December 31, 2022 is largely due to higher fair values.

#### 17.4.4 Credit portfolios particularly affected by acute global crises

The exposure of R+V in countries affected by acute global crises totaled €465 million as at December 31, 2023 (December 31, 2022: €486 million). This equates to less than 1 percent of the total lending volume of R+V and largely comprises fixed-income securities.

The exposure of R+V in countries affected by the **war between Israel and Hamas** broke down as at the reporting date as follows (figures as at December 31, 2022 shown in parentheses):

- Israel: €293 million (€262 million)

– Egypt: €4 million (€43 million)

In light of the simmering **dispute between China and Taiwan**, lending by R+V to counterparties in Taiwan is being monitored very closely. As at December 31, 2023, there was no exposure to borrowers based in Taiwan, a situation that was unchanged compared with December 31, 2022. R+V's lending volume in China amounted to €168 million as at December 31, 2023 (December 31, 2022: €180 million).

### 17.5 Risk position

As at December 31, 2023, the **overall solvency requirement** for market risk amounted to €3,376 million (December 31, 2022: €3,415 million) with a **limit** of €3,695 million (December 31, 2022: €3,880 million).

Fig. VII.41 shows the overall solvency requirement for the various types of market risk.

FIG. VII.41 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR MARKET RISK, BY RISK SUBTYPE

| € million                            | Dec. 31, 2023 | Dec. 31, 2022 |
|--------------------------------------|---------------|---------------|
| Interest-rate risk                   | 2,105         | 2,179         |
| Spread risk                          | 747           | 776           |
| Equity risk                          | 1,232         | 1,328         |
| Currency risk                        | 335           | 323           |
| Real-estate risk                     | 432           | 446           |
| <b>Total (after diversification)</b> | <b>3,376</b>  | <b>3,415</b>  |

## 18 Counterparty default risk

### 18.1 Definition and business background

Counterparty default risk reflects losses that could arise from unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies over the following twelve 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 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, 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.

Volume and counterparty limits apply to transactions involving derivatives. The various risks are monitored and transparently presented as part of the 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. For the purposes of German commercial law, the average ratio of defaults to gross premiums written over the past three years was 0.1 percent, which was unchanged on the figure as at December 31, 2022.

The default risk for receivables arising from inward reinsurance business and reinsurance contracts held is limited by continuously monitoring credit ratings and making use of other sources of information in the market.

## 18.4 Risk position

**Receivables arising from reinsurance contracts held** amounted to €73 million as at December 31, 2023 (December 31, 2022: €145 million). As had been the case a year earlier, the entire volume was owed by companies with an external rating of A or higher. Less than 1 percent of the receivables were receivables from reinsurance counterparties without a rating.

The **reinsurers' share of insurance liabilities** is a variable that impacts on the default risk of reinsurance counterparties. Claims against reinsurers for insured events that have not yet occurred and for insured events from direct insurance operations and from inward reinsurance that have occurred, presented by external rating class in accordance with the system of the rating agency Standard & Poor's, are shown in Fig. VII.42. 'Other ratings' includes ratings that were not available at the reporting date. All reinsurers had a rating of A- or better on the underwriting date.

FIG. VII.42 – INSURANCE SECTOR: VOLUME OF REINSURANCE CONTRACTS HELD, BY EXTERNAL RATING CLASS

| € million     | Dec. 31, 2023 | Dec. 31, 2022 |
|---------------|---------------|---------------|
| AAA           | –             | 1             |
| AA+ to AA-    | 21            | 29            |
| A+ to A-      | 119           | 117           |
| B             | 1             | –             |
| Other ratings | 12            | 4             |
| <b>Total</b>  | <b>154</b>    | <b>152</b>    |

<sup>1</sup> Compared with the risk report in the 2023 interim group management report, exposures in the 'Other ratings' category have been shifted to the 'A+ to A-' rating category.

**Overdue receivables from policyholders and insurance brokers** more than 90 days past due as at the reporting date amounted to €16 million as at December 31, 2023 (December 31, 2022: €27 million). The figure as at December 31, 2022 that was published in the 2022 risk report was €158 million. That figure was calculated in accordance with IFRS 4 based on the carrying amounts recognized under HGB, whereas the calculation now uses the carrying amounts recognized under IFRS. In order to ensure comparability with the figure as at December 31, 2023, which was calculated in accordance with the rules of IFRS 17 that came into effect on January 1, 2023, the figure as at December 31, 2022 was recalculated.

As at December 31, 2023, the **overall solvency requirement** for counterparty default risk amounted to €219 million (December 31, 2022: €224 million) with a **limit** of €245 million (December 31, 2022: €350 million).

## 19 Reputational risk

### 19.1 Definition and business background

Reputational risk is defined as the risk of losses that could arise from 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, the 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 Risk factors

If R+V's reputation deteriorates, 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.

If the transition risks, social risks, and corporate governance risks assessed in connection with ESG risks were to materialize, this could give rise to heightened reputational risk.

### 19.3 Risk management

R+V's corporate communications are coordinated centrally 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.

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 losses arising from inadequate or failed internal processes, personnel, or systems, or from external events.

Operational risk in the Insurance sector is broken down into the following components:

- Legal and compliance risk
- Information risk including ICT risk
- Security risk
- Outsourcing risk
- Project risk

Operational risk could arise in any division of R+V.

Sustainability risk in the form of environmental, social, or corporate governance risk could be a risk factor that gives rise to operational risk. Risk factors are described under the relevant component of operational risk.

### 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 of R+V's business processes are structured in accordance with the requirements of the **framework guidelines** for the authorizations and powers of attorney of employees in R+V entities. 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.

## 20.3 Operational risk components

### 20.3.1 Legal and compliance risk

#### Risk factors

Legal risk may arise from changes in the legal environment, including changes in the way that the authorities or the courts interpret legal provisions. In particular, there is a 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, or for initiating appropriate corrective measures. Examples of relevant situations are notifiable infringements of data protection regulations, breaches of reporting or notification requirements to supervisory or tax authorities, and violations of sanctions or embargoes.

#### Effects if risk materializes

Violations of legal provisions may have legal implications for R+V, 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. These effects could reduce R+V's appeal as a partner in business transactions and lead to losses in value.

#### Risk management

The basic principles for managing compliance risk applicable to the entities in the DZ BANK Group are described in chapter VII.3.4.5. The data protection measures in place and the code of conduct are also explained in the same chapter.

At R+V, 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. 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. The compliance function has also implemented systems, processes, and controls in order to counter compliance risks.

### 20.3.2 Information risk including ICT risk

#### Risk factors

Information risk can arise from a loss of confidentiality, integrity, availability, or authenticity of information or data. If the risk is in connection with the use of information or communication technology (data media), it is referred to as ICT risk. This also includes cyber risk.

#### Effects if risk materializes

Malfunctions or breakdowns in IT systems (comprises software, hardware, and communication technology), including attacks from external sources – such as hackers or malware –, could have an adverse impact on the ability of the Insurance 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 temporary or permanent loss of data. This could restrict operating activities, have a negative impact on reputation, or result in economic losses.

#### Risk management

The basic principles for managing information security applicable to the entities in the DZ BANK Group are described in chapter VII.3.4.6.

A core focus of R+V's IT strategy is to ensure the stable, secure, and efficient operation of the information and communications infrastructures and application systems. R+V's IT operations are largely centralized and involve a high degree of inhouse development. In its development work, the IT team incorporates standardized IT processes and procedures, applies best practice, and is closely guided by market standards.

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 different buildings. Furthermore, data is mirrored to a tape library at a remote, off-site location.

The level of security is enhanced through the systematic identification of protection requirements, security strategies based on defined IT security standards, business continuity planning, and capacity management. Where tasks allow, R+V makes flexible use of outsourcing options and IT providers in a risk-based approach. IT providers are integrated into R+V's processes where necessary and monitored on a risk basis.

R+V uses a dedicated management process – with defined roles, responsibilities, and procedures – to manage and control information risk in a holistic approach. Various information and IT security management tools are used to identify information risk, such as target/actual comparisons and penetration tests.

### 20.3.3 Security risk

#### Risk factors

Security risk can arise from inadequate protection of individuals, premises, assets, or time-critical processes. Examples are epidemics or pandemics resulting from the spread of pathogens over a huge area, or limitations on the use of resources because of a power outage, other interruption to energy supply, or natural disaster. Climate change could lead to more frequent and more severe natural disasters.

#### Effects if risk materializes

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. Furthermore, such scenarios could also have a negative impact on reputation.

#### Risk management

To ensure that it is operational at all times, R+V has a business continuity management (BCM) system, which is documented in internal corporate guidelines. The R+V security and BCM conference with representatives from all divisions and sites provides strategic and functional support and is intended to ensure that activities within the R+V subgroup are coordinated. Reports on significant findings relevant to risk and on any exercises and tests that have been carried out are also submitted to the R+V Risk Committee.

The purpose of the BCM system 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 situation room, and the individual business continuity teams in the divisions and sites, have also been set up to deal with emergency and crisis situations.

Further details on business continuity management can be found in chapter VII.3.4.6.

### 20.3.4 Outsourcing risk

#### Risk factors

R+V aims to provide high-quality services at competitive terms and conditions based on efficient internal organization of its business activities. In this context, the outsourcing of activities to third-party service providers can bring benefits in terms of quality and costs. Outsourcing risk can arise if the service provider fails to comply with the strategic principles established by R+V or the related operational requirements when carrying out the outsourced activities. If a service provider is not suitable for the task or does not have the requisite financial stability, this could lead to defective performance or even loss of the service. Moreover, inappropriate management of operational risk by the service provider could have an adverse impact on business operations.

#### Effects if risk materializes

If the risk factors were to materialize, they could lead to a loss of business and to claims for damages from customers. They could also result in a negative impact on reputation.

#### Risk management

The basic principles for managing outsourcing applicable to the entities in the DZ BANK Group are described in chapter VII.3.4.7.

Using these principles as a starting point, R+V has put in place the following measures to protect against potential outsourcing risk:

- Structured categorization of outsourcing arrangements
- Identification of potential risk factors as part of the risk analysis
- Requirements for the mitigation of risk, including standard provisions that must be contractually agreed and integrated into business continuity management

### 20.3.5 Project risk

#### Risk factors

Project risk could arise from the inadequate clarification of project targets or orders, from deficiencies in subsequent implementation, from communication shortcomings both inside and outside the project, or from unexpected changes in the general parameters applicable to a project.

#### Effects if risk materializes

If project risk were to materialize, this could mean that the implementation of the project could require additional funds in excess of the budget. It could also give rise to further costs attributable to the failure to complete project requirements on schedule. Examples of such costs are additional costs in the line organization and impairment losses on capital investment related to the project. Earnings could also be reduced if new products or – due to changes to legal requirements – appropriately modified products cannot be offered in good time.

#### Risk management

To provide a regulating framework for secure, efficient execution of projects, R+V has set up a Capital Investment Committee, which submits proposals for decision or approval and provides support for large-scale projects. After projects have been approved, project managers of all large-scale projects must report to the Capital Investment Committee. This ensures that projects are then subject to independent, close monitoring and control. At quarterly meetings, the Capital Investment Committee is kept informed of project results and any adjustments to project targets. The committee can intervene to provide guidance by becoming involved in discussions on targets.

### 20.4 Risk position

As at December 31, 2023, the **overall solvency requirement** determined for operational risk amounted to €629 million (December 31, 2022: €598 million). The **limit** was €700 million as at the reporting date (December 31, 2022: €1,000 million). This increase in risk is due to higher insurance liabilities calculated in accordance with Solvency II.

## 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.

At R+V, the entities in other financial sectors mainly consist of pension funds and occupational pension schemes. Their **risk factors** generally correspond to the risk factors for risks backed by capital pursuant to 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 liabilities for remaining coverage and capital at risk. Funding requirements are also assessed when calculating the overall solvency requirement and own funds. This involves assessing whether existing regulatory requirements regarding insurance equity and liabilities, capital adequacy, and risk-bearing capacity can continue to be met in the future, taking risks into account. Projections, as well as existing analyses and reports, are used to make this assessment.

**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 (see chapter VII.16.3.2), market risk (see chapter VII.17.3), counterparty default risk (see chapter VII.18.3), and operational risk (see chapter VII.20.2). R+V Pensionskasse AG has largely stopped taking on new business. It is continuing to manage existing contracts as before.

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. 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 liability for remaining coverage 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.

In purely defined-contribution plans, the amount of the lifelong payments depends on the value of the pension capital upon retirement and, subsequently, on the performance of the collateral assets for covering the current annuities. This means that there is a risk for pension beneficiaries that the payments may fluctuate – and, specifically, may fall – depending on the value of the investment. Appropriate market risk management activities are carried out to counter this risk.

As at December 31, 2023, the **overall solvency requirement** for risks in connection with non-controlling interests in insurance companies and with entities in other financial sectors stood at €210 million (December 31, 2022: €135 million) with a **limit** of €225 million (December 31, 2022: €180 million). The increase in risk is largely due to the reassessment of funding requirements in a risk scenario based on the current capital market environment.