Volksbanken Raiffeisenbanken
cooperative financial network

# ANNUAL REPORT 2020

dzhyp.de

DZ HYP

# OVERVIEW

| € mn | 2020 | 2019 |
|---|---|---|
| **DEVELOPMENT OF NEW BUSINESS** | | |
| Corporate Clients | 8,039 | 10,327 |
| Retail Customers | 2,066 | 1,841 |
| Public Sector Clients | 631 | 717 |
| **PORTFOLIO DEVELOPMENT** | | |
| Total assets | 81,920 | 79,437 |
| Mortgage loans | 53,338 | 50,151 |
| Originated loans to local authorities | 10,209 | 10,808 |
| Local authority lending*) | 10,899 | 11,917 |
| Bank bonds | 440 | 442 |
| Mortgage-backed securities (MBS) | 378 | 449 |
| Pfandbriefe and other debt securities | 51,121 | 49,833 |
| Own funds | 2,329 | 2,239 |
| Total capital ratio (in %) | 13.2 | 12.6 |
| Common equity tier 1 ratio (in %) | 9.0 | 8.4 |
| **PROFIT AND LOSS ACCOUNT** | **1 Jan to 31 Dec 2020** | **1 Jan to 31 Dec 2019** |
| Net interest income | 605 | 554 |
| Net fee and commission income | -38 | -36 |
| Administrative expenses | 251 | 251 |
| Net other operating income/expenses | 9 | 5 |
| Risk provisioning | -55 | -4 |
| Net financial result | 7 | -3 |
| Operating profit | 277 | 265 |
| Extraordinary result | - | -17 |
| Allocation to the fund for general banking risks | 78 | 100 |
| Partial profit transfer | 16 | 16 |
| Taxes | 126 | 82 |
| Profits transferred under a profit and loss transfer agreement | 57 | 50 |
| Cost/income ratio in % | 45.5 | 50.2 |
| Return on equity in % | 13.9 | 13.2 |
| **NUMBER OF EMPLOYEES** | **31 Dec 2020** | **31 Dec 2019** |
| Annual average | 819 | 870 |

*) lending transactions with national governments and sub-sovereign entities as well as state-guaranteed corporate bonds

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

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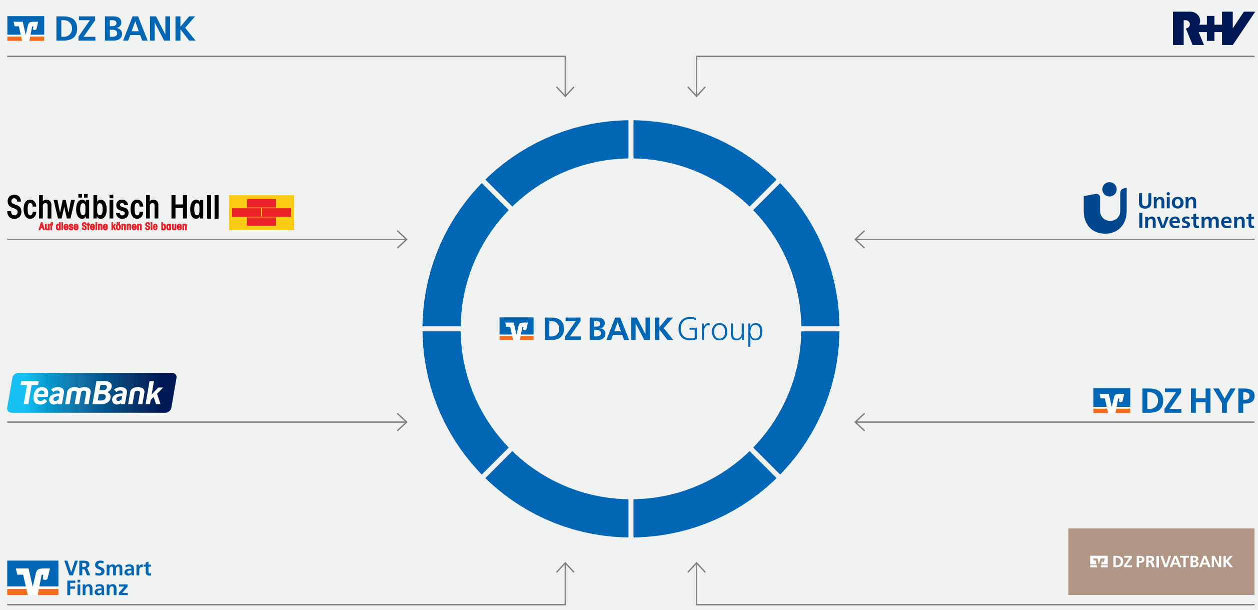
DZ HYP

# DZ HYP – PART OF A STRONG GROUP (SELECTED COMPANIES)




DZ HYP is itself a part of DZ BANK Group and therefore of the Volksbanken Raiffeisenbanken Cooperative Financial Network, which comprises 841 individual cooperative banks. In terms of total assets, the network ranks among the largest financial services organisations in Germany. Within the Cooperative Financial Network, DZ BANK AG acts as the central institution, tasked with supporting the local cooperative banks' transactions as well as strengthening their competitive position. It operates as a commercial bank, and exercises the holding entity function for the DZ BANK Group.

DZ BANK Group comprises Bausparkasse Schwäbisch Hall building society, DZ HYP, DZ PRIVATBANK, R+V Versicherung insurance, TeamBank, Union Investment Group, VR Smart Finanz as well as various other specialist financial services providers. The various DZ BANK Group entities and its strong brands are the cornerstones of a comprehensive range of financial services offered through the Cooperative Financial Network. The DZ BANK Group has organised its strategy and range of services for the cooperative banks and their customers along the lines of four business segments: Retail Banking, Corporate Banking, Capital Markets and Transaction Banking.

Combining banking services with insurance products, home loan savings and a range of investment services has a long tradition within the Cooperative Financial Network. The specialist institutions within the DZ BANK Group each offer highly competitive and appropriately-priced products in their respective area of expertise. This allows Germany's cooperative banks to offer their clients an end-to-end range of first-class financial services.

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# LETTER FROM THE MANAGEMENT BOARD

The Management Board of DZ HYP
From left to right: Sabine Barthauer, Dr Georg Reutter (Chief Executive Officer), Jörg Hermes

Dear business associates,

The COVID-19 pandemic is the biggest challenge to have faced the international community in decades. The impact of the pandemic is also leaving its mark in the real estate and financial sectors. This makes us all the more pleased to be able to draw a positive conclusion from the extraordinary year under review – despite a drop in our new business. Developments within our Bank varied from segment to segment. We achieved an increase of around 12 per cent in the private home loan financing business, which is largely intermediated via cooperative banks. Demand remained high, testimony to the fact that the COVID-19 pandemic is not having any direct impact on the residential property market. We are also satisfied with the development of our business with corporate and public-sector clients.

In order to cushion the blow that the COVID-19 pandemic has dealt the economy and the capital markets, central banks provided support in the form of an expansionary monetary policy in 2020, and stabilised interest rates at a low level. In addition to its ongoing purchase measures, the European Central Bank (ECB) launched another programme, the Pandemic Emergency Purchase Programme (PEPP), in March, the volume of which had been increased to almost € 1,850 billion by the end of the year. At the same time, the international community is pursuing expansive fiscal policy measures on a large scale. The European Union (EU) adopted an extra budget worth € 750 billion in light of the slump in economic output. € 360 billion of this amount will be granted as loans and, for the first time, € 390 billion has been earmarked to be paid out as grants that need not be repaid. Another positive aspect is the fact that no-deal Brexit was averted, although it is important not to disregard the impact of non-tariff barriers to trade. Following the US elections last November, there is now the prospect of US economic and trade policy being readjusted, with increased deficit spending in the US also potentially on the cards. This could provide a reliable basis for an improvement in international economic relations and supply fresh impetus for growth.

Despite extensive public-sector support, the German economy entered a recession last year, following a ten-year period of growth, due to the effects of the COVID-19 pandemic. The last recession on this scale was witnessed during the financial and economic crisis of 2008/2009. This time, however, the impact of the recession is very different, because it is hitting almost all sectors of the economy. Industrial segments are less affected, whereas the slump is most pronounced in the service sector, which comprises areas such as hospitality, culture or personal services.

Investments in German real estate proved to be stable investments in 2020. The volume of commercial real estate transactions, including residential investments, amounted to € 81.6 billion. While this is around 11 per cent lower than the figure reported in the "record year" of 2019, it is still the second-highest volume achieved over the last decade, up slightly on the 2018 level. This means that, despite the prevailing circumstances, 2020 was an outstanding year that bears testimony to the strength of the German real estate market. The main driver was the commercial residential investment market, which compensated for moderate declines in other segments. Favourable financing conditions are fuelling rising demand for private home loan financing. The COVID-19 pandemic would appear to have made "housing" an even more valuable asset for private individuals. The outlook for the office property market in view of the increase in working from home is currently the subject of much debate. Although transaction volumes dipped in 2020, we are confident that offices are anything but obsolete and will experience a renaissance in the near future, albeit with structural changes in terms of equipment and layout concepts. All in all, we expect to see solid development on the real estate markets in 2021 in an environment of sustained liquidity levels.

DZ HYP's new business amounted to approximately € 10.7 billion last year, reflecting developments on the real estate markets. Business with retail customers rose by 12 per cent year-on-year to € 2.1 billion. Around € 8 billion was generated in business with corporate clients. Although this is down on the previous year's figure of € 12.2 billion overall, we can nevertheless be proud of what we have achieved. Our performance underlines DZ HYP's importance for the Cooperative Financial Network and the joint lending business with German cooperative banks, which we will continue to pursue reliably as usual in the current year.

Despite the COVID-19 pandemic, DZ HYP's economic situation is positive and has stabilised further overall, as in previous years. The Bank's robust financial performance is the result of a rigorously pursued business and risk strategy, whereby an accelerated build-up of hidden reserves and general risk provisions, combined with an absence of any obvious risks, provide the basis for a sound financial position and performance based on a viable business model.

In the summer of 2020, we restructured our segments in order to provide our partners with even more targeted and focused support. Since then, we have concentrated our market activities on three segments: Corporate Clients, Retail Customers and the Public Sector. In Commercial Real Estate Investors and the Housing Sector, which were previously set up as separate segments, we are working even more intensively with the Cooperative Financial Network within the Corporate Clients segment. In the Retail Customers segment, we have merged the front and back-office units so as to bundle loan processing. We also laid the foundation for the Customer Dialogue Centre, which was launched in January of this year. This allows us to provide the cooperative banks with fast and competent support in all areas of private home loan financing. We also repositioned ourselves in view of the mounting requirements and expectations of external stakeholders with regard to sustainability, launching a bank-wide project to address this topic. We are currently revising our sustainability strategy and aim to put conditions in place that will allow us to issue a sustainable refinancing product ("Green Pfandbrief") as the next step.

There were also changes within the Management Board in 2020. Mr Jörg Hermes joined DZ HYP's Management Board back in April as a replacement for Dr Carsten Düerkop. At the end of the year, our colleague Mr Manfred Salber retired after almost 14 years of successful work on DZ HYP's Management Board. Ms Sabine Barthauer has been appointed as his successor. We will be working in this new structure to continue on the successful path we have carved out for ourselves and to position the Bank to make it fit for the future.

Admittedly, the COVID-19 pandemic is still having a negative impact on economic development in Germany. Despite the considerable uncertainty, however, a popular adage holds true for 2021 as well: every crisis is followed by a boom. The real estate market is likely to continue to show varied development. In view of moderate growth prospects, which became particularly evident in the second half of 2020, the tried-and-tested partnership in the Cooperative Financial Network and the decentralised nature of our business, we expect 2021 to be a stable year that is supported by the upward trend.

Yours sincerely,

| | | |
|---|---|---|
| Dr Georg Reutter<br>Chief Executive Officer | Sabine Barthauer | Jörg Hermes |

The Management Board
Hamburg and Münster, 22 March 2021

# ABOUT DZ HYP

## PARTNER FOR REAL ESTATE FINANCING AND PUBLIC-SECTOR LENDING IN THE GERMAN COOPERATIVE FINANCIAL NETWORK

As a member of the Cooperative Financial Network, DZ HYP is committed to the success of its partners and clients. We are strengthening the market position of the cooperative banks in the business areas of Corporate Clients, Retail Customers and Public Sector. In DZ HYP, local cooperative banks have a partner supporting them, with a strong funding base, a decentralised approach and close proximity to its clients.

The Bank's central business policy role is to anchor real estate financing and public-sector lending in the Cooperative Financial Network, and to realise financing solutions together. To this end, DZ HYP offers a solution-oriented range of products and services to the German cooperative banks, working hand in hand with them to cultivate the regional markets. In this context, both sides benefit from the partnership – DZ HYP from the direct contact with regional clients, and the German cooperative banks from the business relationships arising from developing the market throughout Germany.

In the business with Corporate Clients, cooperation with DZ HYP using the the IMMO META product family puts the cooperative banks in a position to realise larger financing solutions for their medium-sized real estate customers, as well as to diversify their own risk. The German cooperative banks can tap into the specific financing expertise of their partner within the network, while at the same time contributing their regional market knowledge. In the Retail Customers segment, DZ HYP offers initial and follow-up financings for new construction, purchase and modernisation/refurbishment for successful cooperation with cooperative banks based on the VR-Baufi range of products. Thanks to DZ HYP's extensive product range of home loans – with fixed-interest terms of up to 30 years – cooperative banks can offer their customers solutions which fit their needs exactly. DZ HYP acts as a centre of competence within the DZ BANK Group for coverage of the Public Sector business.

Other services offered to the Cooperative Financial Network include the rating of commercial real estate clients, property valuations performed by the Bank's wholly-owned subsidiary VR WERT Gesellschaft für Immobilienbewertungen mbH, a municipal ranking that uses the latest data to provide information on the economic, budgetary and debt situation of the municipalities in the individual business regions, and the daily loan terms newsletter "VR-BaufiOfferte".

### Ratings confirmed

Standard & Poor's (S&P) reviewed DZ HYP's ratings in January 2021 and confirmed the issuer rating of "AA-"/"A-1+". By awarding this rating, S&P continues to acknowledge DZ HYP's membership of the DZ BANK Group and the Cooperative Financial Network, as well as its membership in the deposit insurance scheme of the National Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – "BVR"). It also highlights the Bank's expertise in financing commercial and residential building projects in Germany as part of the Cooperative Financial Network's financial service offering. The "negative" rating outlook for the issuer rating is unchanged. S&P expects the low interest rates to continue to weigh on German banks' net interest margins and income over the next 24 months. Accordingly, the negative trend in the BICRA (Banking Industry and Country Risk Assessment) was confirmed. The BICRA forms the anchor for the issuer rating in S&P's rating methodology. DZ HYP's Mortgage Pfandbriefe and Public Pfandbriefe continue to enjoy a top "AAA" rating awarded by S&P, with a stable outlook.

Fitch Ratings evaluates DZ HYP as part of the joint rating awarded to the Cooperative Financial Network and confirmed the issuer rating of "AA-"/"F1+" for the 2020 financial year. This rating is Fitch's way of recognising the cohesion and very stable refinancing and liquidity position within the Cooperative Financial Network. The rating outlook was switched to negative in March 2020 to reflect the potential deterioration in the operating environment in Germany and the associated risk of the Cooperative Financial Network's profitability being eroded. The issue rating for senior preferred bonds was upgraded by one notch to "AA" in August 2020. This upgrade/differentiation is a form of recognition by Fitch of the protection afforded to senior creditors vis-à-vis subordinated creditors in the event of resolution.

The rating agency Moody's published ratings for DZ HYP for the first time in February 2021. The Bank was assigned an issuer rating of "Aa1"/"P-1" and a negative outlook in line with the rating awarded to the Cooperative Financial Network. The senior preferred bonds were rated "Aa1", while the senior non-preferred bonds were assigned an "A2" rating.

RATING OVERVIEW

| | Standard & Poor's | Fitch Ratings*) | Moody's |
|---|---|---|---|
| **ISSUER CREDIT RATING** | **AA-** | **AA** | **Aa1** |
| **Outlook** | **Negative** | **Negative** | **Negative** |
| **Liabilities (short-term)** | **A-1+** | **F1+** | **P-1** |
| | | | |
| **ISSUE RATINGS** | | | |
| **Mortgage Pfandbriefe** | **AAA** | **–** | **–** |
| **Public Pfandbriefe** | **AAA** | **–** | **–** |
| | | | |
| **LONG-TERM LIABILITIES** | | | |
| **- Preferred senior unsecured** | **AA-** | **AA** | **Aa1** |
| **- Non-preferred senior unsecured** | **A+** | **AA-** | **A2** |

*) joint rating of the Cooperative Financial Network

# DIGITALISATION

## Digitalisation as an integral component

DZ HYP has invested heavily in digitalising its processes in recent years. Measures to optimize the processing and monitoring of lending transactions, the execution of internal bank processes and internal and external reporting have been supported by digital solutions. This is also reflected in DZ HYP's fundamental IT strategy.

As far as digital processes are concerned, the COVID-19 pandemic presented DZ HYP with challenges that it had to respond to. In the course of the first lockdown in the spring of 2020, the Bank switched its entire operations over to a system of employees working from home in the space of only a few days. The necessary technology, as well as the corresponding processes, were at the ready, allowing us to make this switch, which remains an option for all employees to this day, at short notice.

## Regular process and technological optimisation

The platform "VR-BaufiConnect" was developed in 2019 to connect the cooperative banks with the "agree21" core banking procedure and the sales platform Genopace. Taking these measures has allowed DZ HYP to achieve high-level flexibility for existing and future processes in the interaction with cooperative banks, as the result is consistent processes – from the workplace of cooperative banks to the SAP back-end at DZ HYP, which also allows bilateral real-time processing. The independent architecture selected between front- and back-end guarantees that modules can be established and individually expanded for further divisions, platforms and IT ecosystems.

In cooperation with DZ BANK AG and other DZ BANK Group entities, DZ HYP worked to future-proof the Group in the reporting year. A new sales platform is to allow customers to directly obtain information about and purchase the Group entities' offers and products. This platform is also integrated into DZ HYP's back-end systems via "VR-BaufiConnect" and processes can be continued directly.

Examples of the measures designed to achieve further progress in the interaction with DZ HYP's customers include the automation of lending decisions and the collection and further processing of property data, supported by digital solutions. During the year under review, DZ HYP prepared its system landscape for the Bank-wide changeover to SAP/4 HANA, and started the first few migration processes. This work will continue systematically until 2024, allowing DZ HYP to use the latest digitalisation technologies to its advantage in this area, too.

## Trend monitoring

Digitalisation has already been changing the banking sector for several years now, and the pandemic merely served to accelerate this trend in 2020. This has reinforced DZ HYP's commitment to investment in digitalisation as a key, and increasingly accepted, requirement. In addition, broad support has emerged for measures to forge ahead with further optimisation based on digitalisation. Every year, DZ HYP assesses new trends to determine how they could bring about further optimisation. One example is robotics technology, which is being reviewed with a view to potentially using it to process loan applications.

# SUSTAINABILITY

## Publication of eighth sustainability report

As a member of the DZ BANK Group, DZ HYP is committed to the fundamental cooperative concept of responsible business practices. This means that the Bank's entrepreneurial spirit has a long-term horizon; it uses natural resources in a sensitive and efficient manner, and takes risks and opportunities into consideration as part of its decision-making processes. DZ HYP has been providing information about its sustainability performance in its annual sustainability report since 2012. 2020 saw the publication of the eighth report, for the 2019 financial year, based on the sustainability reporting standards set by the Global Reporting Initiative (GRI). The sustainability report for the 2019 financial year was prepared using the reporting format based on the standards of the Global Reporting Initiative (GRI) for the first time.

## Sustainability rating: “Prime“ status confirmed

By awarding the corporate rating ”C“ in the year under review, the sustainability rating agency ISS-ESG secured DZ HYP’s ”Prime“ status in the ”Financials/ Mortgage & Public Sector Finance“ peer group.

## Sustainable corporate governance and strategy

Corporate governance finds its bearings in the underlying principles laid down in the DZ HYP sustainability strategy, relating to a sustainable banking business, employee matters, ecological responsibility and social commitment. To satisfy the requirements of policy makers, supervisory authorities, investors and society, DZ HYP initiated a Sustainability Committee in 2019 comprising all Division Heads of DZ HYP. This central decision-making body connects the sustainability management team with the Bank’s various organisational units.

In February 2020, DZ HYP put together a team comprising colleagues from Finance, Treasury, Risk Controlling and Sustainability Management. Based on the necessary measures identified by the team, a Bank-wide project to further refine DZ HYP's sustainability activities was launched in September 2020. The aim is to lay the foundation for a long-term and sustainable direction within DZ HYP. The project is split into two phases. The first phase of the project, which will run until mid-2021, involves revamping DZ HYP’s sustainability strategy and sustainability governance, as well as putting the conditions in place for the issue of a sustainable refinancing product (”Green Pfandbrief”). The initial focus is on the commercial real estate portfolio. In the second project phase, which is set to start in the second half of 2021, the sustainability strategy will be operationalised and the Bank’s management system adapted.

As a participant in the UN Global Compact, DZ BANK Group is committed to the ten global principles that have been established in the fields of human rights, labour, environment and anti-corruption. The Group also feels bound by the 2030 Agenda for Sustainable Development.

## Responsibility for its employees

Entrepreneurial success depends largely on the dedication and performance of the Bank’s employees. As a result, DZ HYP pursues a human resources policy that strikes a balance between the needs of its employees and economic requirements in an environment characterised by demographic change. Components of this policy include personnel development, talent recruitment and talent training, and moves to promote career advancement amongst women. In addition to ensuring that its employees can reconcile their work and family commitments, DZ HYP offers an extensive occupational health management programme for its staff. Measures are also taken to help employees strike a balance between personal and professional commitments.

In recognition of our family-friendly human resources policy, the non-profit Hertie Foundation first awarded DZ HYP the ”**audit**berufund**familie**“ certificate back in 2013. The Bank has since regularly received the seal of quality, which has to be acquired anew every three years. The last seal awarded was valid until 31 December 2020. The Bank will be reaudited at the beginning 2021, a process that will cover both of DZ HYP’s head offices.

DZ HYP was also awarded the "fair trainee programme" seal by the independent consultancy and market research institute "trendence" in 2020. Companies seeking to achieve certification have to comply with defined quality standards including the benefits associated with, and the overall conditions of, the trainee programme, mentoring and support, training and further development opportunities, as well as career prospects. Our trainee programme scores above average with regard to benefits and overall conditions, as well as in the area of mentoring. The certification process has shown that trainees are assigned responsible tasks right from the outset and feel supported and encouraged by their mentors and managers.

## Social commitment

The cooperative basic values of aiding empowerment, solidarity as well as sustainable and responsible conduct are cornerstones of DZ HYP's social commitment. In keeping with these values, the Bank promotes the Active Citizenship Association (Aktive Bürgerschaft), which advocates civic action and non-profit organisations. It also supports the CLUB OF ROME's German charter by providing the club's branch office with premises in Hamburg at no charge. Further, DZ HYP is the host and financial backer of the annual meeting of the CLUB OF ROME schools network.

DZ HYP has taken the exceptional situation created by the COVID-19 pandemic as an opportunity to strengthen its regional commitment even further hand-in-hand with the cooperative banks. With the *#gemeinsamfürdasehrenamt* ("together for volunteers") campaign, DZ HYP rewarded a bonus of € 50 for every home loan intermediated by a cooperative bank in the period from 11 May to 19 June 2020. The banks were free to donate the bonuses generated by their business to charitable initiatives of their choosing. A total of almost 140 partner banks participated in the campaign.

Another example of DZ HYP's professional commitment is the support it provides to the student investment club initiative of the University of Hamburg, Hanseatischer Börsenkreis der Universität zu Hamburg e.V., which raises awareness of economic issues, promotes financial literacy and provides young people who are interested in economics and finance with a forum for dialogue. Within the scope of the "Schools and Business Partnership" project launched by a chamber of commerce and industry, DZ HYP cooperates with two schools in Münster. The Bank also supports hands-on vocational orientation as part of the "Don't leave school without the prospect of a job" project run by the State of North-Rhine Westphalia. The COVID-19 pandemic put a stop to the placements within DZ HYP in the reporting year.

As part of its commitment to social responsibility, DZ HYP subsidised the Hamburg Donors' Parliament *(Hamburger Spendenparlament)*, which supports initiatives to help the homeless and people living in poverty, as well as to improve integration, in the year under review. In addition to other customer-related donations, the Bank once again doubled its employees' annual Christmas collection. This year's donation went to the Dunkelziffer e.V. association in Hamburg, which has been committed to combating the sexual abuse of children and child pornography since 1993 with therapy, counselling, prevention and further training measures.

As in previous years, DZ HYP once again decided to largely refrain from sending out Christmas cards in 2020, instead using the amount saved to provide financial support to two social projects proposed by its employees: one was the "Liebenswert – Lebenswert e.V." association that supports people suffering from dementia and their relatives. The association targets dementia sufferers aged between 40 and 70 and tries to make their everyday lives, which are often very stressful, easier for both them and the people around them. Financial support was also provided to the "Kinder Zukunft Fördern e.V." association, an organisation behind three children's homes. The homes are designed to give children and young people from difficult backgrounds the opportunity to embark on fulfilling work lives and find their own place in society.

## Ecological responsibility

The head offices in Hamburg and Münster have been undergoing renovation work, including energy efficiency modernisation measures, since 2018 and 2019 respectively. Much of the work relates to technical energy efficiency refurbishment measures. Various measures have been taken to reduce emissions from the Bank's building operations, including the expansion of electricity generation for our own use using solar modules in

Hamburg. A total of 250 solar panels with an output of 325 watts each were installed on the roof of the bank building in Hamburg in 2020. Based on ideal conditions, the panels will generate solar output of around 80 kwp (kilowatts peak)/h. This corresponds to power output of 40,000 to 50,000 kWh per year. The solar modules will allow DZ HYP to save around 36,000 kg of $CO_2$ emissions a year compared to conventional electricity generated from gas, coal and nuclear power. The completion of the construction work in Hamburg has been delayed slightly due to the COVID-19 pandemic, with the work scheduled to end in mid-2021.

As things stand at the moment, the construction work in Münster will be completed on schedule at the end of 2021. The first construction phase in Münster was completed successfully in November 2020 with the completion of the DZ HYP Tower. All floors of the tower were completely refurbished and converted to allow for contemporary office use as a multi-tenant property. The main measures include the installation of new air conditioning and heating technology and the replacement of the entire façade. The new air conditioning and heating system and the new façade, which includes external sun protection, are expected to reduce energy consumption. As well as helping to save energy, the construction measures will create state-of-the-art workplaces. The individual floors of the tower have been designed as seven distinct office units with separate infrastructure. The office areas allow for flexible use as either open-plan or individual offices. The next step will involve renovating the ground floor. A prestigious entrance on Sentmaringer Weg, training rooms, a restaurant for staff, tenants and external guests on the ground floor, as well as a separate access route to the indoor bike parking spaces, which are located close to showers and changing rooms for cyclists, turn the communal areas into a high-quality and future-proof office location, too.

The modernisation work at both sites will be certified by the German Sustainable Building Council (DGNB). The Bank is aiming for a "Silver" DGNB certificate in Hamburg and is going for "Gold" in Münster.

The fact that the Münster site has been certified under the ÖKOPROFIT programme (an ecological project for integrated environmental technology involving the City of Münster, industry, chambers of commerce and national partners) since 2012 bears testimony to the quality of the environmental management system. Since 2018, the Bank has been using almost exclusively Blue Angel certified recycling paper. The power supplied to both of the main locations comes from certified green electricity from hydropower.

Since 2016, employees in Hamburg have been able to use an electric car for business-related travel. The Bank also gives its employees in Münster and Hamburg the opportunity to lease bikes and e-bikes via bicycle leasing provider JobRad.

## Sustainability in the DZ BANK Group

With a view to integrating sustainability to an even greater extent in business processes, DZ HYP has been playing a role in the DZ BANK Group's sustainability market initiative since 2012. For this purpose, a permanent Corporate Responsibility Committee (CRC) was formed in 2014, of which DZ HYP is a member. The results of this collaboration include, for example, the introduction of a Group-wide database structure, common supplier standards and the development of a policy on sustainability in lending.

DZ HYP has further committed to adhering to DZ BANK Group's joint climate strategy, which aims for a reduction in aggregated $CO_2$ emissions – as generated by Group entities – by at least 80 per cent by the year 2050, compared to 2009. Should the Group's aggregated emissions exceed the target, the overshooting $CO_2$ emissions will be compensated by those companies that failed to meet their individual targets (on the "polluter pays" principle).

# MANAGEMENT REPORT

## BUSINESS MODEL

### The commercial real estate bank for the Cooperative Financial Network

DZ HYP is a leading provider of real estate finance and a major Pfandbrief issuer in Germany, as well as a centre of competence for public-sector clients within the *Volksbanken Raiffeisenbanken* Cooperative Financial Network. The Bank is active in three business segments resulting from internal restructuring measures in the year under review: Corporate Clients, Retail Customers and the Public Sector. In its business activities, DZ HYP targets direct clients and acts as a partner to cooperative banks in Germany.

DZ HYP is represented nationwide, with two head offices in Hamburg and Münster, six real estate centres in the business hubs of Hamburg, Berlin, Düsseldorf, Frankfurt, Stuttgart and Munich, and regional offices in Hanover, Kassel, Leipzig, Mannheim, Münster and Nuremberg. The decentralised structure gives DZ HYP regional proximity to local cooperative banks and their customers.

### Joint market coverage with the German cooperative banks

DZ HYP provides its partner banks and clients in its segments with an extensive range of tailor-made financing solutions, which are adapted to suit client needs and current market developments. The resulting opportunities are exploited together with the German cooperative banks. Servicing these banks as an associated provider is a key element of the Bank's sales activities. It is committed to supporting the regional market development of the local banks with a broad, decentralised structure and proximity to its customers.

### Customised financing solutions for Corporate Clients

In its Corporate Clients business segment, DZ HYP is active both as part of its direct business and as a partner to the cooperative banks in Germany, working with Commercial Real Estate Investors and the Housing Sector. DZ HYP focuses on financing properties in the German market, as well as providing support for German clients' investment projects in selected international markets. Its Commercial Real Estate Finance activities are focused on the core segments of office, residential and retail properties. DZ HYP is also involved in the specialist segments of hotels, logistics and real estate for social purposes, within the scope of its credit risk strategy. Target clients are private and institutional investors, as well as commercial and residential real estate developers. When selecting exposures, the priorities are the quality of the client relationship, the third-party usability of the financed property, and collateralisation through first-ranking liens.

The focus of our Housing Sector activities is on customised financing solutions for residential or mixed-use properties. Cooperative, municipal, church related and other housing companies across Germany receive loans for new construction, modernisation and renovation projects also in combination with subsidised development loans granted by the German government-owned development bank (Kreditanstalt für Wiederaufbau – "KfW"). DZ HYP focuses on long-standing customer relationships with companies that create sustainable and affordable housing. As a premium member of the umbrella industry organisation, the Federal Association of German Housing and Real Estate Companies (GdW), the Bank is committed to intensive dialogue between the housing industry and real estate financing providers.

## Collaboration with the German Cooperative Financial Network in the Corporate Clients business

With the IMMO META product family, DZ HYP offers German cooperative banks a comprehensive range of products for cooperation in the Corporate Clients business segment. Via IMMO META, DZ HYP participates on a *pari-passu* basis in real estate finance exposures originated by cooperative banks in their region. The cooperative banks retain their leadership role with such financing. Using IMMO META REVERSE, the cooperative banks can get involved in selected large-volume projects in their region from as early as the origination phase. The financing partners themselves decide on the level of their involvement, participating on a *pari-passu* basis. IMMO META REVERSE+ allows a large number of cooperative banks to acquire individual tranches of a property financing arrangement concluded by DZ HYP, as partners in the syndicate, of equal rank and in a standardised manner. The German cooperative banks can access an online platform, to simplify the process and ensure efficient distribution. A framework agreement must be concluded prior to utilisation. Since it was launched on the market back in 2009, 462 framework agreements have been concluded with cooperative banks, with 312 institutions having participated in financing transactions on one or more occasions.

## Managing real estate risks

To complement its product range, DZ HYP makes available a web-based rating application to the German Cooperative banks in form of "agree21VR-Rating-IMMO". This uniform reporting tool allows the cooperative banks to determine the customer-specific probabilities of default for their commercial real estate customers. DZ HYP offers this application in collaboration with Fiducia & GAD IT AG and parcIT GmbH. The banks can use the process to implement a modern risk management process that takes account of all the relevant factors. It is aimed at cooperative banks with commercial real estate financing activities, and at those for which commercial real estate accounts for a significant proportion of their credit portfolio. The rating application provides a key foundation for joint business within the Cooperative Financial Network, and is encountering continuously growing demand. As at 31 December 2020, 558 German cooperative banks were using agree21VR-Rating-IMMO, compared to 518 at the end of 2019.

## Solutions for retail customers

As part of the Cooperative Financial Network, DZ HYP works closely with the cooperative banks in their business with retail customers. Retail business is largely originated through intermediation by cooperative banks. DZ HYP's offering includes initial as well as rollover financings for new construction, purchase and modernisation/refurbishment. Thanks to DZ HYP's broad product range of home loans – with fixed-interest terms of up to 30 years – cooperative banks can offer their customers solutions which fit their needs exactly. Business with retail customers is based on standardised credit processes, and is characterised by swift lending decisions. The full distribution potential of the Cooperative Financial Network is made available to reach retail customers through technological integration of the products into the distribution systems of individual cooperative banks, and through using largely automated processes.

The Bank's retail business bundles the entire life cycle, from submission of the application to repayment, in one front-office unit. DZ HYP has dedicated regional directors to support the banks responsible for intermediating the loans in their sales and market activities. Queries regarding specific cases are also answered and resolved quickly by the Bank's new customer dialogue centre.

DZ HYP has developed the "VR-Baufi" product family, which spans the entire private home loan financing spectrum, to aid cooperation in this business segment. Annuity and interest-only loans can be agreed with different product features to suit individual customer requirements, including a variety of options for unscheduled repayments, for example. Since the autumn of 2020, DZ HYP has been offering cooperative banks the "VR-BaufiTop" product for customers with standardised financing needs. The product is aimed at salaried employees, manual workers, civil servants and retirees who want to buy an owner-occupied residential property. VR-BaufiTop is designed for the growing platform business and to attract new customer groups for the Cooperative Financial Network. It is available to cooperative banks on the Genopace and Baufinex network portals. The product offers intermediary banks attractive conditions and the option of using a lending decision system with immediate approval based on traffic light logic.

## Centre of competence for public-sector clients

As a centre of competence for public-sector clients within the Cooperative Financial Network, DZ HYP supports cooperative banks across Germany in developing their business with regions, towns/cities and local authorities, their legally dependent operations, municipal special public-law administrative unions and public-sector institutions. The core of both the business conducted jointly with the German cooperative banks and the direct business is the granting of loans to local authorities and short-term public-sector loans. In addition, DZ HYP offers banks a municipal ranking that uses the latest data to provide information on the economic, budgetary and debt situation of the municipalities in the individual business regions. The public-sector client target group includes smaller and medium-sized municipalities in particular. The DZ HYP portfolio also includes Public/Private Partnerships (PPPs). For specific projects, we also bring in other experts from the DZ BANK Group.

## Real estate valuation by the subsidiary VR WERT

The valuation of real estate properties is essential in order to conduct pricing commensurate with risk and guarantee the portfolio quality of the loans. The wholly-owned subsidiary of DZ HYP, VR WERT Gesellschaft für Immobilienbewertungen mbH, appraises real estate for banks, the corporate sector, investors and housing cooperatives. The range of services offered includes market and mortgage lending value appraisals, advice/consultancy on real estate matters and product audits of appraisals performed by German cooperative banks. Depending on what the client requests, mortgage lending values are calculated in accordance with the Regulation on the Determination of the Mortgage Lending Value or the uniform Valuation Directive 3.0 *(Wertermittlungsrichtlinie 3.0)* of the Cooperative Financial Network. The company values properties financed by DZ HYP with a focus on the business with corporate clients, who require a particularly sophisticated and individual case analysis, as well as on privately owned properties.

# ECONOMIC REPORT

## ECONOMIC ENVIRONMENT

### German economy in an environment dominated by the COVID-19 pandemic

After a growth phase spanning ten years, the German economy was plunged into a deep recession in the 2020 financial year. Price-adjusted gross domestic product (GDP) fell by 5.0 per cent in a year-on-year comparison. The COVID-19 pandemic left its mark on almost all sectors of the economy in 2020. In industry excluding construction, a segment that accounts for a good quarter of overall economic activity, price-adjusted economic output fell by 9.7 per cent compared to 2019 (2019: -3.6 per cent). In the manufacturing sector, output dropped by 10.4 per cent (2019: -3.5 per cent). Industry was hit particularly hard by the implications of the COVID-19 pandemic in the first half of the year, also due to the temporary restrictions on global supply chains. One sector that was able to hold its own during the crisis, on the other hand, was the construction industry: price-adjusted gross value added in this segment increased by 1.4 per cent as against 2019 (2019: 3.5 per cent).

The economic slump was particularly evident in the service sectors of the economy, for example in the combined retail, transport and hospitality sector. Economic output here was down by 6.3 per cent in price-adjusted terms (2019: +2.1 per cent). While online retail increased, part of the bricks-and-mortar retail industry fell deep into negative territory. Restrictions imposed on overnight accommodation and dining out in response to the COVID-19 pandemic triggered a slump of -34.9 per cent in the hospitality industry (2019: +1.9 per cent).

### Stabilising effect of public consumption

After private consumption had often propped the economy up in previous years, spending fell by 6.0 per cent in price-adjusted terms in 2020 (2019: +1.6 per cent). Public consumption, on the other hand, which climbed by 3.4 per cent in price-adjusted terms (2019: +1.9 per cent) also had a stabilising effect during the COVID-19 pandemic. The factors contributing to this trend include purchases of protective equipment and hospital services. In an environment in which gross fixed capital formation was on a downward trend, construction investment bucked the trend and grew by 1.5 per cent (2019: +3.8 per cent). By contrast, in price-adjusted terms, 12.5 per cent less was invested in equipment, and particularly in machinery, devices and vehicles, in 2020 (2019: +0.5 per cent). The pandemic also had a considerable impact on foreign trade. Exports and imports of goods and services declined in 2020 for the first time since 2009. Exports fell by 9.9 per cent year-on-year in price-adjusted terms (2019: +1.0 per cent), with imports sliding by 8.6 per cent (2019: +2.6 per cent). Service imports saw a particular slump due primarily to the drop in travel.

Prompted by the outbreak of the pandemic, the German government launched a series of subsidy and loan programmes to help ailing businesses through the crisis. Loans for funds required to strengthen liquidity were granted as part of the special lending programme of the German state-owned development bank KfW. By 31 December 2020, 102,774 loan applications with a total volume of around € 44.1 billion had been approved. Self-employed people operating as one-man/woman businesses and micro-enterprises have also received emergency aid. Beyond these programmes, the German government has taken a number of other measures to support liquidity in the corporate sector and make companies more crisis-proof as a result.

## Upward trend on the labour market ends after 14 years

The outbreak of the COVID-19 pandemic in Germany in March 2020 pushed short-term working up to record levels. Employment levels dropped considerably and unemployment increased. From June 2020, the labour market stabilised increasingly again. With an average of around 44.8 million in work, around 477,000 or 1.1 per cent fewer people were employed in Germany in 2020 than in the previous year. Looking at the year on average, a total of around 2.7 million people or 5.9 per cent were registered as unemployed (up by 429,000 or 0.9 percentage points compared to the previous year). This signalled the end of a 14-year increase in employment. People in marginal employment, i.e. employment with low working hours and earnings not covered by social security, and the self-employed were particularly hard hit, while the number of employees subject to social security contributions remained stable. The extended short-time work regulations are likely to have been the main factor preventing redundancies. The unemployment rate in Germany came to 4.6 per cent in December.

## Developments in the euro area

The spread of the coronavirus and the subsequent restrictions on economic and social life imposed from the spring of 2020 onwards triggered an unexpected slump in economic output not only in Germany, but also in Europe due to disruption to global supply chains and trade flows. Among other things, the pandemic has highlighted just how important a functioning international division of labour is to economic development in Germany and in many other countries across the globe. In the euro area, gross domestic product fell by 6.8 per cent compared to the previous year, with a drop of 6.4 per cent in the European Union as a whole. The hardest hit countries were France and Italy, where GDP plummeted by around 9 per cent, and Spain, which reported a drop of around 12 per cent. Reliance on tourism in southern European countries, in particular, also had a negative impact.

Nevertheless, developments in the fourth quarter show that the economic consequences of the second wave of the COVID-19 pandemic in Europe have been comparatively mild to date. In the months from October to December 2020, economic output in the euro area fell by 0.6 per cent in a quarter-on-quarter comparison, a less dramatic slump than expected. In France, gross domestic product fell by 1.3 per cent, with a drop of 2 per cent in Italy. Austria comes in bottom of the league, with GDP down by 4.3 per cent. Slightly positive results, on the other hand, were achieved by Germany with an increase of 0.1 per cent and Spain with an increase of 0.4 per cent. Overall, the quarterly results show that most EMU countries performed better than expected in the face of the COVID-19 pandemic in the autumn. In addition to lockdown measures that were less stringent in some cases, the increase in industrial production was one of the decisive differences compared to the spring of 2020. The manufacturing sector escaped the containment measures virtually unscathed in the fourth quarter, whereas entire factories had closed temporarily in the spring. In addition, the EMU countries benefited from the fact that the global industrial economy started to regain momentum. Despite all of the rays of light on the horizon, the COVID-19 pandemic is likely to continue to weigh on the EMU economy for the time being.

## United Kingdom: no-deal Brexit averted

On 24 December 2020, the European Commission and the United Kingdom signed three agreements on their future relationship. In addition to an extensive trade and cooperation agreement, these include an agreement on cooperation in civil nuclear energy and one on information security. As a result, a no-deal Brexit was averted just before the turn of the year, meaning that no tariffs will need to be re-imposed between the EU and the UK for the time being. The agreements provide at least an outline of the future economic relations in the post-Brexit era. They apply – in some cases provisionally – from 1 January 2021 following approval by the Council of the European Union, ratification by the United Kingdom and signature by both parties. The agreements were preceded by eleven months of tough negotiations. The risk of a hard Brexit, i.e. of the United Kingdom leaving the common market without any kind of deal, was hanging over the negotiations until the very end.

## Markets bolstered by low interest rates

The European Central Bank (ECB) remained true to its monetary policy stance in the reporting year and maintained its low interest rate policy. Both the main refinancing and marginal lending facility rates remained at the historic lows of 0.0 per cent and 0.25 per cent respectively set in September 2019. The deposit facility rate also remained in negative territory at -0.5 per cent. Bond purchases under the Asset Purchase Programme (APP) also continued in the 2020 financial year. The APP normally has a volume of € 20 billion per month and was temporarily extended in March 2020 by an additional envelope of € 120 billion until the end of 2020. The ECB plans to continue with the programme until it is just about to raise key interest rates. On 18 March, the ECB launched its Pandemic Emergency Purchase Programme (PEPP), an additional asset purchase programme designed to cushion the economic consequences of the COVID-19 pandemic. The overall framework was initially set at € 750 billion before being expanded by € 600 billion in as early as June in response to the lower inflation forecast due to the pandemic. The ECB increased the overall framework again in December to around € 1,850 billion.

# MARKET DEVELOPMENTS

## Mixed development on the real estate investment market

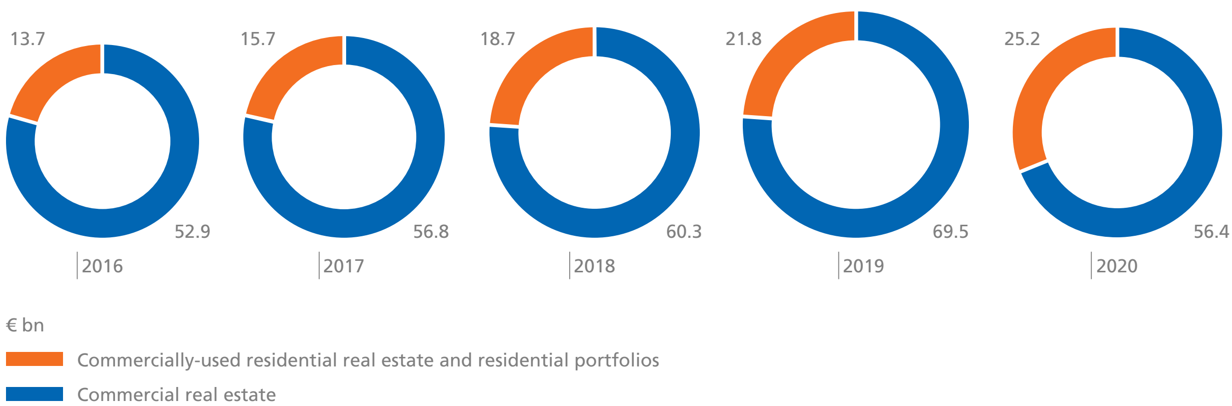
Overall conditions in the real estate sector in Germany deteriorated in the reporting year compared to 2019 due to the COVID-19 pandemic. Gross domestic product slid by 9.8 per cent in the second quarter, before the economy bounced back in the following quarter and grew by 8.5 per cent. Nevertheless, gross domestic product fell by 5.0 per cent in the 2020 financial year as a whole and on the labour market, too, the impact of the pandemic was reflected in a seasonally adjusted unemployment rate of 6.1 per cent in December 2020, up by 1.1 per cent on a year earlier.

Unlike the overall economic conditions, the financing conditions for real estate remained favourable in the reporting year, with interest rates at a sustained low level. Demand was also bolstered by high levels of liquidity in the market. This aspect was offset by pandemic-related risks due to rent arrears, rent deferrals or changes in demand for space, which can be traced back to tenants' business models and have an impact on the value of properties serving as loan collateral. In this environment, the transaction volume was down by 11 per cent year-on-year in 2020. Including commercial residential investments, it came to € 81.6 billion, higher than the figure of € 79 billion reported in 2018. The figure for 2019 had totalled € 91.3 billion. The last quarter, which proved to be strong in previous years, contributed around € 23.2 billion, or approximately 28 per cent, to the overall result in 2020. This means that market activity in the months from October to December was more subdued than in previous years as the measures taken to combat the pandemic were tightened up again.

Investors focused on security in the year under review, with particularly high demand for core investments, i.e. real estate investments that are associated with a low probability of default. These investment properties accounted for around 35 per cent of the total transaction volume in the first three quarters. Properties associated with an increased risk, on the other hand, met with lower demand.

A transaction volume of just under € 40 billion was attributable to Germany's seven major real estate locations: Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart. This equates to 49 per cent of the total German transaction volume and is down by 25 per cent as against the previous year. The above-average decline in the country's major cities means that there was mounting interest in investments outside the seven most populous cities. € 41.7 billion was invested outside of the country's top locations in 2020, up by 7 per cent year-on-year. Hamburg was the only city in which the amount invested outstripped the figure for 2019, increasing by 24 per cent to € 5.6 billion.

TRANSACTION VOLUME IN GERMANY




Source: Jones Lang LaSalle

Elsewhere, the decline ranged from 18 per cent in Düsseldorf to 57 per cent in Stuttgart.

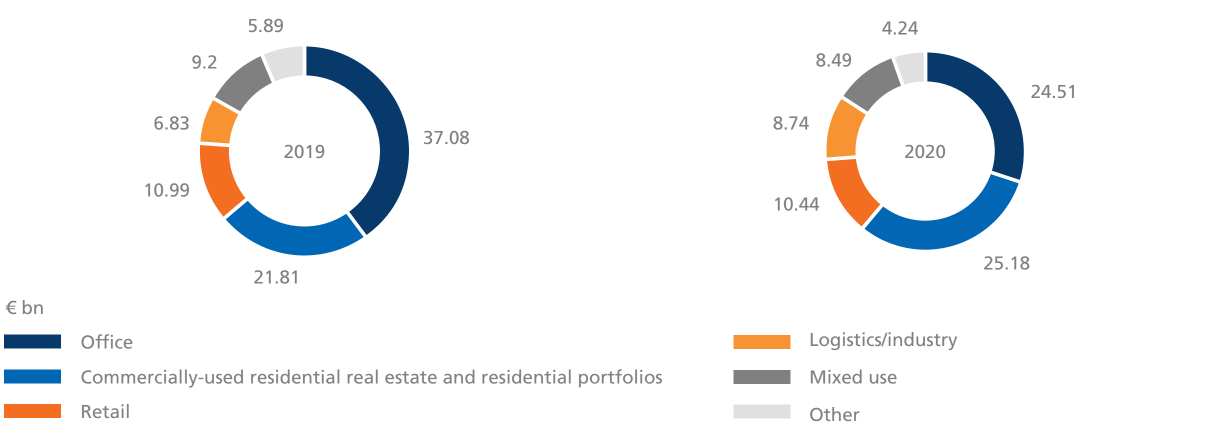
As far as the individual asset classes are concerned, residential investments replaced office properties as the most sought-after segment. € 25.2 billion, or 31 per cent of the capital invested, was destined for residential real estate. Office properties followed in close pursuit with a share of € 24.5 billion, or 30 per cent of the total transaction volume. Retail properties came in third, accounting for € 10.4 billion of the total volume for the year, down by 5 per cent on the previous year. Given the major challenges that this segment has faced as a result of the two lockdowns imposed in the reporting year, the decline is less pronounced than expected. Developments varied considerably within this segment. More than half of the transaction volume in the retail sector, or € 5.7 billion, was attributable to retail stores, retail parks, supermarkets and discount stores. Around 11 per cent of total investments were made in logistics properties last year. At € 7.5 billion, the result in this asset class outstripped the previous year and is the second-best result reported since the record-breaking 2017. Mixed-use properties also remained popular among investors. In 2020, as in the previous year, these properties accounted for approximately € 8.5 billion, or 10 per cent of the total transaction volume. The environment was particularly challenging for hotel properties in the reporting year. This translated into restrained investment in this asset class, which accounted for a share of just over 2 per cent of the total volume at around € 2 billion.

## Dynamic growth in the residential investment market

The demand for residential real estate and portfolios rose in the year under review. At around € 25.5 billion, the financial year under review exceeded the prior-year value of € 21.8 billion by 15.6 per cent. At 164,500 units, the number of residential units sold was up by around 26 per cent on the 2019 level. This brisker market activity is also evident from the increase in the number of transactions. A total of almost 450 transactions corresponds to an average increase of around 7 per cent over the past five years. The appeal of residential properties in the reporting year can be explained, among other things, by the predictable and stable cash flows that they offer. From an investor's perspective, the market is characterised by low default rates and long-term growth potential compared to other segments. While these features were already characteristic of investments in the residential asset class even before the COVID-19 pandemic, the pandemic has made them all the more important.

The five eastern German federal states, in particular, reported a marked increase in the transaction volume, which rose by 70 per cent compared to the previous year. Lower Saxony also accounted for an above-average transaction volume in the reporting year. A slight drop in the average prices for newly traded existing apartments can be explained by investors increasingly shifting their attention to markets far from the major cities. The average price came to around € 115,000 per unit, 7 per cent below the 2019 level. The majority

TRANSACTION VOLUME BY MAIN TYPE OF USE




Source: Jones Lang LaSalle

of the capital flowing into the residential real estate asset class came from domestic investors in 2020, although the share attributable to international investors has increased to make up around 25 per cent of the total transaction volume. This is ahead of both the previous year's figure and the average figure for the last five years.

### Rental development reflects varied development within individual segments

Rent levels for the individual asset classes showed varied development in the year under review due to developments linked to the COVID-19 pandemic. Rents for residential and logistics properties grew by 3.5 per cent and 1.6 per cent respectively as against 2019 in an environment of burgeoning demand. The office property market, which has shown dynamic development in previous years, continued to grow in Berlin, Hamburg and Stuttgart, i.e. in three of Germany's seven top locations. In the four remaining big cities, prime office rents stagnated at the prior-year level. In the retail segment, on the other hand, top rents declined by an average of € 11 per square metre in all of the top locations. The hotel market, which has been hit hard by the pandemic, also witnessed dwindling demand, with the transaction volume for accommodation establishments down by 60 per cent year-on-year in 2020.

### Dwindling demand on the office property market

The COVID-19 pandemic hit the German office market in the midst of a dynamic development. The labour market started the reporting year intact, with a low unemployment rate of around 5.0 per cent. Before the outbreak of the pandemic, the number of people in employment had climbed to a record high of 45.2 million. This value dropped back to 44.8 million for 2020 on average. Developments on the labour market, coupled with the economic crisis, are one of the reasons explaining the drop in demand on the office property market. In Germany's seven largest cities, take-up of space fell by around 33 per cent to 2.67 million square metres. Another factor is the increased use of mobile working arrangements during the pandemic. The question facing many employers in 2020 was whether or not, and to what extent, the workforce would be allowed to work outside of company premises even after the COVID-19 pandemic. A reluctance among companies to lease new office space can be seen, in particular, from the pronounced decline in leases for large areas. Transactions for premises spanning more than 10,000 square metres fell by 43 per cent year-on-year to 32 deals and 656,000 square metres. The drop in the transaction volume affected all seven top locations and ranged from 25 per cent in Munich to 55 per cent in Stuttgart.

This trend resulted in increasing vacancy rates in the top locations. Vacancy levels had come in at 3.0 per cent in 2019, the lowest level witnessed since 1992. In the course of the reporting year, the value climbed to 3.7 per cent, an increase of 23 per cent. Unlike space take-up, developments in the vacancy rate varied from city to city. Berlin reported the most pronounced increase, of 56 per cent, to a rate of 2.8 per cent as against 1.8 per cent in the previous year. It was a similar story in Munich, where the vacancy rate rose by around 54 per cent to 3.5 per cent. The value in Hamburg remained constant at 3.0 per cent. Stuttgart was the only top location to reduce its vacancy rate by 12 per cent to 2.1 per cent. The total office space available increased by 1.1 per cent, meaning that the supply of space remained low at the end of the year.

These conditions allowed top rents to remain stable despite declining demand. The average for the seven cities came to € 33.60 per square metre, compared with € 33.30 per square metre in the previous year. Top rents increased in three locations: by 2.7 per cent in Berlin from € 37.00 per square metre to € 38.00 per square metre, by 4.1 per cent in Stuttgart from € 24.50 per square metre to € 25.50 per square metre and by 6.9 per cent in Hamburg from € 29.00 per square metre to € 31.00 per square metre. The values for Düsseldorf, Frankfurt, Cologne and Munich remained unchanged in a year-on-year comparison. Frankfurt remained the city with the highest top rent of € 41.50 per square metre.

### Shift in demand in the retail segment

The retail asset class is one of the segments to have been hit hardest by the COVID-19 pandemic. Clothing, shoe and leather goods retailers saw their sales plummet by 20 per cent after two lockdowns were imposed in the year under review. All in all, the non-food retail sector missed out on sales of around € 36 billion in 2020. Even before the COVID-19 pandemic emerged, high-street retail was in the midst of a period of radical change fuelled by new consumer buying habits. As a result, top rents declined in all of the most popular locations. Rents averaged around € 275 per square metre in prime locations, as against € 286 per square metre a year-earlier. The lowest top rent in 2020 was in Stuttgart at € 215 per square metre, down from € 235 per square metre in the previous year. Munich is at the other end of the scale with € 335 per square metre, down by € 10 per square metre compared to the previous year. Top rents slipped by between € 5 and € 15 per square metre in all other top locations.

The food retail sub-segment paints a different picture entirely. Like the residential segment, this segment offered stable cash flows in 2020. The share of total retail investments made in the food sector has risen steadily over the past five years from 6 to 18 per cent. Retail stores and parks accounted for € 5.7 billion in the past year. This equates to more than half of the total volume of € 10.4 billion achieved in the retail segment and is up by 13 percentage points on the previous year. Inner-city commercial buildings in prime locations, which also include department stores, came in second with € 4.0 billion or a market share of 35 per cent. This figure is down by 10 percentage points compared to 2019. Shopping centres reduced their market share from 18 to 15 per cent and accounted for an investment volume of € 1.7 billion.

## Second-strongest result on the investment market for logistics properties

2020 brought an upswing in the market for logistics properties. This was triggered, on the one hand, by the boom in e-commerce, where sales increased by around 32 per cent year-on-year in November 2020 alone due to the COVID-19 pandemic. Uncertainty in other segments has also drawn the attention of new investor groups to logistics as a potential asset class. All in all, the German industrial and logistics investment market closed the year 2020 with a total transaction volume of around € 7.5 billion. This result outperformed the previous year's figure by 14 per cent and is considered the second-strongest annual result seen since the record year of 2017, when the segment reported a transaction volume of € 8.7 billion. The lack of core properties had an impact on both purchase and rental prices. These developments drove top rents for logistics and warehouse space up in five out of the seven major cities. In Munich, the most expensive location, the value remained constant at € 7.30 per square metre. Even in Cologne, the city with the lowest prices, the top rent of € 5.80 per square metre remained on a par with the previous year. In each of the five other major cities, top rents rose by € 0.10 per square metre compared to 2019.

## Transaction volume for hotel investments down considerably year-on-year

After a solid first quarter, the market for hotel properties can look back on a challenging remainder of the year. The transaction volume came to around € 2 billion in 2020, almost 60 per cent less than in the previous year. This put the share of the total commercial transaction volume attributable to the hotel asset class at around 3 per cent in 2020, much lower than the 7 per cent seen in the previous year. Around half of the total transaction volume for 2020 was transacted in the months from January to March. From the second quarter onwards, the transaction market came to an almost complete standstill due to the COVID-19 pandemic and the associated restrictions. Unlike the retail asset class, the hotel property market was in good shape until the outbreak of the COVID-19 pandemic, with properties in Germany's seven largest cities recording increasing occupancy rates every year but one since 2009. During the first lockdown in the spring of 2020, hotel occupancy rates dropped to as low as zero per cent. The tense situation faced by hotel operators deteriorated further when the second lockdown was imposed from November onwards. A major wave of insolvencies, especially among privately operated hotels, was prevented mainly by the suspension of the obligation to file for insolvency. By contrast, demand for core properties offering long-term investment security and stable price levels remains solid.

## Smaller supply gap on the residential real estate market

The population of Germany's prime locations has increased by more than 1 million people to total over 10 million over the past decade. The resulting increase in the demand for housing had created a gap between demand and supply of 340,000 housing units by 2019. This gap narrowed in the year under review, mainly due to accelerated housing construction activity in Germany's major cities. The volume of completed properties in Berlin has quintupled in the space of ten years, while it has trebled in Hamburg. In the first three quarters of 2020, the volume of approved residential construction measures was up by 3.4 per cent as against the same period of the previous year. This development is testimony to the fact that the market mechanisms are intact. The residential property market has responded to the increased demand, slowing the momentum in rental growth.

## Working from home increasing the appeal of living on the outskirts

Unlike all other asset classes, the residential property market has been spared any direct impact of the COVID-19 pandemic. The demand for housing remained constant in the year under review. Indirectly, however, there are increasing signs of a shift in demand. Employees working from home, as they are now doing in many cases, require a workplace within their own four walls, which in turn means that they need more square metres of living space. The average living space in Germany's major cities in the reporting year was 86 square metres, compared with 120 square metres in peripheral rural areas. Now that the time needed to travel between home and work every day is no longer an issue, the additional space available is making properties on the outskirts more appealing. As a result, the demand for housing in the commuter belt surrounding major cities on online real estate portals rose by up to 50 per cent.

## Financing conditions driving demand for private residential property

With only a small number of exceptions, interest rates for private home loan financing have been falling continuously since 2009. At the end of the third quarter of 2020*), the interest rate for floating-rate housing construction loans for private households in the euro area averaged around 1.37 per cent. At the same time a year earlier, the figure was 1.44 per cent while ten years previously, the interest rate was still sitting at 3.31 per cent. The sustained low interest rates further boosted demand for owner-occupied apartments and single-family homes for private households, as they make buying property more affordable compared to renting. As a result, real estate loans extended by German banks to economically dependent and other private individuals increased. In the first three quarters of 2020, the volume of long-term loans rose by 12.4 per cent and 20 per cent respectively compared to the same period of the previous year.

## Higher rents on the housing market

Bolstered by the high demand on the residential property market, rents increased in all seven top locations in the reporting year. 2017, however, signalled the start of a weaker trend, which continued in 2020. The average first-occupancy rent in the reporting year was € 15.70 per square metre, 3.5 per cent more than in 2019. This puts the growth rate ahead of the previous year's value of 2.8 per cent, but still far off the 2018 value of 4.5 per cent. There are no signs suggesting that the COVID-19 pandemic is having any impact on the development of rental prices. Rather, the weaker momentum witnessed over the past few years is due to increased supply, lower population growth in the major cities and the fact that rents are already at a high level. In 2020, first-occupancy rents in Germany's top locations ranged from € 13.30 per square metre in Düsseldorf to € 20.50 per square metre in Munich. Berlin recorded the most substantial increase, with a year-on-year rise of 7.9 per cent to an average first-occupancy rent of € 14.90 per square metre. The lowest increase was seen in Düsseldorf with 1.5 per cent.

## Rising purchase prices for residential property

Demand for owner-occupied residential property increased in the reporting year. This was initially driven by the low interest rate environment, as in previous years, allowing households to finance their own homes at favourable conditions. The COVID-19 pandemic has not affected housing demand. Instead, consumers have become more interested in the idea of owning their own property. Lockdown, working from home and contact restrictions have resulted in people attaching a higher priority to home ownership, pushing purchase prices up as a result. Over the past decade, purchase price growth has outpaced rent increases. In the country's top locations, the price of owner-occupied apartments has risen by an average of 125 per cent since 2010. Rents rose between 30 and 80 per cent in the same period. The average purchase price for owner-occupied apartments in major cities came to around € 7,000 per square metre, as against € 6,500 per square metre in the previous year, up by around 8 per cent. In 2019, prices rose by 7.4 per cent. As in the previous year, the highest prices were paid in Munich, where one square metre cost € 9,300. Frankfurt followed some way behind with € 7,800 per square metre. The lowest-priced prime location in 2019 was Cologne, at € 5,700 per square metre.

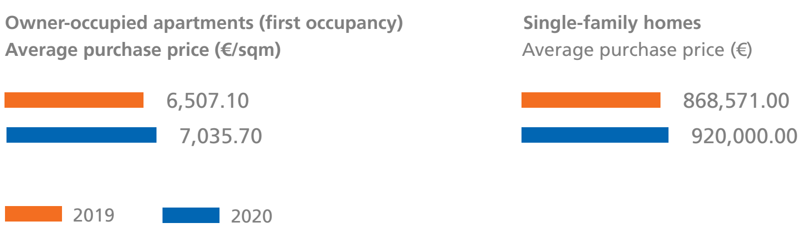
Detached houses are also a good example of how purchase prices have risen at a faster pace than rents. In the country's major cities, the average price in the reporting year was € 920,000. In 2019, it was more than € 50,000 lower. This means that the price of single-family homes in the top locations rose by around 6 per cent in 2020. The most dynamic development was observed in Berlin, where prices rose by 10.4 per cent. The German capital is also, however, the cheapest top location, with an average price of € 530,000 for a single-family home. Munich comes in at the other end of the spectrum, with an average purchase price of around € 1.6 million. Here, too, purchase prices increased by just shy of 7 per cent despite being high to begin with. Hamburg reported the lowest pace of growth among the major cities, with prices rising by around 3 per cent to an average of € 680,000 for a single-family home.

### Development of public-sector budgets

In the year under review, federal and municipal budgets alike were confronted with the measures imposed to contain COVID-19. This resulted in an increasing financing deficit. In the first three quarters of 2020*), federal revenues fell by 7 per cent to a total of € 276.5 billion as against the same period of 2019. Federal spending climbed by 26 per cent, to € 370 billion, leaving the federal government with a financing deficit of € 93.5 billion. The revenues generated by local authorities and associations fell by 1.6 per cent, to € 194.8 billion, with spending up by 5.8 per cent, to € 209.7 billion. This produces a financing deficit of € 14.9 billion for local authorities and associations in the first three quarters of 2020.

*) Data for 2020 as a whole was not yet available at the time the report was prepared.

PURCHASE PRICE DEVELOPMENT IN GERMANY'S TOP LOCATIONS




Sources: bulwiengesa, RIWS

# BUSINESS DEVELOPMENT

## Credit Business

### High levels of new business continue

The COVID-19 pandemic affected developments on the real estate markets to varying degrees in the reporting year. While transaction momentum on the investment market tapered off, prices for owner-occupied residential properties continued to rise unabated. Sustained low interest rates were the driving force behind this trend. In this environment, DZ HYP generated new real estate finance business – with both corporate clients and retail customers – totalling € 10,105 million in the year under review (2019: € 12,168 million). Including financing for public-sector clients, the Bank originated new business of € 10,736 million (2019: € 12,885 million).

### Corporate Clients segment

In its business with corporate clients, DZ HYP 2020 generated a new business volume of € 8,039 million (2019: € 10,327 million). In line with the Bank's strategic direction, € 7,584 million (2019: € 9,718 million) was attributable to its core domestic market in Germany. Within the Cooperative Financial Network, joint lending business with the cooperative banks came to € 3,349 million in 2020 (2019: € 4,420 million). To avoid cyclical peaks in the portfolio, DZ HYP continued to apply its conservative risk strategy with strict quantitative targets for its financing decisions in the year under review. Minor adjustments were made to reflect the changes to the lending business with customers of cooperative banks, the regulations for core properties and the regulations governing business in foreign target regions. Besides carrying out a comprehensive qualitative analysis of properties and location, including stress testing, the quality of the client relationship is essential.

As part of the process of consolidating the business activities of the Cooperative Financial Network, a decision was made in 2017 to bundle the commercial real estate financing business absorbed from WGZ BANK in the course of the merger with DZ BANK, at DZ HYP. The portfolio was originally sized at around € 2.6 billion and the process of gradual transfer started at the end of 2017. In the 2020 financial year, 65 exposures with a volume of € 516.2 million (2019: € 557.1 million) were transferred from DZ BANK to DZ HYP.

### Retail Customers segment

Within the Cooperative Financial Network, the lending business with retail customers is dominated by real estate financing. Customer demand for long fixed-interest periods remained stable in the 2020 financial year, supported by the ongoing low interest rates. Thanks to the refinancing options available to it, DZ HYP is in a position to provide real estate financing to the cooperative banks that suits their needs. The volume of new commitments in the retail business, which is intermediated via the core banking procedures of the Cooperative Financial Network and the Genopace and Baufinex network portals, rose to € 2,066 million in the reporting year (2019: € 1,841 million), up 12.2 per cent.

### Public Sector segment

DZ HYP is a centre of competence for business with public-sector clients in the Cooperative Financial Network. In this function, it supports cooperative banks in developing business with domestic local authorities as well as their legally dependent operations, which are serviced across Germany. DZ HYP originated new business with a volume of € 631 million in loans to local authorities during the period under review (2019: € 717 million), of which € 521 million (2019: € 582 million) was intermediated by cooperative banks and € 110 million (2019: € 135 million) was originated directly. This means that around 83 per cent of all transactions in this business area were intermediated by cooperative banks.

## Reduction of non-strategic portfolios

DZ HYP's non-strategic portfolio comprises the portfolio of mortgage-backed securities (MBS) and the non-strategic part of the sovereign/bank securities portfolio, which includes Portugal, Italy and Spain. The primary objective is to run the portfolio down carefully. In the 2020 financial year, the non-strategic portfolio was wound down further (as a result of disposals, repayments and maturities) from € 4.4 billion as at 31 December 2019 to € 4.1 billion as at 31 December 2020. DZ HYP will continue to adhere to these strategies and the resulting portfolio reduction.

## VR WERT

VR WERT, a wholly-owned subsidiary of DZ HYP, increased its number of valuations in the 2020 financial year to 6,213 (2019: 3,291) thanks to a larger workforce after employees of DZ HYP and DZ I+T GmbH were transferred at the end of 2019/beginning of 2020 as part of a partial transfer of operations. Revenues rose to € 15.3 million as a result (2019: € 11.8 million). The profit transferred to DZ HYP totalled € 3.1 million for 2020 (2019: € 2.6 million).

# Refinancing

The fiscal and monetary policy measures taken in the wake of the COVID-19 pandemic also had a significant impact on the money and capital markets in the 2020 financial year. In as early as March, the European Central Bank set the course by announcing an initial package of measures to secure bank liquidity resources, with a positive knock-on effect on the supply of liquidity to the corporate sector and households. The conditions for longer-term refinancing operations (TLTROs) were improved considerably and the decision was made to expand the existing asset purchase programmes. The ECB also launched a Pandemic Emergency Purchase Programme (PEPP), which it went on to expand and extend in the course of the year.

As a result of these, and other, expansive monetary policy measures taken by the central bank, the volume of publicly placed covered bonds fell in the 2020 financial year. Issuing activity for euro benchmark covered bonds fell short of the previous year's level (€ 138 billion) at € 94 billion (including taps) in the reporting year. This can be explained by the ECB's attractive refinancing conditions for commercial banks, which are prompting issuers to retain their covered bonds and use them as collateral for tender operations vis-à-vis the central bank. In a country-to-country comparison, the drop in the issue volume on the primary market was particularly pronounced in Germany, while more covered bonds were issued in France, bucking the general trend.

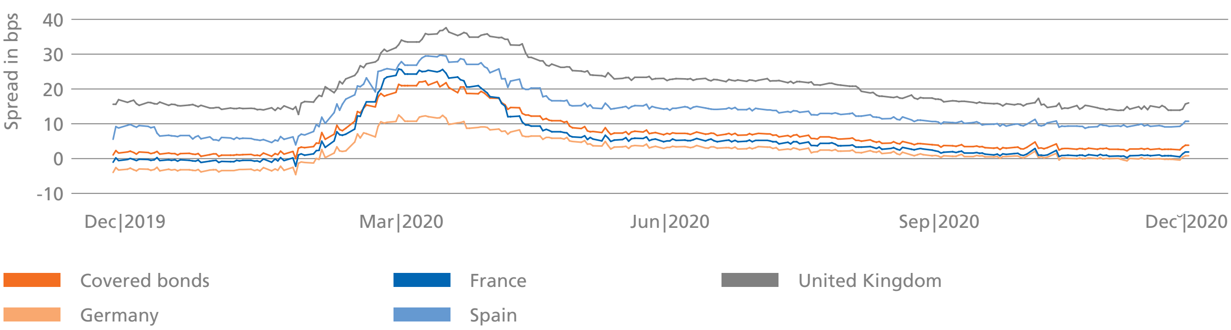
In this challenging environment, refinancing premiums widened at the start of the COVID-19 pandemic, also for covered bonds. In light of the numerous central bank measures, the resulting shorter supply of euro benchmark covered bonds and sustained robust demand, spreads recovered in the course of the year, meaning that they had returned to the pre-crisis level by the close of the year. The large-sized EU issues launched as part of the pandemic programmes from the fourth quarter onwards had little impact on demand for covered bonds.

In the 2020 financial year, DZ HYP issued covered bonds with a total volume of € 4.4 billion*) (2019: € 5.2 billion). Publicly placed benchmark bonds accounted for the lion's share at € 3.8 billion (2019: € 4.0 billion). DZ HYP was active in this market segment a total of four times, successfully placing Mortgage Pfandbriefe worth € 3.8 billion in a maturity range of between four and eight years in 2020 (2019: € 3.5 billion in Mortgage Pfandbriefe; € 0.5 billion in Public-Sector Pfandbriefe). Additionally, € 692 million was generated from private placements (2019: € 1.2 billion) (€ 442 million in Mortgage Pfandbriefe and € 250 million in Public-Sector Pfandbriefe). DZ HYP also took part in the ECB's longer-term tender operations (TLTRO III) in the amount of € 3 billion.

Unsecured funding was raised primarily within the Cooperative Financial Network. DZ HYP generated € 2.5 billion in unsecured liquidity in the 2020 financial year (2019: € 5.7 billion).

*) Exclusive own issues to secure the ECB's longer-term refinancing operations TLTRO III.

REFINANCING PREMIUMS OF COVERED FIVE-YEAR BONDS




Source: DZ BANK Research

# NET ASSETS, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

## Net assets

In the 2020 financial year, DZ HYP's total assets rose by € 2.5 billion to € 81.9 billion, largely driven by the increase in the real estate loan portfolio and especially the expansion of the portfolio of real estate finance business with corporate clients, which grew by € 2.4 billion to € 41.9 billion. The private property financing portfolio increased by € 0.8 billion to € 11.4 billion.

DZ HYP's Real Estate Finance portfolio therefore increased by € 3.2 billion to € 53.3 billion.

In its business with public-sector clients, DZ HYP's investment strategy continues to focus on supporting the cooperative banks, whilst ensuring a balanced risk/return profile. New business originated during 2020 fell short of ongoing repayments, as expected, thus reducing the portfolio by € 0.6 billion to € 10.2 billion.

Furthermore, the public finance portfolio declined by € 1.0 billion, to € 10.9 billion during the year under review, as a result of maturities and repayments in line with the Bank's strategy. The portfolio of bank bonds remained unchanged at € 0.4 billion. Exposures to countries and banks that are particularly affected by the debt crisis have developed as follows (details excluding MBS):

| | Sovereigns*) | | Banks | | Total | |
|---|---|---|---|---|---|---|
| Nominal amounts € mn | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 |
| **Spain** | **1,290** | 1,351 | **110** | 110 | **1,400** | 1,461 |
| **Italy** | **1,564** | 1,662 | **–** | – | **1,564** | 1,662 |
| **Portugal** | **750** | 750 | **–** | – | **750** | 750 |
| **Total** | **3,604** | 3,763 | **110** | 110 | **3,714** | 3,873 |

*) including state-guaranteed corporate bonds and sub-sovereign entities

DZ HYP did not hold any public-finance exposures vis-à-vis Ireland and Greece, or bonds issued by banks in these countries. Loans and advances to banks exclusively consisted of covered bonds.

2020 was largely defined by the COVID-19 pandemic and the insecurities associated thereto in many respects. In addition to this, unrest was caused by the Brexit, which was completed by the end of the year, the trade conflicts and growing polarisation, for example in the USA. Thanks to the successful development of vaccines and the start of the vaccinating process at the end of the year, a first step towards controlling the infections has been taken. At the same time, the United Kingdom's exit from the European Union should restore some calm in European Community. The ECB is using its monetary policy to ease the situation on the European capital markets. Especially the Pandemic Emergency Purchase Programme (PEPP) – a temporary asset purchase programme of private and public sector securities launched in 2020 – has proven the ECB's determination to contain the economic impact of this pandemic. It is fair to expect the ECB to take further measures to support the economy, should the situation deteriorate.

Excluding derivatives hedges taken out within the scope of overall bank management, the hidden burdens for DZ HYP's securities (excluding MBS) that are treated as fixed assets totalled € 21.0 million as at 31 December 2020 (31 December 2019: € 25.7 million). This is offset by undisclosed reserves in the amount of € 2,008.3 million (31 December 2019: € 1,731.5 million). Taking into account the net effects from hedges within the context of the overall management of the Bank, hidden burdens from this securities portfolio amounted to € 472.1 million (31 December 2019: € 617.0 million). Following a comprehensive assessment of these securities, DZ HYP has concluded that none of the securities are permanently impaired.

There have been no new investments in mortgage-backed securities (MBS) since mid-2007. The portfolio in this business area, which is being phased out, remained unchanged at € 0.4 billion. MBS holdings are intensively monitored by means of a detailed risk management system, regular analyses of individual exposures, and comprehensive stress testing. The development of material risk factors has confirmed the stabilisation of this non-strategic portfolio, which has been ongoing for several years now. The MBS portfolio contained no significant undisclosed reserves on the reporting date (31 December 2019: € 0.1 million). Hidden burdens on this exposure in the amount of € 26.8 million (31 December 2019: € 27.0 million) predominantly reflect market illiquidity and stricter regulatory capital requirements. In this respect, DZ HYP anticipates a write-back over the remaining term of the MBS portfolio.

Overall, DZ HYP's credit portfolio was increased as follows by 2.0 per cent during the 2020 financial year.

DEVELOPMENT OF LENDING VOLUME

| € mn | 31 Dec 2020 | 31 Dec 2019 | Change from the previous year € mn | % |
|---|---|---|---|---|
| **Mortgage loans*)** | **53,338** | **50,151** | 3,187 | 6.4 |
| **Originated loans to local authorities**)** | **10,209** | **10,808** | -599 | -5.5 |
| **Public-sector lending***)** | **10,899** | **11,917** | -1,018 | -8.5 |
| **Bank bonds****)** | **440** | **442** | -2 | - |
| **MBS** | **378** | **449** | -71 | -15.8 |
| **Total** | **75,264** | **73,767** | **1,497** | **2.0** |

*) Mortgage loans including short-term loans collateralised by real property liens
**) Lending business with direct liability of German local authorities or their legally dependent operations
***) Securities issued by national governments and sub-sovereign entities as well as state-guaranteed corporate bonds
****) Securities issued by banks

DZ HYP's financial position is sound.

## Regulatory capital

With effect from the reporting date of 31 December 2012, DZ HYP has used the so-called waiver option provided under section 7 of the EU Capital Requirements Regulation (CRR). DZ HYP makes use of the regulatory capital requirements for internal management purposes. To further strengthen common equity tier 1 capital, in coordination with DZ BANK, DZ HYP agreed to allocate a material portion of the profit generated in the 2020 financial year to the fund for general banking risks pursuant to section 340g of the HGB.

| | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **Own funds (€ mn)** | **2,329** | **2,239** |
| **Total capital ratio (in %)** | **13.2** | **12.6** |
| **Tier 1 ratio (in %)** | **9.8** | **9.5** |
| **Common equity tier 1 ratio (in %)** | **9.0** | **8.4** |

# Financial position

Within the scope of liquidity management, DZ HYP differentiates between the ongoing liquidity management and structural funding. In DZ HYP’s view, appropriate management systems are in place for both types of liquidity. Liquidity management takes into account and complies with the limits of the internal liquidity risk model, DZ BANK's liquidity risk model, and the regulatory risk requirements.

» Ongoing liquidity management aims to guarantee a reliable and continuous provision of liquidity at all times. Given DZ HYP’s integration in the Cooperative Financial Network and its affiliation with DZ BANK, DZ HYP consciously refrains from maintaining an independent market presence for the purposes of short-term liquidity management, which is carried out in close coordination with DZ BANK. Due to its central bank function within the Cooperative Financial Network, DZ BANK raises cash and cash equivalents of various maturities, and applies the funds raised within its Group. Within this Group liquidity management framework, subsidiaries such as DZ HYP may call upon funding from DZ BANK. This is based on closely coordinated, regular risk reporting about future changes to the liquidity position.

» Structural funding is exposed to the risk that, due to various influencing factors, the Bank might be unable to maintain the required funding levels, and that in certain circumstances, debt may not be sufficiently available in the desired maturities. As a Pfandbrief issuer, DZ HYP is licensed to issue Pfandbriefe. This licence is the foundation for covered funding, and thus provides a safe and cost-efficient way to raise liquidity. DZ HYP maintains its own market presence as a Pfandbrief issuer, placing Pfandbriefe with investors within as well as outside the Volksbanken Raiffeisenbanken Cooperative Financial Network.

The cash flow statement, published as part of the financial statements within this annual report, shows the changes in cash flows from operating activities, as well as from investing and financing activities, for the financial year under review and the previous year.

DZ HYP’s liquidity situation is adequate.

# Financial performance

DZ HYP's financial performance continued to reflect operating performance in real estate finance aimed at achieving sustainable results in 2020. With increased net interest income, significant amounts could be allocated to general risk provisions despite higher risk provisioning, whilst preserving the forecast profit transfer.

In its financial management and operational as well as strategic planning, DZ HYP measures the Bank's profitability using the financial performance data shown in the following table and derived from accounting under HGB, as well as the cost-income ratio and return on equity.

OVERVIEW OF THE PROFIT AND LOSS ACCOUNT

| | | | Change from the previous year | |
|---|---|---|---|---|
| € mn | **2020** | 2019 | € mn | in % |
| **Net interest income** | 605.4 | 554.4 | 51.0 | 9.2 |
| **Net fee and commission income** | -38.1 | -36.1 | -2.0 | 5.5 |
| **Administrative expenses** | 251.2 | 251.4 | -0.2 | -0.1 |
| **Net other operating income/expenses** | 8.7 | 4.5 | 4.2 | 93.3 |
| **Risk provisioning*)** | -54.5 | -3.7 | -50.8 | >-100.0 |
| **Net financial result**)** | 6.5 | -2.5 | 9.0 | >100.0 |
| **Operating profit** | **276.8** | **265.2** | **11.6** | **4.4** |
| **Net extraordinary income/expenses** | – | -17.3 | 17.3 | 100.0 |
| **Allocation to the fund for general banking risks** | 78.0 | 100.0 | -22.0 | -22.0 |
| **Taxes** | 126.0 | 81.8 | 44.2 | 54.0 |
| **Partial profit transfer** | 15.8 | 16.1 | -0.3 | -1.9 |
| **Profit transfer** | 57.0 | 50.0 | 7.0 | 14.0 |

*) Equates to the income statement line item 'write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions'
**) Equates to the income statement line item 'income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets'

## Net interest income

DZ HYP's net interest income of € 605.4 million in 2020 was € 51.0 million higher than the previous year's figure of € 554.4 million. The increase in the average real estate loan portfolio in particular has a positive effect, accompanied by virtually constant margins in the lending business and lower interest expenses due to the sustained low interest rates. The stable development of net interest income is evidence of DZ HYP's management of its banking book, which is geared towards generating long-term, matched-maturity margins. The moratorium for private borrowers mandated by the legislator did not lead to any significant effect in our net interest income.

NET INTEREST INCOME IN DETAIL

| € mn | **2020** | 2019 |
|---|---|---|
| **Interest income** | 1,837.0 | 1,958.0 |
| **Interest expenses** | 1,234.8 | 1,406.3 |
| **Current income from participations** | 0.1 | 0.1 |
| **Income from profit pooling, profit transfer, and partial profit transfer agreements** | 3.1 | 2.6 |
| **Net interest income** | **605.4** | **554.4** |

## Net fee and commission income

The net commission result of € -38.1 million was down € 2.0 million on the comparable figure for the previous year of € -36.1 million. At the same time, € 26.4 million (previous year: € 29.5 million) in commission income was generated from the lending business, which depends both on the respective product mix and disbursement. Moreover, € 61.2 million (previous year: € 55.4 million) was paid for brokerage services from cooperative banks within the Cooperative Financial Network.

## Administrative expenses

Administrative expenses in the 2020 financial year, the total of general administrative expenses (€ 245.2 million; previous year: € 245.4 million) and write-downs on intangible assets and tangible fixed assets (€ 6.0 million; previous year: € 6.0 million), were down by € 0.2 million on the previous year's figure of € 251.4 million. Personnel expenses of € 86.8 million were down € 4.0 million year-on-year. This reflects the measures already implemented in connection with the "Focus 2020" project.

Consultancy costs for the implementation of the merger were down € 32.0 million compared to the previous year, to € 8.5 million. On the other hand, project-related expenses of € 37.5 million were incurred (previous year: € 28.7 million).

The bank levy due for 2020 amounted to € 32.9 million € 22.6 million higher than the previous year's figure of € 10.3 million, which included a one-off effect relating to the merger. As in the previous year, the 85 per cent / 15 per cent rule was applied for the 2020 payment of contributions, so that a further € 5.8 million of the total contribution of € 38.7 million was deposited with Deutsche Bundesbank as cash collateral, in addition to the aforementioned € 32.9 million.

## Net other operating income/expenses

At € 29 million, other operating income, generated largely from reversals of provisions of € 9.8 million (previous year: € 6.6 million) and rental income of € 9.3 million (previous year: € 9.6 million), was down slightly on the prior-year value of € 26.6 million. € 1.6 million of the € 1.8 million decrease in other operating expenses to € 20.3 million (previous year: € 22.1 million) was due to lower interest rates affecting the discount rate to be used in calculating pension provisions. Net other operating income and expenses, as the balance of the two aforementioned income statement line items, rose by € 4.2 million to € 8.7 million.

## Risk provisioning

In the business with corporate clients and in the private real estate financing business, specific impairments of € -13.3 million (previous year: € 1.9 million) had to be recognised. This confirms the cautious lending policy pursued over the past few years, especially against the backdrop of the COVID-19 pandemic. In order to prevent possible default in connection with the pandemic, the Bank decided to set up a higher portfolio-based loss allowance for certain asset classes that have been hit particularly hard by the pandemic. For credit exposures in the hotel and department store asset classes, additional loss allowance totalling € -21.5 million was set up for credit risks for which no specific impairments had been recognised yet. Taking into account the other portfolio-based loss allowance, which took account of updated macroeconomic shift factors, as well as specific impairments, the Bank's risk provisioning expenses come to € -47.1 million (previous year: € -2.6 million). Together with expenses for securities of € -2.5 million (previous year: € -0.2 million) and additions to general risk provisions pursuant to section 340f of the HGB that were lower than in the previous year, risk provisions totalling € -54.5 million (previous year: € -3.7 million) were reported.

## Net financial result

The depreciation and net valuation result for the MBS portfolio amounted to € 7.5 million (previous year: € -3.3 million) and is due primarily to a write-up to an MBS security. No securities held as fixed assets in the non-strategic securities portfolio were sold in the 2020 financial year. In 2019, income of € 21.7 million was achieved which, including the impact of interest rate hedges terminated simultaneously, led to a net effect of € -0.1 million. Other realisation and measurement effects on securities and credit derivatives intended to be held permanently, totalled € -0.9 million (previous year: € 0.9 million). In total, the net financial result was up € 9.0 million to € 6.5 million (previous year: € -2.5 million).

## Operating profit

Operating profit reflects DZ HYP's performance in its core business, and is used for the internal management of the operating divisions. Nevertheless, the operating result of € 276.8 million (previous year: € 265.2 million) once again surpassed the Bank's projections.

## Net extraordinary income/expenses

No extraordinary expenses were reported (previous year: € 17.3 million).

## Cost/income ratio

The cost/income ratio (CIR) expresses the ratio of administrative expenses (including other operating expenses) to the aggregate of net interest income, net commission result, and other operating income. The CIR serves as a yardstick for the efficiency of commercial activities, as well as an internal management parameter. Reflecting higher net interest income, in particular, the CIR of 45.5 per cent improved by 4.7 percentage points from 2019's 50.2 per cent.

## Change in the fund for general banking risks

During the 2020 financial year, € 78.0 million (previous year: € 100.0 million) was allocated to the special item for general banking risks pursuant to section 340g of the German Commercial Code (HGB), to take account of particular risks facing the business area.

## Taxes

Taxes must be determined on a stand-alone basis under the existing tax compensation agreement between DZ BANK and DZ HYP. Taxes amounting to € 126.0 million (previous year: € 81.8 million) were allocated to DZ HYP. This largely includes a € 108.6 million income tax expense from tax allocations (previous year: € 82.1 million). It also contains a non-recurring effect from the merger, which led to a prior-period tax expense of € 13.9 million and will result in cumulated tax relief in the same amount in the years ahead. That is reported under income taxes. Other tax expenses amounted to € 0.7 million (previous year: € 0.3 million) and mainly related to value-added tax and real estate taxes payable for the Bank’s properties.

## Profit transfer

DZ HYP allocated a partial profit of € 15.8 million (previous year: € 16.1 million) to its silent investors – slightly lower than in the previous year, reflecting interest rate developments. After taxes, profits of € 57.0 mil-

STRUCTURE OF CIR COMPONENTS

| € mn | 2020 | 2019 |
|---|---|---|
| **Administrative expenses** | 251.2 | 251.4 |
| **Other operating expenses** | 20.3 | 22.1 |
| **Total relevant expense items** | **271.5** | **273.5** |
| **Net interest income** | 605.4 | 554.4 |
| **Net fee and commission income** | -38.1 | -36.1 |
| **Other operating income** | 29.0 | 26.6 |
| **Total relevant income items** | **596.3** | **544.9** |

lion (previous year: € 50.0 million) will be transferred to DZ BANK in accordance with the distribution policy agreed with DZ BANK.

## Return on equity

The return on equity (RoE) relates net income before taxes and allocation to general risk provisions to the average invested relevant equity (funds from the portfolio of the year under review and the previous year). RoE of 13.9 per cent in the year under review (previous year: 13.2 per cent) exceeded expectations.

COMPOSITION OF NET INCOME BEFORE INCOME TAXES AND ALLOCATION TO GENERAL RISK PROVISIONS

| € mn | 2020 | 2019 |
|---|---|---|
| **Net income before profit transfer** | 57.0 | 50.0 |
| **Allocation to general risk provisions pursuant to section 340f of the HGB** | 4.9 | 6.6 |
| **Allocations to the fund for general banking risks pursuant to section 340g of the HGB** | 78.0 | 100.0 |
| **Tax expense on income** | 125.3 | 81.5 |
| **Net income before taxes and allocations to general risk provisions** | **265.2** | **238.1** |

CALCULATION OF AVERAGE INVESTED RELEVANT EQUITY

| € mn | 2020 | 2019 |
|---|---|---|
| **Share capital** | 150.0 | 150.0 |
| **Capital reserves** | 884.2 | 884.2 |
| **Retained earnings** | 93.1 | 93.1 |
| **General risk provisions pursuant to section 340f of the HGB** | 170.8 | 166.0 |
| **Fund for general banking risks pursuant to section 340g of the HGB** | 645.0 | 567.0 |
| **Relevant equity** | **1,943.1** | **1,860.3** |
| **Average invested relevant equity** | **1,901.7** | **1,807.0** |

Despite the COVID-19 pandemic, DZ HYP's economic situation overall stabilised further during the 2020 financial year. The Bank's robust financial performance is the result of a rigorously pursued business and risk strategy, whereby an accelerated build-up of hidden reserves and general risk provisions, combined with an absence of any obvious risks in the target business, provide the basis for a sound financial position and performance based on what DZ HYP sees as a viable business model.

# REPORT ON OPPORTUNITIES, RISKS AND EXPECTED DEVELOPMENTS

## REPORT ON OPPORTUNITIES

In addition to the opportunities already described in the Economic Report resulting from a real estate market environment that remains fundamentally stable, the completed merger to form a leading real estate bank and Germany's largest Pfandbrief issuer has created specific opportunities for DZ HYP. In addition to risk diversification and the bundling of forces within the Cooperative Financial Network, DZ HYP expects to achieve synergies as a result of avoiding duplicate investments. Furthermore, savings are expected to be achieved by bundling and standardising the Bank's existing areas of expertise, structures and processes. The project "Focus 2020" aims to enhance client focus, and to achieve a more efficient operating model. The related costs have been largely absorbed.

As a subsidiary of DZ BANK, DZ HYP is a member of the Cooperative Financial Network – a network characterised by a high degree of solidity, strong credit quality, and liquidity through customer deposits. The broadly diversified market position of the Cooperative Financial Network forms the basis for DZ HYP to finance business, with a view to risks and returns. DZ HYP will continue to use this ability to act in the future, jointly with the German cooperative banks, as a reliable financing partner to its clients.

In its projections, DZ HYP defines opportunities as positive unexpected deviations from the financial performance expected for the next financial year. The key factors determining value for the financial performance in this context (value drivers) were included in the forecast, as planning assumptions. Specifically, opportunities exist in the form of sources of income identified therein exceeding projections, or expenses remaining below projections. Despite the COVID-19 pandemic, DZ HYP could use these opportunities to its advantage during the 2020 financial year and – particularly due to interest income exceeding projections – the Bank's net income before transfer to reserves and profit transfer came in above the planned levels.

### Managing opportunities

Exploiting business opportunities whilst observing target returns is an integral part of DZ HYP's enterprise management system. The activities driven by the Bank's business model require the ability to identify, measure, assess, manage, monitor and communicate opportunities.

DZ HYP's opportunities management is integrated into DZ BANK Group's annual strategic planning process. Strategic planning allows the identification and analysis of trends and changes to the market, and to the competitive environment; it forms the basis for assessing potential opportunities. Reports submitted to the Management Board on opportunities arising from future business development, as derived from the business strategy, are based on the results of the strategic planning process. Staff are informed about potential opportunities identified in the course of communicating the business strategy

### Non-financial reporting

The German CSR Directive Implementation Act, which came into force in 2017, requires affected companies to issue a Non-Financial Statement covering various non-financial performance aspects, and to supplement their Corporate Governance Statement with a diversity concept. The Act has thus regulated reporting on certain sustainability-related topics for the first time. The objective of the EU Corporate Social Responsibility (CSR) Directive is to enhance transparency and promote discussion of social and ecological aspects of companies. Specifically, this requires the disclosure of information on environmental, social and employee aspects, on the respect for human rights, and the fight against corruption and bribery.

DZ HYP is included into the Non-Financial Statement of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and thus is exempt from issuing its own Non-Financial Statement. The consolidated Non-Financial Statement forms part of the Sustainability Report of DZ BANK and is available in German at: www.berichte2020.dzbank.de

# RISK REPORT

Under its former company name "DG HYP", in November 2012 DZ HYP notified the German Federal Financial Supervisory Authority (BaFin) and Deutsche Bundesbank that it would use the waiver pursuant to section 2a (2) of the German Banking Act (KWG, as amended at the time), with respect to the provisions of sections 10, 13 and 25a (1) sentence 3 no. 1 of the KWG. DZ BANK Group continued to make use of this waiver rule, which was incorporated into Article 7 of the CRR, and pursuant to which – provided certain conditions are met – the supervision of individual institutions domiciled in Germany within a group of institutions may be performed by the Group's supervisor, for DZ HYP during the 2020 financial year. DZ HYP continues to apply the waiver, with the objective of securing DZ HYP's integration into the risk management of DZ BANK Group. As a result, according to Art. 7 (1) in conjunction with Art. 6 (1) and (5) of the CRR, DZ HYP is not required to comply on a single-entity level with the requirements set out in parts 2, 3, 4, 7, 7A and 8 of the CRR, section 2 of Regulation (EU) 2017/2402 as well as with certain requirements as defined in section 2a (2) of the KWG pursuant to section 25a (1) of the KWG.

To qualify for the waiver, DZ HYP must be closely integrated into DZ BANK Group management processes, both through DZ BANK Group's committee structure and the Group's integrated system of Risk Appetite Framework, including an appropriate documentation hierarchy, which defines Group-wide standards for risk measurement and risk reporting. In the context of this integration, and for the purposes of the waiver, economic and regulatory capital adequacy is being monitored, ascertained and disclosed at the level of DZ BANK Group. The procedures established to safeguard the Bank's ability to secure adequate liquidity, from an economic as well as a regulatory perspective, are outlined in the "Liquidity risk" chapter below.

DZ BANK's Group Management Report is in line with German Accounting Standard No. 20; to this extent, the specifications of DZ BANK's Group-wide risk management system can also be applied to DZ HYP. Against this background, DZ HYP performs a risk reporting system that is in line with the requirements of a subordinated entity.

The decommissioning of "bank21" applications, which was initiated in 2019 and also included related systems of former WL BANK, was completed after a stabilisation phase in the 2020 financial year.

## Risk

Risk arises from unexpected adverse developments for the net assets, financial position and performance. Key risks for the financial performance of DZ HYP exist in the form of value drivers for income falling short of, or risk costs exceeding projections. In particular, DZ HYP's net assets, financial position or financial performance may be adversely affected by counterparty credit risk – which is why continuous risk monitoring of the portfolios is indispensable.

Considering the COVID-19 pandemic, its potential implications for some of DZ HYP's material types of risk must be taken into account compared to the previous year. Special attention must be given to the impact of the pandemic on the development of credit risk, market price risk, liquidity risk and operational risk. Since the business model primarily focuses on commercial real estate, no notable effects have been observed either at portfolio or at single-exposure level to date; such effects cannot, however, be ruled out for subsequent financial years.

## I) Objectives of risk management

Risk management at DZ HYP is an integral part of the strategic and operative management of the Bank as a whole. Assuming risks in a targeted and controlled manner, observing target returns, is an element of enterprise management within the DZ BANK Group, and hence, also within DZ HYP. The activities driven by DZ HYP's business model require the ability to identify, measure, assess, manage, monitor and communicate risks. In addition, maintaining an adequate level of equity backing for risk exposure is fundamentally important as a prerequisite for the Bank's continued operation. As a guiding principle for all business activities carried out by DZ BANK Group – and hence, also by DZ HYP – risk is assumed only to the extent required to achieve business policy objectives, observing the mission statement, and provided that the Bank has an adequate understanding and expertise for measuring and managing the risks assumed.

To implement this principle, DZ HYP's Management Board has defined a Risk Appetite Statement, which is in line with Group guidelines. DZ HYP defines risk appetite as the type and scope of risk an institution is willing to assume in order to implement its business model and achieve its business objectives, within the framework of its risk-bearing capacity. Essentially, this is determined by the limit concept defined by DZ BANK Group, the Liquidity Coverage Ratio, and the minimum level of excess liquidity. Based on the risk policy guidelines and the business strategy, a Risk Strategy Framework was prepared, and risk strategies were determined for the material risks the Bank is exposed to. Each of these risk strategies comprises the business activities exposed to risk, the risk management objectives (including provisions concerning risk acceptance and avoidance), and the measures designed to achieve these objectives. These strategies are being examined yearly in terms of adjustment requirements and discussed with the Risk Committee.

## a) Responsibilities

The regulatory organisational requirements and the allocation of risk management responsibilities are set out, in particular, in the German Banking Act *(Kreditwesengesetz – "KWG")*, the Minimum Requirements for Risk Management *(Mindestanforderungen an das Risikomanagement – "MaRisk")* and the German Regulation on Remuneration in Financial Institutions *(Institutsvergütungsverordnung – "InstVergV")*. DZ HYP considers these requirements, adapting its relevant processes to the specific needs of its business model and considering the specific requirements to the Group waiver. DZ HYP has also developed and implemented a risk management and risk control framework that fulfils the needs arising in the market and competitive environment, as well as the requirements arising from the Bank's integration in DZ BANK Group. This forms the basis that ensures the proper operation and efficiency of the risk management process.

DZ HYP has assigned the relevant tasks to the following bodies and committees:

### Supervisory Board

Pursuant to section 90 of the German Public Limited Companies Act *(Aktiengesetz – "AktG")*, the Supervisory Board receives the Management Board's reports, e.g. on the business development and risk situation. The entire Supervisory Board also decides on personnel matters and remuneration of the Management Board, the Rules of Procedure and Schedule of Responsibilities for the Management Board. The Supervisory Board also decides on transactions requiring approval, such as the acquisition or disposal of participating interests in the event of changes exceeding € 500,000 in the carrying amount of such interests, the conclusion of rental or lease contracts involving annual rent or lease payments exceeding € 500,000 as well as on the establishment or disposal of business lines, establishing branches and representative offices, the purchase, disposal or charges of property assets, and on material issues related to loans or participations that are not explicitly assigned to the Risk Committee of the Supervisory Board. The Bank's strategic and operational planning are also presented to the Supervisory Board. To fulfil its duties, the Supervisory Board has constituted the following committees from amongst its members: a Risk Committee, an Audit Committee, as well as committees for personnel matters (Nomination Committee and Remuneration Oversight Committee).

### Risk Committee

The Risk Committee is responsible for risk management. In addition, the Supervisory Board has assigned responsibility for the Bank's risk appetite statement and the risk strategies derived therefrom (in accordance with MaRisk) to the Risk Committee. The Committee advises the plenary meeting of the Supervisory Board on the Company's current and future total risk appetite, and supports the Supervisory Board in monitoring implementation of this strategy by the Bank's top management.

Furthermore, the Risk Committee monitors whether terms and conditions for client business are in line with the Company's business model and risk structure. Where necessary, the Committee requests proposals and monitors their implementation. The Committee verifies whether the incentives created by the remuneration system take the Company's risk, capital and liquidity structure into account, as well as the probability and timing of income. It also determines the type, scope, format and frequency of information on strategy and risks, to be submitted by the Management Board. The Committee accepts the Management Board's reports concerning risk exposure, participations and credit issues, analyses them and reports material findings to the plenary meeting of the Supervisory Board.

Moreover, pursuant to the MaRisk, the Risk Committee is one of the recipients of reports to be submitted to the supervisory body in the event of ad hoc reporting that may be required. The Committee is also responsible for decision-making regarding those loan exposures, portfolio transactions and participating interests that – in line with the Internal Rules of Procedure – do not fall within the remit of the Management Board. Due to the utilisation of the Group waiver, decisions regarding large exposures (as defined in section 13 of the KWG) are the responsibility of DZ BANK's entire Board of Managing Directors.

#### Audit Committee

The Audit Committee's monitoring duties include, in particular, the accounting and financial reporting process, the effectiveness of the risk management system (in particular of the internal controlling systems and the internal audit), the audit of the financial statements, as well as the independence of the external auditors. The Committee supervises the rectification of any deficiencies identified by the external auditors. Furthermore, the Supervisory Board has nominated the Audit Committee as the recipient of Internal Audit's quarterly reporting in accordance with MaRisk and the validation function's annual report. The Committee is also responsible for the approval of certain agreements related to the Bank's IT systems, and for instructing the external auditors with any admissible tasks outside the scope of auditing.

#### Nomination Committee

The Nomination Committee supports the Supervisory Board; its tasks include identifying candidates for appointment to the Management Board, assessing the structure, size composition and performance of the Management Board and the Supervisory Board. Specifically, this entails appraising the skills, professional aptitude and experience of individual members of the Management Board and the Supervisory Board.

#### Remuneration Oversight Committee

The Remuneration Oversight Committee monitors whether remuneration systems for the Management Board and for the Bank's employees are appropriate – particularly for those employees whose activities have a material impact on the Bank's overall risk profile, and for the heads of Risk Controlling and Compliance. The Committee supports the Supervisory Board in monitoring whether remuneration systems for the Bank's staff are appropriate, and in assessing the impact of remuneration systems on the management of risk, capital and liquidity. Furthermore, the Remuneration Oversight Committee prepares the Supervisory Board's resolutions concerning the remuneration for members of the Management Board.

#### Management Board

The Management Board – as the Bank's highest internal decision-making body – is responsible for the internal management of DZ HYP. Management Board resolutions are taken during weekly meetings, at which Division Heads may also participate in an advisory capacity. Concerning DZ HYP's risk governance, the Management Board has the sole power of representation and management authority, in accordance with sections 77 and 78 of the German Public Limited Companies Act *(Aktiengesetz – "AktG")*. The Management Board is the central body responsible for managing and monitoring risks of the entire Bank at a portfolio level, as well as for the allocation of risk capital. The Management Board decides upon individual loan exposures in line with its lending authority. The Management Board also decides upon the strategy to be adopted for asset/liability management, and determines the Bank's liquidity costs to be taken into account for its lending business.

In addition, DZ HYP is integrated into the committee structures of DZ BANK Group and the Cooperative Financial Network, where DZ HYP's Management Board members or other employees are represented.

### b) Functions

#### Risk planning

Planning, as a bank-wide exercise, comprises the planning of income and costs, as well as the risks associated with DZ HYP's individual business activities. Within this planning process, risk limits and earnings projections are determined, taking into consideration the risk-bearing capacity of DZ BANK Group. Due to the use of the waiver option, resolutions on risk limits are passed by the Board of Managing Directors of DZ BANK.

### Risk Management

A so-called "three lines of defence" model has been established for the structural organisation of the risk management and control framework. This model clearly differentiates responsibilities between the various units, and addresses potential conflicts of interest. The first line of defence is the operative management in the front-office units. The units involved are responsible for recognising risks at an early stage, assessing them, consciously assuming them, and implementing suitable measures, taking the existing framework conditions into account. The second line of defence is responsible for establishing and developing risk management standards. It also monitors compliance with these standards by the first line of defence, and submits corresponding reports to the Management Board and the Supervisory Board. Accordingly, the second line of defence largely assumes the function of monitoring the first line of defence, as required by MaRisk, through the second vote of the back office. As the third line of defence, and independent of individual processes, Internal Audit examines and assesses risk management and risk control processes employed by the first and second lines of defence. In this capacity, the third line of defence reports directly to the Management Board, the Supervisory Board, and the Audit Committee.

### Risk Controlling

Within the second line of defence, the departments within the Chief Risk Officer's area of responsibility assume a special role in terms of risk management and risk control. This applies especially to Risk Controlling, which assumes overarching responsibility for identifying, measuring, assessing, managing and limiting risks, as well as for risk monitoring and communication.

The purpose of the annual risk inventory carried out within the DZ BANK Group is to identify the relevant types of risk the DZ BANK Group is exposed to, and to assess their materiality. Where required due to specific events, the Group also performs a risk inventory during the course of a financial year, to be able to recognise any material changes to the risk profile where necessary. A materiality analysis is carried out for any types of risk that may occur in principle, given the business activities of DZ BANK Group entities. In a next step, all types of risk classified as material are evaluated as to what extent risk concentrations exist.

Credit risk, market price risk, liquidity risk, operational risk, investment risk, reputational risk, as well as business risk have been identified as material for DZ HYP. These types of risk are explained in sections II to VIII. With the exception of liquidity risk, economic capital – referred to as the risk capital requirement – is determined for these types of risk; for risk types measured by DZ BANK, the so-called risk contribution is used accordingly. Exposure to reputational risk is mapped to business risk.

Risk is generally determined using a value-at-risk (VaR) figure based on a one-year holding period and a confidence interval of 99.9 per cent. To account for types of risk for which capital requirements cannot yet be (sufficiently) determined, the Bank has set aside a capital buffer. As soon as adequate measures to quantify such risks become available (and the exposure can be included in the risk capital requirement or risk contribution, respectively), it will be possible to release this buffer.

In contrast to the other types of risk, economic capital is not allocated for liquidity risk: this is because the allocation of aggregate risk cover will not prevent an imminent insolvency. Methods and procedures used for managing liquidity risk are outlined in section IV. Within the framework of an annual suitability check, the suitability of risk measurement methods for all risk types classified as material is examined. Measures are taken to adjust the management toolbox where necessary. Risk inventories, suitability checks and the capital buffer process are harmonised in terms of content and timing.

Risk Controlling is responsible for ongoing reporting and – together with back-office units – for monitoring risk on a portfolio level. Credit Risk Controlling is responsible for quantifying the risk capital requirement, using a credit portfolio model to determine Expected Loss (EL) and Credit Value-at-Risk (CVaR) on a monthly basis. For this purpose, default probabilities required are mapped using CRR-compliant ratings to the extent possible. In principle, Expected Loss is determined by mapping probability of default and expected loss severity, after the realisation of collateral. Expected losses on the level of individual transactions are incorporated into the calculation parameters for new business, in order to prevent a creeping erosion of capital. Key factors used to determine credit risk, employing the credit portfolio model, are lending volume, concentration effects (relative to sectors, countries, or counterparties) eligible collateral, and the credit quality structure of the portfolio. Measurement captures default risk from the lending business as well as trading activities. The risk capital requirement determined in this way (plus any capital buffer required) is compared to the limit for credit risk, and is being monitored.

An Overall Risk Report is prepared on a monthly basis; in accordance with MaRisk requirements, this report comprises a presentation of the Bank's aggregate risk situation, the material types of risk, as well as the regulatory and economic capital adequacy. The Overall Risk Report is discussed by the Management Board on a monthly basis; it is discussed by the Supervisory Board and the Risk Committee on a quarterly basis. The Report is also submitted to Heads of Division of DZ HYP and DZ BANK. Furthermore, Risk Controlling also carries out daily risk reporting and limit monitoring on the market risks and existing liquidity risks to which DZ HYP is exposed, in accordance with MaRisk. These reports are submitted to the Management Board, the units involved in managing the bank, and DZ BANK; in addition, the key findings are regularly reported to the Supervisory Board, or to the Risk Committee of the Supervisory Board.

#### Internal Audit

As an independent unit, Internal Audit examines whether the demands on the internal controlling systems, the risk management and risk controlling systems, and the necessary reporting, are adequately met.

#### Compliance

DZ HYP's Compliance Office reports directly to the Management Board. The Compliance Office combines the compliance function in accordance with the MaRisk and the German Securities Trading Act (WpHG): it performs the second-line functions of (I) Money Laundering Prevention Officer and Central Unit for the prevention of money laundering and fraud, (II) Data Protection Officer, (III) Information Security Officer, and (IV) Business Continuity Manager. For the purposes of MaRisk compliance, the Bank has established a Compliance Board (comprising members of the Management Board and Division Heads) as well as a Compliance Committee (comprising representatives from the divisions). During the course of regular meetings, the existing legal monitoring is reviewed; views and opinions concerning Compliance issues and risks are exchanged whenever needed.

### c) Ongoing regulatory developments

In close cooperation with DZ BANK, DZ HYP analyses and evaluates the requirements resulting from ongoing regulatory developments. Given the classification of DZ BANK as an institution with systemic relevance on a national level, the ECB assumed the direct supervision of DZ BANK and the DZ BANK Group in November 2014. Therefore, DZ HYP generally has to comply with regulatory requirements for 'significant' institutions.

The activities launched in the previous year to implement the requirements under the published versions of CRR II/CRD V, which include new regulations regarding the interest rate risk in the banking book (IRRBB), the Leverage Ratio and the NSFR, were continued. Work also continued on the implementation of the requirements imposed by the supervisory authorities resulting from the guidelines on the estimation of risk parameters in the IRBA, the PD/LGD Guidelines, whose entry into force was postponed by the supervisory authorities to 1 January 2022 in light of the COVID-19 pandemic. With the implementation of the EBA's "Guidelines on outsourcing arrangements", outsourcing management was optimised further in 2020 under the leadership of the "Regulatory Readiness" project. The minimum requirements for institutions' risk provisioning published in 2018 and 2019 are being implemented on an ongoing basis in consultation with DZ BANK. The EBA Guidelines on Loan Origination and Monitoring published on 29 May 2020 are being reviewed as part of a project looking at the status quo in terms of DZ HYP's compliance, and measures are being initiated to implement any supplementary action that may need to be taken; these measures are being coordinated with DZ BANK in parallel. Furthermore, implementation requirements for the departments concerned resulting from the German Risk Reduction Act (*Risikoreduzierungsgesetz)* and the draft Financial Stability Data Collection Regulation *(Finanzstabilitätsdatenerhebungsverordnung)* were identified and work is currently under way to identify any action that needs to be taken.

Moreover, DZ HYP concerned itself with sustainability risks during the year under review: The Sustainability Committee, which had been established in 2019 and comprises all Division Heads of DZ HYP, took up its work in the year under review. The body's purpose is to encourage debate and knowledge transfer and to assess the opportunities and risks surrounding current developments. In the spring, the Bank moreover established a task force to evaluate sustainability issues in the product and risk management. In autumn, a bank-wide sustainability project was launched to meet the expected regulatory requirements (e.g. EU legislation) regarding sustainability in a timely manner and to be granted "Prime Status" rating by ISS-ESG. In the scope of this project, further measures are planned to identify and adequately document sustainability risks in the future. As an example, sustainability risks shall also be considered in the risk management and, in particular, in the credit processes. The requirements resulting from the ECB's guide on climate-related and environmental risks for banks are also to be taken into account. The EU-wide EBA stress test that has been postponed to 2021 was already prepared for as part of a project in 2020.

## d) Requirements pursuant to section 27 of the German Pfandbrief Act

DZ HYP's risk management and risk control framework fulfils all requirements under section 27 of the German Pfandbrief Act *(Pfandbriefgesetz – "PfandBG").* The TXS-Pfandbrief application is used to determine the market risk exposure of cover assets pools, based on a coverage concept using present values, as set out in the Present Value Cover Regulation *("PfandBarwertV")* promulgated by BaFin. Stress scenarios simulating the impact of standardised interest rate shocks on the present value of cover assets pools are used to quantify the market risk exposure.

BaFin has prescribed some structural parameters for these interest rate shock scenarios, as well as for the maximum impact these scenarios may have on the present value of the cover assets pools. A report on the present values and DZ HYP's liquidity status is prepared on a daily basis and submitted to Treasury.

In addition, a quarterly report, which covers the more extensive PfandBG requirements regarding historical and future performance and credit risk exposure of the cover assets pools, is submitted to the Management Board.

Internal rules regarding the commencement of business in new products or markets comply with the requirements of the MaRisk as well as with those under section 27 of the PfandBG.

## e) Internal control and risk management system related to the financial reporting process

As an issuer of publicly-traded securities (as defined in section 264d of the HGB), DZ HYP is obliged, pursuant to section 289 (4) of the HGB, to outline the key features of the internal control and risk management system it has implemented with regard to the financial reporting process.

### Organisation

DZ HYP's accounting and financial reporting system is predominantly assigned to the Finance division (which is independent from the business divisions); it comprises financial accounting and asset accounting. Securities accounting as well as loan accounting are assigned to the various back-office units within DZ HYP. Payroll administration has been outsourced to ZALARIS Deutschland AG, Henstedt-Ulzburg.

### Strategy

The internal control and risk management system implemented for the accounting process consists of accounting-related and other control objectives. Accounting-related control objectives are designed to ensure the proper functioning and reliability of internal and external accounting and financial reporting systems. Key objectives in this context are the completeness and accuracy of documentation, timely recording, the reconciliation of balances across the IT systems used, and compliance with accounting rules. Other control objectives relate to ensuring the efficiency of business activities as well as to compliance with applicable laws and regulatory requirements related to accounting and financial reporting.

Integrated business process control mechanisms have been installed, in order to fulfil the strategy outlined above. This includes checks of completeness and accuracy, applying the principle of dual control. Errors are also mitigated through the separation of functions, access restrictions, work instructions, and plausibility checks. The Bank regularly draws upon support by external experts for implementing new legal regulations. New product processes always require evidence, prior to the launch of a new product, that the new product can be implemented in the accounting and financial reporting system, in an orderly manner that is in line with applicable rules. Internal Audit regularly carries out process-independent checks concerning accounting and financial reporting.

Overall, the Bank has implemented a control and risk management system with regard to the financial reporting process. This system comprises measures to identify and assess material risks (and related risk mitigation measures) to ensure the proper preparation of the financial statements.

## II) Credit risk

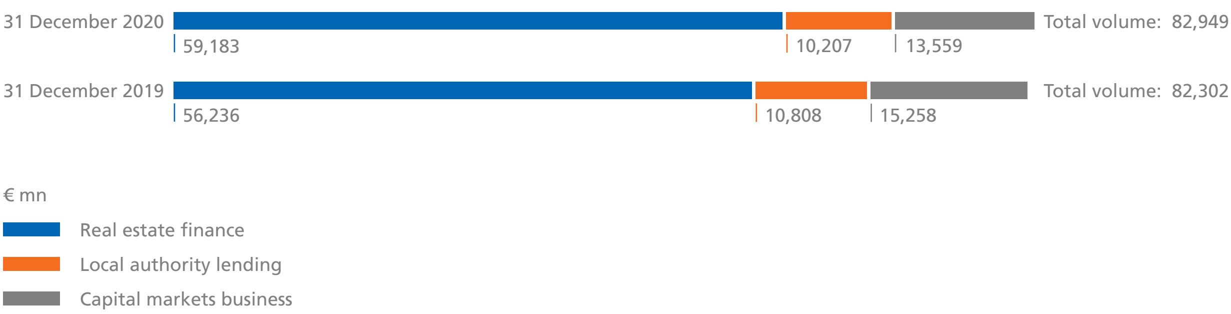
Credit risk is defined as the risk of losses incurred as a result of the default of counterparties (borrowers, issuers, other counterparties) or guarantors as well as from impairment due to a decline in creditworthiness of borrowers or by market turbulence. Both traditional lending business (real estate finance or local authority lending, including financial guarantees and loan commitments) as well as capital markets activities may be exposed to credit risk. In the context of credit risk, capital markets activities relate to products such as securities, promissory note loans (Schuldscheindarlehen), derivative and money-market transactions.

Credit risk in real estate finance and local authority lending is defined as the risk that a client is unable to settle claims arising from loans taken out by him and due claims for payments; or the risk of losses from contingent liabilities and committed credit lines.

Credit risk from capital markets activities is further distinguished into replacement risk and issuer risk, for example. Replacement risk from derivatives is defined as the risk of a counterparty defaulting during the term of a transaction (with a positive market value), in which case DZ HYP would have to incur only additional expenditure (equivalent to this market value, at the time of default) in order to enter into an equivalent transaction with another counterparty. Issuer risk denotes the threat of losses from the default of issuers of tradable bonds or losses from the default of underlying instruments of derivatives (such as credit derivatives).

DZ HYP's lending volume increased by 0.8 per cent in the 2020 financial year, to € 82.9 billion. Real estate lending is predominantly collateralised by land charges and mortgages (98 per cent). The following chart breaks down lending volume by DZ HYP's three types of business:

LENDING VOLUME BY BUSINESS DIVISION



## a) Lending process

The front and back offices for the real estate finance business are located in DZ HYP's decentralised Real Estate Centres; for certain client groups, these functions are at DZ HYP's head offices in Hamburg and Münster. Key workflow stages include the credit rating, which is identified using rating procedures that comply with the CRR, and also client, property and project assessments. In this context, DZ HYP benefits from the client proximity of advisors and surveyors, as well as from the Bank's integration into the Cooperative Financial Network. The loan application is authorised on the basis of lending volume and risk classification, observing the separation of functions prescribed by MaRisk.

To mitigate the effects from the COVID-19 pandemic, DZ HYP has negotiated specific support measures with borrowers, including suspension of loan repayments for a limited period of time. Besides these individual measures adopted by the Bank, there have been measures in the form of the general statutory moratorium for consumers.

DZ HYP's credit processes were applied consistently and remained largely unchanged during the COVID-19 pandemic in 2020; this applies in particular to the processes for monitoring loans, updating ratings, checking collateral values, identifying risks early on and identifying defaults and the need for loss allowances. COVID-19-specific regulations were generally only put in place by clarifying standard discretionary authorities and focusing on customer concerns relating exclusively to COVID-19 that are not expected to have any lasting negative impact, as well as to take account of infection protection measures (temporary postponement of property visits).

Market coverage, credit analysis and the processing of exposures in local authority lending and the capital markets business and for the existing portfolio of mortgage-backed securities (MBS) are centralised in Hamburg and Münster, and are being handled by specialist front-office and back office teams. New MBS business was suspended in mid-2007.

## b) Limit system

DZ HYP has limit systems in place for the internal management and monitoring of credit and country risks, thus ensuring compliance with the strategic requirements of DZ HYP and the DZ BANK Group. Treasury has access to the respective limits and their utilisation at any time, for the purposes of intraday monitoring. Back office units monitor the utilisation of individual business partner and country limits on a daily basis, as part of their monitoring processes, and initiate escalation procedures in the event of any limit transgressions. These procedures are designed to restore limit compliance, or to approve transgressions, in line with delegated authority, taking the strategy adopted by DZ HYP/DZ BANK Group into account.

## c) Credit rating

As an IRBA institution, DZ HYP complies with regulatory requirements regarding methods, process flows, management and monitoring procedures as well as data recording and data processing systems used in the credit business in order to measure and manage risks.

The rating environment was expanded to include further procedures used by former WL BANK during the course of the merger. Also within the framework of the merger, rating systems were systematically harmonised and incorporated, in line with a schedule agreed upon with the regulators, in order to ensure that going forward, DZ HYP will continue to employ tailor-made rating procedures matching the risk profiles of various client groups. ECB has approved the majority of the rating systems for the purpose of calculating equity requirements under the Foundation IRB approach; they safeguard an adequate assessment of counterparty credit risk and support internal management. Models are developed and validated in line with DZ BANK's requirements. Rating procedures are validated at least once a year.

For real estate financings, these rating procedures adequately incorporate the special characteristics of commercial and residential real estate developers, commercial housing enterprises, special purpose entities, real estate investors, as well as open-ended and closed-end real estate funds and retail customers, considering the specific risks involved.

Given its extensive real estate expertise, DZ HYP has assumed the lead – within the Cooperative Financial Network – for the conception, regular maintenance and development of rating procedures for commercial real estate finance in Germany. In this context, the Bank is also responsible for compliance with CRR standards, which the ECB monitors regularly, in its capacity as supervisor. Having been approved by the regulatory authority, these rating procedures fulfil the highest standards; thanks to this high quality level, the procedures are also employed by numerous cooperative banks.

DZ HYP also offers CRR-compliant rating procedures for other client segments, such as banks, sovereigns, or large SMEs. DZ BANK is responsible for methodological development regarding these segments, whereby the National Association of German Cooperative Banks (BVR) is also involved. DZ HYP regularly validates the adequacy of these procedures for its own portfolios, by way of internal validation processes.

DZ HYP also applies a CRR-compliant rating procedure to assess the credit quality of local authorities. Given the regulatory exemption for capital requirements concerning exposures to domestic and selected European local authorities, no regulatory approval is required here. Based on the Bank's function as a centre of competence for public-sector clients, the public-sector entity rating within DZ BANK Group was bundled in DZ HYP in 2020.

Due to cost/benefit considerations, for a low number of special cases, DZ HYP applies a simplified rating procedure where no IRBA approval has been applied for.

A breakdown of DZ HYP's total lending volume by type of business and by rating class is provided below:

LENDING VOLUME*) BY RATING CLASS

| € mn | Total 31 Dec 2020 | Total 31 Dec 2019 | Real estate lending as at 31 Dec 2020 | Local authority lending as at 31 Dec 2020 | Capital markets business as at 31 Dec 2020 |
|---|---|---|---|---|---|
| **Investment grade (rating class 2A or better)** | **79,692** | 78,126 | 56,349 | 10,206 | 13,137 |
| **Non-investment grade (rating classes 2B-3E)** | **3,105** | 4,045 | 2,742 | 1 | 362 |
| **Defaulted rating classes (4A or worse)** | **151** | 101 | 91 | 0 | 60 |
| **Unrated** | **0** | 30 | – | – | – |

*) including disbursement commitments

A new rating is prepared for each client at least once a year, or on an event-driven basis.

## d) Intensified handling and management of problem loans

DZ HYP uses an individual risk management system ("ERM") for the purposes of early warning, in a similar way as employed by the parent company DZ BANK. Cases with early warning indicators are assigned to a so-called "yellow list". Loans with regard to which a subsequent loss cannot be excluded are kept on a "watch list". Where there is a clear negative trend, coupled with an existing requirement for recognising specific risk provisions, the cases are included on the "default list", which also includes all exposures subject to recovery without specific provisions required.

The processing rules and requirements on the transfer from one ERM list to another are subject to defined criteria. Exposures which are subject to an ongoing threat of elevated risk remain within the responsibility of staff within the respective division, whereby the centralised intensified handling team is also involved. Problem loans that are judged to have a favourable outlook are passed on to the Restructuring department for further processing. As a basis for a restructuring decision, a concept is submitted that must comprise a differentiated analysis and assessment of the overall situation of the exposure and a cost-benefit analysis, as well as usually a comprehensive restructuring plan. Loan exposures are transferred to workout if restructuring has failed or if this is deemed to be fruitless from the outset. A detailed report on ERM exposures is submitted to the Management Board on a monthly basis. Non-performing loans are managed using the following indicators:

- the NPL ratio (defined as the share of non-performing loans in total lending volume);
- the provisioning ratio (defined as the share of aggregate provisions for loan losses and loss allowance in total lending volume); and
- the risk coverage ratio (defined as the share of aggregate provisions for loan losses and loss allowance in aggregate non-performing loans).

Selected indicators used for internal management of credit risk developed as follows during the year under review:

CREDIT RISK INDICATORS

| € mn | Total 31 Dec 2020 | Total 31 Dec 2019 | Change in %*) |
|---|---|---|---|
| **Lending volume**) (LV)** | **82,949** | 82,302 | 0.8 |
| **NPL volume** | **151** | 101 | 50.0 |
| **NPL ratio (in %)** | **0.18%** | 0.12% | 50.0 |
| **Loss allowance** | **271** | 216 | 25.5 |
| **Provisioning ratio (in %)** | **0.3%** | 0.3% | – |
| **Risk coverage ratio (in %)** | **179%** | 214% | -16.4 |

*) changes shown relate to figures before rounding
**) including disbursement commitments

## e) Provisions for loan losses / loss allowance

The Bank has accounted for all identifiable credit risks, in accordance with prudent commercial judgement, by recognising provisions in the amount of expected losses. Provisions for loan losses comprise write-downs and provisions for credit risks and inherent default risks, for all receivables carried on the balance sheet as well as for off-balance sheet transactions.

Specific loss allowance is recognised when the Bank has reason to doubt the performance of a receivable, due to the difficult financial circumstances of a borrower, or in the event of insufficient collateralisation; or if there are indications that the borrower will be unable to pay interest on a sustainable basis. The same applies to contingent receivables. When determining specific loss allowance, existing receivables as at the valuation date (including any pro-rata interest and pending items) are compared to discounted and scenario-weighted collateral; the uncovered portion determined in this way is written down in full. The inventory of specific loss allowance is regularly monitored; reports are submitted to the Management Board as part of the monthly ERM reporting package and the quarterly risk report for the Bank as a whole.

The portfolio-based loss allowance is measured in line with the stage concept pursuant to IFRS 9, whereby the Bank recognises loss allowance in the amount of 12-month expected credit losses for financial instruments where credit risk has not increased significantly compared to a defined threshold value since initial recognition (stage 1), and in the amount of lifetime expected credit losses for financial instruments where credit risk has increased significantly compared to the defined threshold value since initial recognition (stage 2). This loss allowance accounting policy was designed to provide readers of financial statements with a more accurate, fair and true view of the Bank’s financial situation. In addition, this ensures that loss allowance accounting processes in accordance with the HGB are aligned with international accounting standards.

Amounts carried for the various types of provision/allowance developed as follows in 2020:

LOSS ALLOWANCE PARAMETERS

| 000's € | Total 31 Dec 2020 | Total 31 Dec 2019 | Change in % |
|---|---|---|---|
| **Specific allowance for credit losses** | 22,981 | 10,422 | 120.5 |
| **Portfolio-based allowance for credit losses** | 65,132 | 33,586 | 93.9 |
| **General risk provisions (section 340f of the HGB)** | 170,799 | 165,945 | 2.9 |
| **Other provisions** | 12,020 | 5,891 | 104.0 |
| **Total loss allowance** | **270,932** | **215,844** | **25.5** |

The main reason behind the increase in specific allowances is a customer that was transferred to default status in December 2020. This results in a need for specific allowances in the amount of € 9.6 million.

The additional increase in risk provisioning is reflected in the portfolio valuation allowance and provisions. This is due largely to the factors set out below.

In the course of the COVID-19 pandemic, DZ HYP's loan portfolios were analysed to identify potential material effects resulting from both the infection trend and the protective measures taken. An assessment of the individual sectors will be dealt with in the following chapter. Particularly in the real estate portfolio for corporate clients whose main properties are in the hotel and department store asset classes, the impact on operators' business operations as a result of the pandemic and the protective measures taken in response to the pandemic have been identified as uncertain with regard to their future development. In order to sufficiently address the increased default risk, exposures to these asset classes were identified and systematically assigned to stage 2 of the stage concept implemented pursuant to IFRS 9.

In addition, the negative macroeconomic effects resulting from the COVID-19 pandemic were adjusted in the financial year under review in DZ BANK's macroeconomic scenarios, which are used throughout the Group and are also taken into account in DZ HYP's risk provisioning calculations.

DZ HYP is monitoring the impact of the COVID-19 pandemic on the real estate market in particular. In the event of any substantiated shifts in market data, the value of the collateral furnished would be reviewed accordingly. The collateral values calculated for real estate financing did not point to any sustained reductions in market values in the 2020 financial year, although these valuations were performed based on a smaller number of real estate transactions in 2020. The collateral values, which are reviewed on a regular basis, were generally confirmed.

### f) Concentration risks

Key factors used to determine credit risk are concentration effects (relative to counterparties, sectors, countries, or maturities), as well as the credit quality structure of the portfolio. Elevated concentrations of lending volume regarding counterparties, sectors or countries increase the risk of credit risks materialising cumulatively – for example, when in the event of a default of counterparties subject to higher concentrations, or in case of economic crises affecting sectors or countries with higher concentrations. Furthermore, the term of loan agreements is a key credit risk factor, due to the fact that the probability of credit quality deteriorating (and hence, of the counterparty defaulting during the term of the agreement) increases over time.

The Management Board is informed about economic capital requirements for credit risks, as part of the overall internal risk report. In addition, internal reporting provides a more in-depth analysis of the portfolio structure in terms of concentration risks, using key risk criteria such as country, sector, property type, credit rating class, or the volume of loans extended to a single business partner. These reports contain details concerning individual exposures as well as on any specific provisions.

## Real Estate Finance

The share of domestic loans in DZ HYP's total real estate financing portfolio currently stands at 96.8 per cent (2019: 96.9 per cent). The share of international financings rose by 8.4 per cent overall in 2020, whereby the target markets of Austria, France, the United Kingdom and the Netherlands accounted for 93.2 per cent of international lending volume.

A breakdown of real estate lending volumes by property type is provided below:

REAL ESTATE LENDING VOLUME BY TYPE OF PROPERTY

| € mn | Total 31 Dec 2020 | Total 31 Dec 2019 | Change in % |
|---|---|---|---|
| **Residential** | **11,836** | 10,814 | 9.5 |
| **Multi-storey apartment buildings (multi-family homes)** | **18,472** | 18,882 | -2.2 |
| **Office** | **12,273** | 10,817 | 13.5 |
| **Retail** | **10,051** | 9,128 | 10.1 |
| **Hotels** | **2,777** | 2,992 | -7.2 |
| **Logistics** | **1,278** | 1,114 | 14.7 |
| **Other** | **1,461** | 1,416 | 3.2 |
| **Not allocated to any property type** | **1,035** | 1,073 | -3.5 |
| **Total** | **59,183** | **56,236** | **5.2** |

The outbreak of the COVID-19 pandemic in 2020 prompted an analysis of all asset classes with regard to any expected short-term impact. As the pandemic progressed, the following assessment was confirmed. To date, the residential (incl. multi-storey apartment buildings), office and logistics asset classes have either not been affected by the pandemic at all, or have only been impacted to a very limited extent. Meanwhile, the retail asset class paints a varied picture. While the pandemic is not having any impact on retail properties in the local supply segment (food retailers, chemists, pharmacies, etc.), it has had a moderate impact on furniture/DIY stores and garden centres, which have only been affected by the second lockdown since mid-December 2020 and, in many cases, can compensate for the business lost with their websites and click-and-collect options. In particular, there are no signs of any general drop in demand and the sales lost during the lockdown period are expected to be made up for in a relatively short space of time. Assets from the non-food sector, on the other hand, have proven to be more susceptible to crisis. Some project and property developers have experienced delays in letting and selling properties as a result of the lockdown, whereas there has been virtually no disruption in the construction process.

The effects of the protective measures imposed to combat the pandemic are particularly evident in the hotel industry. Especially in the hotel portfolio and in the "department store" asset class, there is considerable uncertainty regarding how the infection rates, and the protective measures taken in response to them, will develop, and what the knock-on effect on operators' business will be. It is important to make a distinction between department stores on the one hand, and city-centre commercial buildings and shopping centres on the other, with the pandemic currently proving to have a more moderate impact on the latter. While city-centre commercial buildings offer more options for different types of use (generally mixed retail, office, residential use, etc.), shopping centres tend to have a very diverse range of tenants (in addition to conventional non-food retailers, they usually include restaurants, chemists, pharmacies, hairdressers and other service providers). One factor that increases the risk for shopping centres is the potential for them to become less appealing to customers due to the loss of anchor tenants, as well as due to space and use concepts that may no longer be popular. In the Retail Customers segment, the impact of the pandemic is currently low despite the widespread use of short-time work.

So far, no significant risks or effects have come to light at individual exposure level.

## Originated loans to local authorities

Risk monitoring in the area of public-sector clients focuses on regional concentration risks in particular. The broad portfolio diversification was maintained in the 2020 financial year, with 56 per cent of the aggregate portfolio attributed to the German Federal states of North-Rhine Westphalia (25 per cent), Baden-Württemberg (15 per cent) and Lower Saxony (15 per cent).

## Capital markets business

DZ HYP is exposed to noticeable concentration risks in the public finance portfolio in particular. In the event of any material loan defaults or bail-ins affecting these holdings, DZ HYP might be forced to draw upon DZ BANK's obligation to equalise losses, as provided for in the control and profit transfer agreement. The regional breakdown of the securities portfolio is analysed below:

CAPITAL MARKETS BUSINESS (EXCLUDING MBS): REGIONAL DISTRIBUTION OF SECURITIES HOLDINGS

| € mn | Total 31 Dec 2020 | Total 31 Dec 2019 | Change in % |
|---|---|---|---|
| **Germany** | 7,534 | 8,635 | -12.8 |
| **EU peripheral countries*)** | 3,714 | 3,873 | -4.1 |
| **Other EU member states** | 786 | 984 | -20.1 |
| **Other third countries** | 751 | 901 | -16.6 |
| **Supranationals** | 396 | 416 | -4.8 |
| **Total** | **13,181** | **14,809** | **-11.0** |

*) Italy, Portugal and Spain

The portfolio is continuously monitored and examined for risks. During the 2020 financial year, the portfolio was affected by the COVID-19 pandemic in particular, especially with regard to economic and fiscal spill-over effects concerning those countries particularly affected by the pandemic. Against this background, a widening of risk premiums was observed in the spring of 2020, especially for European peripheral countries (Portugal, Italy, Spain). Spreads subsequently narrowed again, thanks to extensive government and European support programmes and the gradual and large-scale loosening of monetary policy by the ECB as the year progressed. At present, the Bank does not anticipate any defaults in its capital markets portfolio, despite persistently elevated spread levels and volatility, thanks to the recovery programmes adopted during the course of the COVID-19 pandemic. This is subject to the proviso that the increase in public debt is not a permanent feature. Further developments will be closely monitored.

Due to the imminent prospect of Brexit, the portfolio of securities and promissory note loans in the capital market business in the UK was already wound down completely in 2019. Residual derivative transactions with banks in the UK are neutralised through cash collateral on a daily basis. As far as the remaining MBS exposure in the UK is concerned, the risks resulting from Brexit are adequately reflected in the internal risk assessment and the stress scenarios. The regular monitoring of credit risk and collateral in the UK portfolio has not yielded any signs of material risks to date.

The following table shows the entire underlying exposure [to the UK]:

EXPOSURE TO THE UK

| € mn | Total 31 Dec 2020 | Total 31 Dec 2019 | Change in % |
|---|---|---|---|
| **MBS** | 201 | 249 | -19.3 |
| **Mortgage loans** | 366 | 358 | 2.2 |
| **Bank bonds** | 0 | 0 | 0.0 |
| **Derivatives** | 58 | 89 | -34.8 |
| **Total** | **625** | 696 | **-10.2** |

## III) Market price risk

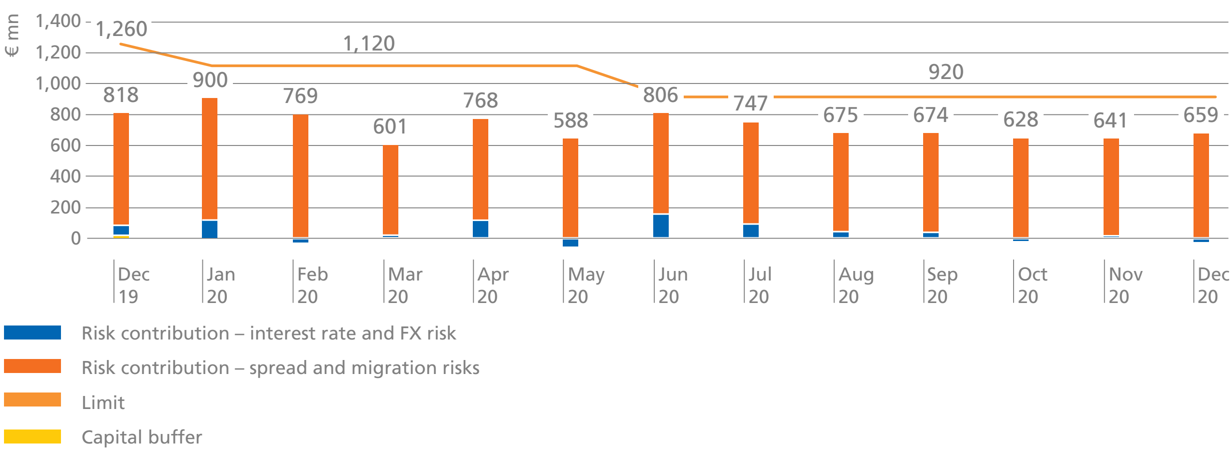
Market price risk is the impact of interest rate fluctuations on the money and capital markets, and changes in exchange rates. DZ HYP is largely exposed to market price risk in the form of interest rate risk, currency risk, as well as spread and migration risk. These risks are measured, and limits applied, at Group level, using data provided by DZ HYP on a daily basis. Market price risk is quantified via the risk contributions for interest rate risk and currency risk as well as for spread and migration risk.

DZ HYP uses various hedging tools in its dynamic management of interest rate risk and currency risk for the bank as a whole. This consists mainly of interest-rate swaps, cross-currency swaps and caps. Each derivative hedge forms part of the overall management of the entire banking book.

Market Risk Controlling informs the Management Board (as well as Treasury) on the limit utilisation in terms of the risk capital requirement calculated using the Group model on a monthly basis; the utilisation of sensitivity limits implemented is reported daily. A multi-level escalation plan, comprising escalation paths and measures to be taken, has been implemented to deal with the breach of defined thresholds. No escalation was required in the financial year under review.

To quantify market price risk, the Bank calculates interest rate sensitivity parameters (i. e. theoretical present value changes given simulated changes in interest rates) on a daily basis. Interest rate sensitivity during the year under review was characterised by low fluctuations at a low level. Aggregate interest rate sensitivity limits were always complied with. In line with the procedures applied to other types of risk, the risk classification proce-

RISK CONTRIBUTION FOR INTEREST RATE, FX, SPREAD AND MIGRATION RISKS, AS WELL AS CAPITAL BUFFER REQUIREMENTS FOR REAL ESTATE RISK (CONTRIBUTION TO GROUP RISK EXPOSURE)



dure is examined for appropriateness on an annual basis, and adjusted if necessary. The bank regularly calculates scenarios using DZ BANK's Group model. These also include scenarios defined by BaFin (in Circular 06/2019) for the purposes of monitoring interest rate risk exposures of investments.

Real estate risks (i.e. potential fluctuations in the value of the Bank's own property holdings), for which capital buffer amounts were previously maintained in market price risk, have been measured in investment risk since 2020 in accordance with DZ BANK Group guidelines. The COVID-19 pandemic was reflected in a declining risk contribution in February/March 2020 as a result of lower spread present values. As the financial year progressed, the COVID-19 pandemic did not have any further significant influence on market price risks.

DZ HYP's Treasury management is in line with the Bank's business model. In particular, the primary focus of Treasury management is on managing profit and loss for the period, in order to protect margins from client business. Treasury's business activities are not regarded as a profit centre.

Real estate loans with term exceeding ten years are subject to statutory termination rights pursuant to section 489 of the German Civil Code (BGB). The effect of these optional risks are reflected in the risk model. Contractual early redemption rights are taken into account via notional lifetimes which are validated statistically.

## IV) Liquidity risk

Liquidity risk comprises the threat that DZ HYP is actually unable to borrow the funds required to maintain payments. Liquidity risk can thus be understood as the risk of insolvency. In this regard, liquidity risk arises from a mismatch in the timing and amount of cash inflows and outflows and is affected to a significant degree by other types of risk, such as market price risk or reputational risk. The Bank's liquidity situation is determined daily, in line with the regulatory and business requirements and in coordination with DZ BANK.

Thanks to DZ HYP's substantial liquidity reserves, no separate measures had to be taken to mitigate the impact of the COVID-19 pandemic.

Based on the management of economic liquidity, Market Price Risk and Liquidity Risk Controlling provides Treasury with a differentiated overview on each business day, indicating future liquidity flows (comprising cash flows as well as a gap analysis of principal repayments and fixed interest mismatches) resulting from the individual positions in the portfolio. Where a comparison of liquidity data against defined limits gives rise to escalation, this follows a pre-defined process flow which may invoke emergency liquidity planning. No escalation was required in 2020.

In order to determine Group liquidity risk exposure and DZ HYP's contribution thereto, DZ HYP's liquidity data is transmitted to DZ BANK's Risk Control Unit daily, where this is used to determine limit utilisation.

Additionally, an overview of excess liquidity post-stress scenarios is submitted to Management Board meetings. Liquidity is managed on the basis of this overview, with the dual objectives of securing the Bank's long-term liquidity and achieving compliance with CRR requirements. A suitable liquidity controlling system is already in place in line with the requirements of MaRisk for measuring and reporting on liquidity risk (BTR 3.1 and 3.2). A limit system is implemented on a daily basis and integrated into the risk monitoring process. The results from the scenario analyses – which comply with the requirements set out in the relevant sections of MaRisk – are fed into the risk analysis process.

The first step in determining risk indicators is to calculate a liquidity run-off profile, based on the contractually-agreed terms of all financial instruments with an impact on liquidity. The base case scenario maps the development of current and future liquidity reserves, in connection with expected business activities. Potential changes to the liquidity run-off profile, and to liquidity reserves, in the event of a crisis affecting markets or the Bank are simulated for four stress scenarios:

- a serious crisis threatening the DZ BANK Group;
- a one-notch rating downgrade of DZ BANK Group;
- a global economic crisis; and
- a combination of a crisis affecting the market as well as the Company.

Expected liquidity is indicated by the liquidity run-off profile in the base case scenario. In the stress scenario, liquidity is defined by the worst daily value among the four scenarios. Using expected liquidity for each record date, the minimum excess liquidity indicator is determined, which expresses the adequacy of economic liquidity. Throughout 2020, this indicator remained above the limit of zero. The set of scenarios is complemented by inverse stress tests carried out on a quarterly basis.

The liquidity risk model and the emergency concept are reviewed annually, within the framework of an adequacy check, and adjusted if necessary.

One or more independent credit rating agencies may assign ratings for DZ HYP. The purpose of a rating is to assess DZ HYP's credit quality, informing investors about the repayment probability of capital invested in DZ HYP. Refinancing risk denotes the risk of a loss which may be incurred as a result of a decline of DZ HYP's liquidity spread (which forms part of the spread on DZ HYP's own issues); with a wider liquidity spread, covering any future liquidity requirements would incur additional cost. DZ HYP minimises funding risk through the management of the liquidity run-off profile.

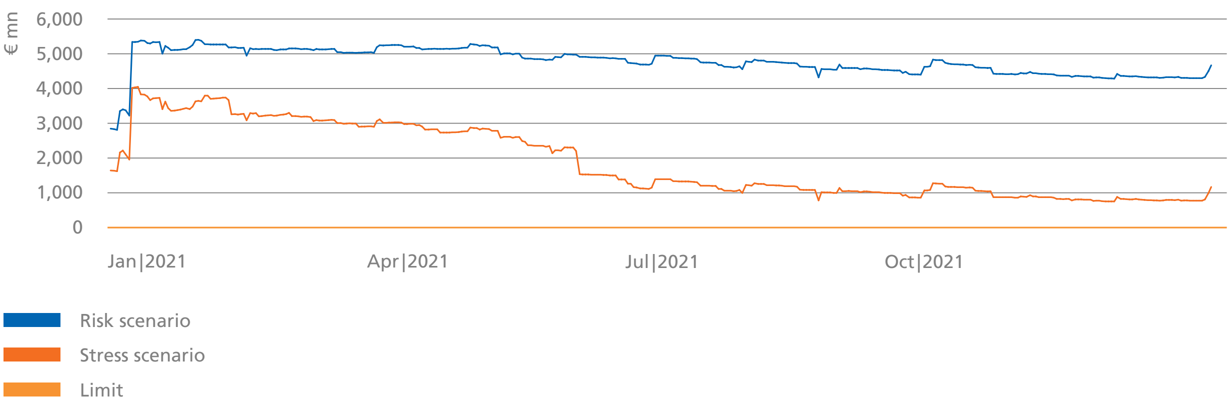
During 2020, DZ HYP's funding activities comprised the use of unsecured liquidity facilities (largely provided by DZ BANK), as well as the issuance of Mortgage Pfandbriefe and Public-Sector Pfandbriefe (which were predominantly purchased by counterparties outside the Cooperative Financial Network).

DZ HYP defines market liquidity risk as the threat of losses which may be incurred due to unfavourable changes in market liquidity – for example, due to a deterioration in market depth, or in the event of market disruptions, in which case the bank may only be able to sell assets held at a discount, and active risk management may be restricted. Since the impact of market liquidity risk is evident in changed spreads and volatility levels, this is implicitly reflected in risk calculations.

For the purposes of regulatory monitoring of the Bank's liquidity situation, part 6 of the CRR defines the calculation of the (short-term) Liquidity Coverage Ratio (LCR), which is designed to ensure the resilience of banks through a 30-day liquidity stress scenario. The indicator is defined as the ratio of available highly liquid assets to net cash outflows over the next 30 days, subject to defined stress conditions. A minimum of 100 per cent has been mandatory for banks since 1 January 2018.

The waiver under Article 7 of the CRR does not cover the requirements under part 6; therefore, DZ HYP must comply with the corresponding requirements at a single-entity level. Accordingly, the Bank reports its single-entity LCR, in accordance with the CRR, to the supervisory authorities on a monthly basis. An additional LCR indicator is determined for DZ HYP, based on the requirements of Delegated Regulation 2015/61/EU. This indicator remained above 100 per cent throughout the 2020 financial year.

EXPECTED LIQUIDITY DEVELOPMENTS AS AT DECEMBER 2020



A resolution on an application for the approval of a liquidity waiver for DZ BANK and DZ HYP was passed by the Board of Managing Directors of DZ BANK and the Management Board of DZ HYP. The ECB is not expected to approve the application before the second quarter of 2021, meaning that no changes need to be made to the current processes at present.

| in % | Dezember 2020 | September 2020 | June 2020 | March 2020 |
|---|---|---|---|---|
| **LCR (month-end)** | 212 | 386 | 472 | 334 |

The (long-term) Net Stable Funding Ratio (NSFR) is designed to restrict banks' ability to enter into mismatches between the maturity structure of assets vs. liabilities. The NSFR relates the amount of stable funding (equity and liabilities) to the required amount of stable funding (as required by the lending business). For this purpose, funding sources and assets are weighted, depending upon their degree of stability (or the ability to liquidate them, respectively), using inclusion factors defined by the supervisory authorities. So far, the NSFR was implemented as a pure reporting obligation. When CRR II comes into force on 28 June 2021, a minimum NSFR ratio of 100 per cent will have to be maintained at all times. DZ HYP has already calculated the future requirements for the NSFR ratio in 2020 as part of a quarterly projection, which consistently showed values in excess of 100 per cent.

## V) Operational risk

Closely aligned to the definition by banking regulators, DZ BANK Group defines operational risk as the risk of losses resulting from human behaviour, technical faults, weakness in processes or project management procedures, or from external events. This definition includes legal risk.

Capital requirements for the operational risk are determined at DZ BANK Group level, as part of the process to determine regulatory capital requirements, applying the standardised approach as set out in the CRR. Due to the waiver, DZ HYP does not carry out its own determination; instead, DZ HYP's data is incorporated into DZ BANK Group calculations. Moreover, economic capital for operational risk is determined at Group level, using a portfolio model, and incorporated into internal management, both on a Group and single-entity level.

Compiling loss data in a central database allows to identify, analyse and assess loss events, thus allowing to recognise patterns, trends and concentrations of operational risks. Criteria for data compilation include a minimum threshold of € 1,000 gross. Losses incurred by DZ HYP are incorporated into DZ BANK's economic model, enhancing the database.

Losses incurred from operational risks do not follow a steady trend; instead, the overall loss profile is derived from losses incurred over many years, and characterised by a small number of large losses. Comparing net losses for the period under review with the previous year's levels is therefore not meaningful, which is why no such comparative figures are provided. Given that larger-sized damages occur in very isolated cases, the development of damages over time is subject to regular fluctuations. This means that a meaningful presentation of loss developments requires setting a sufficiently long and constant reporting horizon. For this reason, data is selected from the loss history for the past four quarters, based on the date of the cash outflow. During the four quarters of the year under review, 21 loss events occurred, resulting in cash damages of € 680,000 burdening income. A collective loss comprising the direct losses resulting from the COVID-19 pandemic was included in the OpRisk database (ORC). These losses relate to cancellation costs for events that could no longer take place.

In order to be able to identify operational risks in good time, an early warning system used by DZ HYP regularly records a total of 154 indicators (aligned with the CRR event categories, including system failures, fraud, staff fluctuation) and analyses results by way of a traffic light system. As in the previous year, the risk indicator system did not yield any indications of particular operational risks during 2020. Throughout the year, the vast majority of risk indicators were in "green" status.

Scenario-based risk self-assessments were once again conducted in 2020. Using risk scenarios, material potential risks were determined, in accordance with the CRR, for all first-level risk categories and mapped in the form of scenarios. The results of DZ HYP's assessments are incorporated into the economic risk model developed by DZ BANK at Group business strategy, and the remuneration strategy at Bank and Group level. The scenarios deemed to be most likely were potential threats from hacker attacks, and outsourcing risks.

The COVID-19 pandemic triggered an almost complete shift of operations to working from home at times. The anticipated associated operational risks (concerning performance and stability of technical infrastructure, for example) have not yet materialised; the Bank still has the requisite operational capacity without interruption compared to normal operations. Nonetheless, the threat of disruptions to operations must be considered to be generally higher.

### Managing information risks

Virtually all transactions and business activities are settled using corresponding IT procedures. The systems used are connected, and depend upon each other during the course of operations. To safeguard the adequate management of IT risks, processes are designed with due consideration for risk aspects, and monitored by way of selected control activities. This is based on the determination which risks the Bank is permitted to assume in certain areas, such as IT. Detailed requirements are derived from this, which in turn determine the intensity of control activities to be carried out, and which are designed to ensure compliance with the risk appetite defined beforehand.

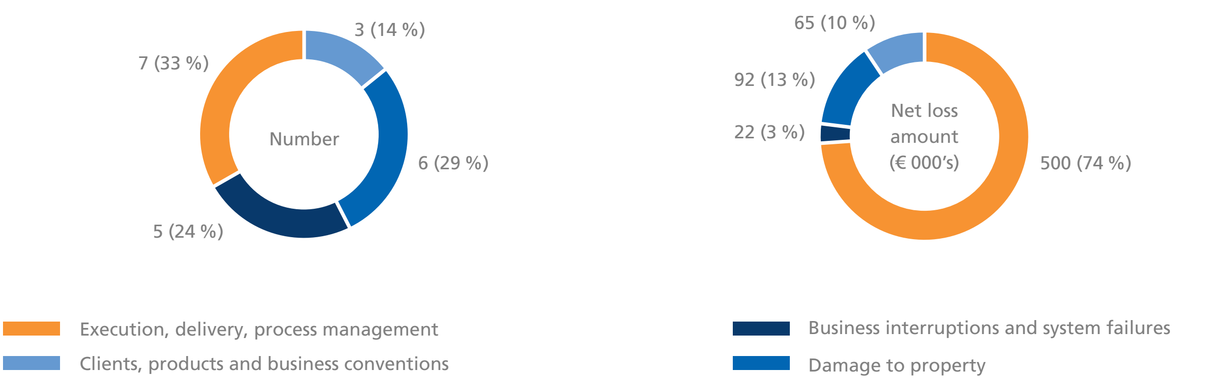
Through extensive physical as well as logical security precautions, DZ HYP's IT guarantees the security of data and applications, and ensures that ongoing operations are maintained. Measures taken to contain the threat of a partial or total failure of data processing systems include physically separate IT centres at different locations (whereby systems and data are being mirrored), special access controls, fire safety precautions, as well as uninterrupted power supply through generators. Defined re-start procedures for emergencies or crisis situations are checked for effectiveness through regular trial runs. Data backups are taken in different buildings with high-security rooms.

DZ HYP's assessment methodology for IT risks is provided centrally by Information Security Management, and applied on a decentralised basis by the respective responsible staff members for the various applications, within the framework of tool-based control processes. This concept ensures collaboration between information security management and information risk management. The Information Security Officer submits all material issues to the Security Advisory Board for decisions regarding further steps to be taken. Any deviations identified within the scope of these processes are assessed regarding the risks involved. All IT risks identified as being material are incorporated into regular information security reports to the Management Board.

### Outsourcing

DZ HYP has outsourced certain activities and processes to external service providers. The outsourcing business unit is predominantly responsible for determining, as part of the outsourcing risk analysis, whether an outsourced activity or process is material, and for assessing the risk involved. Other relevant organisational units (such as the Legal department) are involved in this process. This risk analysis is reviewed and updated on an event-driven basis; in any case, at least once a year.

OPRISK LOSSES 2020



DZ HYP's material outsourcing arrangements include the outsourcing of IT and network operations to T-Systems International GmbH, Frankfurt/Main, and to Ratiodata GmbH, Frankfurt/Main. DZ HYP has outsourced its reporting to DZ BANK AG, Frankfurt/Main, which has assumed large parts of regulatory reporting, in accordance with outsourcing agreements. Measures to support this process, and to assure process quality, include outsourcing control exercised by DZ HYP's Regulation/Reporting unit. Furthermore, DZ HYP is integrated into DZ BANK's risk measurement, monitoring and management structure (including the measurement of liquidity risk and Group-wide market price risk), via corresponding outsourcing arrangements. DZ HYP's payment transactions are also handled by DZ BANK as part of outsourcing agreements. From an organisational perspective, DZ HYP's Risk Controlling unit is responsible for measuring operational risks, whilst the Central Outsourcing Management unit within DZ HYP's Finance division is responsible for coordinating outsourcing control. Both units report regularly, at DZ HYP's Management Board meetings, on losses sustained, on the activities for further developing the quantification approach, as well as on the status of outsourcing control.

## VI) Equity investment risk

Equity investment risk is defined as the risk of losses due to negative changes in value affecting the part of the investment portfolio that is not taken into account for other types of risk. Investments are held for strategic considerations; they are of minor importance to DZ HYP.

Equity investment risk also includes real estate risk, which represents the risk of losses due to negative changes in the value of DZ HYP's real estate portfolio caused by a deterioration in the overall real estate situation or specific characteristics of individual properties (e.g. vacancy rates, loss of tenants, loss of use). All risks of negative changes in the value of the Group's own real estate portfolio are presented under equity investment risk for those properties that are owned directly by DZ HYP.

The risk capital requirements for DZ HYP's equity investment risk are calculated by DZ BANK, in line with the measurement of equity investment risk by DZ BANK. For this purpose, risk capital requirements are measured using a value-at-risk concept based on a variance/covariance approach, with a one-year holding period. Risk drivers are the market values of investments, volatility of such market values and correlation among them. Market value fluctuations are predominantly derived from exchange-listed reference assets.

The real estate risk is taken into account in the form of a central capital buffer amount. The capital buffer contribution is calculated centrally by DZ BANK every year.

## VII) Reputational risk

Reputational risk is defined as the risk of losses caused by events which damage the confidence of, in particular, clients, shareholders, labour market participants, the general public or regulatory authorities – in the Bank, or the products and services it offers. Reputational risk may be caused by other risk having materialised, but also by other publicly available information concerning DZ BANK Group or DZ HYP.

The Bank's fundamental strategic objectives for dealing with reputational risk have been incorporated in a separate risk strategy. This strategy defines the following key objectives, which also apply on a Group-wide level:

» to avoid losses from reputational events, through preventive measures;
» to mitigate reputational risks, through preventive as well as responsive measures;
» to strengthen awareness of reputational risk within the Bank – including by appointing persons responsible for this risk type, and by establishing a Group-framework and reporting structure for reputational risks.

As a matter of principle, reputational risk continues to be implied for risk measurement and capital backing purposes through business risk. Moreover, liquidity risk management explicitly covers the threat of funding problems as a result of potential reputational damage.

## VIII) Business risk

Business risk refers to the risk of an unexpected development in earnings that is not covered by other types of risk. In particular, this includes the risk that losses cannot be counteracted due to changes in key overall conditions (for example, economic and product environment, customer behaviour, competitive situation) and/or due to inappropriate strategic positioning.

The risk capital requirements for DZ HYP's business risk are calculated by DZ BANK using a Monte Carlo simulation. In addition to inclusion in market price risk, a central capital buffer requirement is added every year to cover termination rights under section 489 of the German Civil Code (BGB). From 2021 onwards, the section 489 BGB termination options will be included in the local capital buffer requirement for DZ HYP's business risk.

## IX) Summary

Managing DZ HYP's opportunities and risks is an integral part of the strategic planning process at DZ BANK Group. In the opinion of the Management Board, appropriate management and control tools are deployed across all risk areas; these tools are continuously fine-tuned and developed. The challenges that arose in the reporting year due to the impact of the COVID-19 pandemic were minimised by adopting an effective and sustainable risk management approach. DZ HYP's expected performance is appropriate in terms of the risks assumed. There are no indications for any threats to DZ HYP's continued existence despite the pandemic.

# REPORT ON EXPECTED DEVELOPMENTS

## Cautionary forward-looking statement

The forecast and other parts of the Annual Report include expectations and forecasts that relate to the future. These forward-looking statements, in particular those regarding DZ HYP's business and earnings growth, are based on forecasts and assumptions, and are subject to risks and uncertainties. As a result, the actual results may differ from those currently forecast. There are many factors that impact on DZ HYP's business, and that are beyond the Bank's control. The specific impact that the COVID-19 pandemic is having at present is a good example. These factors primarily include changes to the general economic situation and the competitive arena, and developments on the national and international real estate and capital markets to name. In addition, results can be impacted by borrowers defaulting or by other risks, some of which are discussed in detail in the risk report. In this context, DZ HYP would like to point out that no solution has been found as yet for the global issue of high sovereign debt, particularly in conjunction with the COVID-19 pandemic, and that ongoing reforms are needed.

## Quality of forecasts

DZ HYP's financial performance in the 2020 financial year exceeded projections, particularly with regard to the increase in the real estate loan portfolio, which was achieved while maintaining adequate lending margins. Net commission income fell just short of expectations. The aggregate of net interest income and the net commission result was 12.5 per cent above forecast levels. Thanks to the macroeconomic environment in Germany, which remains positive for real estate overall, total specific valuation allowances and general valuation allowances were lower than the projected figure, which was determined on the basis of standard risk costs. Even taking into account risk premiums for potential risks resulting from the COVID-19 pandemic and allocations to general risk provisions in accordance with section 340f of the German Commercial Code (HGB), loan loss provisions were lower than expected.

Overall, the quality of DZ HYP’s forecasts for the year under review proved to be robust. The fact that results once again exceeded forecasts overall also underlines the conservative stance on which the Bank’s projections are based.

## Forecast period

Based on the strategic business orientation as part of a five-year plan, DZ HYP derives its operative planning on an annual basis, focusing on the subsequent financial year. As a rule, the Bank’s forecast is based on the one-year operative planning horizon; in certain cases it also refers to the results of the five-year plan.

## Business environment and assumptions underlying the forecast

In a challenging international environment with global risks, Germany lost economic power in 2020 due to the COVID-19 pandemic. Looking ahead to 2021, it is expected that, in addition to the government support measures, the vaccination drive will take effect and translate into positive economic effects. The economy is expected to mount a marked recovery in the second half of the year in particular.

To mitigate the effects from the COVID-19 pandemic, DZ HYP has negotiated specific support measures with a number of borrowers, including suspension of loan repayments for a limited period of time. Measures have also been taken in connection with the legislative payment moratorium for consumers.

Looking at the value of collateral held in the form of real property liens, no systematic, material deterioration in collateral values has been observed to date. Any haircuts on properties held as collateral are monitored on an ongoing basis, taken the progress of the COVID-19 pandemic into consideration. For example, any declines in property collateral values as a consequence of the pandemic may be mitigated by low interest rates, low vacancy rates and conservative financing structures.

The resulting macroeconomic effects and the impact on the real estate market are subject to uncertainty: there is a risk of falling real estate prices. It is currently impossible to come up with a full and reliable forecast.

In view of the sustained strong investment pressure from investors, DZ HYP expects the transaction volume to remain stable. All in all, it is fair to state that the German residential and commercial real estate markets have been robust to date.

Despite economic uncertainty, demand for private residential real estate has remained strong. Purchase prices continued to rise in 2020. This means that the residential asset class has proven stable in the course of the COVID-19 pandemic so far, a development which is likely to persist, based on current assessments and subject to the pandemic's further economic impact.

Commercial real estate shows a differentiated picture: in the retail sector, given the growing importance of online commerce and adjustments of excess capacity in non-food branch networks, demand for space is expected to decline, which is going to lead to falling rents and lower demand for retail selling space. In the hotel sector, capacity utilisation in 2020 was noticeably lower than before the outbreak of the pandemic. Whilst it is fair to assume that demand for overnight accommodation will recover over the medium term as tourism starts to bounce back and the number of business travellers increases, travel activity in the business segment in particular will probably be influenced by a lower number of face-to-face meetings and an increase in video conferencing.

Office markets are unlikely to come under pressure in the short term, and are expected to remain stable. DZ HYP assumes that, over the medium to long term, working from home will evolve into an established occasional addition to office spaces. Logistics is proving to be a robust asset class as online retail booms. Demand for space in this segment is expected to be unchanged, with a stable market outlook.

The outlook for the municipal budget situation is deteriorating on account of the COVID-19 pandemic and the resulting recession. Thanks, however, to the high level of systematic support in Germany – which has been demonstrated yet again – the Bank only expects to see a minor impact on the credit quality of public-sector clients as things stand at the moment. The economic stimulus package launched by the German government and the federal states, which includes the "Municipal Solidarity Pact" to support municipalities and compensate for expected tax losses and took effect in the second half of 2020, goes some way towards mitigating the negative spill-over effects of the pandemic at municipal level. Competition for local-authority loans remains strong.

Against this background, DZ HYP anticipates new business volume that is roughly on a par with the 2020 financial year. The financial plans for 2021 include write-downs in Real Estate Finance that are almost twice as high as they were in 2020. Therefore, opportunities for – and risks to – profitability concern the forecast risk provisioning in particular, whilst the material income components largely show a linear development. The Bank forecasts that the net profit available for profit transfer and unallocated reserves will come to just under € 100 million in 2021; the forecast for subsequent years is higher.

The German economy is faced with challenges, in particular due to the COVID-19 pandemic and political risks. These challenges include, in particular, developments in the sovereign finances of the countries on Europe's periphery, the risks resulting from the Brexit, which is now complete, and the associated potential trade restrictions/legal uncertainties, as well as geopolitical risks. Against this background, the ECB will adhere to its accommodative monetary policy, and will respond as required at any time.

DZ HYP's business model, which is focused on the German real estate market, shows different degrees of sensitivity to these potential threats. Implications are thus possible – at least indirectly, e.g. due to falling demand, financial market volatility, or price bubbles.

## Expected development of DZ HYP

Based on these framework conditions, and adhering to its unchanged conservative risk strategy, DZ HYP plans to avoid cyclical peaks in the long-term business it pursues, to the extent possible. Moreover, the Bank does not calculate any performance contributions from unhedged interest rate or foreign exchange positions in its projections. Therefore, any changes to the relevant market parameters do not materially influence the Bank's results planning. Key value drivers for DZ HYP's future financial performance are thus the Bank's planned business volume, net credit margins, commissions earned and risk costs incurred in new business, as well as any write-downs which may be necessary in the non-strategic portfolios. Given DZ HYP's strengthened market position, the Bank has conservatively accounted for these factors in its planning calculations.

The Basel Committee on Banking Supervision (BCBS) finalised its revised "Basel III: Finalising post-crisis reforms" framework for the calculation of risk-weighted assets and capital floors on 7 December 2017. Simulations show that the amended regulations will only have a minor direct impact upon DZ HYP's calculation of risk-weighted assets under the IRB approach. However, the capital floor is expected to lead to increased capital requirements under the revised Credit Risk Standard Approach, due to higher capital requirements for commercial real estate finance. These regulations will take effect starting in 2023 with a phase-in period until 2028. Since this period provides sufficient scope for profit retention, DZ HYP is in the process of examining the impact of the changed framework, in coordination with the Group parent, and referring to the existing Group waiver in this context.

Assuming that the effects of the COVID-19 pandemic are contained in the short term, it is expected that DZ HYP will be able to originate new real estate finance business to the tune of around € 10 billion in 2021 with adequate margins. The aim is to strike a good balance between profitability targets and equity requirements, whilst closely adhering to the relevant regulatory requirements.

Net interest income is expected to be slightly lower than the € 605 million figure reported for the year under review.

Depending on the relevant deal flow and the product mix, the net commission result is likely to be around one-third lower than the current level of € -38 million.

The future development of administrative expenses will not least be driven by increasing regulatory requirements, which exert additional pressure on staff and IT costs. Taking into account the measures taken in connection with the "Focus 2020" project, DZ HYP expects administrative expenses to remain stable overall going forward.

Provisions for loan losses are calculated using individual standard risk costs which are commensurate with the Bank's business model; in general, the forecast projects an upper-range double-digit million euro figure over the planning horizon. Due to the uncertainty created by the COVID-19 pandemic, loan loss provisions are expected to total almost double the current year's value. Overall, the expected acute default risks are conservatively accounted for.

The MBS portfolio is intensively monitored by means of a detailed risk management system, regular analyses of individual exposures, and comprehensive stress testing. The development of material risk factors indicates stabilisation at the current levels. The persistent default risks this portfolio is exposed to were identified within the scope of a five-year forecast, and adequately incorporated in the Bank's projections.

In the Management Board's view, the merged Bank performs successfully in terms of profitability and new business origination. New business is aligned toward our clients' requirements. The Bank is consistently reducing capital markets transactions which are not related to client business.

The merger of DG HYP and WL BANK to form DZ HYP in 2018 has created a leading real estate finance house and Pfandbrief issuer in Germany – with products and services and a distribution approach aligned to client segments, alongside customised offers, catering to the segments of Corporate Clients, Retail Customers and Public Sector. The Bank's central business policy role is to anchor real estate financing and public-sector lending in the cooperative financial network, and to realise financing solutions together. To this end, DZ HYP offers the German cooperative banks an extensive range of products and services, working hand-in-hand with them to cover the regional markets. In this context, both sides benefit from the partnership – DZ HYP from the direct contact with regional clients, and the German cooperative banks from the business relationships arising from developing the market throughout Germany.

# EMPLOYEES

## HR work in unusual times

Motivated and qualified employees form the basis for DZ HYP's commercial success. DZ HYP's HR policy aims to offer employees a working environment based on the spirit of partnership, to support each and every individual in their further development, and to offer prospects for a secure future, even in challenging times.

2020 created myriad challenges for DZ HYP's employees, including not only the unforeseeable developments in the context of the COVID-19 pandemic, the management of which asked a lot of everyone, but also internal initiatives to ensure the Bank's future viability, which required employees to be open to change and shaped cooperation in 2020. One of the biggest challenges facing HR was to implement the staff changes fairly and, at the same time, to recruit new employees, also for new, strategically important positions, in a difficult environment that can be described as an employee's market. The entrepreneurial success achieved in 2020 shows that DZ HYP is built on a solid foundation. The Bank has used numerous initiatives to enhance the working environment for all employees and is also an attractive financial sector employer on the dynamic applicant market.

## Demographic management

The demographic concept adopted in 2019 was elaborated in greater detail in the reporting year and a large number of measures were initiated and implemented. The concept focuses on four fields of action: HR planning, talent acquisition, employee loyalty and health. The concept aims to allow DZ HYP to safeguard its performance as a Bank in the future, too.

## Employer branding

Especially in an environment of mounting competition, it is crucial to maintain good access to qualified specialists and managers, as well as young talents, and to ensure a high level of loyalty among our own employees. These efforts are supported by a strong employer brand that is equally convincing inside and outside of the Bank. In order to reach the relevant target groups in the best way possible, DZ HYP started to revamp its employer branding strategy during the year under review. The objectives defined include: rejuvenating the workforce, increasing the proportion of women, strengthening employee loyalty and increasing the Bank's appeal for IT and digital specialists.

The first step in this process involved the launch of a recruitment campaign for the Bank. In addition to activities in the field of real estate finance, areas such as IT or data management, which DZ HYP is currently in the process of expanding, were also put into the spotlight. The campaign focuses more on using employees as brand ambassadors. As well as revamping the design of the Bank's job advertisements, various video job advertisements were shot with employees and are being published by the Bank on its social media channels. The careers page on DZ HYP's website, as the main platform for recruiting employees, was also restructured and equipped with revised content and a new visual language. Since then, potential applicants have been able to use the page to read interesting facts about DZ HYP as an employer, as well as to find detailed information on the individual areas of assignment and the measures that the Bank takes to promote up-and-coming talents. The Bank no longer relies solely on conventional text and images, but has also included podcasts with employees who talk about their work in various areas of DZ HYP in addition to the video job advertisements.

The Bank also conducted a "pulse check" employee survey in the reporting year. The survey looks at perceived levels of employee satisfaction and, as a result, the question as to how employees identify with their employer and how loyal they are to DZ HYP. A participation rate of 72 per cent ensured representative results that will be analysed and evaluated in early 2021. The Bank is aiming to define targeted measures based on the survey results in a quest to maintain its appeal and achieve further optimisation.

## Vocational training and empowering the next generation

In order to have a supply of qualified young professionals on hand to allow the Bank to rise to the challenges of the future and respond to changes in the skills required, DZ HYP relies on offering targeted vocational training to talented employees. As a result, the Bank is strengthening its vocational training activities as part of the demographic concept. In the 2020 financial year, a total of four trainees and two dual students were recruited for the Münster office, which is primarily responsible for the Retail Customers business. The dual study programme, which includes a programme leading to a Bachelor and Master of Science in Banking & Finance, has been offered there since 2012 in addition to the vocational training programme for bank officers. DZ HYP awarded a permanent contract to one apprentice in Münster in the reporting year. Three apprentices have started university degrees after completing their vocational training and have since been working for the Bank as working students.

The Bank also stepped up its activities in the area of professional training for qualified graduates. DZ HYP launched its ninth graduate trainee programme in October 2020. The majority of the graduates who have completed the 18-month trainee programme since it was launched in 2010 are still employed at DZ HYP today. The launch of the new programme involved recruiting five trainees in Hamburg to focus on Commercial Real Estate Investors. The plan is for three of the five up-and-coming talents to remain in the Hamburg office in the long term, while the other two will be trained in the real estate centres in Berlin and Munich, the aim being to award them permanent employment contracts. "Trendence und Absolventa", the leading online jobs portal for young academics, once again awarded DZ HYP its seal of quality in 2020 for its "fair trainee programme".

As well as offering conventional banking training, the Bank also wants up-and-coming talents to have the opportunity to develop in IT-related and regulatory areas of the Bank in the future. In order to work out the details and design of smart new training programmes, a Sounding Board was created in 2020 and will start work in 2021.

## Risk assessment of psychological stress at work

Healthy employees are a fundamental prerequisite for DZ HYP's performance. Our social environment is increasingly characterised by volatility, uncertainty, complexity and ambiguity, increasing the potential for psychological stress at work.

In order to identify, assess and subsequently reduce negative aspects associated with employees' working environments, a risk assessment of psychological stress at work was conducted in the fourth quarter of 2020. The three-week online survey was conducted in cooperation with an external institute. At 55 per cent, more than half of the Bank's workforce took part. The survey asked questions on employees' duties, stress factors, resources, organisational climate and work-related changes resulting from the COVID-19 pandemic. The plans are to evaluate the results and identify corresponding measures in 2021. The aim of the exercise is to safeguard employees' mental health, optimise workplaces and create, maintain and, where necessary, improve overall conditions at work so as to promote better health in the long term.

## Occupational health management

The Bank continued with its existing occupational health management *(Betriebliches Gesundheitsmanagement – BGM)* offering in the reporting year, although some services could only be offered to a limited extent due to the COVID-19 pandemic. Employees were able to consult with the company doctors by telephone. Similarly, we were able to offer the annual company flu vaccination as planned. Demand for the flu vaccine was significantly higher than in previous years. DZ HYP also continued with its occupational re-integration management programme.

In August, a cycling tour was organised as part of a joint occupational health management campaign at the Bank's two main locations in Hamburg and Münster. In September, the "Lauf in den Herbst" ("run into autumn") event took place again with employees from the Münster office. Since the lockdown in the spring of 2020, DZ HYP's employees have also had the opportunity to use the digital services offered by the Bank's cooperation partner "Fitness First" to help them include exercise in their daily routine, even when working from home. In addition, a practical workshop on "Healthy Self-Management" was offered, allowing the participants to address topics such as health, mindfulness, dealing with emotions and appreciative communication.

In July, every employee was given a high-quality glass drinking bottle (soulbottle) as part of another company-wide campaign. The aim is to encourage employees to also drink tap water in order to get their recommended daily amount of fluid, and at the same time to avoid or reduce the use of plastic bottles. As well as having an impact on health, the measure is also intended to make a contribution to sustainability.

## Promoting women: statutory quotas and corporate initiative

In accordance with statutory requirements, the Supervisory Board and Management Board of DZ HYP are obliged to set targets for the proportion of women on the Supervisory Board, the Management Board, and the two management levels below the Management Board – as well as target dates for achieving such targets. Against this background, in accordance with section 111 (5) of the AktG, in 2019 DZ HYP's Supervisory Board set a target quota of 22 per cent for the share of women on the Supervisory Board, and a target quota of 0 per cent for the share of women on the Management Board. The target date for implementation of these quotas was 31 July 2020. Both targets were reached by the end of the deadline. In accordance with section 111 (5) of the AktG, on 3 July 2020 DZ HYP's Supervisory Board set a target quota of 22 per cent for the share of women on the Supervisory Board, and a target quota of 0 per cent for the share of women on the Management Board. The target date for implementation of these quotas is also 31 July 2021. Both targets had been reached by 31 December 2020.

Due to the far-reaching restructuring measures as part of the "Focus 2020" project, the Management Board re-evaluated and redefined the targets for the proportion of women in F1 and F2 management positions at DZ HYP on 3 November 2020 in accordance with the statutory requirements for the equal participation of women and men in management positions. The aim is to achieve 25 per cent women at both F1 and F2 levels by 31 October 2025. As at 31 December 2020, the share of women at F1 and F2 level was 6 per cent and 21 per cent respectively.

## Cooperation with the Works Council

The constructive cooperation between DZ HYP and the Works Council members continued unchanged during the year under review. The negotiations on the implementation of reorganisation measures to secure the Bank's future viability, as well as the positive and constructive support provided for the necessary measures to allow a greater degree of flexibility with regard to employees' place of work and working hours in order to cope with the COVID-19 pandemic, are particularly worthy of mention. DZ HYP would like to thank the Works Council members for the good and constructive cooperation.

STAFFING INDICATORS

| | 2020 | 2019 |
|---|---|---|
| **Total*)** | **819** | 870 |
| **Fluctuation rate (in %)** | **13.3** | 6.0 |
| **Share of voluntary resignations (in %)** | **6.8** | 3.9 |
| **Years of service** | **13.8** | 13.4 |
| **Number of training days per employee** | **0.8** | 3.0 |
| **Employment basis (in %)**)** | | |
| Full-time employees | **74.9** | 76.3 |
| Part-time employees | **25.1** | 23.7 |
| **Share of women (in %)** | **46.3** | 45.4 |
| **Average age** | **46.0** | 45.6 |

*) annual average
**) average values

# FINANCIAL STATEMENTS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# FINANCIAL STATEMENTS

## BALANCE SHEET AS AT 31 DECEMBER 2020
ASSETS

| | € 000's | Note | € 000's | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|---|---|---|
| **CASH FUNDS** | | | | **30** | **412** |
| a) Cash on hand | | | 3 | | 2 |
| b) Balances with central banks | | | 27 | | 410 |
| of which: with Deutsche Bundesbank | 27 | | | | (410) |
| **LOANS AND ADVANCES TO BANKS** | | (4) | | **4,783,953** | **5,328,795** |
| a) Mortgage loans | | | 18,647 | | 19,605 |
| b) Loans to local authorities | | | 207,371 | | 242,877 |
| c) Other loans and advances | | | 4,557,935 | | 5,066,313 |
| of which: payable on demand | 799,157 | | | | (918,842) |
| **LOANS AND ADVANCES TO CUSTOMERS** | | (4) | | **66,123,645** | **63,779,180** |
| a) Mortgage loans | | | 50,608,680 | | 47,705,542 |
| b) Loans to local authorities | | | 12,755,182 | | 13,591,832 |
| c) Other loans and advances | | | 2,759,783 | | 2,481,806 |
| **BONDS AND OTHER FIXED-INCOME SECURITIES** | | (6) | | **10,517,699** | **9,890,234** |
| a) Bonds and debt securities | | | (8,963,846) | | 9,781,726 |
| aa) Public-sector issuers | | | 6,272,680 | | 6,793,623 |
| of which: securities eligible as collateral with Deutsche Bundesbank | 5,510,898 | | | | (5,958,200) |
| ab) Other issuers | | | 2,691,166 | | 2,988,103 |
| of which: securities eligible as collateral with Deutsche Bundesbank | 2,205,886 | | | | (2,426,402) |
| b) Own bonds issued | | | 1,553,853 | | 108,508 |
| Nominal amount | 1,549,783 | | | | (107,197) |
| **PARTICIPATIONS** | | (6) | | **911** | **911** |
| **INVESTMENTS IN AFFILIATED COMPANIES** | | (6) | | **1,566** | **1,566** |
| **TRUST ASSETS** | | (7) | | **28,369** | **30,189** |
| of which: trustee loans | 10,270 | | | | (23,802) |
| **INTANGIBLE FIXED ASSETS** | | (6) | | **3,913** | **2,087** |
| a) Concessions, industrial property rights and similar rights and assets, as well as licences in such rights and assets | | | 3,703 | | 2,087 |
| b) Advance payments made | | | 210 | | – |
| **TANGIBLE FIXED ASSETS** | | (6) | | **199,605** | **180,365** |
| **OTHER ASSETS** | | (8) | | **38,141** | **30,709** |
| **PREPAID EXPENSES** | | (10) | | **222,142** | **192,553** |
| a) From new issues and lending | | | 221,286 | | 190,987 |
| b) Other | | | 856 | | 1,566 |
| **TOTAL ASSETS** | | | | **81,919,974** | **79,437,001** |

BALANCE SHEET AS AT 31 DECEMBER 2020
LIABILITIES AND EQUITY

| | € 000's | Note | € 000's | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|---|---|---|
| LIABILTIES TO BANKS | | (13) | | 31,172,353 | 30,480,258 |
| a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe) | | | 1,719,298 | | 2,105,584 |
| b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe) | | | 916,010 | | 797,860 |
| c) Other liabilities | | | 28,537,045 | | 27,576,814 |
| of which: payable on demand | 25,325 | | | | (23,416) |
| LIABILITIES TO CUSTOMERS | | (13) | | 15,770,415 | 17,666,528 |
| a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe) | | | 5,437,745 | | 5,769,689 |
| b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe) | | | 8,404,249 | | 9,689,656 |
| c) Other liabilities | | | 1,928,421 | | 2,207,183 |
| of which: payable on demand | 477,788 | | | | (542,893) |
| Registered Mortgage Pfandbriefe and Registered Public Pfandbriefe surrendered to lenders as collateral for borrowings | – | | | | (2,556) |
| SECURITISED LIABILITIES BONDS ISSUED | | (13) | | 31,655,495 | 28,213,179 |
| a) Mortgage Pfandbriefe (Hypothekenpfandbriefe) | | | 26,040,201 | | 23,052,581 |
| b) Public Pfandbriefe (öffentliche Pfandbriefe) | | | 3,818,873 | | 3,387,715 |
| c) Other debt securities | | | 1,796,421 | | 1,772,883 |
| TRUST LIABILITIES | | (7) | | 28,369 | 30,189 |
| of which: trustee loans | 10,270 | | | | (12,089) |
| OTHER LIABILITIES | | (14) | | 281,202 | 166,646 |
| PREPAID EXPENSES | | (10) | | 290,116 | 232,390 |
| a) From new issues and lending | | | 290,116 | | 232,390 |
| b) Other | | | – | | – |
| PROVISIONS | | | | 260,443 | 253,980 |
| a) Provisions for pensions and similar obligations | | | 198,083 | | 185,601 |
| b) Provisions for taxes | | | 4,839 | | 4,337 |
| c) Other provisions | | | 57,521 | | 64,042 |
| SUBORDINATED LIABILITIES | | (15) | | 54,250 | 64,500 |
| FUND FOR GENERAL BANKING RISKS | | | | 645,000 | 567,000 |
| EQUITY | | | | 1,762,331 | 1,762,331 |
| a) Subscribed capital | | (16) | (784,990) | | (784,990) |
| aa) Share capital | | | 149,990 | | 149,990 |
| ab) Silent partnership contributions | | | 635,000 | | 635,000 |
| b) Capital reserves | | | 884,196 | | 884,196 |
| c) Retained earnings | | | (93,145) | | (93,145) |
| ca) Legal reserves | | | 945 | | 945 |
| cb) Other retained earnings | | | 92,200 | | 92,200 |
| TOTAL EQUITY AND LIABILITIES | | | | 81,919,974 | 79,437,001 |
| CONTINGENT LIABILITIES | | (17) | | | |
| Liabilities from guarantees and indemnity agreements | | | | 537,762 | 446,968 |
| OTHER COMMITMENTS | | (18) | | | |
| Irrevocable loan commitments | | | | 5,353,019 | 5,849,575 |

# PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2020

| | € 000's | Note | € 000's | 2020 € 000's | 2019 € 000's |
|---|---|---|---|---|---|
| INTEREST INCOME FROM | | | | | |
| a) Lending and money market transactions | | | 1,572,412 | | 1,668,914 |
| b) Fixed-income securities and debt register claims | | | 264,518 | | 289,136 |
| | | | | 1,836,930 | 1,958,050 |
| INTEREST EXPENSES | | | | 1,234,777 | 1,406,317 |
| | | | | 602,153 | 551,733 |
| | | | | | |
| CURRENT INCOME FROM PARTICIPATIONS | | | | 132 | 95 |
| INCOME FROM PROFIT-POOLING, PROFIT TRANSFER OR PARTIAL PROFIT TRANSFER AGREEMENTS | | | | 3,116 | 2,590 |
| COMMISSION INCOME | | | 39,882 | | 42,954 |
| COMMISSION EXPENSES | | | 77,938 | | 79,031 |
| NET COMMISSION RESULT | | | | -38,056 | -36,077 |
| OTHER OPERATING INCOME | | (27) | | 28,957 | 26,556 |
| GENERAL ADMINISTRATIVE EXPENSES | | | | | |
| a) Personnel expenses | | | | | |
| aa) Wages and salaries | | | 71,806 | | 75,177 |
| ab) Compulsory social security contributions and expenses for pensions and other employee benefits | | | 14,963 | | 15,576 |
| | | | 86,769 | | 90,753 |
| of which: pension expenses | 4,691 | | | | (4,556) |
| b) Other administrative expenses | | | 158,446 | | 154,711 |
| | | | | 245,215 | 245,464 |
| AMORTISATION/DEPRECIATION AND WRITE-DOWNS OF INTANGIBLE AND TANGIBLE FIXED ASSETS | | | | 6,013 | 5,953 |
| OTHER OPERATING EXPENSES | | (28) | | 20,272 | 22,061 |
| WRITE-DOWNS AND VALUATION ALLOWANCES OF LOANS AND ADVANCES AND SPECIFIC SECURITIES, AS WELL AS ADDITIONS TO LOAN LOSS PROVISIONS | | | | 54,504 | 3,724 |
| INCOME FROM WRITE-UPS TO PARTICIPATING INTERESTS, SHARES IN AFFILIATED COMPANIES, AND INVESTMENT SECURITIES | | | | 6,544 | -2,518 |
| ALLOCATION TO THE FUND FOR GENERAL BANKING RISKS | | | | 78,000 | 100,000 |
| RESULT FROM ORDINARY ACTIVITIES | | | | **198,842** | 165,177 |
| EXTRAORDINARY INCOME | | | – | | – |
| EXTRAORDINARY EXPENSES | | | – | | 17,300 |
| NET EXTRAORDINARY INCOME/EXPENSES | | | | – | -17,300 |
| INCOME TAXES | | (29) | 125,348 | | 81,514 |
| OTHER TAXES NOT DISCLOSED UNDER "OTHER OPERATING EXPENSES" | | | 703 | | 274 |
| | | | | 126,051 | 81,788 |
| PROFITS TRANSFERRED UNDER PROFIT TRANSFER AGREEMENTS | | | | 57,000 | 50,000 |
| PROFITS TRANSFERRED UNDER PARTIAL PROFIT TRANSFER AGREEMENTS | | | | 15,791 | 16,089 |
| NET INCOME | | | | – | – |

# STATEMENT OF CHANGES IN EQUITY

| | 31 Dec 2019 | Issue of shares | Dividends paid | Net income/ loss | Transfers to/ from retained earnings | Other changes | 31 Dec 2020 |
|---|---|---|---|---|---|---|---|
| | € 000's | € 000's | € 000's | € 000's | € 000's | € 000's | € 000's |
| **SUBSCRIBED CAPITAL** | (784,990) | – | – | – | – | – | **(784,990)** |
| **- Share capital** | 149,990 | – | – | – | – | – | **149,990** |
| **- Silent partnership contributions** | 635,000 | – | – | – | – | – | **635,000** |
| **CAPITAL RESERVES** | (884,196) | – | – | – | – | – | **(884,196)** |
| **- Premium at issuance** | 408,590 | – | – | – | – | – | **408,590** |
| **- Other payments** | 475,606 | – | – | – | – | – | **475,606** |
| **RETAINED EARNINGS** | (93,145) | – | – | – | – | – | **(93,145)** |
| **- Legal reserves** | 945 | – | – | – | – | – | **945** |
| **- Other retained earnings** | 92,200 | – | – | – | – | – | **92,200** |
| **- Net retained profit** | - | – | – | – | – | – | **–** |
| **EQUITY** | **1,762,331** | – | – | – | – | – | **1,762,331** |

# CASH FLOW STATEMENT

| € mn | | 2020 | 2019 |
|---|---|---|---|
| | RESULT FROM ORDINARY ACTIVITIES | 199 | 165 |
| | EXTRAORDINARY EXPENSES | 0 | -17 |
| | OTHER TAXES NOT DISCLOSED UNDER "OTHER OPERATING EXPENSES" | -1 | 0 |
| | PROFIT OR LOSS FOR THE PERIOD (NET INCOME/LOSS BEFORE TAXES AND PROFIT TRANSFER) | 198 | 148 |
| +/- | Amortisation/depreciation, write-downs and write-ups on loans and advances, and non-current assets | 57 | 11 |
| +/- | Increase/decrease in provisions | 10 | 9 |
| +/- | Other non-cash expenses/income | -1 | 101 |
| -/+ | Profit/loss from the disposal of non-current assets | 0 | -1 |
| -/+ | Other adjustments (net balance) | -5 | 285 |
| -/+ | Increase/decrease in loans and advances to banks | 544 | -969 |
| -/+ | Increase/decrease in loans and advances to customers | -2,398 | -3,692 |
| -/+ | Increase/decrease in securities (excluding financial assets) | -1,448 | 509 |
| -/+ | Increase/decrease in other assets from operating activities | -35 | -21 |
| +/- | Increase/decrease in liabilities to banks | 682 | 3,539 |
| +/- | Increase/decrease in liabilities to customers | -1,863 | -2,025 |
| +/- | Increase/decrease in securitised liabilities | 3,460 | 1,644 |
| +/- | Increase/decrease in other liabilities from operating activities | 136 | 31 |
| +/- | Interest expenses/income | -605 | -554 |
| +/- | Income/expenses from extraordinary items | 0 | 17 |
| + | Interest and dividend payments received | 1,863 | 1,991 |
| - | Interest paid | -1,276 | -1,519 |
| - | Extraordinary cash payments | -3 | 0 |
| -/+ | Net cash inflow/outflow from income taxes (including Group tax overheads) | -16 | -77 |
| = | CASH FLOW FROM OPERATING ACTIVITIES | -700 | -573 |
| + | Receipts from the disposal of financial assets | 804 | 672 |
| + | Cash proceeds from the disposal of property and equipment | 0*) | 0*) |
| - | Payments for investments in tangible fixed assets | -24 | -11 |
| - | Payments for investments in intangible fixed assets | -4 | -1 |
| = | CASH FLOW FROM INVESTING ACTIVITIES | 776 | 660 |
| - | Cash outflow from profit transfer to DZ BANK (as holder of the share capital) | -50 | -55 |
| - | Cash outflow from partial profit transfer to DZ BANK (as holder of the silent partnership contributions) | -16 | -17 |
| +/- | (Net) cash inflow/outflow from issuance/repayment of subordinated liabilities | -10 | -16 |
| = | CASH FLOW FROM FINANCING ACTIVITIES | -76 | -88 |
| | | | |
| | CASH FUNDS AT THE BEGINNING OF THE PERIOD | 0*) | 1 |
| +/- | Cash flow from operating activities | -700 | -573 |
| +/- | Cash flow from investing activities | 776 | 660 |
| +/- | Cash flow from financing activities | -76 | -88 |
| | CASH FUNDS AT THE END OF THE PERIOD | 0*) | 0*) |

*) Values less than € 0.5 million

The cash funds correspond to the balance sheet item "Cash funds" and include cash on hand and balances with central banks.

# NOTES TO THE FINANCIAL STATEMENTS

# GENERAL NOTES

DZ HYP AG ("DZ HYP") has dual registered offices in Hamburg and Münster. DZ HYP is registered with the Commercial Register of the Hamburg Local Court (Amtsgericht Hamburg) under HRB 5604, and with the Commercial Register of the Münster Local Court (Amtsgericht Münster) under HRB 17424.

### (1) General information on the preparation of financial statements

The financial statements of DZ HYP for the financial year 2020 have been prepared in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch – "HGB")*. Furthermore, the financial statements are prepared in accordance with the Regulation on the Accounting of Credit Institutions and Financial Services Institutions *(Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV")* and the German Banking Act *(Kreditwesengesetz – "KWG");* they fulfil the requirements of the German Stock Corporation Act *(Aktiengesetz – "AktG")* and the German Pfandbrief Act *(Pfandbriefgesetz – "PfandBG").*

Given the non-materiality of all subsidiaries, even if considered in aggregate, in accordance with section 290 (5) in conjunction with section 296 (2) of the HGB, the company has not prepared consolidated financial statements.

All amounts have been quoted in euros, in accordance with section 244 of the HGB.

### (2) Accounting policies

These annual financial statements of DZ HYP as at 31 December 2020 are generally based on the same accounting policies as were applied in the annual financial statements as at 31 December 2019; accordingly, there were no material changes to accounting methods since then.

#### Loans and advances to banks/to customers

Loans and advances to banks and customers are recognised at nominal value, in accordance with section 340e (2) of the HGB. Where their stated value differs from the amount disbursed, or cost, the amount of the difference is reported under prepaid expenses or deferred income, and amortised in interest income over the term of the transaction.

Loans and advances which are fully classified as current assets are valued strictly at the lower of cost or market. All existing individual lending risks are covered by specific loss allowance and provisions.

Specific allowance is recognised when the Bank has reason to doubt the performance of a receivable, due to the difficult financial circumstances of a borrower, or in the event of insufficient collateralisation; or if there are indications that the borrower will be unable to pay interest on a sustainable basis. The same applies to contingent receivables.

When determining specific loss allowance, existing receivables as at the valuation date (including any pro-rata interest and pending items) are compared to discounted and scenario-weighted cash flows from collateral – including realisation of collateral. The uncovered portion determined in this way is written down in full. Looking at the value of collateral, no systematic, material deterioration in collateral values due to the COVID-19 pandemic has been observed to date. Inherent default risks and country risks are covered by portfolio-based loss allowances, which are derived using a model similar to the IFRS 9 impairment loss model. In connection with the COVID-19 pandemic, these risks have been analysed extensively. As a result, an increased default risk was identified in the hotel and department store asset classes; the relevant exposures were assigned to stage 2 of the stage concept pursuant to IFRS 9 implemented by DZ HYP. The macroeconomic scenarios – which are also taken into account in the calculation of loss allowance – have been adjusted as well with view to the COVID-19 pandemic. Additional loss allowances were set aside in accordance with section 340f of the HGB.

When recognising loss allowances, DZ HYP applies the option to cross-compensate all income and expense items in line with section 340f (3) as well as section 340c (2) of the HGB.

### Bonds and other fixed-income securities

Bonds and debt securities held as fixed assets are measured at amortised cost; if impairments are expected to be permanent, DZ HYP recognises a write-down to the lower observable closing rate ("gemildertes Niederstwertprinzip"). Other bonds and debt securities are allocated to the liquidity reserve. These items are measured at the lower of cost and fair value ("strenges Niederstwertprinzip").

The vast majority of bonds and debt securities held as fixed assets are used in coverage calculations as ordinary or extended cover. The difference between cost and redemption amount is disclosed in net interest income during the remaining term.

The fair value of liquid debt securities and other fixed-income securities is generally determined on the basis of external market prices. If a valid market price for securities already held cannot be determined as at the reporting date, due to a lack of transaction volume, spread curves are used to determine the relevant price on the basis of the discounted cash flow method. Future cash flows from interest and principal were discounted to their present value as at the reporting date, using market interest rates in line with the risks and maturities concerned. If specific parameters needed for valuation purposes cannot be observed on the market, and cannot be derived from market data, DZ HYP applies parameters estimated within the DZ BANK Group.

The valuation of securities held as fixed assets, or included in the liquidity reserve, is generally based on an individual approach.

### Participations and interests in affiliated companies

Investments and shares in affiliated companies are measured at amortised cost, or at the lower fair values in case of permanent impairments.

### Intangible and tangible fixed assets

According to section 253 (1) and (3) of the HGB, intangible and tangible fixed assets are measured at cost less depreciation, amortisation and impairment losses. Depreciation and amortisation are recognised monthly on a straight-line basis, taking the expected useful life into account. Low-value assets disclosed under intangible and tangible fixed assets with cost of between € 250 and € 800 (after deducting any pre-tax amounts) are recognised in the balance sheet in the year of acquisition, and amortised/depreciated immediately. Assets with cost of less than € 250 are recognised through profit or loss in the year of acquisition.

### Liabilities

Liabilities are recognised at their settlement amount in accordance with section 253 (1) s. 2 of the HGB. The difference between the nominal value and the initial carrying amount of liabilities is recognised under prepaid expenses or deferred income, and amortised over the term of the transaction.

Zero bonds are shown at their issue value, plus pro-rata interest in line with the yield at the time of issue.

Liabilities classified as structured products (as defined in Statement IDW RS HFA 22 issued by the Institute of Public Auditors in Germany – "IDW") are accounted for as uniform liabilities, since such products at DZ HYP exclusively contain interest rate derivative components, which do not have to be accounted for separately.

DZ HYP took part in the ECB's targeted longer-term refinancing operations (TLTRO III) in the amount of € 3 billion.

### Provisions

Provisions for pensions are recognised in accordance with actuarial principles and determined on the basis of the projected unit credit method, using Dr Klaus Heubeck's 2018 G actuarial tables (revised version from 2 October 2018). The calculation of the provisions takes into account annual future salary increases of 2.5 per cent as well as annual pension increases of 1.6 per cent. DZ HYP uses the average market interest rate for the last 10 years and a notional remaining term of 15 years as established by Deutsche Bundesbank in accordance with section 253 (2) of the HGB (2.30 per cent).

Due to amended legal requirements, the calculation of pension provisions was adapted in 2016. The assessment period of the applied average interest rate was extended from 7 to 10 years. The positive difference according to section 253 (6) s. 1 of the HGB (i.e. the shortfall in pension provisions due to the change in the period used to determine average values to the last 10 years) stood at € 21.2 million as at year-end 2020.

The addition to provisions for pensions due to interest rate effects is recognised in other operating expenses.

DZ HYP recognises tax provisions for current taxes in accordance with tax regulations.

Other provisions are recognised for contingent liabilities or for impending losses from executory contracts in the amount of the expected settlement amounts, exercising prudent commercial judgement.

In accordance with section 253 (2) of the HGB, provisions with a remaining term of more than one year are discounted using the average market interest rate of the last seven years, in line with maturities. Income or expenses from discounting or accumulating provision items are recognised in other operating income/expenses.

### Derivative financial instruments and fair value measurement of banking book

Financial derivatives are accounted for separately in auxiliary ledgers. These instruments are used to hedge against the interest rate and currency risk exposure of on-balance sheet transactions. All derivative transactions thus form part of the overall management of the banking book. Segregated sub-portfolios (valuation units) are not managed on an individual basis. Accordingly, section 254 of the HGB is not applicable. Current interest payments are amortised and recorded in net interest income.

In connection with the early redemption of hedged items recognised on the balance sheet, we also generally terminate derivative financial instruments early. Any resulting gains are usually recognised in net interest income. Only where interest rate swaps can be allocated to individual securities, income realised upon closing out swaps is recognised in line with the recognition of income of the underlying transaction, in the net financial result, or in the net risk provisioning balance, respectively.

In accordance with Statement IDW RS BFA 3, the fair value measurement (verlustfreie Bewertung) of the interest-related banking book (the "interest rate book") is based on the present value. The interest rate book comprises both the interest-related underlying transaction as well as the interest-related derivative.

As at 31 December 2020, the provision test resolved that no provisions pursuant to section 249 (1) sentence 1 alternative 2 of the HGB have to be recognised for the interest rate book, since the present value of the interest rate book was higher than the carrying amount of the interest rate book, less general administrative and risk costs.

### Profit and loss account

Interest rate option premiums paid and received are disclosed under other liabilities, or other assets, and recognised through profit or loss in net interest income at maturity.

Prepayment indemnities charged for loan repayments or extensions during the fixed-interest term of a loan are fully recognised in interest income.

Income and expenses from the valuation of the lending business and securities held in the liquidity reserve are recognised on an offset basis in accordance with section 32 of the RechKredV in conjunction with section 340f (3) of the HGB. Expenses from financial investments are offset against the corresponding income items in accordance with section 33 of the RechKredV in conjunction with section 340c (2) of the HGB.

## (3) Currency translation

Assets and liabilities from foreign exchange transactions are translated in line with section 340h in conjunction with section 256a of the HGB and the Statement IDW RS BFA 4 issued by the Banking Committee of the Institute of Public Auditors in Germany (IDW). Book receivables, securities, liabilities and unsettled spot transactions as well as foreign exchange forwards and cross-currency swaps denominated in foreign currencies entered into for FX hedging purposes are translated into euro, using the ECB reference rate on the reporting date. Regarding foreign exchange forwards entered into in order to hedge interest-bearing balance sheet items, currency translations are made by splitting the forward rate into the spot rate and the swap rate in line with IDW RS BFA 4. Due to the specific coverage of all existing foreign currency items, all currency translation effects have been recognised in income. Currency translation effects (as well as any realised FX effects) are recognised in other operating income.

# NOTES TO THE BALANCE SHEET

## (4) Lending business

| MORTGAGE LOANS | Principal € mn | Carrying amount € mn |
|---|---|---|
| to banks | 19 | 19 |
| to customers | 50,614 | 50,609 |
| Total | 50,633 | 50,628 |

| PORTFOLIO DEVELOPMENT (PRINCIPAL) | € mn | € mn |
|---|---|---|
| Balance at 31 Dec 2019 | | 47,616 |
| ADDITIONS DURING THE FINANCIAL YEAR 2020 | | 9,274 |
| through Disbursements | 8,690 | |
| Transfers | – | |
| Other additions | 584 | |
| DISPOSALS DURING THE FINANCIAL YEAR 2020 | | 6,257 |
| through Scheduled and unscheduled redemptions / repayments | 5,306 | |
| Transfers | 838 | |
| Other disposals | 113 | |
| BALANCE AT 31 DEC 2020 | | 50,633 |

| LOANS TO LOCAL AUTHORITIES | Principal € mn | Carrying amount € mn |
|---|---|---|
| to banks | 206 | 207 |
| to customers | 12,688 | 12,755 |
| Total | 12,894 | 12,962 |

| PORTFOLIO DEVELOPMENT (PRINCIPAL) | € mn | € mn |
|---|---|---|
| Balance at 31 Dec 2019 | | 13,757 |
| ADDITIONS DURING THE FINANCIAL YEAR 2020 | | 584 |
| through Disbursements | 584 | |
| Transfers | – | |
| Other additions | – | |
| DISPOSALS DURING THE FINANCIAL YEAR 2020 | | 1,447 |
| through Scheduled and unscheduled redemptions / repayments | 1,383 | |
| Transfers | – | |
| Other disposals | 64 | |
| BALANCE AT 31 DEC 2020 | | 12,894 |

## (5) Negotiable securities

| | Listed | | Unlisted | | Carrying amount of negotiable securities not valued at the lower of cost or market | |
|---|---|---|---|---|---|---|
| Balance sheet item | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
| **Bonds and other fixed-income securities** | 10,088,621 | 9,396,979 | 429,078 | 493,255 | 535,872 | 696,018 |

As at 31 December 2020, the Bank did not recognise an extraordinary write-down in the aggregate amount of € 47.8 million (31 December 2019: € 52.7 million) for negotiable securities held as fixed assets with a carrying amount of € 535.9 million (31 December 2019: € 696.0 million) and a fair value of € 488.1 million (31 December 2019: € 643.3 million) not measured at the lower of cost or market, due to the expected temporary nature of the impairment. This assessment is based on the observation that the euro area has become more stress-resistant due to the crisis mechanisms established in the recent past, and that the effects of individual stabilisation measures are becoming (or have become) increasingly evident (such as bond acquisition programmes or low-interest rate policies).

As at 31 December 2020, the hidden burdens and reserves in the Bank's portfolio of negotiable securities amounted to a total of € 1,960.5 million (31 December 2019: € 1,678.9 million). The aggregate hidden reserves were affected by changes in the swap curve (decline in overall market interest rate levels over recent years) in the amount of € 2,459.4 million (31 December 2019: € 2,322.8 million) and by the poorer credit rating for some securities compared to the date of acquisition, affecting hidden reserves with € -498.9 million (31 December 2019: € -643.9 million). While DZ HYP enters into opposing primary and derivative interest rate transactions to neutralise swap curve developments and the resulting positive valuation effects for securities as part of the interest rate risk management (overall bank management) (i.e. DZ HYP does not profit from such valuation changes), the Bank fully carries the negative credit risk-related valuation changes for securities. According to its current assumptions, DZ HYP does not expect any disruptions of interest or principal payments; after an isolated consideration, the Bank did not recognise any impairments in connection with credit risk-related valuation losses. Please refer to the Bank's management report (chapter "net assets") for further information on the securities portfolio.

## (6) Breakdown of, and statement of changes in fixed assets

| | Purchase or production cost | | | | |
|---|---|---|---|---|---|
| | 1 Jan 2020<br>€ 000's | Additions<br>€ 000's | Transfers<br>€ 000's | Disposals<br>€ 000's | 31 Dec 2020<br>€ 000's |
| **I. INTANGIBLE ASSETS** | | | | | |
| **1. Software** | 25,147 | 3,498 | – | 1,088 | 27,557 |
| **2. Advance payments made on intangible assets** | – | 210 | – | – | 210 |
| | **25,147** | **3,708** | **–** | **1,088** | **27,767** |
| **II. TANGIBLE FIXED ASSETS** | | | | | |
| **1. Land and buildings** | 228,559 | 22,650 | – | – | 251,209 |
| **2. Office furniture and equipment **)** | 11,272 | 866 | – | 1,424 | 10,714 |
| | **239,831** | **23,516** | **–** | **1,424** | **261,923** |
| | | | **Addions** | | |
| **III. FINANCIAL ASSETS** | | | | | |
| **1. Participations** | 911 | | – | | 911 |
| **2. Investments in affiliated companies** | 1,566 | | – | | 1,566 |
| **3. Investment securities** | 9,717,838 | | 48,425 | | 9,766,263 |
| | **9,720,315** | | **48,425** | | **9,768,740** |

| | Depreciation and amortisation | | | | Carrying amounts | |
|---|---|---|---|---|---|---|
| | in the financial year<br>€ 000's | Transfers<br>€ 000's | Disposals<br>€ 000's | Total<br>€ 000's | 31 Dec 2020<br>€ 000's | 1 Jan 2020<br>€ 000's |
| **I. INTANGIBLE ASSETS** | | | | | | |
| **1. Software** | 1,791 | – | 997 | 23,854 | 3,703 | 2,087 |
| **2. Advance payments made on intangible assets** | – | – | – | – | 210 | 0 |
| | **1,791** | **–** | **997** | **23,854** | **3,913** | **2,087** |
| **II. TANGIBLE FIXED ASSETS** | | | | | | |
| **1. Land and buildings** | 3,491 | – | – | 53,984 | 197,225*) | 178,066 |
| **2. Office furniture and equipment **)** | 731 | – | 1,370 | 8,334 | 2,380 | 2,299 |
| | **4,222** | **–** | **1,370** | **62,318** | **199,605** | **180,365** |
| | | **Disposals** | | | | |
| **III. FINANCIAL ASSETS** | | | | | | |
| **1. Participations** | | – | | | 911 | 911 |
| **2. Investments in affiliated companies** | | – | | | 1,566 | 1,566 |
| **3. Investment securities** | | 907,858 | | | 8,858,405 | 9,663,401 |
| | | **907,858** | | | **8,860,882** | **9,665,878** |

*) of which: owner-occupied properties: € 93.1 million; used by third parties: € 104.1 million
**) fully used for the Bank's own operations

## (7) Trust business

| | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|
| **Assets held in trust comprise:** | | |
| **- Loans and advances to customers** | 10,270 | 12,089 |
| **- Participations** | 18,100 | 18,100 |
| | **28,370** | **30,189** |
| **Trust liabilities are carried vis-à-vis:** | | |
| **- Banks** | 10,270 | 12,089 |
| **- Customers** | 18,100 | 18,100 |
| | **28,370** | **30,189** |

## (8) Other assets

Other assets of € 38.1 million (31 December 2019: € 30.7 million) mainly include the cash collateral for the restructuring fund of € 29.2 million (31 December 2019: € 23.4 million), reinsurance coverage claims of € 3.9 million (31 December 2019: € 3.6 million), as well as claims against VR WERT Gesellschaft für Immobilienbewertungen mbH, Hamburg, (profit transfer 2020) of € 3.1 million (31 December 2019: € 2.6 million).

## (9) List of investments pursuant to sections 285 no. 11 and 340a of the HGB

| Minimum stake of 20% Name/registered office | Equity interest % | Equity € 000's | Result 2020 € 000's |
|---|---|---|---|
| **VR WERT Gesellschaft für Immobilienbewertungen mbH, Hamburg** | 100.0 | 50 | 3,115*) |
| **VR HYP GmbH, Hamburg** | 100.0 | 25 | –**) |
| **VR REAL ESTATE GmbH, Hamburg** | 100.0 | 25 | –**) |
| **TXS GmbH, Hamburg** | 24.5 | 200 | 500**) |

*) Control and profit and loss transfer agreement with DZ HYP
**) Result for the financial year 2019

## (10) Prepaid expenses and deferred income

| | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|
| **ASSETS** | | |
| **Sub-item a) From new issues and lending comprises:** | | |
| **Difference between the nominal amount and the higher disbursement amount of receivables** | 48,611 | 50,854 |
| **Difference between the nominal amount and the lower issuing amount of liabilities** | 71,129 | 84,366 |
| **LIABILITIES AND EQUITY** | | |
| **Sub-item a) From new issues and lending comprises:** | | |
| **Difference between the nominal amount and the lower disbursement amount of receivables** | 14,727 | 17,435 |

## (11) Open-market transactions

| | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|
| Open-market transactions entered into with the European Central Bank | 2,992,083 | 1,581,789 |

## (12) Securities repurchase agreements

| | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|
| Carrying amount of securities pledged under repo agreements | 2,007,295 | 2,567,436 |
| Repurchase amount | 2,004,934 | 2,564,698 |

## (13) Breakdown of, and statement of changes in debt securities and borrowed funds

| | Principal € mn | Carrying amount € mn |
|---|---|---|
| REGISTERED MORTGAGE PFANDBRIEFE | | |
| to banks | 1,698 | 1,719 |
| to customers | 5,373 | 5,438 |
| MORTGAGE PFANDBRIEFE | 25,962 | 26,040 |
| | **33,033** | **33,197** |
| REGISTERED PUBLIC PFANDBRIEFE | | |
| to banks | 901 | 916 |
| to customers | 8,214 | 8,404 |
| PUBLIC PFANDBRIEFE | 3,805 | 3,819 |
| | **12,920** | **13,139** |
| OTHER DEBT SECURITIES | **1,787** | **1,796** |
| BORROWED FUNDS | | |
| from banks | 21,154 | 18,849 |
| from customers | 1,372 | 771 |
| | **22,526** | **19,620** |
| TOTAL | **70,266** | **67,752** |

DEVELOPMENT (PRINCIPAL)

| | Balance on 31 Dec 2019 | Additions | Derecognitions | Reclassifications and other adjustments | Balance on 31 Dec 2020 |
|---|---|---|---|---|---|
| | € mn | € mn | € mn | € mn | € mn |
| **Mortgage Pfandbriefe and Registered Mortgage Pfandbriefe** | 30,740 | 4,952 | 2,661 | 2 | 33,033 |
| **Public Pfandbriefe and Registered Public Pfandbriefe** | 13,630 | 1,750 | 2,468 | 8 | 12,920 |
| **Other debt securities** | 1,761 | 310 | 284 | – | 1,787 |
| **Borrowed funds** | 22,660 | 2,268 | 2,426 | 24 | 22,526 |
| **Total** | **68,791** | **9,280** | **7,839** | **34** | **70,266** |

## (14) Other liabilities

This item amounts to € 281.2 million (31 December 2019: € 166.6 million) and mainly comprises liabilities from tax allocations of € 191.4 million (31 December 2019: € 82.8 million), liabilities from profit transfers of € 57.0 million (31 December 2019: € 50.0 million), as well as € 15.8 million (31 December 2019: € 16.1 million) in profits to be transferred under partial profit transfer agreements in connection with silent capital contributions.

## (15) Subordinated liabilities

| | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|
| **SUBORDINATED** | | |
| other debt securities | 25,000 | 25,000 |
| borrowed funds | 29,250 | 39,500 |
| | **54,250** | **64,500** |
| **INTEREST EXPENSE** | 3,593 | 4,031 |

Pursuant to the CRR, subordinated liabilities in the amount of €13.5 million qualify as tier 2 capital in the determination of own funds for regulatory purposes. Early repayment obligations are not provided for in all cases. There are no provisions or plans for a conversion of such funds to capital, or into another form of debt.

Subordinated liabilities carry an average interest of 6.04 per cent, and have original maturities of between 10 and 20 years.

Disclosures on subordinated liabilities amounting to 10.0 per cent or more of the aggregate amount of subordinated liabilities:

| Amount € mn | Currency | Coupon *) % | Maturity |
|---|---|---|---|
| 25.0 | EUR | 6.61 | 21. Mar 2022 |
| 10.0 | EUR | 6.14 | 05. Sep 2023 |
| 6.0 | EUR | 6.00 | 12. Aug 2021 |

*) reporting date: 31 Dec 2020

## (16) Equity

DZ HYP reported equity of € 1,762.3 million as at 31 December 2020 (31 December 2019: € 1,762.3 million).

The share capital amounts to € 149,989,937.14 and is divided into 5,832,942 notional no-par value shares ("unit shares").

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, has given notice pursuant to section 20 (4) of the German Stock Corporation Act *(Aktiengesetz – "AktG")* that it holds a majority shareholding.

With effect from 31 December 2012, DZ BANK issued an unrestricted letter of comfort for DG HYP (DZ HYP after change of company name). According to the still-valid unrestricted letter of comfort, except in the event of political risk, DZ BANK has undertaken to ensure (in total for the consolidated entity DZ HYP) that DZ HYP is able to meet its contractual obligations.

Silent partnership contributions in the amount of € 635.0 million are open-ended and comply with the provisions of section 10 (4) of the KWG on the reporting date. The silent partnership contributions are partial profit transfer agreements within the meaning of section 292 (1) no. 2 of the AktG. Pursuant to the transitional regulations of the CRR, € 127.0 million of the silent capital contributions is eligible as tier 1 capital. The remaining € 508.0 million is included in tier 2 capital.

## (17) Contingent liabilities

Contingent liabilities of € 537.8 million (31 December 2019: € 477.0 million) comprise mainly guarantees for commercial real estate loans, € 269.0 million (31 December 2019: € 230.8 million) of which are extended to DZ BANK. DZ HYP's credit risk management is responsible for monitoring contingent liabilities.

## (18) Other commitments

Irrevocable loan commitments of € 5,361.8 million (31 December 2019: € 5,849.4 million) are related primarily to mortgage financing, and were decreased by € 8.8 million in provisions for contingent losses.

Regarding contributions to the restructuring fund (the so-called "bank levy"), DZ HYP has in recent years made use of the option to make a part of the annual contributions in form of irrevocable payment obligations. These obligations amount to € 29.2 million and correspond to the deposited cash collateral.

## (19) Obligations

DZ HYP is a member of the BVR Institutssicherung GmbH (BVR-ISG) and the deposit insurance scheme of the National Association of German Cooperative Banks *(Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – "BVR")*.

According to the articles of association of the deposit insurance scheme of the BVR, DZ HYP has issued a letter of indemnity to BVR. As a result, DZ HYP is liable to contingent liabilities in the amount of € 49.4 million.

According to BVR-ISG's articles of association, DZ HYP has undertaken to make special contributions and payments to BVR-ISG in proportion to the volume of the covered deposits. Pursuant to section 27 (4) of the German Deposit Guarantee Act (Einlagensicherungsgesetz), BVR-ISG may generally raise, as a statutory deposit guarantee scheme, special contributions and payments of a maximum amount of up to 0.5 per cent of the covered deposits of the credit institutions allocated to it within a given settlement year.

## (20) Relationships with affiliated enterprises and subsidiaries

AFFILIATED COMPANIES

| | 31 Dec 2020<br>€ 000's | 31 Dec 2019<br>€ 000's |
|---|---|---|
| **Loans and advances to** | | |
| **- banks** | 2,048,804 | 2,795,885 |
| **- customers** | 37,581 | 38,851 |
| **Other assets** | 7,975 | 6,860 |
| **Liabilities to** | | |
| **- banks** | 24,575,773 | 25,016,429 |
| **- customers** | 548,432 | 669,012 |
| **Other liabilities** | 265,303 | 150,975 |
| **Other provisions** | 839 | 2,454 |
| **Subordinated liabilities** | 10,000 | 10,000 |

### Subsidiaries

As at the reporting date, liabilities to subsidiaries amounted to € 12,000 (31 December 2019: € 204,000); besides provisions of € 165,000, loans and advances to subsidiaries amounted to € 1,000 (31 December 2019: € 1,000).

## (21) Related-party transactions

There were no related-party transactions entered into – at terms not in line with prevailing market terms – which would give rise to a disclosure duty pursuant to section 285 no. 21 of the HGB.

## (22) Breakdown of maturities for loans and advances, and liabilities

| | | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|---|
| **ASSETS** | | | |
| **Loans and advances to banks** | | | |
| **Remaining term** | **- payable on demand** | 799,157 | 918,842 |
| | **- up to three months** | 3,262,337 | 3,118,999 |
| | **- between three months and one year** | 327,807 | 698 |
| | **- between one year and five years** | 383,144 | 1,252,461 |
| | **- more than five years** | 11,508 | 37,795 |
| | | **4,783,953** | **5,328,795** |
| **Loans and advances to customers** | | | |
| **Remaining term** | **- payable on demand** | 283,678 | 258,420 |
| | **- up to three months** | 1,228,611 | 1,497,027 |
| | **- between three months and one year** | 5,150,441 | 3,965,717 |
| | **- between one year and five years** | 21,133,424 | 19,351,011 |
| | **- more than five years** | 38,327,491 | 38,707,005 |
| | | **66,123,645** | **63,779,180** |
| **Bonds and other fixed-income securities maturing in the following year** | | 1,965,374 | 658,106 |
| **LIABILITIES** | | | |
| **Liabilities to banks** | | | |
| **Remaining term** | **- payable on demand** | 25,325 | 23,416 |
| | **- up to three months** | 4,427,502 | 3,552,579 |
| | **- between three months and one year** | 6,220,560 | 3,614,441 |
| | **- between one year and five years** | 9,405,979 | 11,796,393 |
| | **- more than five years** | 11,092,987 | 11,493,429 |
| | | **31,172,353** | **30,480,258** |
| **Liabilities to customers** | | | |
| **Remaining term** | **- payable on demand** | 477,788 | 542,893 |
| | **- up to three months** | 641,942 | 802,526 |
| | **- between three months and one year** | 760,442 | 681,401 |
| | **- between one year and five years** | 3,478,071 | 3,683,733 |
| | **- more than five years** | 10,412,172 | 11,955,975 |
| | | **15,770,415** | **17,666,528** |
| **Certificated liabilities maturing in the following year** | | 4,399,038 | 2,803,299 |

## (23) Assets and liabilities in foreign currencies

| | 31 Dec 2020 € 000's | 31 Dec 2019 € 000's |
|---|---|---|
| **Assets include foreign-currency receivables in the total amount of** | 2,181,134 | 2,506,734 |
| **Liabilities and equity include foreign-currency liabilities in the total amount of** | 573,555 | 605,722 |

## (24) Forward contracts not reflected in the balance sheet

The following types of forward transactions based on foreign currencies, interest rates or other underlying instruments were outstanding as at the reporting date:

| | Nominal amounts by residual term | | | Total | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 31 Dec 2020 | | 31 Dec 2019 | |
| € mn | ≤ 1 year | > 1 – 5 yrs | > 5 yrs | 31 Dec 2020 | 31 Dec 2019 | positive | negative | positive | negative |
| **Interest rate instruments *)** | 14,571 | 40,905 | 77,767 | 133,243 | 127,849 | 6,138 | 8,625 | 5,257 | 7,565 |
| **Currency-related instruments** | 470 | 982 | 490 | 1,942 | 2,204 | 65 | 126 | 57 | 225 |
| **Credit-related transactions** | – | 32 | 6 | 38 | 48 | – | 3 | – | – |
| **Total** | **15,041** | **41,919** | **78,263** | **135,223** | 130,101 | **6,203** | **8,754** | 5,314 | 7,790 |

*) including interest rate swaps with identical foreign currency

The breakdown of the carrying amounts of forward contracts not reflected on the balance sheet by balance sheet items pursuant to section 285 no. 19 of the HGB is as follows:

| | Carrying amount 31 Dec 2020 € mn | Carrying amount 31 Dec 2019 € mn | Balance sheet item Assets | Carrying amount 31 Dec 2020 € mn | Carrying amount 31 Dec 2019 € mn | Balance sheet item Liabilities |
|---|---|---|---|---|---|---|
| **Interest-based transactions** | 526 | 506 | Loans and advances to banks, loans and advances to customers, prepaid expenses, other assets | 463 | 499 | Liabilities to banks, liabilities to customers, deferred income, other liabilities |
| **Currency-based transactions** | 47 | 5 | Loans and advances to banks, loans and advances to customers, prepaid expenses, other assets | 50 | 122 | Liabilities to banks, liabilities to customers, deferred income, other liabilities |
| **Rating-based transactions** | 2 | 2 | Loans and advances to banks, prepaid expenses | 3 | 2 | Provisions |

The forward transactions identified above are used to manage interest rate, currency and counterparty credit risk exposure. As a rule, counterparties are OECD banks, OECD financial services institutions or OECD central governments. In addition, borrowers as well as a public-sector institution formerly licensed as a bank also appear as counterparties (market value € 51.3 million) in connection with loan agreements.

Interest rate and currency swaps are valued using present values, determined by discounting cash flows to their present value as at the reporting date using interest rates in line with the credit risk and maturities concerned, as indicated by individual yield curves prevailing on the reporting date. Furthermore, credit adjustments are applied in the valuation of such trades, to reflect default risks and closing costs. Structured products are divided into components for valuation purposes.

Options are valued using option pricing models. These are applied on the basis of generally recognised assumptions regarding valuation parameters; in particular, the value and volatility of the underlying instrument, the agreed exercise price (interest rate), the remaining lifetime of the contract, as well as the risk-free interest rate for that lifetime. Regarding the valuation of foreign exchange forwards, the respective cash flows are translated into euro using the corresponding foreign currency rate, and discounted using the market interest rate appropriate to the risk level and maturity.

Credit derivatives are valued on an individual basis, predominantly on the basis of the default probability of the reference obligations concerned. Provisions have been recognised in the amount of € 2.6 million (31 December 2019: € 1.7 million) for the three total return swaps held since 2006 and 2007, respectively, in order to hedge the immediate counterparty risk exposure.

Market values are determined without consideration of netting agreements. The market values of derivatives are offset by compensating market values of the related hedged balance sheet items at overall bank level.

Cash collateral was provided for derivatives, as part of the Bank's collateral management, in the amount of € 2,918.6 million (31 December 2019: € 2,686.2 million).

# NOTES TO THE PROFIT AND LOSS ACCOUNT

## (25) Breakdown of income by geographic markets within the meaning of section 34 (2) no. 1 of the RechKredV

The breakdown of interest income, current income from equities and other non-fixed income securities, commission income and other operating income is as follows:

| in % | 2020 | 2019 |
|---|---|---|
| GERMANY | 84.2 | 84.2 |
| INTERNATIONAL | 15.8 | 15.8 |

## (26) Interest expenses and income

Interest payments made and received in connection with derivative transactions, which are used to manage the overall interest rate risk, are recognised on a net basis in interest income or expenses. In individual exceptional cases, derivative transactions may be terminated early; the resulting compensation payments are recognised in net interest income.

Negative interest rates on financial assets and financial liabilities, due to the prevailing low interest rate environment, are offset in income against the corresponding interest expenses and interest income. Overall, interest income as disclosed in the profit and loss account comprised negative interest rates in the amount of € 2.9 million, which was considered insignificant (previous year: € 3.5 million). Interest expenses comprised positive interest of € 26.7 million (previous year: € 18.0 million).

Due to the replacement of all critical reference interest rates (such as EURIBOR or LIBOR) pursuant to the EU Benchmark Regulation (BMR) – the so-called "IBOR reform" –, interest rates on cash collateral of derivatives collateralised in euro have been switched from EONIA to €STR (Euro Short-Term Rate). This process, referred to as a 'discounting switch', was performed by all clearing houses on 27 July 2020. For derivatives entered into on a bilateral basis, the changeover will be completed gradually by 31 December 2021 at the latest.

The impact of the discounting switch on the present value of the derivative will be offset by a compensation payment between the two counterparties.

As DZ HYP – a Pfandbrief bank – holds derivatives exclusively in the non-trading portfolio, it makes use of the election to record the compensation payments made or received immediately through profit or loss in the net interest income.

In the period under review, the Bank received a compensation payment in the amount of € 2.6 million, recognised in net interest income.

## (27) Other operating income

Other operating income of € 29.0 million (previous year: € 26.6 million) primarily comprises rental income of € 9.3 million (previous year: € 9.6 million), service income of € 7.2 million (previous year: € 7.2 million) as well as € 9.8 million (previous year: € 6.6 million) in income from the reversal of provisions.

## (28) Other operating expenses

Other operating expenses totalling € 20.3 million (previous year: € 22.1 million) largely include expenses of € 15.8 million (previous year: € 17.4 million) for the discounting of provisions for pensions and similar obligations, and expenses for buildings not directly used for Bank business of € 2.1 million (previous year: € 2.0 million).

## (29) Income taxes

Income taxes predominantly comprise a tax levy in the amount of € 108.6 million (previous year: € 82.1 million) by the controlling company, DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, in the year under review. It also contains a non-recurring effect from the merger of € 13.9 million, which will result in cumulated tax relief in the same amount in the years ahead.

# COVERAGE

## (30) Coverage by balance sheet item

| | Mortgage Pfandbriefe 31 Dec 2020 € mn | Mortgage Pfandbriefe 31 Dec 2019 € mn | Public Pfandbriefe 31 Dec 2020 € mn | Public Pfandbriefe 31 Dec 2019 € mn |
|---|---|---|---|---|
| ORDINARY COVER | 36,849 | 34,513 | 15,262 | 16,336 |
| LOANS AND ADVANCES TO CUSTOMERS | 36,734 | 34,400 | 12,732 | 13,466 |
| Loans secured by property mortgages | 36,734 | 34,400 | 37*) | 42*) |
| Loans to local authorities | – | – | 12,695 | 13,424 |
| LOANS AND ADVANCES TO BANKS | 21 | 19 | 116 | 239 |
| Loans secured by property mortgages | 21 | 19 | – | – |
| Loans to local authorities | – | – | 116 | 239 |
| DEBT SECURITIES | – | – | 2,414 | 2,631 |
| BANK BUILDINGS | 94 | 94 | – | – |
| EXTENDED COVER | 901 | 801 | 62 | 65 |
| LOANS AND ADVANCES TO BANKS | 0 | 0 | 62 | 65 |
| Monetary claims | 0 | 0 | 62 | 65 |
| DEBT SECURITIES | 901 | 801 | – | – |
| Total | 37,750 | 35,314 | 15,324 | 16,401 |

*) under a municipal guarantee

## (31) Details pursuant to section 28 of the German Pfandbrief Act
### Outstanding Pfandbriefe and related cover assets

| | Nominal amount | | Present value | | Risk-adjusted present value *) | |
|---|---|---|---|---|---|---|
| a) Total amount of outstanding | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn |
| Mortgage Pfandbriefe | 33,013 | 30,710 | 35,430 | 32,682 | 33,581 | 30,835 |
| Cover assets pool | 37,750 | 35,314 | 43,625 | 40,099 | 40,891 | 37,608 |
| of which: derivatives | – | – | – | – | – | – |
| Excess cover | 4,737 | 4,604 | 8,195 | 7,417 | 7,310 | 6,773 |
| Excess cover in % | 14.3 | 15.0 | 23.1 | 22.7 | 21.8 | 22.0 |

*) When calculating the risk-adjusted present value, the dynamic method pursuant to section 5 (1) no. 2 of the Present Value Cover Regulation (PfandBarwertV) was used.

| Ref. a) Maturity structure | Mortgage Pfandbriefe 31 Dec 2020 € mn | Mortgage Pfandbriefe 31 Dec 2019 € mn | Cover assets pool 31 Dec 2020 € mn | Cover assets pool 31 Dec 2019 € mn |
|---|---|---|---|---|
| <= 6 months | 1,368 | 1,669 | 1,750 | 1,515 |
| > 6 months and <= 12 months | 2,122 | 640 | 1,836 | 1,543 |
| > 12 months and <= 18 months | 1,550 | 1,118 | 1,285 | 1,381 |
| > 18 months and <= 2 years | 1,479 | 1,572 | 1,785 | 1,583 |
| > 2 years and <= 3 years | 2,995 | 3,029 | 3,041 | 2,953 |
| > 3 years and <= 4 years | 3,590 | 2,995 | 3,216 | 3,072 |
| > 4 years and <= 5 years | 3,850 | 2,841 | 3,414 | 2,830 |
| > 5 years and <= 10 years | 13,129 | 13,038 | 13,825 | 12,909 |
| > 10 years | 2,930 | 3,808 | 7,598 | 7,528 |
| **Total** | **33,013** | **30,710** | **37,750** | **35,314** |

Ref. a) Disclosure pursuant to section 6 of the German Pfandbrief Present Value Regulation (Pfandbrief-Barwertverordnung – “PfandBarwertV“)

| Currency | Net present value in € 31 Dec 2020 mn | Net present value in € 31 Dec 2019 mn |
|---|---|---|
| CHF | – | 4.3 |
| GBP | 253.8 | 197.0 |
| SEK | 57.1 | 54.9 |
| USD | 44.9 | 44.4 |

| Ref. a) additional indicators on Mortgage Pfandbriefe outstanding | | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|---|
| Share of fixed-interest assets in total cover assets pool | % | 88.8 | 90.3 |
| Share of fixed-interest Pfandbriefe in liabilities to be covered | % | 98.4 | 97.4 |
| Total amount of assets breaching the limits as set in section 13 (1) of the PfandBG | € mn | – | – |
| Average volume-weighted age of assets | in years | 4.7 | 4.6 |
| Average weighted loan-to-value ratio | % | 54.2 | 54.1 |
| Total amount of assets breaching the limits as set in section 19 (1) no. 2 of the PfandBG | € mn | – | – |
| Total amount of assets breaching the limits as set in section 19 (1) no. 3 of the PfandBG | € mn | – | – |

| b) Total amount of outstanding | Nominal amount 31 Dec 2020 € mn | Nominal amount 31 Dec 2019 € mn | Present value 31 Dec 2020 € mn | Present value 31 Dec 2019 € mn | Risk-adjusted present value *) 31 Dec 2020 € mn | Risk-adjusted present value *) 31 Dec 2019 € mn |
|---|---|---|---|---|---|---|
| Public Pfandbriefe | 12,921 | 13,635 | 16,392 | 17,092 | 15,204 | 15,805 |
| Cover assets pool | 15,324 | 16,401 | 19,768 | 20,591 | 18,168 | 18,912 |
| of which: derivatives | – | – | – | – | – | – |
| Excess cover | 2,403 | 2,766 | 3,376 | 3,499 | 2,964 | 3,107 |
| Excess cover in % | 18.6 | 20.3 | 20.6 | 20.5 | 19.5 | 19.7 |

*) When calculating stress scenarios, the static method is used for currencies and the dynamic method for interest rates.

| Ref. b) Maturity structure | Public Pfandbriefe 31 Dec 2020 € mn | Public Pfandbriefe 31 Dec 2019 € mn | Cover assets pool 31 Dec 2020 € mn | Cover assets pool 31 Dec 2019 € mn |
|---|---|---|---|---|
| <= 6 months | 1,481 | 880 | 706 | 899 |
| > 6 months and <= 12 months | 613 | 969 | 636 | 596 |
| > 12 months and <= 18 months | 626 | 724 | 530 | 616 |
| > 18 months and <= 2 years | 292 | 364 | 624 | 606 |
| > 2 years and <= 3 years | 861 | 670 | 1,150 | 1,117 |
| > 3 years and <= 4 years | 902 | 877 | 1,369 | 1,114 |
| > 4 years and <= 5 years | 1,218 | 902 | 1,063 | 1,349 |
| > 5 years and <= 10 years | 2,882 | 3,490 | 3,908 | 4,085 |
| > 10 years | 4,046 | 4,759 | 5,338 | 6,019 |
| Total | 12,921 | 13,635 | 15,324 | 16,401 |

Ref. b) Disclosure pursuant to section 6 of the German Pfandbrief Present Value Ordinance ("Pfandbrief-Barwertverordnung")

| Currency | Net present value in € 31 Dec 2020 mn | Net present value in € 31 Dec 2019 mn |
|---|---|---|
| CAD | 34.8 | 37.1 |
| CHF | 12.4 | 77.5 |
| GBP | 24.4 | 24.8 |
| JPY | 33.6 | 35.0 |
| USD | 139.9 | 154.0 |

| Ref. b) Additional indicators on Public Pfandbriefe outstanding | | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|---|
| Share of fixed-interest assets in total cover assets pool | % | 96.2 | 96.0 |
| Share of fixed-interest Pfandbriefe in liabilities to be covered | % | 95.5 | 95.6 |
| Total amount of assets breaching the limits as set out in section 20 (2) no. 2 of the PfandBG | € mn | – | – |

## Assets included in cover for Mortgage Pfandbriefe

| by loan amount | 31 Dec 2020<br>€ mn | 31 Dec 2019<br>€ mn |
|---|---|---|
| **<= € 300,000 €** | 8,867 | 8,458 |
| **> € 300,000 / <= € 1 mn** | 2,485 | 2,368 |
| **> € 1 mn / <= € 10 mn** | 11,035 | 10,858 |
| **> € 10 mn** | 14,462 | 12,829 |
| **Total** | **36,849** | **34,513** |

| by type of property | 31 Dec 2020<br>€ mn | 31 Dec 2019<br>€ mn |
|---|---|---|
| **Housing properties** | 21,246 | 20,622 |
| **Commercial properties** | 15,603 | 13,891 |
| **Total** | **36,849** | **34,513** |

## Assets included in cover for Mortgage Pfandbriefe, by country where real property collateral is located, and by type of property

| € mn | Fiscal Year | Federal Republic of Germany | Belgium | France | United Kingdom | Netherlands | Austria | Poland | Sweden | Hungary | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **RESIDENTIAL PROPERTIES** | 31 Dec 2020 | **1,756** | – | *)– | – | – | – | – | – | – | **1,756** |
| | 31 Dec 2019 | 1,582 | – | *)– | – | – | *)– | – | – | – | 1,582 |
| **SINGLE AND DOUBLE FAMILY HOMES** | 31 Dec 2020 | **6,512** | *)– | 1 | – | *)– | – | – | – | – | **6,513** |
| | 31 Dec 2019 | 5,389 | *)– | 1 | – | *)– | – | – | – | – | 5,390 |
| **MULTI-FAMILY HOMES** | 31 Dec 2020 | **12,761** | – | – | – | – | – | – | – | – | **12,761** |
| | 31 Dec 2019 | 13,130 | – | *)– | – | – | – | – | – | – | 13,130 |
| **OFFICE BUILDINGS** | 31 Dec 2020 | **5,475** | – | 189 | 224 | 380 | 4 | – | – | – | **6,272** |
| | 31 Dec 2019 | 5,047 | – | 175 | 151 | 321 | 8 | – | – | – | 5,702 |
| **COMMERCIAL BUILDINGS** | 31 Dec 2020 | **4,537** | – | 72 | 9 | 133 | – | 50 | 55 | – | **4,856** |
| | 31 Dec 2019 | 3,884 | – | 85 | 29 | 127 | – | 51 | 54 | 42 | 4,272 |
| **INDUSTRIAL BUILDINGS** | 31 Dec 2020 | **143** | – | – | – | – | – | – | – | – | **143** |
| | 31 Dec 2019 | 135 | – | – | – | – | – | – | – | – | 135 |
| **OTHER COMMERCIAL PROPERTIES** | 31 Dec 2020 | **4,066** | – | – | – | 84 | – | – | 1 | – | **4,151** |
| | 31 Dec 2019 | 3,582 | – | – | – | 53 | – | – | 1 | – | 3,636 |
| **UNFINISHED NEW BUILDINGS NOT YET YIELDING RETURNS** | 31 Dec 2020 | **378** | – | – | – | – | – | – | – | – | **378** |
| | 31 Dec 2019 | 647 | – | – | – | – | – | – | – | – | 647 |
| **BUILDING PLOTS** | 31 Dec 2020 | **19** | – | – | – | – | – | – | – | – | **19** |
| | 31 Dec 2019 | 19 | – | – | – | – | – | – | – | – | 19 |
| **Total** | **31 Dec 2020** | **35,647** | ***)–** | **262** | **233** | 597 | 4 | 50 | 56 | – | **36,849** |
| | 31 Dec 2019 | 33,415 | *)– | 261 | 180 | 501 | 8 | 51 | 55 | 42 | 34,513 |

*) values < € 0.5 million

## Assets included in cover for Mortgage Pfandbriefe
## Total amount of registered cover assets

| | Assets pursuant to section 19 (1) no. 2 of the PfandBG | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Equalisation claims pursuant to section 19 (1) no. 1 of the PfandBG | | Total | | of which: covered debt securities pursuant to art. 129 of the EU Regulation no. 575/2013 | | Assets pursuant to section 19 (1) no. 3 of the PfandBG | | Total | |
| Sovereign borrowers | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn |
| **Federal Republic of Germany** | – | – | – | – | – | – | 901 | 801 | 901 | 801 |
| **Total** | – | – | – | – | – | – | **901** | 801 | **901** | 801 |

## Overview of payments in arrears on cover assets for Mortgage Pfandbriefe

| | Aggregate payments in arrears by at least 90 days | | Total amount disclosed if applicable arrears equal at least 5% of total asset value | |
|---|---|---|---|---|
| | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn |
| **Federal Republic of Germany** | – | 0.6 | – | 3.6 |
| **France** | – | – | – | 0.1 |
| **Total** | – | 0.6 | – | 3.7 |

## Assets included in cover for Mortgage Pfandbriefe
## Forced sales/forced administration

| | Commercial properties | | Housing properties | |
|---|---|---|---|---|
| | 2020 Number | 2019 Number | 2020 Number | 2019 Number |
| **No. 4a** | | | | |
| **Forced sales pending** | – | 11 | – | 96 |
| **Forced administrations pending** | – | 4 | – | 19 |
| **of which: included in forced sales pending** | – | 4 | – | 19 |
| **Forced sales executed** | – | 3 | – | 44 |
| **No. 4b** | Number | Number | Number | Number |
| **Purchases of properties to prevent losses (foreclosed assets)** | – | – | – | – |
| **No. 4c** | € mn | € mn | € mn | € mn |
| **Total amount of interest arrears** | 0.64 | 0.19 | 0.09 | 0.14 |

## Assets included in cover for Public Pfandbriefe
## Share in total amount of Pfandbriefe outstanding (nominal)

| | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 % | 31 Dec 2019 % |
|---|---|---|---|---|
| Total cover assets pool | 15,324 | 16,401 | 118.60 | 120.29 |
| of which: ordinary cover | 15,262 | 16,336 | 118.12 | 119.82 |
| of which: additional cover | 62 | 65 | 0.48 | 0.47 |

## Assets included in cover for Public Pfandbriefe

| by loan amount | 31 Dec 2020 € mn | 31 Dec 2019 € mn |
|---|---|---|
| <= € 10 mn | 5,914 | 5,950 |
| > € 10 mn and <= € 100 mn | 5,443 | 6,035 |
| > € 100 mn | 3,905 | 4,351 |
| Total | 15,262 | 16,336 |

## Assets included in cover for Public Pfandbriefe, by country of domicile of the borrower and, in the case of full guarantee, of the guarantor

| a) of which: due from | Sovereign states | | Regional public-sector entities | | Local public-sector entities | | Other | | Total a) | |
|---|---|---|---|---|---|---|---|---|---|---|
| € mn | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Belgium | 30 | 30 | 23 | 23 | – | – | – | – | 53 | 53 |
| Federal Republic of Germany | 275 | 151 | 1,615 | 1,655 | 9,414 | 9,982 | 595 | 717 | 11,899 | 12,505 |
| France | 40 | 40 | – | – | 5 | 5 | – | 21 | 45 | 66 |
| Italy | 170 | 170 | 116 | 132 | 78 | 80 | – | – | 364 | 382 |
| Canada | – | – | 239 | 271 | 4 | 5 | – | – | 243 | 276 |
| Luxembourg | 7 | 7 | – | – | – | – | – | – | 7 | 7 |
| Austria | 416 | 417 | 25 | 25 | – | – | – | – | 441 | 442 |
| Portugal | 280 | 280 | – | – | – | – | – | – | 280 | 280 |
| Switzerland | – | – | 171 | 235 | – | – | – | – | 171 | 235 |
| Spain | 50 | 50 | 864 | 925 | 30 | 30 | – | – | 944 | 1,005 |
| EU institutions | – | – | – | – | – | – | 101 | 271 | 101 | 271 |
| Total | 1,268 | 1,145 | 3,053 | 3,266 | 9,531 | 10,102 | 696 | 1,009 | 14,548 | 15,522 |

| b) of which: guaranteed by | Sovereign states | | Regional public-sector entities | | Local public-sector entities | | Other | | Total b) | | Total a) and b) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| € mn | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **Belgium** | – | – | – | 1 | – | – | – | – | – | 1 | 53 | 54 |
| **Federal Republic of Germany** | 51 | 51 | 130 | 169 | 241 | 292 | 5 | 5 | 427 | 517 | 12,326 | 13,022 |
| **France** | – | – | – | – | – | – | – | – | – | – | 45 | 66 |
| **Italy** | – | – | – | – | – | – | – | – | – | – | 364 | 382 |
| **Canada** | – | – | 125 | 137 | – | – | – | – | 125 | 137 | 368 | 413 |
| **Luxembourg** | – | – | – | – | – | – | – | – | – | – | 7 | 7 |
| **Austria** | – | – | – | – | – | – | – | – | – | – | 441 | 442 |
| **Portugal** | 200 | 200 | – | – | – | – | – | – | 200 | 200 | 480 | 480 |
| **Switzerland** | – | – | – | – | – | – | – | – | – | – | 171 | 235 |
| **Spain** | – | – | 24 | 24 | – | – | – | – | 24 | 24 | 968 | 1,029 |
| **EU institutions** | – | – | – | – | – | – | – | – | – | – | 101 | 271 |
| **Total** | 251 | 251 | 279 | 331 | 241 | 292 | 5 | 5 | 776*) | 879*) | 15,324 | 16,401 |

*) Totals do not include any guarantees due to promotion of export activities.

## Assets included in cover for Public Pfandbriefe
## Total amount of registered cover assets

| | Assets pursuant to section 20 (2) no. 2 of the PfandBG | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equalisation claims pursuant to section 20 (2) no. 1 of the PfandBG | | Total | | of which: covered debt securities pursuant to art. 129 of the EU Regulation no. 575/2013 | | Total | |
| Sovereign borrowers | 31. Dec 20 € mn | 31. Dec 19 € mn | 31. Dec 20 € mn | 31. Dec 19 € mn | 31. Dec 20 € mn | 31. Dec 19 € mn | 31. Dec 20 € mn | 31. Dec 19 € mn |
| **Federal Republic of Germany** | – | – | 62 | 65 | – | – | 62 | 65 |
| **Total** | – | – | 62 | 65 | – | – | 62 | 65 |

## Overview of payments in arrears on cover assets for Public Pfandbriefe

| | Aggregate payments in arrears by at least 90 days | | Total amount disclosed if applicable arrears equal at least 5% of total asset value | |
|---|---|---|---|---|
| | 31 Dec 2020 € mn | 31 Dec 2019 € mn | 31 Dec 2020 € mn | 31 Dec 2019 € mn |
| **Total** | – | 0.1 | – | – |

# OTHER INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

## (32) Audit and consulting fees within the meaning of section 285 no. 17 of the HGB

Auditors' fees are recognised in the consolidated financial statements of DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main.

## (33) Executive bodies of DZ HYP

### Supervisory Board

**Uwe Fröhlich**
Co-Chief Executive Officer of the Board of Managing Directors of DZ BANK AG Deutsche Zentral-Genossenschafts-bank, Frankfurt/Main
– Chairman –

**Dagmar Mines**
Bank employee,
DZ HYP AG
– Deputy Chairwoman –

**Thomas Müller**
Spokesman of the Management Board
Volksbank Dresden-Bautzen eG
– Deputy Chairman –

**Brigitte Baur**
Deputy Chairwoman of the Management Board,
Volksbank Raiffeisenbank Nürnberg eG

**Uwe Berghaus**
Member of the Board of Managing Directors
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main

**Anja Franke**
Bank employee,
DZ HYP AG
until 15 May 2020

**Ralph Gruber**
Bank employee,
DZ HYP AG

**Harald Herkströter**
Chairman of the Management Board,
Volksbank Halle/Westf. eG
since 15 May 2020

**Olaf Johnert**
Bank employee,
DZ HYP AG

**Carsten Jung**
Chairman of the Management Board
Berliner Volksbank eG

**Michael Kuehn**
Bank employee,
DZ HYP AG
since 1 October 2020

**Dr Reinhard Kutscher**
until 15 May 2020

**Ulrike Marcusson**
Bank employee,
DZ HYP AG
until 15 May 2020

**Anja Niehues**
Bank employee,
DZ HYP AG
since 15 May 2020

**Rainer Peters**
Chairman of the Management Board,
Volksbank Halle/Westf. eG
until 15 May 2020

**Matthias Rammrath**
Bank employee,
DZ HYP AG
from 15 May until 30 September 2020

**Johannes Röring**
Chairman of the Management Board,
Stiftung Westfälische Landschaft

**Martin Schmitt**
Bank Director (retd.)

**Michael Speth**
Member of the Board
of Managing Directors
DZ BANK Deutsche Zentral-
Genossenschaftsbank AG,
Frankfurt/Main

**Frank Thurau**
Bank employee,
DZ HYP AG
since 15 May 2020

**Hans-Peter Ulepić**
Spokesman of the
Management Board,
Gladbacher Bank
Aktiengesellschaft von 1922

**Monika van Beek**
Director of association,
Member of the
Management Board,
Baden-Württembergischer
Genossenschaftsverband e.V.
since 15 May 2020

**Thorsten Wenck**
Bank employee,
DZ HYP AG
until 15 May 2020

**Stefan Zeidler**
Chairman of the
Management Board,
Volksbank Stuttgart eG
from 29 January until
31 August 2020

## Management Board

**Dr Georg Reutter**
– Chief Executive
Officer –

**Dr Carsten Düerkop**
until
31 March 2020

**Jörg Hermes**
since
1 April 2020

**Manfred Salber**
until
31 December 2020

**Sabine Barthauer**
since
1 January 2021

## (34) Remuneration of the executive bodies

| | 2020<br>€ 000's | 2019<br>€ 000's |
|---|---|---|
| **Supervisory Board** | 245 | 257 |
| **Management Board** | 1,942 | 2,120 |
| **Advisory Council** | 120 | 140 |
| **Former members of the Management Board or their surviving dependants** | 3,056 | 2,759 |
| **Provisions for current pensions and pension commitments for former members of the Management Board or their surviving dependants** | 37,119 | 35,684 |

## (35) Offices held by members of the Management Board or members of staff in supervisory bodies of large limited companies

As at 31 December 2020, neither the members of the Management Board nor members of staff held any offices in supervisory bodies of large limited companies.

## (36) Average number of employees

| | Male | Female | 2020 Total | Male | Female | 2019 Total |
|---|---|---|---|---|---|---|
| **TOTAL NUMBER OF EMPLOYEES** | **440** | **379** | **819** | 475 | 395 | 870 |
| **of which: full-time employees** | 414 | 200 | 614 | 453 | 211 | 664 |
| **part-time employees** | | | | | | |
| **number** | 26 | 179 | 205 | 22 | 184 | 206 |
| **weighted** | (20) | (117) | (137) | (18) | (117) | (135) |

## (37) Information about the parent company pursuant to section 285 no. 14 of the HGB

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, prepares consolidated financial statements which incorporate the financial statements of DZ HYP. The consolidated financial statements of DZ BANK are published in the German Federal Gazette (Bundesanzeiger).

## Report on material events after the reporting date

No events of particular importance materialised during the period from 1 January to 24 February 2021 which would have required a materially different presentation of DZ HYP's net assets, financial position and financial performance, had they occurred earlier.

Hamburg and Münster, 24 February 2021

DZ HYP AG

Dr Georg Reutter
– Chief Executive Officer –

Sabine Barthauer

Jörg Hermes

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Hamburg, 24 February 2021

DZ HYP AG

Dr Georg Reutter
– Chief Executive Officer –

Sabine Barthauer

Jörg Hermes

# INDEPENDENT AUDITOR’S REPORT

To DZ HYP AG

Report on the audit of the annual financial statements and of the management report

## Opinions

We have audited the annual financial statements of DZ HYP AG, Hamburg and Münster, which comprise the balance sheet as at 31 December 2020, and the profit and loss account, cash flow statement and statement of changes in equity for the financial year from 1 January to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of DZ HYP AG for the financial year from 1 January to 31 December 2020.

In our opinion, on the basis of the knowledge obtained in the audit

» the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 in compliance with German legally required accounting principles, and
» the accompanying management report as a whole provides an appropriate view of the Institution’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

## Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor’s responsibilities for the audit of the annual financial statements and of the management report" section of our auditor’s report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

## Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matter:

**Inclusion of forward-looking information in the parameter-based calculation of loss allowances for general counterparty credit risk in the lending business**

### Reasons why the matter was determined to be a key audit matter

The estimated probability of default used in calculating the general bad debt allowance is based in part on historical information. It is also based on current economic developments and forward-looking macroeconomic assumptions in the form of shift factors in the statistical probabilities of default in the rating models. Significant allocations to loss allowances arose in connection with the updated shift factors as of the reporting date.

As, from the Bank's point of view, the statistical shift factors do not adequately reflect the macroeconomic repercussions of the COVID-19 pandemic (due, among other things, to moratoria on payments and government aid) on borrowers' probabilities of default as of the reporting date, the Bank made expert-based adjustments to the statistical shift factors of the portfolio segments impacted by the pandemic. These adjusted input parameters were considered in the parameter-based calculation of the loss allowance.

In addition, the Bank prepared a general parameter-based calculation of loss allowances for performing loans on the basis of the expected credit loss over the entire residual term in order to take into account the increased uncertainty, particularly in these portfolio segments, in relation to the future developments due to the COVID-19 pandemic.

In light of the significance of the portfolios subject to the general bad debt allowance as well as the increased uncertainty due to the COVID-19 pandemic regarding macroeconomic forecasts and the increased use of judgement regarding the applied shift factors, we determined the inclusion of forward-looking information in calculating the general bad debt allowance, taking particular account of the impact of the COVID-19 pandemic, to be a key audit matter.

### Auditor's response

During our audit, we obtained an understanding of the process for calculating the general bad debt allowance applied by DZ HYP. Our focus was on the conceptual inclusion of forward-looking information and their key assumptions.

We assessed the appropriateness of the calculation of the Bank's macroeconomic forecasts underlying the shift factors by comparing them with macroeconomic forecasts by leading economic research institutes and, with the assistance of internal specialists, we recalculated the model-based shift factors derived from the macroeconomic forecasts.

Furthermore, we obtained an understanding of the method used in the expert-based adjustments to the statistical shift factors for the portfolio segments impacted by the COVID-19 pandemic and assessed their appropriateness. In this connection, we analysed whether the adjustments to the shift factors duly reflect the impact of COVID-19 in substance and amount. In addition, we verified that the adjusted shift factors were appropriately considered in the parameter-based calculation of the loss allowances.

In addition, we gained an understanding of the method used to determine the portfolio segments with increased uncertainty in relation to the future developments due to the COVID-19 pandemic and for which the Bank had prepared a general parameter-based calculation of loss allowances on the basis of the expected credit loss over the entire residual term, and, with the assistance of internal specialists, assessed the appropriateness based on our expectations regarding the industry development. Furthermore, we determined that loss allowances have been calculated on the basis of the expected credit loss over the entire residual term for all performing loans of these portfolio segments.

Our audit procedures did not give rise to any reservations regarding the inclusion of forward-looking information in the parameter-based calculation of general bad debt allowance, taking particular account of the impact of the COVID-19 pandemic.

### Reference to related disclosures

Disclosures on the inclusion of forward-looking information in the parameter-based calculation of general bad debt allowance, taking particular account of the impact of the COVID-19 pandemic, and on the general parameter-based calculation of loss allowances on the basis of the expected credit loss over the entire residual term for portfolio segments with increased uncertainty regarding the future developments due to the COVID-19 pandemic are included in the "Accounting policies-Loans and advances to banks/to customers" section of the notes to the financial statements and in the "Risk Report – II. e) Provisions for loan losses/loss allowances" and "Net assets, financial position, and financial performance – Risk provisioning" sections of the management report.

### Other information

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

The other information comprises the sections of the annual report entitled "Letter from the Management Board," "DZ HYP," "Responsibility Statement," "Report of the Supervisory Board," and "Service," which were available as drafts on or before the date of this auditor's report. The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- » is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- » otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

## Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, includ-

ing the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

### Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes

### Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file DZ_HYP_AG_JA+LB_ESEF-2020-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the annual financial statements and of the management report" above.

## Basis for the opinion

We conducted our assurance work on the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AuS 410). Our responsibilities under that standard are further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for the quality assurance system set forth in the IDW Standard on Quality Control: "Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis" [Requirements for Quality Control in Audit Firms] (IDW QS 1).

## Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Institution are responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the Institution are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Institution are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and the audited management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

## Auditor's responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgement and maintain professional scepticism throughout the engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and to the audited management report.

## Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 15 May 2020. We were engaged by the Audit Committee on 17 June 2020. We have been the auditor of DZ HYP AG without interruption since financial year 2002.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Institution and an entity controlled by it the following services that are not disclosed in the annual financial statements or in the management report:

- Agreed-upon procedures in accordance with International Standard on Related Services 4400
- Assurance engagement other than reviews of financial information in accordance with ISAE 3000
- Procedures in accordance with the instructions of the group auditor of DZ BANK with regard to the IFRS reporting packages prepared by DZ HYP as of 30 June 2020 and 31 December 2020
- Issuance of a comfort letter in accordance with IDW AuS 910
- Review of the half-year financial report in accordance with IDW AuS 900
- Voluntary audit of the annual financial statements of a controlled entity

## German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Christian Mai.

Hamburg, 24 February 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Mai | Meyer |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

# REPORT OF THE SUPERVISORY BOARD

Uwe Fröhlich
Chairman of the Supervisory Board

After a successful year 2019, DZ HYP managed to reaffirm its position on the market in the "Corona year" 2020 and saw a positive development with a volume of new business slightly below the previous year's figure. Despite burdens to be dealt with, especially from projects driven by regulatory requirements and internal restructuring measures to pave the way for a sound positioning in the future, DZ HYP closed the challenging 2020 financial year with a successful performance. Thus, the Bank did not only contribute positively to DZ BANK Group's results, but once again presented itself among the leading real estate finance providers in Germany.

While the business development was overall favourable, the divisions were differently impacted by the COVID pandemic: The Retail Customers business remained almost unaffected throughout the year and was marked by further growth, rising prices and high demand. In the Corporate Client business, however, which saw an overall decline in transaction volumes, especially the hotel and parts of the retail sector were markedly hit by the pandemic. If, given the historically low vacancy rates, the Office segment will see a noticeable impact on the rent and sales prices due to the trend towards working from home will need further observation. Finally, the Corporate Clients and Retail Customers divisions were marked by increasing average margins.

Overall, the Bank responded prudently and cautiously to the COVID-related uncertainties on the markets. As a consequence, no higher risks were taken to promote new business.

The business with the cooperative banks once again developed well, accounting for a higher share of new business, so that DZ HYP's strategic focus of joint lending could be continued successfully. The foundation for this is that the cooperative banks are still highly interested in expanding the cooperation with DZ HYP, which DZ HYP promotes through the development of the banks' products, taking their specific needs into account.

After the successful continuation of new business in the beginning of 2020, the Supervisory Board continuously had to address the impacts of the COVID pandemic – the dominating theme of the year under review – on the Bank's business development and risk situation. Another point of discussion was the continuation of the internal restructuring of the Münster and Hamburg offices and their allocated business divisions and departments. In addition, the cooperation with the cooperative banks within the Retail Customers business was concretised.

In 2020, the Supervisory Board also dealt regularly and in detail with business developments in the Corporate Clients, Retail Customers, and Public Sector divisions, as well as with the development of the Bank's southern European portfolio. It also gave considerable attention to increasing regulatory requirements and the "Regulatory readiness" project launched to deal with them. The Supervisory Board also addressed the development of the Bank's risk situation and its risk management system on a regular basis, as well as the progress in the selection process for appointing new external auditors for the 2021 financial year and the corresponding resolutions to pass.

Furthermore, the activities of the Supervisory Board focused on assessing the work and qualifications of the Supervisory Board and Management Board at annual intervals. The Supervisory Board also looked at the Bank's remuneration systems and the report of the Remuneration Officer, the target achievement levels of, and remuneration paid to, members of the Management Board. The review of the diversity targets and the report on the compliance with the Bank's lending standards were further points of discussion.

Due to Dr Carsten Düerkop's resignation from the Management Board, the appointment and qualification of Mr Jörg Hermes as a new member of the Management Board were addressed; the same applied to Ms Barthauer who succeeded Mr Manfred Salber as a member of the Management Board. The qualification of the shareholder and employee representatives who had newly joined the Supervisory Board was also subject to discussions and resolutions.

## The Supervisory Board and its Committees

During the year under review, the Supervisory Board of DZ HYP and its committees monitored the Management Board's management of the Bank according to statutory regulations and those set out in the Bank's Articles of Association, and also took decisions on those transactions required to be presented to the Supervisory Board for approval. To fulfil its tasks, the Supervisory Board engaged a Nomination Committee, a Remuneration Oversight Committee, an Audit Committee, and a Risk Committee during the 2020 financial year.

The self-evaluation of the Supervisory Board and evaluation of the Management Board of DZ HYP performed between April and May 2020 concluded that the structure, size, composition and performance of the Supervisory Board and Management Board, as well as the knowledge, abilities and experience of the individual members of both the Supervisory Board and Management Board (as well as both Boards as a whole) were wholly in accordance, both with the statutory requirements and with those requirements set out in the Bank's Articles of Association. The Supervisory Board also has adequate human and financial resources at its disposal to assist members in taking up office, and ensure they receive in-house training to help them maintain the required expertise. The next regular evaluation of DZ HYP's Supervisory Board and Management Board is scheduled for the first half of 2021.

## Cooperation with the Management Board

The Management Board reported to the Supervisory Board on DZ HYP's situation and performance, general business developments, profitability and risk exposure, regularly, in good time and comprehensively, both in writing and in verbal reports. In this context, it also reported on the current impacts of the COVID pandemic. Furthermore, the Supervisory Board was informed by the Management Board about the Bank's operative and strategic planning, and about material lending exposures and investments. The Management Board also regularly reported on the future organisational and strategic focus.

The Supervisory Board discussed these issues, current developments and matters relating to the Bank's strategic focus with the Management Board; it advised the Management Board, and supervised the management of the Company. The Supervisory Board was involved in all decisions that were of fundamental importance to the Bank.

## Meetings of the Supervisory Board

The Supervisory Board convened four times during the 2020 financial year. In addition, the committees engaged by the Supervisory Board – the Nomination Committee, the Remuneration Oversight Committee, the Audit Committee and the Risk Committee – convened on numerous occasions during 2020. The Chairmen of the various committees regularly gave accounts of their work to the plenary meeting.

Between meetings of the Supervisory Board, the Management Board informed it in writing of the development of the Bank's business and risk exposure. During discussions with the Management Board outside the meetings, the Chairman of the Supervisory Board and the Chairmen of the Committees also discussed key decisions – especially transactions and the development of the Bank's business and risk exposure – on a regular basis as well as when required. Overall, the members of the Supervisory Board and its Committees participated regularly in the meetings of the respective bodies and written resolutions during the 2020 financial year. To avoid any conflicts of interest in the Risk Committee, committee members affected by such conflicts of interest did not participate in the respective resolutions. There were no other potential conflicts of interest during the year under review.

## Cooperation with the external auditors

Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart, which presented a declaration of independence to the Supervisory Board, audited the annual financial statements of DZ HYP, including the accounting records and management report of DZ HYP for the 2020 financial year presented to it by the Management Board, and found these to be in line with statutory requirements. It issued an unqualified audit opinion. The audit report was submitted to members of the Supervisory Board, and was discussed in detail during Supervisory Board meetings. The Supervisory Board agreed to the results of the audit by the auditors, in line with a recommendation by the Audit Committee.

## Approval and confirmation of the financial statements

The Supervisory Board and the Audit Committee reviewed the annual financial statements and the management report of DZ HYP in detail at their meetings. The Chairman of the Audit Committee notified the Supervisory Board about the detailed discussions of the Committee regarding the financial statements and the management report of the Bank. The auditor's representatives participated in the Supervisory Board meeting to adopt the annual financial statements, and in the preparatory meetings of the Audit Committee and the Risk Committee, and reported on the key findings of their audit in detail. They were also available to answer questions by Supervisory Board members. The Supervisory Board raised no objections with regard to the accounts. The Supervisory Board approved the financial statements of DZ HYP as at 31 December 2020, prepared by the Management Board, in its meeting on 22 March 2021. The annual financial statements are thus confirmed.

## Personnel changes within the Supervisory Board and the Management Board

Mr Stefan Zeidler was appointed as a member of the Supervisory Board by the court, with effect from 29 January 2020. Ms Anja Franke, Ms Ulrike Marcusson, Dr Reinhard Kutscher, Mr Rainer Peters and Mr Thorsten Wenck left the Supervisory Board, effective at the end of the General Meeting on 15 May 2020. With effect from the same date, Ms Anja Niehaus, Mr Matthias Rammrath and Mr Frank Thurau as well as Ms Monika van Beek and Mr Harald Herkströter were newly elected to the Supervisory Board by the employees and the General Meeting respectively. The Supervisory Board subsequently elected Mr Olaf Johnert and Mr Hans-Peter Ulepić to the Risk Committee and Ms Anja Niehues and Ms Monika van Beek to the Audit Committee, both with effect from 15 May 2020.

Mr Stefan Zeidler resigned from the Supervisory Board, effective 31 August 2020. As elected replacement member for Mr Matthias Rammrath, who resigned from his position in the Supervisory Board with effect from 30 September 2020, Mr Michael Kuehn joined the Supervisory Board with effect from 1 October 2020.

After Dr Carsten Düerkop had resigned from his office as a member of the Management Board with effect from 31 March 2020, Mr Jörg Hermes, who had been head of DZ HYP's Finance division, was appointed as a new member to the Management Board upon a proposal by the Nomination Committee, effective 1 April 2020. Manfred Salber, a long-standing member of the Bank's Management Board, retired as at 31 December 2020. As his successor, the Supervisory Board appointed Ms Sabine Barthauer as a new member to the Management Board, with effect from 1 January 2021.

Otherwise, there were no changes to the members of the Supervisory Board and the Management Board during the 2020 financial year.

The Supervisory Board would like to thank the Management Board, and all of DZ HYP's staff, for their commitment and successful contribution during the financial year 2020.

Hamburg and Münster, 22 March 2021

DZ HYP AG
The Supervisory Board

Uwe Fröhlich
Chairman of the Supervisory Board

# SERVICE

## CORPORATE BODIES AND COMMITTEES, EXECUTIVES

### Supervisory Board

**Uwe Fröhlich**
Co-Chief Executive Officer
of the Board of
Managing Directors,
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main
– Chairman –

**Dagmar Mines**
DZ HYP AG,
Hamburg
– Deputy Chairwoman –

**Thomas Müller**
Spokesman of the
Management Board
Volksbank Dresden-Bautzen eG,
Dresden
– Deputy Chairman –

**Brigitte Baur**
Bank Director (retd.),
Nuremberg

**Uwe Berghaus**
Member of the Board of
Managing Directors
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank,
Frankfurt/Main

**Ralph Gruber**
DZ HYP AG,
Hamburg

**Harald Herkströter**
Chairman of the
Management Board,
Volksbank Halle/Westf. eG,
Halle (Westphalia)

**Olaf Johnert**
DZ HYP AG,
Hamburg

**Carsten Jung**
Chairman of the
Management Board
Berliner Volksbank eG,
Berlin

**Michael Kuehn**
DZ HYP AG,
Münster

**Anja Niehues**
DZ HYP AG,
Münster

**Johannes Röring**
Chairman of the
Management Board,
Stiftung Westfälische
Landschaft, Vreden

**Martin Schmitt**
Bank Director (retd.),
Kassel

**Michael Speth**
Member of the Board of
Managing Directors
DZ BANK Deutsche Zentral-
Genossenschaftsbank AG,
Frankfurt/Main

**Frank Thurau**
DZ HYP AG,
Münster

**Hans-Peter Ulepić**
Spokesman of the
Management Board,
Gladbacher Bank
Aktiengesellschaft von 1922,
Mönchengladbach

**Monika van Beek**
Director of association,
Member of the
Management Board,
Baden-Württembergischer
Genossenschaftsverband e.V.,
Stuttgart

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## Advisory Board – Banks

**Ralf Schierenböken**
Member of the
Management Board,
Volksbank eG Braunschweig
Wolfsburg,
Wolfsburg
– Chairman –

**Rainer Mellis**
Spokesman of the
Management Board,
Volksbank Düsseldorf Neuss eG,
Düsseldorf
– Deputy Chairman –

**Bernd Schmidt**
Member of the
Management Board,
Kieler Volksbank eG,
Kiel
– Deputy Chairman –

**Stefan Baumann**
Member of the
Management Board,
Heidelberger Volksbank eG,
Heidelberg

**Ralf Baumbusch**
Member of the
Management Board,
VR-Bank Ostalb eG,
Aalen

**Jürgen Dünkel**
Member of the
Management Board,
VR-Bank Bayreuth-Hof eG,
Bayreuth

**Klaus Hatzel**
Member of the
Management Board,
Volksbank Raiffeisenbank
Rosenheim-Chiemsee eG,
Rosenheim

**Karl-Heinz Hempel**
Member of the
Management Board,
Volksbank Raiffeisenbank
Dachau eG, Dachau

**Michael Hietkamp**
Spokesman of the
Management Board,
Volksbank Vorpommern eG,
Greifswald

**Wolfgang Hillemeier**
Chairman of the
Management Board,
Volksbank Rietberg eG,
Rietberg

**Wolfgang Hirmer**
Spokesman of the
Management Board,
VR-Bank Langenau-Ulmer Alb eG,
Langenau

**Johannes Hofmann**
Chairman of the
Management Board,
VR-Bank Erlangen-Höchstadt-
Herzogenaurach eG,
Erlangen

**Thomas Jakoby**
Member of the
Management Board,
Volksbank Münsterland Nord eG,
Münster

**Rainer Jenniches**
Chairman of the
Management Board,
VR-Bank Bonn eG,
Bonn

**Herbert Kohlberg**
Member of the
Management Board,
Mainzer Volksbank eG,
Mainz

**Christoph Kothe**
Member of the
Management Board,
Leipziger Volksbank eG,
Leipzig

**Armin Kühn**
Member of the
Management Board,
VR Bank Enz plus eG,
Remchingen

**Thomas Ludwig**
Member of the
Management Board,
Volksbank Raiffeisenbank
Nordoberpfalz eG,
Weiden

**Florian Mann**
Chairman of the
Management Board,
Raiffeisenbank Regensburg-
Wenzenbach eG,
Regensburg

**Klaus Merz**
Member of the
Management Board,
Volksbank Rhein-Lahn-
Limburg eG,
Diez

**Walter Müller**
Member of the
Management Board,
Volksbank Koblenz Mittelrhein eG,
Koblenz

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**Ralf Pakosch**
Member of the
Management Board,
Frankfurter Volksbank eG,
Frankfurt/Main

**Thorsten Rathje**
Spokesman of the
Management Board,
Hamburger Volksbank eG,
Hamburg

**Cornelia Rosenau**
Member of the
Management Board,
VR Bank eG Heuberg-
Winterlingen,
Winterlingen

**Norbert Schmitz**
Spokesman of the
Management Board,
VR-Bank Fläming eG,
Luckenwalde

**Ralf Schomburg**
Member of the
Management Board,
VR Bank Westthüringen eG,
Mühlhausen

**Volker Spietenborg**
Member of the
Management Board,
Volksbank Freiburg eG,
Freiburg

**Jürgen Timmermann**
Member of the
Management Board,
Grafschafter Volksbank eG,
Nordhorn

**Ulrich Tolksdorf**
Chairman of the
Management Board,
vr bank Untertaunus eG,
Idstein

**Kai Wunderlich**
Member of the
Management Board,
Volksbank Wittgenstein eG,
Bad Berleburg

## Advisory Board – Public Sector

**Christian Schuchardt**
Lord Mayor of,
City of Würzburg,
Würzburg
– Chairman –

**Konrad Beugel**
Finance and Economics Officer
of the City of Erlangen,
Erlangen

**Heinrich Böckelühr**
President, Municipal Audit
Authority of North Rhine-
Westphalia,
Herne

**Dr Birgit Frischmuth**
Senior Policy Advisor,
Association of German Cities –
Finance Department,
Berlin

**Dr Stefan Funke**
Treasurer/Director of the
District of Warendorf,
Warendorf

**Claus Hamacher**
Councillor for Finance
and Municipal Economy,
Association of Cities and
Municipalities in North-Rhine
Westphalia,
Düsseldorf

**Markus Kreuz**
Treasurer of the
City of Hamm,
Hamm

**Dr Georg Lunemann**
First Councillor and Treasurer,
Landschaftsverband
Westphalia-Lippe,
Münster

**Andreas Merkel**
Treasurer of the
City of Gaggenau,
Gaggenau

**Dr Frank Nagel**
Head of the Credit Department,
Ministry of Finance of the State
of Rhineland-Palatinate,
Mainz

**Kay Uffelmann**
First District Councillor,
Harburg disctrict,
Winsen/Luhe

**Christine Zeller**
Finance, Investments and
Migration Department,
City of Münster,
Münster

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## Advisory Board – Housing Sector

**Uwe Flotho**
Member of the
Management Board of
Vereinigte Wohnstätten 1889 eG,
Kassel
– Chairman –

**Franz-Bernd Große-Wilde**
Chairman of the Management
Board of Spar- und Bauvereins eG,
Dortmund

**Peter Kay**
Member of the
Management Board of
BGFG – Baugenossenschaft freier
Gewerkschafter eG,
Hamburg

**Steffan Liebscher**
Member of the
Management Board of
GEWOBA Nord
Baugenossenschaft eG,
Schleswig

**Matthias Lüdecke**
Chairman of the
Management Board of
Wohnungsverein Hagen eG,
Hagen

**Andreas Otto**
Chairman of the
Management Board of
GWG Gifhorner Wohnungsbau-
Genossenschaft eG,
Gifhorn

**Peter Stammer**
Executive Board member of
Baugenossenschaft Familienheim
Heidelberg eG,
Heidelberg

**Sybille Wegerich**
Member of the Management
Board of bauverein AG,
Darmstadt

**Jörn-M. Westphal**
Managing Director of
ProPotsdam GmbH,
Potsdam

**Jörg Wollenberg**
Commercial Director,
bbg Berliner Bau-
genossenschaft eG,
Berlin

## Management Board
and distribution of responsibilities

**Dr Georg Reutter**
– Chief Executive Officer –

- Segment Corporate Clients
- Segment Retail Customers
- Segment Public Sector
- Treasury
- Communications, Marketing & Events
- Legal, Management Board Office & Committees

**Sabine Barthauer**

- Back Office Corporate Clients
- Back Office Treasury & Public Sector
- Risk Controlling
- Restructuring & Recovery

**Jörg Hermes**

- Compliance
- Finance
- Internal Audit
- IT and Organisation & Operations
- Human Resources

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## Senior General Manager

**Markus Wirsen**

## Department Heads

**Patrick Ernst**
Treasury

**Norbert Grahl**
Back Office Corporate Clients

**Steffen Günther**
Segment Corporate Clients,
– Institutional & International Clients

**Axel Jordan**
Segment Corporate Clients,
– SMEs & Cooperative Banks

**Markus Krampe**
Segment Public Sector,
Segment Retail Customers

**Dr Stefan Krohnsnest**
Risk Controlling

**Maik Michaelis**
Finance

**Peter Ringbeck**
IT and Organisation & Operations

**Arne Schneider**
Human Resources

**Frank Schneider**
Compliance

**Siegfried Schneider**
Back Office Treasury &
Public Sector

**Jürg Schönherr**
Segment Corporate Clients,
– Housing Sector

**Peter Vögelein**
Internal Audit

**Carsten Hendrik Vollnberg**
Legal, Management Board Office &
Committees

**Markus Wirsen**
Restructuring & Recovery

**Anke Wolff**
Communications, Marketing &
Events

## Trustees

**Dr Michael Labe**
Judge at the Hamburg
Higher Regional Court
(Hanseatisches Oberlandesgericht
Hamburg),
Hamburg

**Michael Führer**
Deputy Trustee,
Public Auditor and tax advisor,
Münster

**Björn Reher**
Deputy Trustee,
Public Auditor and tax advisor,
Hamburg

# DZ HYP ADDRESSES

### Hamburg Head Office
Rosenstrasse 2
20095 Hamburg, Germany
PO Box 10 14 46
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Phone: +49 40 3334-0

### Münster Head Office
Sentmaringer Weg 1
48151 Münster, Germany
Mailing address:
48136 Münster, Germany
Phone: +49 251 4905-0

## Commercial Real Estate Investors

### Real Estate Centre Berlin
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10117 Berlin, Germany
Phone: +49 30 31993-5101

### Real Estate Centre Düsseldorf
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### Real Estate Centre Frankfurt
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### Real Estate Centre Hamburg
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### Hanover Regional Office
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### Kassel Regional Office
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### Leipzig Regional Office
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### Mannheim Regional Office
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### Real Estate Centre Munich
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### Nuremberg Regional Office
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90402 Nuremberg, Germany
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### Real Estate Centre Stuttgart
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70191 Stuttgart, Germany
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### Institutional Clients
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## Housing Sector

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## Retail Customers

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**DZ HYP Frankfurt**
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**DZ HYP Munich**
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**DZ HYP Stuttgart**
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70191 Stuttgart, Germany
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## Public Sector Clients

Sentmaringer Weg 1
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**DZ HYP AG**

Rosenstraße 2
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Sentmaringer Weg 1
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