

LUXEMBOURG

ANNUAL FINANCIAL STATEMENTS  
AND OPERATIONS REPORT 2019  
DZ PRIVATBANK S.A.

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## REPORT OF THE SUPERVISORY BOARD

In 2019, the Supervisory Board and Executive Committee appointed by it, advised and supervised the members of the Board of Management in accordance with legal requirements and the provisions of the Articles of Association. Decisions on the transactions presented for their approval were also made.

### COOPERATION WITH THE BOARD OF MANAGEMENT

The Board of Management provided the Supervisory Board with regular, timely and comprehensive written and oral reports on the performance of the Company and the DZ PRIVATBANK Group (ongoing business). Furthermore, the Board of Management informed the Supervisory Board on a regular basis concerning the business policy, which included the strategic and organisational direction of DZ PRIVATBANK S.A. The commercial positions of the Company, corporate planning and strategy as well as key financial data were highlighted in the reporting. Also included was risk management, which included all regulatory audits.

The Supervisory Board held three meetings in the 2019 financial year. A particular focus of the Supervisory Board's work was to support the Bank in implementing its growth strategy as a centre of excellence and solution provider for the Cooperative Financial Network in the Private Banking, Fund Services and Credit business segments.

The strategy review process initiated in 2019 with the arrival of the new CEO Peter Schirmbeck, and against the backdrop of persistently challenging market and interest rate conditions, endorsed the direction, sales focuses and processes in the Fund Services and Credit business segments. In the Private Banking business segment, the Supervisory Board supported the decision to take advantage of the growth opportunities arising in the German market by focusing on and differentiating to a much greater extent the range of services offered.

Sales activities will therefore primarily be focused on around 250 cooperative banks, with attractive private banking activities, high-potential and vigorous sales activities, which will enter into binding, data- and action-based planning for market development, together with DZ PRIVATBANK.

Cooperative banks, which provide independent advice to their private banking customers with free liquidity of EUR 250,000 or more through their asset managers, have access to an outstanding range of services and solutions. These services and solutions are focused on financial portfolio management (asset management) under "VR Private Banking" in the group-wide banking system agree21. For complex issues, such as those arising when advising high-net-worth private banking and wealth management clients with free liquidity of around EUR 1 million or more, cooperative banks can access the national and international specialist expertise of DZ PRIVATBANK under "DZ Private Banking".

The first successes of the strategic development are shown by the positive trends in net inflows of funds

under management, as well as the planned volume for 2020. This volume has been significantly increased in comparison with previous years in cooperation with the partner banks.

In the course of 2019, the Fund Services business segment reinforced its professional support of fund initiators – asset managers, family offices, high-net-worth private clients, entrepreneurs – with tailor-made service packages for third-party and special funds through a gratifying number of new fund issues and significant net inflows of funds in the depositaries in Luxembourg, Zurich and Frankfurt. The dynamic growth in “Alternative Investment Funds” and in the “German Depositary” validates the investments made in these areas.

In the Credit business segment, the share of variable euro financing in the total loan volume increased further in line with the strategic objective. An improved support concept and technical advances in the field of digitalisation have intensified cooperation with the partner banks and stimulated new business. In addition to the highly standardised LuxCredit brokerage business, a second focus is on the expansion of the customised lending business with private banking clients, which is often highly complex and requires specialist expertise.

DZ PRIVATBANK's complementary, high-quality, national and international expertise in investment, funds and financing, and its nationwide presence in Germany, will continue to form the basis for closer cooperation with the cooperative partner banks in the future.

The Supervisory Board took part in internal upgrading measures in relation to “Operational Risks” and “Compliance”, in line with current regulatory requirements and their implementation at DZ PRIVATBANK.

## APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The Executive Committee and the Supervisory Board reviewed in detail the annual financial statements and the operations report for the 2019 financial year. The audit report prepared by Ernst & Young S.A. was also available for this purpose. The auditor's representative reported in detail to the Executive Committee on the results of the audit and was available to provide additional explanations and comments. The auditor issued an unqualified audit opinion.

The Supervisory Board has endorsed the annual financial statements for the 2019 financial year prepared by the Board of Management.

It is proposed that a dividend at the previous year's level of EUR 0.5 per share be distributed to shareholders.

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## CHANGES IN THE SUPERVISORY BOARD AND THE BOARD OF MANAGEMENT

Following the departure of Dr Stefan Schwab on 31 December 2018, Mr Peter Schirmbeck (after approval by the ECB) took over as CEO of DZ PRIVATBANK S.A. on 7 January 2019.

The Supervisory Board thanks the Board of Management and all the employees of DZ PRIVATBANK S.A. for their work in 2019.

Luxembourg, 6 March 2020

DZ PRIVATBANK S.A.

Uwe Fröhlich

Chairman of the Supervisory Board

# OPERATIONS REPORT

## GENERAL PERFORMANCE

DZ PRIVATBANK S.A. reported earnings after taxes of EUR 11.4 million for the 2019 financial year. The operating earnings of EUR 40.3 million, which were achieved against the backdrop of the economic environment, were used to add collective general valuation adjustments, as well as provisions for depositary risks, for the restructuring of the private banking business and the Luxembourg Investor Compensation Scheme (SILL).

Total assets increased by EUR 1.1 billion during the financial year to EUR 18.7 billion.

## ASSETS

Loans and advances to banks totalling EUR 9.3 billion (2018: EUR 6.3 billion) include EUR 0.5 billion (2018: EUR 0.5 billion), originating from currency loans to cooperative banks. The majority – EUR 7.6 billion (2018: EUR 5.0 billion) – relates to receivables from the Swiss National Bank.

Loans and advances to clients rose to EUR 5.5 billion (2018: EUR 5.3 billion). They include EUR 4.8 billion (2018: EUR 4.5 billion), originating from customer loans guaranteed by local cooperative banks (LuxCredit).

Investments in securities fell by EUR 0.3 billion to EUR 3.1 billion. These included EUR 2.1 billion with banks and EUR 0.9 billion with public bodies. 87.1% of fixed-income securities originated from certificates eligible for refinancing with the European Central Bank.

## LIABILITIES

Securitised liabilities fell by EUR 0.5 billion to EUR 4.1 billion. Liabilities to banks remained unchanged at EUR 2.4 billion as at the balance sheet date. Cooperative banks account for 25.3% thereof. Customer deposits rose by EUR 1.7 billion to EUR 11.1 billion. These included deposits from legal entities amounting to EUR 9.7 billion and deposits from natural persons of EUR 1.4 billion.

Together with securitised liabilities, these deposits represent more than 80% of total refinancing funds.

According to the measurement rules of the European CRR/CRD IV solvency guidelines, the Bank held equity capital totalling EUR 750.0 million. In relation to the risks assumed, the equity-to-capital ratio of DZ PRIVATBANK S.A. as at the balance sheet date amounted to 21.4%, which is significantly above the statutory minimum standard of 10.5% (including capital maintenance buffer).

## PROFIT AND LOSS ACCOUNT

Net interest income, including income from affiliated companies, increased by almost 5% to EUR 71.7 million (2018: EUR 68.3 million). Income from the collection of dividends from portfolio companies increased by 17% from EUR 7.5 million to EUR 8.8 million.

The Bank recorded a 3.8% decline in net commission income to EUR 128.2 million (2018: EUR 133.4 million). This development is mainly due to lower income from securities and derivatives trading undertaken on behalf of clients.

Financial transaction income of EUR 10.1 million (2018: EUR 8.5 million) mainly resulted from foreign exchange brokerage (EUR 6.3 million) and from securities orders from customers (EUR 2.1 million).

General administrative costs (excluding depreciation on tangible assets) were reduced by 2.8% to EUR 167.9 million (2018: EUR 172.7 million), with personnel expenses falling by 4.3% to EUR 106.0 million (2018: EUR 110.8 million). Material expenses declined slightly by EUR 0.1 million to EUR 61.9 million.

Depreciation of intangible assets and tangible assets fell by EUR 15.9 million to EUR 12.5 million (2018: EUR 28.4 million). This development is mainly due to the discontinuation of scheduled depreciation of an intangible asset (2018: EUR 18.0 million).

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

The Board of Management proposed to the ordinary general meeting that the annual financial statements be approved and that an unchanged dividend of EUR 0.5 per share (totalling EUR 11.4 million) be paid to shareholders from the annual profit.

## EMPLOYEES

As at the balance sheet date, the Bank employed 921 staff. This corresponds to 850 employees (full-time positions).

## SUSTAINABILITY

Sustainability is part of our responsibility as a company within the Cooperative Financial Network, and it is one of our guiding principles. Since 2012, as part of the "Sustainability Market Initiative" set up by the DZ BANK Group, DZ PRIVATBANK S.A. has sought to incorporate sustainability measures into the company's operations. Since 2013, it has recognised the ten principles of the UN Global Compact.

DZ PRIVATBANK S.A. is included in the non-financial Group statement of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and it is therefore exempted from the requirement to submit a non-financial statement according to Article 1730-1(4) of the Law of 10 August 1915 on commercial companies. The non-financial Group statement is reproduced in the section entitled "Non-Financial Statement" in DZ BANK Group's Annual Report 2019 and is available in German at the following website: [www.berichte2019.dzbank.de](http://www.berichte2019.dzbank.de)

## RISK MANAGEMENT SYSTEM

An important feature of banking control is to ensure an effective system of risk management, which is essential for quantifying and managing all risks, in particular market price, liquidity, counterparty and operational risks, and for taking advantage of business opportunities. Risk management should be regarded against the backdrop of overall operations, sophisticated products and multi-layered risk factors.

The methods and procedures used within the risk management system and the stages of the process for identifying, quantifying, analysing, monitoring and controlling risks are regularly updated, validated, and improved. The Bank has an integrated risk-monitoring and control system to accomplish these tasks. All the risk limits and the Bank's ability to bear risk are reviewed at fixed intervals and adjusted as necessary in line with the Bank's risk, capital and liquidity policy. These are as approved by the Supervisory Board and in line with the risk, capital and liquidity policy implementation measures which are decided on by the Board of Management.

Functioning independently, the Risk Control Department continuously ensures that all the measured risks remain within the limits approved by the Supervisory Board. All forms of risk are monitored and aggregated daily throughout the entire Bank and at Group level. Every relevant committee and department is kept up to date regarding the Bank's risk situation.

In addition to the balance sheet assets and liabilities, the Bank also uses derivative financial instruments to control risk. These essentially comprise currency and interest futures transactions.

All these instruments are taken into account in full in relation to the controlling and monitoring of market price, default and liquidity risks.

Over the past year the Bank complied, without exception, with the supervisory regulations relating to equity capital cover, liquidity and credit limits.

## OUTLOOK

No significant events occurred after the balance sheet date.



DZ PRIVATBANK is optimistic about the coming financial year, due to an overall improvement in the economic outlook. We expect the economic trough to be overcome in 2020. The risk situation has eased somewhat as a result of the agreements between Washington and Beijing on the tariffs dispute, and this should be reflected in rising global investment over the course of the year. Against this background, there is no danger of a significant decline in consumer demand either, and overall we expect the economy to pick up again from the second half of the year at the latest. We expect the growth momentum in the global economy to be slightly higher than last year.

The eurozone should benefit from the improvement in the global trade outlook. We therefore forecast that the slowdown in growth momentum will come to an end in the first half of the year and that GDP growth will be roughly on a par with the previous year. In Germany, we anticipate a noticeable acceleration in growth momentum due to the significant improvement in foreign trade. In the US, the economy is suffering as a result of the trade disputes and the gradually diminishing fiscal stimuli. Continued strong consumption as a result of the excellent labour market and the improvement in the trade balance should counteract this.

The European Central Bank (ECB) will leave its key interest rates unchanged at least throughout 2020. We are assuming that the bond purchase programme will also be ongoing. From a monetary point of view, this means that neither the economy nor the capital markets are at great risk. In view of a robust global economy and the passing of the economic trough in Europe, we expect corporate earnings to continue to rise.

## PRIVATE BANKING

In the 2020 financial year, DZ PRIVATBANK will systematically continue the successful realignment of the Private Banking business segment which began in 2019. At the core of this is a clearer focus, differentiation and orchestration of the range of services for cooperative banks in the Cooperative Financial Network that are active in sales. "VR Private Banking" provides cooperative banks with a significantly improved range of services, solutions and platforms for advising their private banking customers, with a focus on financial portfolio management. As part of "DZ Private Banking", they are supported by DZ PRIVATBANK in advising high-net-worth private clients, foundations or entrepreneurs with an international range of expertise for individual needs.

The new alignment is flanked by numerous optimisation measures. In particular, these include a modified remuneration model offering growth-oriented performance incentives, especially for the "asset management" growth area, the enhancement of concept selling, the redesigning of the data-based management planning cycle and the overhaul of the support services for customer advisors at the cooperative banks.

As a result of the initiatives already launched, a significant intensification of joint market development is expected on the basis of the cooperative banks' planning which is active in sales, and thus also a steadily increasing improvement in the operational success of private banking.

## LOANS

In 2019, DZ PRIVATBANK continued to act as a competent solutions provider for a wide range of financing needs within the Cooperative Financial Network. As a centre of excellence for foreign currencies, we offer our network partner banks attractive financing solutions in foreign currencies, as well as in our home currency, the euro. The LuxCredit financing modules ideally complement the asset portfolio of the cooperative banks in both the private and corporate customer segments. The flexibility of LuxCredit financing is the strongest decision criterion in both customer segments. Due to the ongoing phase of low interest rates, both private and corporate customers are increasingly tending to choose variable financing.

The possible uses are so varied that almost every financing purpose can be represented, whether as a variable and flexible addition to long-term housing finance, or as a solution for preliminary or interim financing in the context of various investments. The cooperative banks are independent in terms of their use of our solutions. Currencies other than our home currency play an important role, especially for corporate customers. LuxCredit financing also offers attractive solutions in this respect. A key factor for the development of our lending business is advancing digitalisation and regulation.

Within the framework of our LuxCredit Infotage 2020, we present common financing solutions in practical forums and address questions arising from practical applications.

## FUND SERVICES

DZ PRIVATBANK intends to continue on the successful and growth path of previous years in the Fund Services business segment. The strategic focus remains on expanding the strong market position with the companies of the Cooperative Financial Network, as well as with banks and independent asset managers as a reliable partner offering comprehensive fund services and renowned expertise in the market. This is represented by the close cooperation with Union Investment, the investment company of DZ BANK Group, for which the depositary function is performed in Luxembourg.

The outstanding market position in operations with third-party fund initiators, such as asset managers, family offices or banks, is founded on the portfolio of services that has been convincing clients for years. DZ PRIVATBANK – together with its IPCConcept subsidiaries in Luxembourg and Switzerland – plans to further expand its market leader position among independent asset managers in German-speaking countries. We also aim to work with DZ BANK to make our market development activities as efficient, targeted and effective as possible within the framework of a uniform, cross-border "Fund & Investor

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Services“ business segment. Against this backdrop, DZ BANK and DZ PRIVATBANK intend to shape their market presence under the joint umbrella brand DER FONDSHAFEN.

In order to ensure competitiveness and future viability, work processes, IT infrastructure and staff expertise are continually being improved so that our clients continue to benefit from high-quality, tailor-made service packages along the entire fund management value chain. The challenge remains to meet the various demands of the fund initiators in order to secure significant added value and further growth for all our clients.

Alternative investment strategies remain attractive for institutional investors. With that in mind, the focus of the Fund Services 2020 business segment is increasingly on the acquisition and administration of alternative investment funds. Our expertise and many years of experience in the field of alternative investments are particularly useful here.

The Bank will also consistently pursue the omnipresent topic of digitalisation in the fund services segment, in order to further enhance its competitive position with the help of this general trend.

## THANKS

We would like to thank our employees for their tremendous dedication and commitment, which made a significant contribution to the success of the company and the achievement of our common goals in 2019. Our sincere thanks also go to the cooperative banks and to our private and institutional customers for their confidence in us.

Luxembourg, 6 March 2020

The Board of Management

Peter Schirmbeck Ralf Bringmann Dr Frank Müller  
Chairman

# ANNUAL FINANCIAL STATEMENTS

## BALANCE SHEET AS AT 31 DECEMBER 2019

### ASSETS

	31/12/2019	31/12/2018
	EUR '000	EUR '000
Cash, credit balances at central issuing banks and postal giro accounts	317,702	2,184,833
Loans and advances to banks	9,318,843	6,333,442
a) Due on demand	8,155,892	5,870,834
b) Other receivables	1,162,951	462,608
Loans and advances to clients	5,521,342	5,263,661
Bonds and other fixed-interest securities	3,126,458	3,362,953
a) Public issuers	898,816	932,633
b) Other issuers	2,227,642	2,430,320
Equities and other variable-interest securities	–	966
Shares in affiliated companies	164,700	159,700
Intangible assets	11,806	11,993
Tangible assets	44,922	46,356
Other assets	111,806	99,410
Accruals and deferrals	79,895	92,312
<b>Total assets</b>	<b>18,697,474</b>	<b>17,555,626</b>

## LIABILITIES

		31/12/2019	31/12/2018
	EUR '000	EUR '000	EUR '000
Liabilities to banks		2,359,142	2,377,025
a) Due on demand	127,083		26,147
b) With an agreed maturity or notice period	2,232,059		2,350,878
Liabilities to clients		11,147,714	9,417,024
Other liabilities	11,147,714		9,417,024
a) Due on demand	10,442,831		8,707,345
b) With an agreed maturity or notice period	704,883		709,679
Securitised liabilities		4,072,105	4,625,271
a) Issued bonds	1,518,905		1,632,712
b) Other	2,553,200		2,992,559
Sundry liabilities		20,485	35,187
Accruals and deferrals		217,098	211,331
Provisions		127,479	121,337
a) Provisions for pensions and similar obligations	11,521		10,169
b) Provisions for taxation	21,350		28,672
c) Other provisions	94,608		82,496
Subordinated liabilities		–	15,000
Fund for general banking risks		112,800	112,800
Subscribed capital		116,555	116,555
Offering premium		426,973	426,973
Provisions		85,741	85,741
a) Statutory reserves	11,655		11,655
b) Other reserves	74,086		74,086
Profit for the year		11,382	11,382
<b>Total liabilities</b>		<b>18,697,474</b>	<b>17,555,626</b>

## FOOTNOTES TO THE FINANCIAL STATEMENTS

Contingent liabilities		34,835	32,957
incl.: Liabilities from sureties and liability from the placing of securities	34,835		32,957
Credit risks		116,135	71,418

## PROFIT AND LOSS ACCOUNT 2019

	01/01/2019	01/01/2018
	-	-
	31/12/2019	31/12/2018
	EUR '000	EUR '000
	EUR '000	EUR '000
Interest income and similar income	360,674	331,271
incl.: Fixed-interest securities	40,880	51,812
Interest expenditure and similar costs	-297,730	-270,437
Income from securities	8,759	7,502
a) Income from shares, units and other variable-interest securities	-	-
b) Income from units in affiliated companies	8,759	7,502
Commission income	170,175	172,683
Commission expenses	-41,940	-39,318
Result from financial transactions	10,133	8,499
Other operating income	12,177	11,842
General administrative costs	-167,911	-172,746
a) Personnel expenses	-106,046	-110,761
incl.:		
- Wages and salaries	-86,492	-84,100
- Social expenses	-17,369	-25,201
incl.: Expenses for pensions	-6,739	-15,207
b) Other administrative costs	-61,865	-61,985
Depreciation and valuation adjustments on tangible and intangible assets	-12,502	-28,394
Other operating expenditure	-15,974	-10,439
Income from the appropriation of valuation adjustments on receivables and provisions for contingent liabilities and credit risks	-	24,460
Depreciations and valuation adjustments on receivables and additions to provisions for contingent liabilities and credit risks	-13,882	-
Income from the appropriation of valuation adjustments on receivables and securities that represent financial assets on investments and shares in affiliated companies	50	-
Depreciation and valuation adjustments on securities that represent financial assets on investments and shares in affiliated companies	-	-20,800
Tax on the result of ordinary activities	-564	-2,658
Operating income on ordinary activities after tax	11,465	11,465
Other taxes, where not included under the items above	-83	-83
<b>Profit for the year</b>	<b>11,382</b>	<b>11,382</b>

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# NOTES ON THE ANNUAL REPORT

## GENERAL INFORMATION

DZ PRIVATBANK S.A. (the Bank) was incorporated as a Société Anonyme under Luxembourg law on 28 December 1977. The duration of the Company is unlimited.

The registered office of DZ PRIVATBANK S.A. is: 4, rue Thomas Edison, L-1445 Strassen in the Grand Duchy of Luxembourg.

In accordance with the Articles of Association, the object of the Company is to carry out banking and financial operations of all kinds, for its own account and on behalf of third parties, in and outside the Grand Duchy of Luxembourg, and any operations which are directly or indirectly connected therewith.

As at 31 December 2019, the Bank had eight branches, which are represented at ten locations in Germany. The branches are used to coordinate subsidiary cooperation with the cooperative banks in Germany.

As at 31 December 2019, 91.5% of the Bank's capital was held by DZ BANK AG, Frankfurt am Main, and 8.5% was held by 306 cooperative banks in Germany. The Bank's after-tax return on total assets was six basis points in the 2019 financial year. The annual financial statements of DZ PRIVATBANK S.A. are included in the consolidated financial statements of DZ BANK AG. DZ BANK AG's consolidated financial statements are lodged with the Commercial Register in Frankfurt am Main. In accordance with Article 80(1b) of the Law of 17 June 1992 on annual financial statements and consolidated financial statements of banks operating under Luxembourg law, the Bank is released from the obligation to prepare consolidated accounts and a Group operations report since all the minority shareholders have agreed to the exemption.

The financial year corresponds to the calendar year. The balance sheet currency is the euro.

DZ BANK AG has issued a comfort letter for DZ PRIVATBANK S.A., confirming that it can meet its contractual obligations, apart from political risks, within the scope of its shareholding.

DZ PRIVATBANK S.A. has been a member of the guarantee protection scheme of the German Volksbanken Raiffeisenbanken cooperative financial network e.V. (BVR) since November 2011. Since 2016 it has been a member of the Luxembourg guarantee protection schemes "Fonds de garantie Luxembourg (FGDL)" and "Systeme d'indemnisation des investisseurs Luxembourg (SILL)".

Due to rounding, there may be slight discrepancies in this report in relation to totals and the calculation of percentages. In order to improve readability, we have refrained from using gender-specific pronouns.

## VALUATION PRINCIPLES

The annual financial statements are prepared according to the statutory regulations in Luxembourg and, in particular, in accordance with the provisions of the Law of 17 June 1992 on annual financial statements and consolidated financial statements of banks operating under Luxembourg law.

### A) CURRENCY CONVERSION

Assets and liabilities in foreign currencies are posted in the relevant currency and are converted into the balance sheet currency according to the average spot price on the balance sheet date. Expenditure and income in foreign currencies are entered in the balance sheet currency on a daily basis at the respective day's middle rate.

As yet unsettled forward exchange transactions are valued at the forward rate for the remaining term applicable on the balance sheet date.

Insofar as balance sheet items are hedged with forward exchange deals, the valuation results are neutralised by allocating the items to accruals and deferrals. The difference between spot and forward rates (swap premiums) is recorded with a pro rata temporis effect on net income.

Currency losses from unhedged forward transactions are accounted for in the profit and loss account. Currency gains, however, are not reported. Losses are made up for against gains from closed positions, where they can be offset.

### B) DERIVATIVES

Derivatives (swaps, options, futures, etc.) are valued individually at the market price according to the realisation and imparity principle. Valuation gains occurring within a portfolio at the same time as valuation losses are offset in one and the same currency, while unrealised gains are, in principle, not recognised. There are also derivative positions for hedging purposes. Valuation losses as well as gains and losses from closed positions are netted, where they can be offset.

### C) TANGIBLE AND INTANGIBLE ASSETS

The valuation is carried out at acquisition or production cost, less regular depreciation if the service life of these assets is limited. Minor-value assets are posted directly as expenditure in the year of acquisition.

Irrespective of whether or not they have a limited service life, tangible and intangible assets are subject to valuation adjustments, with a view to quoting them at the lower value applicable on the balance sheet



date, if the value depreciation can be assumed to be permanent. Valuation adjustments are written back if the reasons for their formation no longer apply.

The scheduled depreciation and impairments are as follows:

▪ <b>Buildings</b>	2%
▪ <b>Installations</b>	10%
▪ <b>Furniture, fittings and equipment</b>	
Luxembourg headquarters	25%
German branches	7-33%
▪ <b>Intangible assets</b>	
Software and licenses	25%

#### D) FINANCIAL ASSETS

Financial assets include equity interests, shares in affiliated undertakings, bonds and other fixed-interest securities, the purpose of which is to serve the Bank's business operations on a long-term basis, and which are expressly allocated to financial assets by the Board of Management.

The Bank's financial assets are valued at the acquisition cost. The cost prices are calculated according to the average method. In the event of reductions in value, valuation adjustments are made regardless of their duration. For certain equity interests and shareholdings in affiliated companies, as well as securities that are linked to an asset swap, valuation adjustments are only made if the reduction in value is considered to be permanent.

Premiums are amortised on a pro rata basis. Discounts are recognised as income when due or sold, and discounts on securities linked to an asset swap are amortised for a proportional period of time.

#### E) SECURITIES HELD AS CURRENT ASSETS

Securities within the trading and liquidity portfolios are classed as current assets. Unlike financial assets, these holdings are not intended to serve the Bank's business activities on a long-term basis.

The trading portfolio includes securities held for resale. The Bank has set a maximum retention period of 12 months for individual portfolios.

All shares purchased either to further the medium and long-term investment strategy, or to secure liquidity or boost earnings, as well as securities that cannot be allocated either to the trading or investment portfolio, are considered by the Bank to be liquid assets.

Securities shown as current assets are valued according to the strict principle of lowest value, whereas stock exchange prices generally apply to securities with an active market. If no active market was available, the fair values would have been calculated on the basis of discounted cash flow models.

#### F) RECEIVABLES

Receivables are shown on the balance sheet at their acquisition cost. The Bank's policy is to make itemised allowances wherever appropriate to hedge interest and default risks.

#### G) VALUE ADJUSTMENTS AND PROVISIONS

Provisions are formed to the amount required, based on a reasonable commercial assessment.

Collective general valuation adjustments are created, based on the Luxembourg tax authority instruction of 16 December 1997. The risk assets that are calculated for balance sheet and off-balance sheet transactions, in order to determine the equity capital cover, are used as the measurement basis.

The value adjustments are deducted from the corresponding asset items or are recorded under the other provisions.

In accordance with the principle of prudence to cover possible future and currently unquantifiable risks arising from the depositary business, there is a provision of EUR 39.3 million.

#### H) LIABILITIES

Liabilities are reported at the amount repayable. Discounts and premiums are shown against income on a pro rata basis.

## NOTES ON INDIVIDUAL ITEMS

### BALANCE SHEET

(Balance sheet figures refer to 31 December of each year).

### BREAKDOWN OF RECEIVABLES BY RESIDUAL MATURITY

The following breakdown of receivables (apart from those payable on demand) is shown according to residual maturity:

in EUR million	Up to 3 months		Between 3 months and 1 year		Between 1 year and 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Other loans and advances to banks	350	334	227	58	577	68	9	3	1,163	463
Loans and advances to clients	4,640	4,335	196	213	170	157	186	157	5,192	4,862

Overnight loans and advances to clients totalled EUR 330 million (2018: EUR 412 million).

### BONDS AND OTHER FIXED-INTEREST SECURITIES

Bonds and other fixed-interest securities totalling EUR 835 million (2018: EUR 653 million) are due within the next year.

In accordance with the retention option, the Bank has maintained valuation adjustments totalling EUR 5.2 million (2018: EUR 4.1 million), the reasons for which no longer exist.

Bonds and other fixed-interest securities totalling EUR 2,675 million (2018: EUR 2,664 million) are attributable to current assets. EUR 451 million (2018: EUR 699 million) are part of fixed assets. They include debt instruments approved for refinancing amounting to EUR 2,393 million (2018: EUR 2,562 million).

There are bonds with a nominal value of 2,364 million (2018: EUR 2,282 million) in a valuation unit with hedging transactions. The market value of these securities totals EUR 2,375 million (2018: EUR 2,334 million). All the necessary valuation adjustments were created during the financial year. The corresponding market values of the hedging transactions amount to EUR -60 million (2018: EUR -46 million).

## REPURCHASE TRANSACTIONS

As at the balance sheet date, securities with a market value of EUR 369 million (2018: EUR 363 million) were sold under repurchase agreements.

## LISTED AND UNLISTED SECURITIES

in EUR million	Listed		Unlisted		Total	
	2019	2018	2019	2018	2019	2018
Bonds and other fixed-interest securities	3,004	3,290	123	73	3,127	3,363
Equities and other variable-interest securities	0	0	0	1	0	1
Shares in affiliated companies	0	0	165	160	165	160
<b>Total</b>	<b>3,004</b>	<b>3,290</b>	<b>288</b>	<b>234</b>	<b>3,292</b>	<b>3,524</b>

As at the balance sheet date, securities with a nominal value of EUR 137 million (2018: 207 million) have been pledged as collateral.

## SHARES IN AFFILIATED COMPANIES

The Bank holds shares in affiliated companies with at least 20% of the capital in the following companies:

in EUR '000	Registered office	Shareholding in %	Book value	Equity	Latest net profit figure
			2019	*)	*)
DZ PRIVATBANK (Schweiz) AG	Zurich	100	156,700	184,771	666
IPConcept (Luxembourg) S.A.	Luxembourg	100	8,000	9,580	8,759

\*) from the latest approved annual financial statements

The shares in affiliated companies held by DZ PRIVATBANK S.A. relate to DZ PRIVATBANK (Schweiz) AG, an affiliated bank, and IPConcept (Luxembourg) S.A., an affiliated financial institution. In the year under review, the equity of IPConcept (Luxembourg) S.A. was increased by EUR 5 million.

## OTHER ASSETS

in EUR million	31/12/2019	31/12/2018
Tax assets	73	62
Other receivables	39	37

The other receivables mainly include amortised commission claims which have not yet been invoiced.

## ACCRUALS AND DEFERRALS

Accruals amounting to EUR 79.9 million (2018: EUR 92.3 million) relate to swap accruals of EUR 43.2 million (2018: EUR 45.2 million), accrued interest of EUR 27.9 million (2018: EUR 36.2 million) and up-front payments/discounts of EUR 5.6 million (2018: EUR 8.0 million).

Deferrals amounting to EUR 217.1 million (2018: EUR 211.3 million) relate to the foreign currency compensation item of EUR 150.4 million (2018: EUR 133.5 million), accrued interest of EUR 33.0 million (2018: EUR 39.1 million) and up-front payments/premiums of EUR 33.1 million (2018: EUR 36.8 million).

## FINANCIAL ASSETS

The performance of financial assets over the course of the year can be shown as follows:

in EUR million	Shares in affiliated companies		Bonds and other fixed-interest securities		Total financial assets	
	2019	2018	2019	2018	2019	2018
<b>Gross value as at 1 January</b>	<b>219</b>	<b>219</b>	<b>700</b>	<b>866</b>	<b>919</b>	<b>1,085</b>
Additions	5	0	0	0	5	0
Disposals	0	0	248	166	248	166
Foreign exchange adjustments	0	0	0	0	0	0
<b>Gross value as at 31 December</b>	<b>224</b>	<b>219</b>	<b>452</b>	<b>700</b>	<b>676</b>	<b>919</b>
Cumulative general valuation adjustments	59	59	0	0	59	59
Pro-rata collective general valuation adjustments	0	0	1	1	1	1
<b>Net value as at 31 December</b>	<b>165</b>	<b>160</b>	<b>451</b>	<b>699</b>	<b>616</b>	<b>859</b>

## TANGIBLE ASSETS

The performance of the tangible assets over the course of the year can be shown as follows:

in EUR million	Real estate and buildings		Furniture, fittings and equipment		Total tangible assets	
	2019	2018	2019	2018	2019	2018
<b>Gross value as at 1 January</b>	<b>84</b>	<b>84</b>	<b>46</b>	<b>46</b>	<b>130</b>	<b>130</b>
Additions	0	0	4	4	4	4
Disposals	0	0	3	4	3	4
<b>Gross value as at 31 December</b>	<b>84</b>	<b>84</b>	<b>47</b>	<b>46</b>	<b>131</b>	<b>130</b>
Cumulative general valuation adjustments	<b>48</b>	<b>47</b>	<b>38</b>	<b>37</b>	<b>86</b>	<b>84</b>
<b>Net value as at 31 December</b>	<b>36</b>	<b>37</b>	<b>9</b>	<b>9</b>	<b>45</b>	<b>46</b>

The share of real estate and buildings used by the Bank for its own business operations amounts to EUR 34 million.

## INTANGIBLE ASSETS

The performance of intangible assets over the course of the year can be shown as follows:

in EUR million	Intangible assets acquired against payment		Software / Licences		Total intangible assets	
	2019	2018	2019	2018	2019	2018
<b>Gross value as at 1 January</b>	<b>70</b>	<b>70</b>	<b>58</b>	<b>52</b>	<b>128</b>	<b>122</b>
Additions	0	0	7	8	7	8
Disposals	0	0	1	2	1	2
<b>Gross value as at 31 December</b>	<b>70</b>	<b>70</b>	<b>64</b>	<b>58</b>	<b>134</b>	<b>128</b>
Cumulative general valuation adjustments	<b>70</b>	<b>70</b>	<b>54</b>	<b>47</b>	<b>124</b>	<b>117</b>
<b>Net value as at 31 December</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>11</b>	<b>10</b>	<b>11</b>

## RECEIVABLES AND LIABILITIES TO/FROM AFFILIATED COMPANIES AND SUBORDINATED ASSETS

in EUR million	2019	2018
<b>Assets</b>	<b>729</b>	<b>493</b>
Loans and advances to banks	642	378
Loans and advances to clients	11	5
Bonds and other fixed-interest securities	76	110
<b>Liabilities</b>	<b>166</b>	<b>577</b>
Liabilities to banks	66	449
Liabilities to clients	100	128

As at the balance sheet date, no subordinated assets were held in the portfolio.

## ASSETS AND LIABILITIES IN FOREIGN CURRENCY

The countervalue totals of balance sheet items in foreign currency:

in EUR million	2019	2018
Assets	11,868	9,305
Liabilities	6,674	7,025

Open currency positions in the balance sheet are offset by corresponding off-balance-sheet foreign currency transactions.

## ACCUMULATED WRITE-OFFS ON PREMIUMS AND DISCOUNTS

Write-offs accumulated since the day of purchase on premiums and discounts charged/paid on bonds, and other fixed-interest securities forming part of the financial assets, amount to EUR 8.5 million and EUR -0.8 million respectively (2018: EUR 12.8 million and EUR -1.0 million respectively).

## BREAKDOWN OF LIABILITIES ACCORDING TO RESIDUAL MATURITY

The following breakdown of liabilities (apart from those payable on demand) is shown according to residual maturity:

in EUR million	Up to 3 months		Between 3 months and 1 year		Between 1 year and 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Liabilities to banks	2,127	2,233	91	98	14	20	0	0	2,232	2,351
Other liabilities to clients	580	478	81	183	43	49	1	0	705	710
Issued bonds	0	0	209	246	1,188	1,220	122	167	1,519	1,633
Other securitised liabilities	1,400	2,511	1,147	460	0	0	0	0	2,547	2,971

The other securitised liabilities relate, inter alia, to the ECP programme. The volume of these declined slightly during the year under review due to the market situation.

## SUNDRY LIABILITIES

Composition according to the most important items:

in EUR million	31/12/2019	31/12/2018
Liabilities to the Geno pension fund	5.0	12.4
Redemption liabilities	3.1	11.0
Administrative costs not yet paid	3.0	7.8
Preferential liabilities	3.2	2.0
Sundry liabilities	2.9	2.0
Liabilities for restructuring measures	3.0	–

The redemption liabilities relate to cheques in circulation of EUR 0.3 million and interest and dividend coupons of EUR 2.8 million.

The change in liabilities to the Geno pension fund is due to the fund performance and affects personnel expenses, and accordingly social expenses.

## SUBORDINATED LIABILITIES

The Bank no longer reported any subordinated debt as at the balance sheet date, since the subordinated bearer bond matured in the year under review (5 July 2019). The related interest expense amounted to EUR 466,000 over the course of the financial year.

## COLLECTIVE GENERAL VALUATION ADJUSTMENT

The collective general valuation adjustment of EUR 33.3 million (2018: EUR 19.4 million) is deducted from the corresponding items. In the year under review, an amount of EUR 13.9 million was added to the collective general valuation adjustments, which had an effect on expenses.

## FUND FOR GENERAL BANKING RISKS

An amount of EUR 112.8 million (2018: EUR 112.8 million) was transferred to the fund for general banking risks. The amount of EUR 12.0 million has been committed from the fund for general banking risks for the purpose of offsetting wealth tax.

## SUBSCRIBED CAPITAL

The subscribed capital amounts to EUR 116.6 million. The capital is divided into 22,764,613 fully paid-up registered shares with no par value.

## RESERVES

Statutory reserves amount to EUR 11.7 million. In accordance with Article 72 of the Law of 10 August 1915, 5% of the annual profit is required to be transferred to the reserve until it is equal to 10% of the subscribed capital. Statutory reserves may not be distributed. Other reserves amounting to EUR 74.1 million include EUR 70.1 million for the purpose of offsetting wealth tax.

## LUXEMBOURG RESOLUTION FUND, DEPOSIT GUARANTEE SCHEME AND INVESTOR COMPENSATION

The Bank is a member of the Luxembourg deposit guarantee fund ("Fonds de garantie des dépôts Luxembourg, FGDL"), and of the investor compensation system for Luxembourg ("Système d'indemnisation des investisseurs Luxembourg, SIIL"), which was introduced according to the Law of 18 December 2015 on the winding up of credit institutions and the assets held in custody by them.

These deposits are guaranteed up to an amount of EUR 100,000; assets under custody are guaranteed up to an amount of EUR 20,000. However, the law stipulates that deposits resulting from certain transactions, serving specific social or other purposes, are covered in excess of EUR 100,000 for a period of 12 months after the receipt of funds.

In the year under review, the Bank paid an ex-ante contribution of EUR 0.8 million to the FGDL. Unlike the FGDL, the SIIL works according to the ex-post procedure: only once a guarantee claim is made is a contribution raised, and it is limited to 5% of the equity capital. In the year under review, the Bank made corresponding provisions of EUR 1.5 million for SIIL.

The Luxembourg Resolution Fund (Fonds de résolution Luxembourg, FRL) was established under Article 105 of the aforementioned Law. DZ PRIVATBANK S.A. paid a national bank levy of EUR 6.4 million in the year under review. It used the opportunity to have 15% (EUR 1.0 million) of the bank levy approved as "Irrevocable Payment Commitments (IPC)".



DZ PRIVATBANK S. A. is also a member of the BVR protection scheme as part of the German Volksbanken Raiffeisenbanken Cooperative Financial Network (BVR) in Germany. The DZ PRIVATBANK S.A. branches in Germany are legally dependent and, through DZ PRIVATBANK S.A., are members of the statutory deposit insurance scheme in Luxembourg and the BVR protection scheme. In order to meet guarantee obligations that are accepted by BVR for the collective guarantee scheme, DZ PRIVATBANK S.A. has assumed a guarantee obligation of EUR 7.5 million pursuant to the rules of the protection scheme.

## OFF-BALANCE SHEET ITEMS

(Figures refer to 31 December of each year)

### CONTINGENT LIABILITIES

The following contingent liabilities exist:

in EUR million	2019	2018
Guarantees and other credit substitutes	35	33

As at 31 December 2019, the contingent liabilities in relation to affiliated companies amounted to EUR 1.8 million (2018: EUR 1.7 million).

### CREDIT RISKS

Credit risks are as follows:

in EUR million	2019	2018
Company loan commitments	116	71
incl.: Forward purchases of assets	3	2

## CURRENT FORWARD TRANSACTIONS (BY RESIDUAL MATURITY INCL. COMMISSION BUSINESS)

### EXCHANGE RATE-LINKED TRANSACTIONS (NOMINALS)

in EUR million	Up to 3 months		Between 3 months and 1 year		Between 1 year and 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Forward exchange transactions on organised markets (futures/options)	2,319	2,216	0	0	0	0	0	0	2,319	2,216
Forward exchange transactions OTC (swaps/outright)	16,349	12,743	2,525	2,990	53	27	0	0	18,927	15,760
Interest rate and currency swaps	0	0	116	108	101	209	0	0	217	317
Non-value-dated spot transactions	291	62	0	0	0	0	0	0	291	62

These include transactions with affiliated companies, amounting to EUR 3,356 million (2018: EUR 1,076 million).

## INTEREST RATE-LINKED TRANSACTIONS (NOMINALS)

in EUR million	Up to 3 months		Between 3 months and 1 year		Between 1 year and 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Interest rate swaps	207	242	728	514	3,316	3,241	765	795	5,016	4,792
Interest rate futures	8,476	13,027	4,521	15,665	1,970	6,004	0	0	14,967	34,696
Options on organised markets	7,527	7,844	7,949	12,653	0	0	0	0	15,476	20,497
Interest limit agreements (Caps)	3	3	0	0	0	0	0	0	3	3

Interest rate-linked transactions that are not for hedging purposes do not include any open positions (2018: EUR 10 million).

EUR 300 million (2018: EUR 558 million) relates to transactions with affiliated companies.

## TRANSACTIONS LINKED TO OTHER MARKET RATES (NOMINALS)

These transactions were concluded exclusively with non-affiliated companies.

in EUR million	Up to 3 months		Between 3 months and 1 year		Between 1 year and 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Futures on variable-interest securities	12	13	2	2	2	3	0	0	16	18
Options on variable-interest securities	16,178	2,165	437	404	23	1,182	0	0	16,638	3,751

## MANAGEMENT AND AGENCY SERVICES

The Bank provides the following management and agency services to third parties:

- Investment advice or asset management,
- Securities deposit and management,
- Safe deposit box rental,
- Trusteeship services,
- Payment agent function,
- Depository function,
- Services for cooperative banks,
- Business procurement.

## PROFIT AND LOSS STATEMENT

### - OTHER OPERATING INCOME:

Other operating income amounting to EUR 12.2 million (2018: EUR 11.8 million) consists mainly of reversals of provisions (EUR 3.4 million; 2018: EUR 5.9 million), the offsetting of services (EUR 3.3 million), income relating to other periods (EUR 1.9 million; 2018: EUR 2.1 million), reimbursement of continued

salary payments (EUR 1.5 million; 2018: EUR 1.9 million), rental income (EUR 1.1 million; 2018: EUR 0.9 million) and other income (EUR 0.9 million; 2018: EUR 1.0 million).

The Bank reported the offsetting of services under other income and not, as in previous years, as a correction item under general administrative costs.

#### - OTHER OPERATING EXPENDITURE:

Other operating expenses, amounting to EUR 16.0 million (2018: EUR 10.4 million), consist mainly of additions to provisions for depositary risks amounting to EUR 9.3 million (2018: EUR 0 million) and, in connection with personnel measures (EUR 3.2 million; 2018: EUR 6.7 million) and expenses relating to other periods (EUR 1.1 million; 2018: EUR 2.6 million), the additions to the provision for SILL (EUR 1.5 million; 2018: EUR 1.0 million), the lending business (EUR 0.4 million, 2018: EUR 0 million) and other expenses (EUR 0.4 million; 2018: EUR 0.1 million).

## STAFF AND CORPORATE BODIES

### AVERAGE NUMBER OF STAFF

In the year under review, the Bank's staff numbers averaged:

<b>Group</b>	<b>2019</b>	<b>2018</b>
Board of Management, Chief Representatives, Directeurs and Directeurs-Adjoints	37	37
Senior management	83	79
Employees	805	830
<b>Total</b>	<b>925</b>	<b>946</b>

### EMOLUMENTS, PENSION COMMITMENTS AND LOANS TO THE BANK'S GOVERNING BODIES

<b>Group</b>	<b>Board of Management, Chief Representatives, Directeurs and Directeurs-Adjoints</b>		<b>Supervisory Board</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>In EUR '000</b>				
Salaries, emoluments, benefits	6,960	9,688	155	281
Expenses for pensions	801	3,152	0	0
Loans, guarantees	1,063	1,259	184	177

The loans relate to short-term loans and Lombard loans.

## OTHER

### BREAKDOWN OF EARNINGS ACCORDING TO GEOGRAPHICAL MARKETS

in EUR million	Luxembourg		Germany		Rest of Europe		Other countries		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Interest and similar income	15	13	267	244	57	48	22	26	361	331
Commission income	102	104	62	61	4	4	3	4	171	173
Other operating income	6	9	5	3	0	0	0	0	11	12
<b>Total</b>	<b>124</b>	<b>126</b>	<b>334</b>	<b>308</b>	<b>61</b>	<b>52</b>	<b>25</b>	<b>30</b>	<b>544</b>	<b>516</b>

### AUDITOR'S FEES

The audit fee for Ernst & Young for the 2019 financial year consists of auditing fees of EUR 525,000 and other audit services of EUR 88,000.

### OTHER GUARANTEES AND COMMITMENTS

The Bank's corporate pension scheme is provided by the GENO pension fund ASSEP. As at 31 December 2019, the plan assets of the fund for Bank employees amounted to EUR 92.1 million. The Bank has undertaken to guarantee the solvency and financing, as well as the hedging of all actuarial provisions, by allocating additional funds.

In line with the remaining terms of the rental agreements, future expenses of EUR 14.5 million will result from rental obligations.

### INTEGRATED COMPANY

On 1 January 2007, a taxable integrated company was founded between the Bank, as the controlling company, and IPConcept (Luxemburg) S.A. as the subsidiary company.

### ANALYSIS OF PRIMARY FINANCIAL INSTRUMENTS

The following tables subdivide the Bank's primary financial instruments into assets and trading portfolios and into balance-sheet items and residual maturities as at 31 December 2019.

## CLASS OF INSTRUMENT (FINANCIAL ASSET ITEMS)

Book value in EUR million	Primary financial instruments in the non-trading portfolio (breakdown by remaining term)					Total
	Up to 3 months	More than 3 months	More than 1 year	More than 5 years	No final maturity	
Cash, credit balances at central issuing banks and postal giro accounts	318	-	-	-	-	318
Loans and advances to banks	8,506	227	577	9	-	9,319
Loans and advances to non-banks	4,969	196	170	186	-	5,521
Bonds and other fixed-interest securities	285	549	1,761	531	-	3,126
Equities and other variable-interest securities	-	-	-	-	-	-
<b>Total financial assets</b>						<b>18,284</b>
<b>Other assets</b>						<b>413</b>
<b>Total assets</b>						<b>18,697</b>

Note: the amounts provided are net figures, i.e. charges for bad and doubtful debts have already been subtracted.

## CLASS OF INSTRUMENT (FINANCIAL LIABILITY ITEMS)

Book value in EUR million	Primary financial instruments in the non-trading portfolio (breakdown by remaining term)					Total
	Up to 3 months	More than 3 months	More than 1 year	More than 5 years	No final maturity	
Liabilities from banks	2,254	91	14	-	-	2,359
Liabilities from non-banks	11,023	81	43	1	-	11,148
Securitised liabilities						
- Bonds	-	209	1,188	122	-	1,519
- Other	1,406	1,147	-	-	-	2,553
Subordinated liabilities	-	-	-	-	-	-
Sundry liabilities	20	-	-	-	-	20
<b>Total financial liabilities</b>						<b>17,599</b>
<b>Other liabilities</b>						<b>1,098</b>
<b>Total liabilities</b>						<b>18,697</b>

## ANALYSIS OF DERIVATIVES

The following tables provide a summary of the Bank's derivative financial instruments. The transactions are subdivided into the various underlying transactions and residual maturities as at 31 December 2019.

The grouping into assets and liabilities of derivative financial instruments depends on whether the transaction has a positive or a negative market value. A positive market value corresponds to the expenses incurred by the Bank for a substitute transaction if the counterparty defaults. Options are classified according to maturity.

## DERIVATIVE INSTRUMENTS IN THE NON-TRADING PORTFOLIO (BY RESIDUAL MATURITY/NONCOMMISSION BUSINESS)

Nominal value in EUR million	Nominal	Up to 3 months		Between 3 months and 1 year		Between 1 year and 5 years		Over 5 years		Total	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Class of instruments</b>											
<b>Interest – OTC</b>											
Swaps	5,016	–	227	251	457	1,707	1,608	154	612	2,112	2,904
Caps/Floors	3	–	–	–	–	–	2	–	1	–	3
<b>Interest – listed</b>											
Futures		–	–	–	–	–	–	–	–	–	–
<b>Foreign currencies/ Precious metals – OTC</b>											
Forwards	6,647	2,984	3,000	306	306	26	25	–	–	3,316	3,331
Swaps (FX/CCS)	12,545	1,327	9,094	645	1,378	46	55	–	–	2,018	10,527
<b>Total</b>										<b>7,446</b>	<b>16,765</b>

## DERIVATIVE INSTRUMENTS OF THE TRADING PORTFOLIO (MARKET VALUE IN MILLIONS OF EUROS)

As at the reporting date of 31 December 2019, no derivative transactions were held for trading.

## DERIVATIVE INSTRUMENTS OF THE NON-TRADING PORTFOLIO

Instruments in EUR million	Total market value	Deferred interest	Adjusted market value
Swaps – cross currency	-18.6	0.2	-18.8
Foreign exchange forwards	0.2	0	0.2
Swaps – foreign currencies	-81.3	0	-81.3
Swaps – interest rates	-82.9	-20.7	-62.2
<b>Total</b>	<b>-182.6</b>	<b>-20.5</b>	<b>-162.1</b>

## ANALYSIS OF THE CREDIT RISK FROM DERIVATIVES

The following table provides an overview of the credit risk resulting from derivative instruments. In addition to the current market value, the credit risk also covers potential market values that could arise from future market price fluctuations.

## CREDIT RISK FOR DERIVATIVE INSTRUMENTS

(applying the market risk method)

Type of derivative in EUR million	Nominal (1)	Current market value (2)	Potential future market value (3)	Provisions (4)	Global market value (5) = (2) + (3) - (4)	Collateral (6)	Net risk management (7) = (5) - (6)
Interest rate swaps	4,716	19	28	–	47	–	47
Currency swaps/CCS/Forwards	15,894	69	164	–	233	–	233
Caps/Floors/Swaptions	3	–	–	–	–	–	0
<b>Total</b>							<b>280</b>

The credit risk calculated here does not take internal transactions into account.

## Risk report

### RISK MONITORING

Effective risk management is essential for long-term development and as a strategic safeguard of the success of DZ PRIVATBANK S.A. To manage and monitor the risks arising from banking business, the Bank has set up monitoring systems that are constantly upgraded. Risk monitoring applies continuously to the DZ PRIVATBANK Group, which comprises DZ PRIVATBANK S.ŠA., DZ PRIVATBANK (Schweiz) AG, IPConcept (Luxemburg) S.ŠA., and IPConcept (Schweiz) AG.

The Bank's risk management covers all the actions taken by the responsible divisions for implementing the chosen risk strategies. Such actions mainly comprise conscious decisions to take on or limit risk. The Risk Control department is responsible, in particular, for ensuring that risks undertaken are transparent in all risk categories. This entails providing an annotated daily risk report to members of the Board of Management and various departments, focusing on the following points:

- Market price risk on a value-at-risk (VaR) basis (group level and various sub-portfolios)
- Credit VaR (group level and various sub-portfolios)
- Daily portfolio performance
- Operating risk and business risk
- Overview of the liquidity position (economic and regulatory).

In addition, various risk reports are submitted to the Supervisory Board, the Board of Management and specific departments on a monthly and quarterly basis. These include stress test presentations and sensitivity matrices.

### PRINCIPLES OF RISK, CAPITAL AND LIQUIDITY MANAGEMENT

The risk, capital and liquidity (RCL) strategy set up by the Supervisory Board is used in order to comply with supervision rules on best practice management approaches for financial institutions. The implementation of this strategy is undertaken in line with the risk, capital and liquidity strategy that is approved by the Board of Management.

The purpose of the RCL strategy is to create transparency regarding:

- the basic risk structure,
- the appropriateness of the ratio between the identified risk and available funds to hedge unexpected losses (ability to bear risk), and
- risk-adjusted profitability (RAP).

The RCL strategy focuses on combining the following four elements into a single framework concept:



- Risk measurement: an appropriate definition of the Bank's risk position is the core element of the RCL policy. This involves defining the risk categories in which all material risks are recorded, and setting minimum requirements in relation to the quantifying of those risks
- Ability to bear risk: the risk-bearing capacity analysis compares the limits and the risks of aggregate risk cover measured centrally by DZ BANK AG.
- Risk-adjusted profitability: the figures for Economic Value Added (EVA) and Return on Risk Adjusted Capital (RORAC) create transparency regarding the Bank's added value, based on the assumed risks
- Risk, capital and liquidity management (RCL): the RCL management strategy is applied through continuous embedding in the planning processes, standardised monitoring of KPIs, and a regular reporting process with clear responsibilities and escalation levels.

## RISK MEASUREMENT

Value-at-Risk (VaR) and performance changes in stress tests are used for measuring financial risks. VaR indicates the maximum loss within a predefined period according to a defined probability (confidence level). Stress tests denote the analysis of performance changes under suitably defined crisis scenarios. The result of the value-at-risk measurement and of suitable stress tests is defined as the risk capital requirement. All types of risks are measured at individual institution level and at group level.

## DEFINITION OF RISK TYPES

In the RCL material, risks are divided into the following types of risk:

- Market price risk
- Credit risk
- Operating risk and reputational risk
- Business risk
- Investment risk
- Liquidity risk

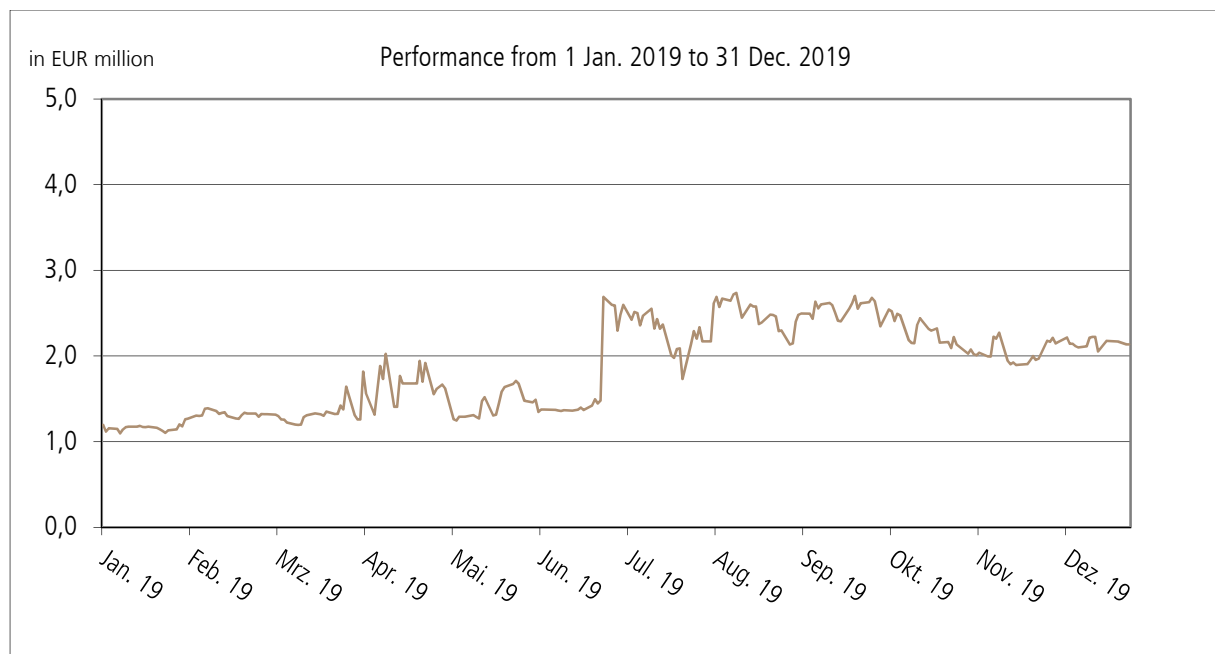
## MARKET PRICE RISK

The Bank assumes market price risks in order to take advantage of business opportunities. A market price risk is defined as the risk of a loss which may arise through changes in interest rates, spreads, ratings (migration risk), exchange rates, share prices or volatilities. Spread and migration risks are measured and limited centrally by DZ BANK AG, both for the Group and for the individual management units. All other market price risks are limited by a local limit, and are measured and monitored within DZ PRIVATBANK S.A. using a VaR approach.

The historical simulation approach is based on a confidence level of 99% and an assumed holding period of one trading day over an observation period of 300 days. The limit was applied on the basis of a confidence level of 99.9% and a holding period of one year.

Backtesting is carried out daily in order to check the reliability of the value-at-risk approach. This involves comparing the daily profits and losses with the value-at-risk figures calculated on the basis of risk modelling. Basis point value procedures and stress-test procedures, in which various market movements are simulated, enhance the monitoring of market price risk.

### MARKET PRICE RISK DEVELOPMENT OF DZ PRIVATBANK S.A.



99% confidence level, 10-day holding period.

### CREDIT RISK

Credit risk indicates the risk of unexpected losses caused by counterparty insolvency. The risk capital requirement for the credit risk is quantified by means of a portfolio model (Creditmetrics). This procedure determines the loss distribution on the basis of simulation calculations which can then be used to estimate the unexpected loss and thus the risk capital requirement.

### CONCENTRATION OF CREDIT RISKS

The credit department of DZ PRIVATBANK S.A. has group-wide responsibility for the German cooperative banks' lending business in foreign currencies. It covers the direct refinancing of the cooperative banks and

the guaranteed lending business for their customers. Other business activities include collateralised loans, money market operations and securities transactions.

In a letter dated 20 July 1994, the Luxembourg regulatory authority (CSSF) approved a request made by DZ PRIVATBANK S.A. to apply an overall weighting of zero to the risks relating to the companies of the DZ BANK Group with regard to the limiting of major risks.

## OPERATIONAL RISK

In line with the banking supervision definition, the Bank defines operational risk as the risk arising from losses resulting from human actions, process or project management flaws, technical failure or external influences.

The definition takes legal and IT risks into account, but it does not include strategic and reputational risks. Operational risks involve their own form of risk, and they accordingly require extensive management, controlling and monitoring. The goal is to identify, limit and avoid such risks.

### - EARLY WARNING SYSTEM / RISK INDICATORS

Early warning systems are employed to systematically detect and recognise as many of the risks as possible that are involved in banking operations. Risk indicators, measured using fixed thresholds, are warning signals that indicate possible operational risks. The Bank can therefore use them as an early warning system to indicate unwelcome trends or developments in banking operations.

### - LOSS DATABASE

Data on losses is crucial for identifying operational risks. The systematic collating and analysis of such data enables weak points to be identified, so that measures can be taken to improve them. To comply with the need for completeness, quality and security of auditing, the Bank uses Orc software in order to collate loss data. The loss database contains data from 2003 onwards.

### - SELF-ASSESSMENT

The self-assessment of DZ PRIVATBANK S.A. serves as a risk potential analysis. It is conducted as part of the risk self-assessment of the DZ Bank Group. The basic scenarios are specified centrally by DZ BANK AG. The specific scenario descriptions and characteristics are then based on the evaluation of loss frequencies and amounts.

To counter possible risks relating to personnel, the Bank sets great store by selecting, training, deploying, fostering and developing its employees. The Bank's structural and procedural organisation is characterised by the strict separation of tasks, the observance of the four-eye principle, strict access controls, and

competency and deputising regulations. All corporate handbooks and work instructions are continually updated.

A standardised procedure ensures that operational and all other risks will be adequately checked when new products or product variants are introduced. The Bank's Legal Compliance and Money Laundering Department is responsible for identifying and processing legal risks. This department also handles the monitoring duties resulting from legal compliance requirements. With its Business Recovery and Disaster Recovery Centres, the Bank's operations can be continued locally at another site in Luxembourg.

The risk capital requirement for operational risk is calculated centrally by DZ BANK AG on a quarterly basis. The economic model incorporates both the historical loss data and the risk potential analyses, derived from the risk self-assessment.

### **BUSINESS RISK**

Business risk means the danger of a loss arising from fluctuations in results, due to any particular business strategy and which are not offset by other types of risk. In particular, this includes the risk of losses not being able to be offset through the use of purely operative measures, due to changes in key parameters e.g. economic and product environment, customer behaviour, competitive situation.

In accordance with the risk management and risk controlling concepts for other risks, the Bank measures its business risk as value-at-risk (VaR), based on a variance/co-variance approach. The capital required to secure business risks is determined based on the volatility of both of the specified risk drivers, i.e. income and costs, and their correlation.

### **INVESTMENT RISK**

Investment risks are calculated for investments that are not directly included in the risk management strategy of DZ PRIVATBANK. The real estate risk allocated to investment risk for the purposes of consistency with DZ BANK Group's requirements is immaterial, as the actual value of the owner-occupied building is significantly higher than its carrying amount. Since all DZ PRIVATBANK entities are integrated into risk management and the real estate risk is immaterial, this approach is not relevant at the reporting date.

### **LIQUIDITY RISK**

DZ PRIVATBANK S.A. interprets liquidity risk in the stricter sense of the term as meaning the risk of there being insufficient funds available to meet payment obligations. Liquidity risk is consequently understood to be insolvency risk. Refinancing risk is the risk of loss that may arise for DZ PRIVATBANK from a deterioration in its own liquidity spread (as part of the own-issue spread). Rising liquidity spreads mean that future liquidity requirements can only be met subject to additional costs.

The main sources of liquidity risks are identified on the basis of the Bank's business strategy and business activities.

The Bank uses an internal liquidity risk model for measuring and controlling liquidity risks. This ensures transparency on a daily basis in relation to expected and unexpected liquidity flows (forward cash exposure), and in relation to the liquidity reserves that can be used to offset liquidity shortages (counterbalancing capacity). Both a normal scenario and several stress scenarios are considered. The objective is a positive cash surplus in all relevant scenarios in the corresponding forecasting period. A liquidity contingency plan is in place, in order to allow the Bank to respond to a crisis situation quickly and in a coordinated manner.

Luxembourg, 6 March 2020

The Board of Management

Peter Schirmbeck      Ralf Bringmann      Dr Frank Müller  
Chairman

# AUDITORS' REPORT

## AUDIT OPINION

We have audited the annual financial statements of DZ PRIVATBANK S.A. (the "Bank"), which comprise the balance sheet as at 31 December 2019 and the profit and loss account for the financial year that ended on this date, as well as the notes to the financial statements, which summarise significant accounting policies.

According to our assessment, the annual financial statements attached are a true and fair reflection of the assets and financial position of DZ PRIVATBANK S.A. as at 31 December 2019, and of its earnings for the financial year that ended on this date, in accordance with the legal requirements and stipulations applicable in Luxembourg with regard to the preparation of the annual financial statements.

## BASIS OF THE AUDIT OPINION

We performed our audit in accordance with Regulation (EU) No 537/2014, the Audit Law (Law of 23 July 2016), and the International Standards on Auditing (ISA) that have been accepted for Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF). Our responsibility in accordance with this regulation, this law and these standards is described in more detail in the section entitled "Responsibility of the réviseur d'entreprises agréé for the annual audit". We are independent from DZ PRIVATBANK S.A. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") adopted for Luxembourg by the CSSF, together with the professional code of conduct which we are required to adhere to in the course of the audit of the annual financial statements. We have also complied with all other professional duties in accordance with those standards. In our opinion, adequate and appropriate evidence has been provided to arrive at an auditor's opinion.

## ESPECIALLY IMPORTANT AUDIT ISSUES

Especially important audit issues are those which, in our proper professional judgement, were the most significant in relation to the audit of the annual financial statements for the current reporting period. These issues were taken into account in connection with the audit of the annual financial statements as a whole and the forming of the audit opinion; we do not provide a separate audit opinion in relation to these issues.

The audit findings that we consider to be of particular importance for the audit of the annual financial statements as at 31 December 2019 are outlined below; these relate to the valuation of shares in affiliated companies.

## A) DESCRIPTION OF THE ISSUES INVOLVED:

DZ PRIVATBANK S.A. holds shares in affiliated companies with a book value of EUR 164.7 million (previous year: EUR 159.7 million). Information provided by the Bank on the valuation of shares in affiliated companies is enclosed in the notes on individual items on the balance sheet under the item "Shares in affiliated companies" and in the notes on individual items under the item "Valuation principles", item D "Financial assets".

In this context, the shareholding in DZ PRIVATBANK (Schweiz) AG is measured at historical cost or at the lower fair value. The fair value calculated for the valuation was determined by the Board of Management based on the expected net payment flows, which were derived from the affiliated companies' budgets and were discounted using a risk-free interest rate adapted to reflect a risk premium. The values contained in these plans are based on assumptions, the determination of which is subject to discretionary powers of the Bank's Board of Management, or which require the use of estimates. In particular, current uncertainties regarding future economic development, in the light of the continuing low level of interest rates, affect these assumptions. In addition, assumptions have to be made when determining the capitalised earning value, in particular in terms of establishing the yield of an alternative investment with an appropriate level of risk and an appropriate duration based on the use of capital market models, in order to derive the capitalisation interest rate to be applied to the net payment flows for the budget.

We have defined this issue as particularly important within the audit, since the valuation of the shares in affiliated companies is largely based on assumptions, made by the legal representatives, which contain estimates or discretionary judgements. Our focus was on the valuation of the shares in DZ PRIVATBANK (Schweiz) AG, which has a book value of EUR 156.7 million as at 31 December 2019.

## B) OUR AUDIT PROCEDURE:

We reviewed the methodical approach and the mathematical accuracy of the valuation model that is used. We assessed the net cash flows on which the valuation methods are based, the capitalisation interest rate and other factors influencing the value, while maintaining a critical stance towards their appropriateness and mathematical accuracy.

In order to assess the appropriateness of the forecast net cash flows, we made an historical assessment of the performance and financial trends at DZ PRIVATBANK (Schweiz) AG. We also took into account further supplementary information to assess the other parameters and planning premises that formed the basis for the forecast planning. In this connection, we assessed the reliability of adherence to budget by undertaking a retrospective plan/actual analysis. We assessed the data used for forecast planning purposes based on our knowledge of the business activities and developments in the sector. Where individual data and assumptions were available, their plausibility was checked by comparing them with

publicly available information on expected volume and margin trends in the Swiss private banking market; we acknowledged the derivation of the result over the long term.

So as to assess the appropriateness of the capitalisation interest rate used, we examined whether it was consistent with external sources, such as the average interest rate of long-term Swiss government bonds and studies of market risk premiums in Switzerland.

In order to assess the appropriateness of the distributable capital incorporated into the budget, we tracked how the capital planning modelling was undertaken and compared the resulting rate of target capital with the requirements set by the Swiss Financial Market Supervisory Authority.

In addition, we analysed the appropriateness of the resulting fair value as a benchmark of corporate value by comparing it with the market multipliers observed in the market.

## OTHER INFORMATION

The Board of Management is responsible for the other information. This includes information which can be found in the operations report, but does not include the annual financial statements or our auditor's report for these annual financial statements.

Our audit opinion in relation to the annual financial statements does not cover the other information, and we offer no guarantee of any kind in relation to this information.

Our responsibility in relation to the audit of the annual financial statements is to read the other information and assess whether there are any material inconsistencies between it and the annual financial statements or in relation to the audit findings, or whether the other information appears to be otherwise presented in a fundamentally incorrect manner. If, based on the scope of our work, we come to the conclusion that other information includes fundamentally incorrect statements, we are obliged to report this fact. We have nothing to report in this regard.

## RESPONSIBILITY OF THE BOARD OF MANAGEMENT, AND OF THOSE WITH SUPERVISORY RESPONSIBILITIES, FOR THE FINANCIAL STATEMENTS

The Board of Management is responsible for preparing and properly presenting the annual financial statements in their entirety, in accordance with the legal provisions and stipulations applicable in Luxembourg regarding the preparation of annual financial statements, and for any internal checks it deems necessary to ensure that the annual financial statements are free of material misstatement, whether due to fraud or error.



In preparing the annual financial statements, the Board of Management is responsible for making an assessment of the Bank's ability to continue as a going concern and, when relevant, for providing information about matters relating to the Bank's ability to continue as a going concern, and for making a going concern assumption as a basis for accounting unless the Board of Management intends to liquidate the Bank, cease trading or has no realistic alternative but to do so.

## RESPONSIBILITY OF THE “RÉVISEUR D'ENTREPRISES AGRÉÉ” FOR THE ANNUAL AUDIT

The objective of our audit is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report on these misstatements by the Réviseur d'entreprises agréé, which includes our audit opinion. Reasonable assurance equates to a high level of certainty, but does not represent a guarantee that an audit conducted in accordance with Regulation (EU) No 537/2014, the Law of 23 July 2016 and the ISAs accepted for Luxembourg by the CSSF, will always reveal any materially incorrect information that may be present. Incorrect information may result from errors or violations, and it is viewed as material if it can reasonably be assumed that it could, either individually or overall, influence any economic decisions made on the basis of these annual financial statements.

In accordance with Regulation (EU) No 537/2014, the Law of 23 July 2016 and the ISAs accepted for Luxembourg by the CSSF, we apply due discretion and maintain a critical attitude during the performance of any audit. In addition:

- We identify and assess the risk of material inaccuracies in the annual financial statements resulting from errors or violations, and we plan and execute audit operations in response to these risks, resulting in our obtaining audit evidence which is adequate and appropriate to serve as the basis for the audit assessment. The risk of material misrepresentations not being disclosed is greater in the case of violations than inaccuracies, since violations may involve fraudulent collaboration, falsification, intentionally incomplete information, misleading information and/or the disabling of internal controls.
- We gain an understanding of the relevant internal control system used for the audit in order to plan audit operations which are appropriate under the given circumstances, but not with the aim of delivering an audit opinion as to the efficacy of the Bank's internal control system.
- We assess the appropriateness of accounting policies used by the Board of Management, the reasonableness of accounting estimates made and of the related disclosures in the notes.
- We draw conclusions on the appropriateness of the Board of Management's application of the going concern principle and, on the basis of the audit evidence obtained, whether there is any material uncertainty related to events or circumstances that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to refer to the accompanying notes to the annual financial statements in the report of the Réviseur d'entreprises agréé or, if the disclosures are not appropriate, to modify the audit opinion. These

conclusions are set out on the basis of the audit evidence obtained up to the date of the report. Future events or circumstances may, however, mean that the Bank can no longer continue its operations.

- We have assessed the overall presentation, structure and content of the annual financial statements, including the notes, and assessed whether they convey a realistic picture of the underlying transactions and events.

We communicate with those responsible for supervision in relation to such matters as the planned scope of the audit and the period covered by it, as well as any material audit conclusions, including significant weaknesses of the internal control system that we identify during the audit. We have made a declaration to the persons responsible for monitoring that we have complied with the relevant independence requirements and have discussed with them all relationships and other matters that could reasonably be expected to affect our independence and, where relevant, the safeguards put in place to protect it.

Among the issues discussed with the people responsible for supervision, we identified the especially important audit issues which were the most significant in relation to the audit of the annual financial statements for the current reporting period. We described these issues in our report, unless laws or other legal regulations prohibited the public disclosure of the issue concerned.

#### REPORT ON OTHER LEGAL AND REGULATORY OBLIGATIONS

We were appointed as Réviseur d'entreprises agréé by the Board of Management on 4 November 2019. The uninterrupted term of office, including prior extensions and reappointments, is nine years.

The operations report is consistent with the annual financial statements and meets the applicable legal requirements.

We confirm that we have not carried out any non-auditing services which are prohibited for auditors according to Regulation (EU) No 537/2014, and that we remain independent of DZ PRIVATBANK S.A. as regards the undertaking of our audit.

Ernst & Young  
Société Anonyme

Cabinet de révision agréé  
Wolfgang Ernst

Luxembourg, 6 March 2020

## COMMITTEES

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Co-chairman of the Board of Management

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Deutsche Zentral-Genossenschaftsbank,  
Frankfurt / Main

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DZ BANK AG

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(since 7 January 2019)

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RALF BRINGMANN

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As at: 1 January 2020

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Donauwörth

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Darmstadt

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Bank für Kirche und Diakonie eG - KD Bank,  
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Pax-Bank eG,  
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Member of the Board of Management  
VR-Bank Rottal-Inn eG,  
Eggenfelden

## DEPARTMENTS OF

## DZ PRIVATBANK

### AUDIT/DATA PROTECTION/IT SECURITY

Axel Rau

### CENTRAL STAFF DIVISION

Corinna Frank

### COMMITTEES/SUBSIDIARIES

Petra Gören

### CORPORATE PLANNING

Dr. Christian Elbert

### FUND SERVICES DEPOSITARY

Christiane Pott-Liebeskind

### FUND SERVICES Business

Development/Customers

Julien Zimmer

### FUND SERVICES Fund Administration/Products

Ulrich Juchem

### HUMAN RESOURCES

Oliver Büdel

### INNOVATION & DIGITALISATION/CDO

Dr. Martin Evers

Corinna Frank

### LEGAL/COMPLIANCE/MONEY LAUNDERING

Dr. Fabian Hannich

LOANS

Alexander Steinmetz

OPERATIONS / SERVICES

Andreas Lechtenberg

ORGANISATION, IT, ADMINISTRATION

Hermann Wetzel

PORTFOLIO MANAGEMENT

Dr. Albrecht Michler

PRIVATE BANKING BUSINESS DEVELOPMENT

AND SUPPORT

Jens J. Wolf

PRIVATE BANKING GERMANY

Uwe Seeberger

PRIVATE BANKING LUXEMBOURG AND

SWITZERLAND

Michael Mohr

PROJECT PORTFOLIO MANAGEMENT

Hauke Meintz

RISK CONTROLLING

Dr. Bernd Koch

TREASURY / BROKERAGE

Thomas Gehlen

DZ PRIVATBANK S.A.

Business address:

4, rue Thomas Edison

L-1445 Strassen, Luxembourg

Postal address:

BP 661

L-2016 Luxembourg

Telephone +352 44903-1

Fax: +352 44903-2001

[www.dz-privatbank.com](http://www.dz-privatbank.com)

Email: [info@dz-privatbank.com](mailto:info@dz-privatbank.com)

Die DZ PRIVATBANK is the cooperative private bank within the Volksbanken Raiffeisenbanken group, specialising in the sectors of private banking, fund services and loans in all major currencies. We provide high-performance services for our clients based on cooperative values such as partnership, stability and security.

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