Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

LUXEMBOURG

ANNUAL FINANCIAL STATEMENTS AND OPERATIONS REPORT 2017

DZ PRIVATBANK

INDEX

REPORT OF THE SUPERVISORY BOARD

In 2017, the Supervisory Board and the Presidential 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 BOARD OF MANAGEMENT

The Board of Management reported regularly, promptly and extensively in verbal and written form to the Supervisory Board regarding the performance of the Company and the Group in relation to day-to-day business. Furthermore, the Board of Management informed the Supervisory Board on a regular basis concerning the business policy including the strategic and organisational direction of DZ PRIVATBANK.
The commercial position of the Company, the corporate planning and strategy, as well as key financial data and risk management, were highlighted in the reporting, including all supervisory tests required in regulations.

In the 2017 financial year four Supervisory Board meetings were held.

A major focus of the work of the Supervisory Board was to help the Bank implement its subsidiary growth strategy as a centre of expertise and provider of solutions to the cooperative financial network in the high net worth and private banking customer sector, in the fund services business, and in relation to loans in all currencies.

The extensive presence of DZ PRIVATBANK throughout Germany and its many years of enhanced cooperation with the partner cooperative banks in Germany form the basis of the joint expansion of market share. Against the background of an ongoing challenging market and interest rate environment, marked by the expansive monetary policy of the European Central Bank, a high level of competition and the time- and resource-intensive implementation of regulatory requirements, the Supervisory Board has focused on measures to sustainably improve profitability. The bank is on course with the structural adjustments that were accordingly introduced within the lines of business back in 2016, in particular at its Zurich location.

Services for the target group in the high-end retail banking sector were enhanced through the establishment of an additional unit for Private Wealth clients and the expansion of the special services for the especially complex advice needs which frequently arise in the case of entrepreneurs, foundations, local authorities, and family offices. In the consultancy clients segment, bundling the services provided within a comprehensive package furthered the process of transition from a transaction-based pricing structure to an all-in-fee model. In addition, the range of services provided in relation to attractive asset management mandates has been expanded and incorporated into the sales activities of the partner cooperative banks.The Board of Management reported regularly, promptly and extensively in verbal and written form to the Supervisory Board regarding the position and performance of the Company and the Group regarding day-to-day business. Furthermore, the Board of Management informed the Supervisory Board on a regular basis concerning the business policy including the strategic and organisational direction of DZ PRIVATBANK. The commercial position of the Company, the corporate planning and strategy, as well as key financial data and risk management, including all supervisory tests required in regulations, were highlighted in the reporting.

A major focus of the work of the Supervisory Board was to help the Bank implement its subsidiary growth strategy as a centre of expertise and provider of solutions to the cooperative banking group in private banking, fund services business and loans in all currencies. The many years of enhanced cooperation with the partner cooperative banks in Germany, supported by the extensive presence of the ten German sites also forms a solid basis for joint market share expansion. The Supervisory Board welcomes and supports the adjustment of personnel structures in the business segments as well as the development of sustainable solutions in order to meet the increasing demands of end customers, business partners and cooperative banks in a financial environment which is undergoing considerable change. By focusing even more closely on our customers, the personal and conscientious support offered to the various stakeholders is set to become more efficient and dynamic in the future.

The Supervisory Board had intensive discussions with the Board of Management regarding the ongoing challenges in the market and interest rate environment, and their effects on the performance and profitability of the Bank. The European Central Bank's extremely relaxed monetary policy and geopolitical trouble spots continued to influence capital markets and investor behaviour during 2016. Uncertainty amongst customers remained high and was reflected in above-average liquidity levels and reduced inclination to invest in more promising forms of investment. Pressure on margins and costs continued to be considerable due to intensive competition in the German core market and also to regulatory requirements.

The Supervisory Board attached major importance to the measures to optimise group structure and increase productivity. Decisions regarding resizing of the foreign sites were the core issue in 2016. The wholly-owned subsidiary company, Europäische Genossenschaftsbank S.A., Luxembourg, was merged with DZ PRIVATBANK S.A., and the banking activities of DZ PRIVATBANK Singapore Ltd., Singapore were terminated as at the end of 2016. In future, DZ PRIVATBANK will enable cooperative banking group clients who wish to access the Singapore financial market to do so through a cooperation agreement with a local private banking operator. In 2016, discussions in Zurich on closer cooperation with a Swiss private bank ended without any concrete results. The focus of DZ PRIVATBANK (Schweiz) AG in 2017 will therefore be on continuing the independent restructuring and improving profitability. This will entail reducing complexity, modulating the offer of services and increasing the degree of standardisation. The offer of Swiss private banking solutions along with the corresponding local advisory expertise will in future remain an important component of the spectrum of services offered by DZ PRIVATBANK to high net worth private and corporate customers.

The expansion of the local advisory expertise that accompanied this means that the Volksbanken and Raiffeisenbanken customer advisers should be able to independently access the DZ PRIVATBANK solutions for advice purposes.
In the fund services business segment, the Depositary business for third-party funds has been expanded to include the branch in Frankfurt; this Depositary business was previously only offered at the Luxembourg and Zurich sites. This gives in particular the initiators of private label funds, whose funds set up in Luxembourg and Switzerland are already managed by DZ PRIVATBANK, the opportunity to use the high-performance, comprehensive range of products for their funds domiciled in Germany.

In the credit business segment, following the successful implementation of the residential property credit guideline, the focus for 2017 was on intensive marketing of the highly-standardised range of flexible financing solutions for private and corporate customers through one-to-one discussions at branches, and also advice sessions, workshops and mini-seminars in the partner banks.

DRAWING UP OF THE ANNUAL FINANCIAL STATEMENTS

The Presidential Committee and the Supervisory Board had detailed discussions about the annual financial statements and the operations report for the 2017 financial year. The audit report of Ernst & Young S.A. was also available. The auditor's representative was present at the Presidential Committee meeting at which the annual financial statements were discussed. He reported in detail to the Presidential 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 did not raise any objection to the annual financial statements drawn up by the Board of Management for the 2017 financial year, and endorsed the auditor's report.

Against the background of a difficult financial environment, satisfactory profits continue to be earned after risk provisioning and the effect of financial investments, but they are depressed by extraordinary effects. These include the write-downs of the intangible assets acquired during the financial year, the formation of a provision for restructuring the foreign locations, and the increase in the provision for risks arising from the Depositary business. It is proposed that an unchanged dividend, compared with the previous year of EUR 0.5 per share, be distributed to shareholders.

CHANGE IN THE SUPERVISORY BOARD

With effect from 9 June 2017 and 30 June 2017 respectively, Mr Lars Hille and Mr Karl-Heinz Moll left the Supervisory Board of DZ PRIVATBANK S.A. The Board praised the commitment that both gentlemen had shown over many years. With effect from 1 July 2017, Dr Christian Brauckmann was elected to the Supervisory Board.

The Supervisory Board thanked to the Board of Management and all the employees of DZ PRIVATBANK S. A. for their work in 2017.

Luxembourg, 16 February 2018

DZ PRIVATBANK S.A.
Dr Christian Brauckmann
Chairman of the Supervisory Board

OPERATIONS REPORT

GENERAL PERFORMANCE

DZ PRIVATBANK S.A. reported earnings after taxes of EUR 11.4 million for the 2017 financial year. Given the economic environment, the earnings of EUR 48.6 million after risk provisioning and the effect of financial investments are depressed by extraordinary effects, some of which are one-off. The write-downs of the intangible assets acquired during the financial year, the formation of a provision for restructuring the foreign locations and the increase in the provision for risks arising from the Depositary business, have depressed the result.

The balance sheet total fell slightly by EUR 0.2 billion to EUR 15.7 billion.

ASSETS

Amounts due from banks totalled EUR 6.2 billion (2016: EUR 4.1 billion), with EUR 0.5 billion (2016: EUR 0.6 billion) originating from currency loans to cooperative banks. The majority of this amount due - EUR 5.3 billion (2016: EUR 2.5 billion) – relates to amounts due from the Swiss National Bank.

Loans and advances to customers decreased to EUR 4.9 billion (2016: EUR 5.5 billion). They include EUR 4.4 billion (2016: EUR 4.9 billion) in customer loans guaranteed by local cooperative banks (LuxCredit financing). Investments in securities decreased slightly by EUR 0.3 billion to EUR 3.7 billion. This included EUR 2.3 billion with banks and EUR 1.1 billion with public bodies. Over 87.7% of fixed-income securities originated from certificates eligible for refinancing with the European Central Bank.

LIABILITIES

Securitised liabilities increased by EUR 0.2 billion to EUR 4.6 billion. As at the balance sheet date, amounts due to banks decreased by EUR 0.1 billion to EUR 1.9 billion and, of this amount, 27.6% was attributable to cooperative banks.
Customer deposits fell by EUR 0.3 billion to EUR 8.1 billion. These included deposits from legal entities under private law amounting to EUR 6.6 billion, and deposits from natural persons amounting to EUR 1.5 billion.

Together with securitised liabilities, these deposits represent 81% of the total refinancing funds. According to the calculation regulations of the European CRR/CRD IV solvency guidelines, the Bank holds equity capital totalling EUR 762.2 million.

At 23.3%, the equity-to-capital ratio of DZ PRIVATBANK S.A. as at the balance sheet date was significantly higher than the statutory minimum standard of 8% in relation to the risks assumed.

PROFIT AND LOSS STATEMENT

Primarily due to market conditions, interest income declined by 21% to EUR 70.3 million (2016: EUR 88.8 million). Profits from the collection of associated company dividends declined due to an extraordinary effect, from EUR 11.2 million to EUR 5.6 million.

As regards commission income, the Bank recorded a rise of 5% to EUR 131.2 million (2016: EUR 124.9 million). The rise in retail banking commission income (13.8%), which formed part of this increase, was significantly influenced by the higher profits from the asset management business.

Financial transaction income of EUR 18.6 million (2016: EUR 11.7 million) resulted mainly from the release of valuation adjustments in respect of the non-callable bonds within the liquidity reserve (EUR 9.6 million), and from EUR 8.6 million generated through currency brokerage.

General administrative expenses, excluding depreciation on fixed assets, rose to EUR 162.0 million (2016: EUR 154.9 million). As the result of an indexing increase in Luxembourg and a slight increase in employment, personnel expenses rose by EUR 2.9 million to EUR 103.4 million. The EUR 4.3 million increase in general administrative expenditure to EUR 58.6 million was due specifically to the increase in contributions to the deposit guarantee scheme and the bank levy in accordance with regulatory requirements.

Scheduled depreciation on intangible and tangible assets rose to EUR 24.6 million (2016: EUR 10.8 million), specifically due to the write-off of intangible assets acquired during the financial year.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

The Board of Management proposes 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

On the balance sheet date the Bank had 955 employees. This figure corresponds to an FTE figure of 878.

SUSTAINABILITY

Sustainability is part of our responsibility as a company within the cooperative financial network, and it is also one of our guiding principles. Since 2012, as part of the "Sustainability Market Initiative" set up by the DZ BANK Group, DZ PRIVATBANK has sought to incorporate sustainability efforts into the company's operations. Since 2013 it has recognised the ten principles of the UN Global Compact. DZ PRIVATBANK is included in the non-financial Group statement of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and 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 relating to commercial companies. The non-financial Group statement can be downloaded in German from the following webpage: www.berichte2017.dzbank.de.

RISK MANAGEMENT SYSTEM

An important feature of banking control is to ensure an effective system of risk management, which is the precondition for quantifying and controlling market, liquidity, default and operational risks, while at the same time enabling business opportunities to be seized. This should be regarded in particular 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 the Bank's risk, capital and liquidity policy is adjusted as necessary in accordance with the risk, capital and liquidity strategy approved by the Supervisory Board and the implementation measures 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. All relevant committees and departments are 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 when controlling and monitoring market, 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 have occurred since the balance sheet date.

In view of the improving economic outlook towards the end of 2017, DZ PRIVATBANK is adopting a cautiously optimistic view of the new financial year. Both in Europe and in significant emerging markets, important economic indicators are at comparatively high levels. In the USA and Japan, the growth environment also presents an encouraging picture at the moment. The sharp rise in the price of raw materials is also an indication of a globally sound economic environment.

In Europe, the continuing expansive monetary policy should continue to support the economic momentum. Due to strong economic growth, the labour market is also considered to have permanently improved, which will also stimulate private consumption in future. Investments should benefit from the high level of export demand, and therefore slight upward pressure on prices is expected, though this should not lead the European Central Bank (ECB) to adopt a more restrictive monetary policy. The strength of the euro in relation to the most important trading currencies also acts as a damper on inflation.

In the USA and Japan, the recently published economic data also points to a lasting economic recovery. The Fed, the US central bank, will therefore continue the slow normalisation of its monetary policy. In China, the administration will continue to take measures to prevent a rapid tapering-off of growth. Therefore solid growth is still expected in China.

Whereas in the past financial year, the actual performance of the global economy exceeded expectations, the assessment for 2018 is more complex. In particular, the optimism that has been generated not least by the latest tax reforms in the US could prove to be exaggerated, and it could lead to instability on the international financial markets. For example, the expectations regarding changes in the level of consumer demand – a key indicator for the US economy – may prove disappointing. They are largely based on an accelerated rise in wages and salaries, something that has not happened yet despite the tight labour market situation.

Overall, the mood is largely optimistic among investors regarding the prospects on the international stock markets. Nevertheless, if the risk scenario that has been alluded to does occur, or if there is an escalation of one of the many current political flash points around the world, far greater volatility would be likely. In the light of the restrained expansion of monetary policy and the current generally very low level of returns, it is still too early to assume that the international bond markets will provide attractive profits.

PRIVATE BANKING

In view of the performance of assets in our home market of Germany, the high-end retail business remains highly attractive for banks, and consequently highly competitive.

In many respects, 2018 is turning into a transition year. For instance, economic indicators point to a turnaround in interest rates being postponed to subsequent years. The resulting environment of continual low interest rates increases the need for our partner banks to boost the profitability of their customer relationships. The experiences of customers and the bank in implementing MiFiD II will reveal any readjustments that may be necessary over the coming months, both in respect of services and the associated models of collaboration.

DZ PRIVATBANK meets these challenges with innovations and targeted investments in order to consolidate its chosen strategy as one of the leading providers of services for high net worth and private banking customers. In view of the regulatory changes, mandated business will play a more important role. The existing investment approach has been refined accordingly, under the heading "Asset Management – taken to the next level".

In order to satisfy customer expectations regarding diversified and personalised products and solutions, DZ PRIVATBANK is expanding its range of services in line with demand, including in the advice field. This still entails producing marketing approaches and innovative product ideas for our partner banks, so that they have an appropriate basis for discussions with those customers who prefer not to move their custody accounts or liquidity owing to uncertainty regarding the future development of the securities markets.

Independent sales – the direct arrangement of private banking services by the cooperative bank itself – should be boosted through the provision of more intensive sales support. In future, technical integration will make it easier to incorporate DZ PRIVATBANK services into the development of local markets. A further milestone is the user-friendly enhancement of the IT-support process for concluding asset management contracts as part of the imminent release of the agree21 banking application this spring. The use of digital media will be expanded to enhance communication with specific target groups in relation to sales and service topics. On-site training sessions and webinars in the second quarter round off the range of services.

As well as intensifying collaboration with its partner banks, over the coming year DZ PRIVATBANK will continue the measures that are needed in order to increase profitability in its Private Banking segment.

An increase to EUR 18,588 million was achieved in the volume of Private Banking business (2016: EUR 18,070 million). The gross inflow of EUR 3.3 billion across all locations – which is remarkable when compared with our competition – provided an important basis for this. Overall, we have managed to further consolidate the position of the Private Banking segment within the cooperative financial network.

LOANS

DZ PRIVATBANK is well established as a currency financing specialist within the cooperative financial network. With the variety of possible uses of loans in all currencies, the Bank, together with the cooperative banks, intends to further consolidate this competitive position. Following the merger of the cooperative central banks, DZ PRIVATBANK is now the centre of excellence throughout Germany for the cooperative banks' currency refinancing activities.

In 2018, loan business will continue to be primarily characterised by the diversification of the currency loan portfolio and the further expansion of the euro-denominated financing solutions. Variable rate euro loans successfully round off the cooperative banks' own product offerings, especially financial solutions relating to the Mortgage Credit Directive. The high proportion of loans up to the present, in the guaranteed lending business in Swiss francs,is therefore likely to decrease further. Loans in other currencies from a transaction value of EUR 10,000 may, for instance, be accepted for the advance financing of future sales or export proceeds. The primary aim of customers is to achieve a simple and flexible hedge against potential currency fluctuations, which is cheap in terms of the target currency's interest rate level.

For private customers, the flexibility of the short-term and variable product variants predominates as the most common source of demand, and it is driving growth accordingly. They are usually used as a variable component in connection with long-term financing of housing construction. The secure and simple administrative processes on which the DZ PRIVATBANK loan business is based mean that, in the light of the Mortgage Credit Directive the cooperative banks are increasingly presenting standardised euro loans as "general consumer loans" provided by DZ PRIVATBANK.

The market success of the cooperative banks is still conditional upon the constant improvement and expansion of our loan support structure, which encompasses local face-to-face communication in the cooperative banks, as well as training courses on the many ways in which they can be used. In 2018, primarily further training courses and webinars on the innovations in the agree21 banking application are planned. In addition in order to support the banks' sales efforts, regular strategy discussions, sales meetings, and compact training courses are planned in the cooperative banks, as well as on-the-job training courses at the main location in Luxembourg. The prelude to this is the "Loan Info Days". At a total of nine venues, DZ PRIVATBANK will provide information about innovations, such as the revised cooperation agreement, product innovations, and service improvements.

DZ PRIVATBANK is consequently operating as a professional partner in expanding the wide-ranging know-how of the cooperative financial network in relation to the foreign currency financing business, and using its extensive funding portfolio to round off the range of products offered by the cooperative banks. It promotes their strategic objectives accordingly, i.e. sustainably increasing profits and reducing production costs.

FUND SERVICES

As in previous years, DZ PRIVATBANK intends to continue the profitable growth in the fund services market segment in 2018. The strategic focus is still on expanding the already strong market position in relation to the companies of the Genossenschaftliche FinanzGruppe Volksbanken Raiffeisenbanken (Cooperative Financial Network) and, in relation to the independent asset managers, on operating as a reliable partner with comprehensive knowledge of fund services as well as the specialist expertise that is recognised in the market. A key example of this is Union Investment, the investment company within the DZ BANK Group, for which the group acts as a depositary in Luxembourg.

Our outstanding market position in relation to business with white label fund initiators, such as asset managers, family offices and banks, emphasises how sustainably and convincingly successful the whole service portfolio is in the fund services market segment. DZ PRIVATBANK – together with its IPConcept subsidiaries in Luxembourg and Switzerland – intends to further expand its market leadership among independent asset managers in German-speaking markets. Necessary preconditions for this are the continual optimisation of processes, its modern and effective IT infrastructure, and the skills of its employees. Only with the successful interaction of these elements can tailored packages of services be provided throughout the entire fund management value-added chain. A further key precondition is satisfying the numerous – and sometimes very varied – demands of the fund initiators, who often operate in the market in a wide variety of different ways in order to secure significant added value and further growth for customers.

Numerous regulatory measures will also keep the fund services market segment preoccupied in 2018. Key elements of this include the three major projects relating to the regulatory tasks of MiFID II, PRIIPs and investment tax reform in Germany. These take effect this year and have to be implemented within the operational business for the first time. In addition, the trend towards digitisation and the expansion of the fund business with alternative investment strategies represent further major challenges that DZ PRIVATBANK will address, as was the case in the past..

THANKS

We would like to thank our employees for their commendable dedication and commitment, which resulted in a significant contribution to the company's success and to the achievement of our common goals in 2017. In addition, our sincere thanks go to the cooperative banks and to our private and institutional customers for their confidence in us.

Luxembourg, 15 February 2018

The Board of Management

Dr. Stefan Schwab (Chairman)
Ralf Bringmann
Dr. Frank Müller

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 DECEMBER 2017

ASSETS

		31/12/2017	31/12/2016
	EUR '000	**EUR '000**	**EUR '000**
Cash, credit balances at central issuing banks and post office cheque accounts		372,031	1,943,848
Due from banks		6,191,808	4,105,344
a) Due on demand	5,782,031		2,950,526
b) Other receivables	409,777		1,154,818
Due from clients		4,873,211	5,474,997
Bonds and other fixed-interest securities		3,745,516	3,999,102
a) Public issuers	1,080,187		1,192,805
b) Other issuers	2,665,329		2,806,297
Equities and other variable-interest securities		3,670	3,858
Shares in affiliated companies		180,599	187,767
Intangible assets		27,553	7,310
Tangible fixed assets		47,438	46,962
Other assets		73,611	49,149
Accruals and deferrals		144,062	95,387
Total assets		**15,659,499**	**15,913,724**

LIABILITIES

		31/12/2017	31/12/2016
	EUR '000	EUR '000	EUR '000
Liabilities to banks		1,899,339	2,040,257
a) Due on demand	156,429		145,388
b) With an agreed maturity or notice period	1,742,910		1,894,869
Liabilities to clients		8,077,207	8,438,665
Other liabilities	8,077,207		8,438,665
a) Due on demand	7,337,251		7,431,497
b) With an agreed maturity or notice period	739,956		1,007,168
Securitised liabilities		4,648,740	4,399,037
a) Issued debt instruments	1,639,201		1,849,118
b) Other	3,009,539		2,549,919
Sundry liabilities		58,124	22,921
Accruals and deferrals		88,788	151,145
Provisions		118,850	93,248
a) Provisions for pensions and similar obligations	6,574		6,099
b) Provision for taxation	25,742		16,334
c) Other provisions	86,534		70,815
Subordinated loans (external)		15,000	15,000
Fund for general banking risks		112,800	112,800
Subscribed capital		116,555	116,555
Offering premium		426,973	426,973
Reserves		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
Total liabilities		**15,659,499**	**15,913,724**

BALANCE SHEET ITEMS

Contingent liabilities		39,501	44,725
incl.: Liabilities from sureties and liability from the placing of securities	39,501		44,725
Credit risks		26,783	28,241

PROFIT AND LOSS ACCOUNT 2017

		2017	2016
	EUR '000	EUR '000	EUR '000
Interest income and similar income		303,321	302,701
incl. fixed-interest securities	62,778		80,010
Interest expenditure and similar costs		-238,590	-225,206
Income from securities		5,572	11,288
a) Income from equities, shares and other variable-interest securities	18		85
b) Income from holdings in affiliated companies	5,554		11,203
Commission income		174,093	160,342
Commission expenses		-42,938	-35,451
Result from financial transactions		18,648	11,732
Other operating income		6,801	8,719
General administrative costs		-162,037	-154,900
a) Personnel expenses	-103,394		-100,540
incl.:			
- Wages and salaries	-82,793		-78,491
- Social insurance	-19,183		-20,501
incl.: Social insurance for pensions	-9,453		-10,955
b) Other administrative costs	-58,643		-54,360
Depreciation and value adjustments on intangible and tangible assets		-24,606	-10,754
Other operating expenditure		-26,133	-18,729
Depreciation and valuation adjustments on receivables and allocations to provisions for contingent liabilities and credit risks		0	-32,250

Depreciation and value adjustments on securities expenses in relation to financial assets, on equity interests and shares in affiliated companies	229	112
Income from the release of valuation adjustments on securities expenses in relation to financial assets, on equity interests and shares in affiliated companies	0	-1,735
Allocation to the fund for general banking risks (Art. 63)	0	-1,800
Tax on the result of ordinary activities	-2,900	-2,615
Operating income on ordinary activities after tax	11,460	11,454
Other taxes, provided they are not included under the items above	-78	-72
Profit for the year	**11,382**	**11,382**

NOTES ON THE ANNUAL REPORT

GENERAL

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 located at: 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 conduct banking and financial operations of all kinds, for its own account and that of third parties, in and outside the Grand Duchy of Luxembourg, and all operations directly or indirectly connected therewith.

As at 31 December 2017, the bank had eight branches represented across ten sites in Germany. The branches are used to coordinate subsidiary cooperation with the cooperative banks in Germany.

As at 31 December 2017, 90.7% of the Bank’s capital was held by DZ BANK AG, Frankfurt am Main, 9.3% is held by 335 cooperative banks in Germany. The Bank's post-tax returns measured against the balance sheet total amounted to seven basis points in 2017. 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 filed at the Commercial Register in Frankfurt am Main. In accordance with Article 80(1b) of the Law of 17 June 1992 with respect to 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 annual 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 investment quota.

DZ PRIVATBANK S.A. has been a member of the 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 institutions “Fonds de garantie Luxembourg (FGDL)” and “Système d'indemnisation des investisseurs Luxembourg (SIIL)”.

VALUATION PRINCIPLES

The annual financial statements are prepared on the basis of 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. Balance sheet policy and valuation methods are determined by the Group. The Bank applies the following accounting principles and methods:

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.

B) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments (swaps, options, futures, etc.) are valued individually at the market price according to the realisation and imparity principle. However, 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.

C) TANGIBLE AND INTANGIBLE ASSETS

The valuation is carried out at acquisition or production cost, less scheduled 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 value 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. Value adjustments are dissolved if the reasons for their formation no longer apply.

The scheduled depreciation and impairments are as follows:

▪ Buildings	2 %
▪ Installations	10 %
▪ Furniture, fittings and equipment	
at the head office in Luxembourg	25 %
Branches in Germany	7-33 %
▪ Intangible assets	
Goodwill	20% or 100%*
Software and licences	25 %

* In accordance with the provisions of commercial law, the intangible assets are written down over a max. period of 5 years. In respect of the intangible assets acquired in 2017, the option of writing them off over a useful life of 12 months was exercised.

D) FINANCIAL ASSETS

Financial assets include equity interests, shareholdings in affiliated undertakings, bonds and other fixed-interest securities that are used to serve the Bank's business operations on a long-term basis and 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, value adjustments are made regardless of their duration. For certain equity interests, shareholdings in affiliated undertakings and securities as well as securities that are linked to an asset swap, value adjustments are only made if the reduction in value is considered to be permanent.

Premiums are amortised for a proportional period of time. Discounts are recognised as income when due or sold. Discounts on securities that are linked to an asset swap are amortised over a proportional period of time.

E) SHORT-TERM SECURITIES

Securities in the trading portfolio and liquidity investment holdings 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.

The Bank regards as liquid assets all shares that are purchased either to further its medium and long-term investment strategy, or to secure liquidity or boost its earnings, as well as securities that cannot be shown either in the trading or the investment portfolio.

Securities shown as current assets are valued according to the strict principle of lowest value, with stock exchange prices generally applying 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 that is required based on a reasonable commercial assessment.

Collective general valuation adjustments by the permissible amount 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 basis of measurement.

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

In order to cover possible future and as yet unquantifiable risks arising from the depositary business, an overall provision is created of up to 1 per mille of the relevant custodian volume. Until this threshold is reached, 0.1 per mille of this custodian volume will be allocated to this provision on an annual basis.

H) LIABILITIES

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

NOTES ON INDIVIDUAL ITEMS 2017

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:

	Up to 3 months		Between 3 months and 1 year		1 to 5 years		More than 5 years		Total	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Other receivables from banks	240	771	86	191	83	184	1	9	**410**	1,155
Due from clients	4,038	4,424	234	219	218	356	145	136	**4,635**	5,135

Amounts due on demand from clients totalled EUR 238 million (2016: EUR 340 million).

BONDS AND OTHER FIXED-INTEREST SECURITIES

Bonds and other fixed-income securities totalling EUR 525 million (2016: EUR 708 million) are due within the next year.

In accordance with the retention option, the Bank has maintained value adjustments totalling EUR 6.3 million (2016: EUR 14 million) which are no longer justified.

Bonds and other fixed-income securities amounting to EUR 2,882 million (2016: EUR 2,889 million) are attributable to current assets; EUR 864 million (2016: EUR 1,110 million) form part of the fixed assets. They include debt instruments approved for refinancing amounting to EUR 3,325 million (2016: EUR 3,438 million).

Bonds of a nominal amount of EUR 2,389 million (2016: EUR 2,302 million) are in a valuation unit with hedging transactions. The market value of these securities amounts to EUR 2,463 million (2016: EUR 2,411 million). All the necessary valuation adjustments were formed during the financial year. The corresponding market values of the hedging transactions amount to EUR -50 million (2016: EUR -93 million).

REPURCHASE TRANSACTIONS

On the balance sheet date, securities with a market value of EUR 338 million (2016: EUR 376 million) were loaned.

LISTED AND UNLISTED SECURITIES

	Listed		Unlisted		Total	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Bonds and other fixed-interest securities	3,722	3,927	24	72	3,746	3,999
Equities and other variable-interest securities	0	0	4	4	4	4
Shares in affiliated companies	0	0	181	188	181	188
Total	**3,722**	**3,927**	**209**	**264**	**3,931**	**4,191**

On the balance sheet date, securities of a nominal amount of EUR 212 million (2016: EUR 311 million) were deposited as collateral.

SHARES IN AFFILIATED COMPANIES

The Bank holds shares in affiliated companies in which the Bank has a stake of not less than 20% of the equity capital as follows:

	Registered office	Holding in &	Book value	Equity	Latest net profit figure
In EUR '000			**2017**	***)**	***)**
DZ PRIVATBANK (Schweiz) AG	Zürich	100	177,500	165,520	-25,148
DZ PRIVATBANK Singapore Ltd. **)	Singapore	100	99	99	-
IPConcept (Luxemburg) S.A.	Luxembourg	100	3,000	4,580	5,554

*) as at the date of the latest annual financial statements

The shares in affiliated companies held by DZ PRIVATBANK relate to an affiliated credit institution in the case of DZ PRIVATBANK (Schweiz) AG, and an affiliated financial institution in the case of IPConcept (Luxembourg) S.A. DZ PRIVATBANK Singapore Ltd. is currently in liquidation; this is virtually concluded.

OTHER ASSETS

in EUR million	31/12/2017	31/12/2016
Tax assets	41	20
Other receivables	33	29

The other receivables mainly include commission claims.

ACCRUALS AND DEFERRALS

Prepayments and accrued income of EUR 144.1 million mainly comprise foreign currency adjustment items of EUR 59.4 million, deferred interest of EUR 42.5 million, and swap accruals of EUR 31.0 million.
Accruals and deferred income amounting to EUR 88.8 million mainly comprise EUR 43.7 million in up-front payments/discounts, as well as deferred interest of EUR 43.2 million.

FINANCIAL ASSETS

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

	Shares in affiliated companies		Bonds and other fixed-interest securities		Total financial assets	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Gross value as at 1 January	233	244	1,114	1,518	1,347	1,762
Additions	0	0	0	8	0	8
Disposals	14	11	247	413	261	424
Foreign exchange adjustments	0	0	-1	1	-1	1
Gross value as at 31 December	219	233	866	1,114	1,085	1,347
Cumulative value adjustments as at 1 January	38	45	0	0	38	45
Additions	0	0	2	4	2	4
Net value as at 31 December	**181**	**188**	**864**	**1,110**	**1,045**	**1,298**

TANGIBLE FIXED ASSETS

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

	Land and buildings		Furniture, fittings and equipment		Total tangible fixed assets	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Gross value as at 1 January	83	83	42	51	125	134
Additions	0	0	5	3	5	3
Disposals	0	0	1	12	1	12
Gross value as at 31 December	83	83	46	42	129	125
Accumulated additions for value adjustments	45	43	37	35	82	78
Net value as at 31 December	**38**	**40**	**9**	**7**	**47**	**47**

The share of real property and buildings used by the Bank for its own business operations amounts to EUR 36 million.

INTANGIBLE ASSETS

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

	Purchased goodwill		Software/licences		Total intangible assets	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Gross value as at 1 January	39	39	43	44	82	83
Additions	31	0	9	2	40	2
Disposals	0	0	0	3	0	3
Gross value as at 31 December	70	39	52	43	122	82
Accumulated additions for value adjustments	52	36	43	39	94	75
Net value as at 31 December	**18**	**3**	**9**	**4**	**28**	**7**

The gross value of intangible assets purchased, including goodwill, relates to private customer portfolios that were acquired in 2011, 2012, 2013 and 2017. The capitalised intangible assets are amortised over a period of between one and five years. The intangible assets acquired by DZ PRIVATBANK (Schweiz) AG in the 2017 financial year are amortised over a period of one year.

The net book value of software/licences is divided into software of EUR 5 million and licences of EUR 4 million.

RECEIVABLES AND LIABILITIES TO/FROM AFFILIATED COMPANIES AND SUBORDINATED ASSETS

	Affiliated companies	
in EUR million	**2017**	**2016**
Assets	170	568
Due from banks	39	401
Due from clients	1	27
Bonds and other fixed-interest securities	130	140
Liabilities	163	227
Liabilities to banks	122	177
Liabilities to clients	41	50

There were no subordinated liabilities as at the balance sheet date.

ASSETS AND LIABILITIES IN FOREIGN CURRENCY

The equivalent value of balance sheet items in foreign currency was as follows:

in EUR million	2017	2016
Assets	9,643	7,687
Liabilities	6,852	6,863

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 date of purchase of the premiums and discounts charged/paid on bonds and other fixed-interest securities forming part of the financial assets amount to EUR 13.6 million and EUR -1.1 million respectively (2016: EUR 11.9 million and EUR -1.1 million).

BREAKDOWN OF LIABILITIES ACCORDING TO RESIDUAL MATURITY

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

	Up to 3 months		Between 3 months and 1 year		1 to 5 years		More than 5 years		Total	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Liabilities to banks	1,593	1,564	142	322	8	9	0	0	**1,743**	1,895
Other amounts due to clients	630	874	97	120	13	3	0	10	**740**	1,007
Bonds issued	0	0	25	842	1,278	693	336	314	**1,639**	1,849
Other securitised liabilities	2,456	2,122	554	428	0	0	0	0	**3,010**	2,550

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

SUNDRY LIABILITIES

Composition according to the most important items:

in EUR million	31/12/2017	31/12/2016
Liabilities to DZ PRIVATBANK (Schweiz) AG	29	0
Not yet paid administrative expenses	8	3
Liabilities in respect of Geno pension fund	7	6
Preferential liabilities	6	4
Redemption liabilities	5	8
Sundry liabilities	3	2

The redemption liabilities relate to maturing fund coupons. The Sundry Liabilities mainly relate to the liability to DZ PRIVATBANK (Schweiz) AG (EUR 29.2 million), outstanding commission payments (EUR 0.9 million; 2016: EUR 0.8 million), and administrative expenses to be paid (EUR 8.1 million; 2016: EUR 2.5 million) and liabilities in respect of the Geno pension fund (EUR 7.3 million; 2016: EUR 5.7 million).

SUBORDINATED LOANS

As at the balance sheet date, the Bank reported subordinated external funds totalling EUR 15 million. The interest expense relating to these amounted to EUR 915,000 during the financial year. Subordinated bearer bonds amounting to EUR 3 million are allocated to additional capital.

In EUR '000	Amount	Interest rate	Maturity date
Bearer bonds	15,000	6.1	05/07/2019

COLLECTIVE GENERAL VALUATION ADJUSTMENT

The collective general valuation adjustment of EUR 43.9 million (2016: EUR 43.9 million) equals the upper tax limit of 1.25% of the risk-weighted assets, and it is deducted from the corresponding items. No allocation was made to collective general valuation adjustment during the reporting year.

FUND FOR GENERAL BANKING RISKS

The fund is endowed with EUR 112.8 million for general banking risks (2016: EUR 112.8 million).

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. In the reporting period, the decision of the extraordinary general meeting held on 3 March 2017 was implemented, and the distinction between class A and B shares was abolished.

RESERVES

Statutory reserves amount to EUR 11.7 million. In accordance with Article 72 of the law of 10 August 1915, five per cent of the annual profit is required to be transferred to the reserve until it is equal to 10 per cent of the subscribed capital. Statutory reserves may not be distributed. Other reserves amounting to EUR 72 million are for the purpose of settling the wealth tax.

LUXEMBOURG RESOLUTION FUNDS, DEPOSIT GUARANTEE SCHEMES AND INVESTOR COMPENSATION

The Bank is a member of both Luxembourg deposit guarantee fund “Fonds de garantie Luxembourg (FGDL)” and of the “Système d'indemnisation des investisseurs Luxembourg (SIIL)” investor compensation system for Luxembourg.

The deposits are guaranteed up to an amount of EUR 100,000, and assets under custody up to EUR 20,000. However, the law stipulates that deposits which result from specific transactions, or serve specific social or other purposes, are covered for twelve months once over EUR 100,000 is paid in.

During 2016, DZ PRIVATBANK S.A. joined FGDL (in March 2016) and SIIL (in August 2016). In the event of a guarantee claim being made, the annual payment obligation of each member of the SIIL (ex-post procedure) is limited to 5% of the equity capital.

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 4.5 million during the reporting year. The ADGL provision is used for an amount of EUR 2.3 million for these purposes. DZ PRIVATBANK S.A. used the option to deposit 15% (EUR 0.7 million) of the bank levy as Irrevocable Payment Commitments (IPC).

By means of a voluntary deposit guarantee scheme, 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 German branches of DZ PRIVATBANK S.A. are legally dependent and, via the membership of DZ PRIVATBANK S.A., are in the legal deposit guarantee scheme in Luxembourg and the voluntary deposit guarantee scheme of the BVR. In order to meet security or guarantee obligations that are accepted by BVR for the collective guarantee scheme, DZ PRIVATBANK S.A. has assumed a guarantee obligation of EUR 5.1 million pursuant to the statutes 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	**2017**	**2016**
Guarantees and other credit substitutes	40	45

As at 31 December 2017, contingent liabilities in relation to affiliated companies amounted to EUR 10 million (2016: EUR 11.0 million).

CREDIT RISKS

Credit risk is as follows:

in EUR million	**2017**	**2016**
Company loan commitments	27	28
incl.: Forward purchases of assets	4	5

CURRENT FORWARD TRANSACTIONS (BY RESIDUAL MATURITY)
EXCHANGE RATE LINKED TRANSACTIONS (NOMINALS)

	Up to 3 months		Between 3 months and 1 year		1 to 5 years		More than 5 years		Total	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Forward exchange transactions on organised markets (futures/options)	0	773	0	0	2,324	0	0	0	**2,324**	773
Forward exchange transactions OTC (swaps/outrights)	14,804	14,057	4,754	2,799	31	33	0	0	**19,589**	16,889
Interest rate and currency swaps	74	0	297	322	305	733	0	0	**676**	1,055
Non-value dated spot transactions	344	406	0	0	0	0	0	0	**344**	406

These include transactions with affiliated companies amounting to EUR 3,783 million (2016: EUR 2,178 million).

INTEREST RATE-LINKED TRANSACTIONS (NOMINALS)

	Up to 3 months		Between 3 months and 1 year		1 to 5 years		More than 5 years		Total	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest rate swaps	106	288	368	538	3,302	2,877	1,326	1,267	**5,102**	4,970
Interest rate futures	7	7,662	0	703	26,393	1,352	0	0	**26,400**	9,717
Options on organised markets	1,542	1,402	10,451	87	0	0	0	0	**11,993**	1,489
Interest limit agreements (caps)	3	3	0	0	0	0	0	0	**3**	3

Interest rate linked transactions that are not for hedging purposes include open positions amounting to EUR 10 million (2016: EUR 70 million).
EUR 601 million (2016: EUR 709 million) relates to transactions with affiliated companies.

TRANSACTIONS LINKED TO OTHER MARKET RATES (NOMINALS)

	Up to 3 months		Between 3 months and 1 year		1 to 5 years		More than 5 years		Total	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Futures on variable interest securities	0	12	0	0	24	2	1	0	**25**	14
Options on variable interest securitites	3,104	2,243	503	677	19	322	0	0	**3,626**	3,242

These transactions were conducted solely with other companies.

MANAGEMENT AND AGENCY SERVICES

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

- investment consultancy 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 ACCOUNT

Other operating income:

in EUR '000

Operating income	2017	2016
Off-period income	2,125	1,896
Writing back of provisions	1,689	4,355
Refund of wage continuation insurance	1,358	1,054
Rental income	985	902
Other income	644	512
Total	**6,801**	**8,719**

Other operating expenditure:

in EUR '000

Operating expenditure	2017	2016
Allocations to provisions for risks associated with depositary activities	10,740	10,000
Allocation to provisions for restructuring measures	9,000*	100
Allocation to provisions for private banking	2,745	120
Off-period expenditure	2,125	2,442
Allocation to investor protection (SIIL) provisions	1,100	2,400
Other expenses	423	306
Contribution to subsidiary companies	0	2,485
Allocation to reserves for closure costs of subsidiary companies	0	800
Allocation to provisions for banking operations risks	0	76
Total	**26,133**	18,729

* In the financial year, the Bank made a further allocation to provisions for restructuring measures amounting to EUR 9 million for job cut-backs.

STAFF AND CORPORATE BODIES

AVERAGE NUMBER OF STAFF

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

Group	2017	2016
Board of Management, Chief Representatives, Directeurs and Directeurs-Adjoints	39	47
Senior management	73	67
Employees	800	795
Total	912	909

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

Group	**Board of Management, Chief Representatives, Directeurs and** Directeurs-Adjoints		Supervisory Board	
in EUR '000	**2017**	**2016**	**2017**	**2016**
Salaries, emoluments, benefits	8,347	7,385	283	277
Social insurance for pensions	645	985	0	0
Loans, guarantees	1,349	1,363	771	786

Loans and guarantees consist of short-term loans as well as collateral loans and rental guarantees.

OTHER

BREAKDOWN OF EARNINGS ACCORDING TO GEOGRAPHICAL MARKETS

	Luxembourg		Germany		**Rest of Europe**		**Other countries**		Total	
in EUR million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Interest and similar income	15	12	221	221	45	51	22	19	**303**	303
Commission income	108	106	59	47	4	4	3	3	**174**	160
Other operating income	5	7	2	2	0	0	0	0	**7**	9
Total	128	125	282	270	49	55	25	22	484	472

AUDITOR'S FEES

The audit fee for Ernst & Young for the 2017 financial year consists of auditing fees of EUR 498,000, other audit services of EUR 187,000 as well as other advice services of EUR 65,000 (all amounts are exclusive of VAT).

OTHER GUARANTEES AND COMMITMENTS

The Bank signed an unlimited and irrevocable guarantee for an unlimited period for its subsidiary DZ PRIVATBANK Singapore Ltd in favour of the Monetary Authority of Singapore in order to fulfil its contractual obligations and to guarantee an appropriate level of liquidity. This guarantee expires when the liquidation is completed.

The bank’s corporate pension scheme is provided by the GENO pension fund Assep. As at 31/12/2017, the plan assets of the fund for employees of the Bank amounted to EUR 74.3 million. The Bank has undertaken to guarantee the solvency and financing as well as the hedging of all actuarial provisions at all times by allocating additional funds.

Future expenses resulting from rental liabilities, due over the remaining term of the leases, amount to EUR 21.8 million.

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 table subdivide the Bank's primary financial instruments in the non-trading portfolio, including by balance sheet items and residual maturities as at 31 December 2017. There are no primary financial instruments which were attributable to trading portfolios.

CLASS OF INSTRUMENT (FINANCIAL ASSET ITEMS)

	Primary financial instruments of the non-trading portfolio (by residual term)					
Book value in EUR million	**Up to 3 months**	Between **3 months and** 1 year	**1 to 5 years**	More than 5 years	**No maturity date**	**Total**
Cash, balances with central banks and post office accounts	372	-	-	-	-	372
Due from banks	6,021	86	84	1	-	6,192
Due from non-banks	4,276	234	218	145	-	4,873
Bonds and other fixed-interest securities	155	368	2,308	915	-	3,746
Equities and other variable-interest securities	-	-	-	-	4	4
Total financial assets						15,187
Other assets						473
Total assets						15,660

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

CLASS OF INSTRUMENT (FINANCIAL LIABILITY ITEMS)

	Primary financial instruments of the non-trading portfolio (by residual term)					
Book value in EUR million	Up to **3 months**	**Between 3 months and 1 year**	**1 to 5 years**	More than **5 years**	**No maturity date**	Total
Due from banks	1,749	142	8	-	-	1,899
Liabilities Non-banking institutions	7,967	97	13	-	-	8,077
Securitised liabilities - bonds	-	25	1,278	336	-	1,639
- Other	2,456	554	-	-	-	3,110
Subordinated loans (external)	-	-	15	-	-	15
Sundry liabilities	58	-	-	-	-	58
Total financial assets						14,698
Other assets						962
Total assets						15,660

ANALYSIS OF FINANCIAL DERIVATIVES

The following tables provide a summary of the Bank's derivative financial instruments. The transactions are subdivided according to the various underlying transactions and residual maturities as at 31 December 2017. The classification of derivative instruments into assets or liabilities 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 contracting party defaults. Options are classified according to maturity.

DERIVATIVE INSTRUMENTS NOT PART OF TRADING PORTFOLIO (BY RESIDUAL MATURITY, EXCLUDING COMMISSION BUSINESS)

	Nominals	Up to 3 months		Between 3 months and 1 year		1 to 5 years		More than 5 years		Total	
Nominal amount in EUR million		**Assets**	**Liabilities**	Assets	**Liabilities**	Assets	**Liabilities**	Assets	**Liabilities**	Assets	**Liabilities**
Class of instruments											
Interest - OTC											
Swaps	5,102	-	106	-	368	1,157	2,146	682	644	1,839	3,264
Caps / Floors	5	0	-	2	-	1	2	-	-	3	2
Interest - listed											
Futures	7	-	-	-	-	7	-	-	-	-	7
Foreign currencies / precious metals - OTC											
Forwards	11,557	4,497	4,496	1,267	1,267	16	15	-	-	5,780	5,778
Swaps (FX/CCS)	8,961	4,124	1,962	1,800	771	43	263	-	-	5,967	2,996
Total										13,596	12,040

DERIVATIVE INSTRUMENTS OF THE TRADING PORTFOLIO (MARKET VALUE IN EUR MILLION)

As at 31 December 2017 there were no derivative transactions in the trading portfolio:

DERIVATIVE INSTRUMENTS NOT PART OF TRADING PORTFOLIO

Instruments in EUR million	Total market value	Deferred Interest	**Adjusted market values**
Swaps - Cross-Currency	-20	1	-21
Currency forwards	1	-	1
Swaps - Currencies	117	-	117
Swaps - Interest	-128	-32	-96
Summe	-30	-31	1

ANALYSIS OF THE CREDIT RISK FROM FINANCIAL 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	Nominals **(1)**	**Current market value(2)**	**Potential future market** (3)	**Provisions (4)**	**Global market value (5) = (2) +** (3) - (4)	**Collateral (6)**	Net risk **management (7) = (5)** - (6)
Interest rate swaps	4,574	12	34	-	46	-	46
Bonds-Futures	7	-	-	-	-	-	-
Currency swaps/ CCS / forwards	16,713	207	178	-	385	-	385
Caps / floors / swaptions	3	-	-	-	-	-	-
Total							431

The credit risk calculated here includes a weighting of 0 for internal transactions.

ANALYSIS OF FINANCIAL DERIVATIVES

The following tables provide a summary of the Bank's derivative financial instruments. The transactions are subdivided according to the various underlying transactions and residual maturities as at 31 December 2017. The classification of derivative instruments into assets or liabilities 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 contracting party defaults. Options are classified according to maturity.

DERIVATIVE INSTRUMENTS NOT PART OF TRADING PORTFOLIO (BY RESIDUAL MATURITY, EXCLUDING COMMISSION BUSINESS)

	Nominals	**Up to 3 months**		Between 3 **months and 1 year**		**1 to 5 years**		**More than 5 years**		Total	
Nominal amount in EUR million		**Assets**	**Liabilities**	Assets	**Liabilities**	Assets	**Liabilities**	Assets	**Liabilities**	Assets	**Liabilities**
Class of instruments											
Interest - OTC											
Swaps	5,102	-	106	-	368	1,157	2,146	682	644	1,839	3,264
Caps / Floors	5	0	-	2	-	1	2	-	-	3	2
Interest - listed											
Futures	7	-	-	-	-	7	-	-	-	-	7
Foreign currencies / precious metals - OTC											
Forwards	11,557	4,497	4,496	1,267	1,267	16	15	-	-	5,780	5,778
Swaps (FX/CCS)	8,961	4,124	1,962	1,800	771	43	263	-	-	5,967	2,996
Total										13,596	12,040

DERIVATIVE INSTRUMENTS OF THE TRADING PORTFOLIO (MARKET VALUE IN EUR MILLION)

As at 31 December 2017 there were no derivative transactions in the trading portfolio:

DERIVATIVE INSTRUMENTS NOT PART OF TRADING PORTFOLIO

Instruments in EUR million	Total market value	Deferred Interest	**Adjusted market values**
Swaps - Cross-Currency	-20	1	-21
Currency forwards	1	-	1
Swaps - Currencies	117	-	117
Swaps - Interest	-128	-32	-96
Summe	-30	-31	1

ANALYSIS OF THE CREDIT RISK FROM FINANCIAL 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	Nominals **(1)**	**Current market value(2)**	**Potential future market** (3)	**Provisions (4)**	**Global market value (5) = (2) +** (3) - (4)	**Collateral (6)**	Net risk **management (7) = (5)** - (6)
Interest rate swaps	4,574	12	34	-	46	-	46
Bonds-Futures	7	-	-	-	-	-	-
Currency swaps/ CCS / forwards	16,713	207	178	-	385	-	385
Caps / floors / swaptions	3	-	-	-	-	-	-
Total							431

The credit risk calculated here includes a weighting of 0 for internal transactions.

RISK REPORT

RISK MONITORING

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

The Bank’s risk management covers all the actions taken in implementing the chosen risk strategy by the divisions that are responsible. 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 making a 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 basis (VaR) (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 or quarterly basis. These include stress test presentations and sensitivity matrices.

BASIC PRINCIPLES OF INTEGRATED RISK AND INVESTMENT CONTROL

It was agreed that an economic integrated risk management and investment control system (IRKS) should be introduced in order to comply with supervision rules on best practice management approaches for financial institutions. This has created a solid basis for uniform and strategic planning that takes account of risk, capital and liquidity strategy.

The purpose of the IRKS is to create transparency regarding the:

- Basic risk structure,
- 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 IRKS 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 IRKS. This requires all material risks to be classified into risk types, with minimum requirements for quantifying these risks
- Ability to bear risk: an analysis of the risk-bearing capacity contrasts the upper loss limit and the risks measured centrally by DZ Bank AG with the risk cover amount
- 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: the IRKS is applied in practice through continuous integration 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 included in stress tests are used for measuring financial risk. The VaR indicates the loss which will not be exceeded within a predefined period according to a defined probability (confidence level). Stress tests indicate the analysis of performance changes under suitably defined crisis scenarios. The result of the Value-at-Risk measurement and suitable stress tests is known as the risk capital requirement. All types of risks are measured at individual institution level and at group level.

DEFINITION OF RISK TYPES

RISK MANAGEMENT IN IRKS

In the IRKS, material risks are divided into six types of risk:

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

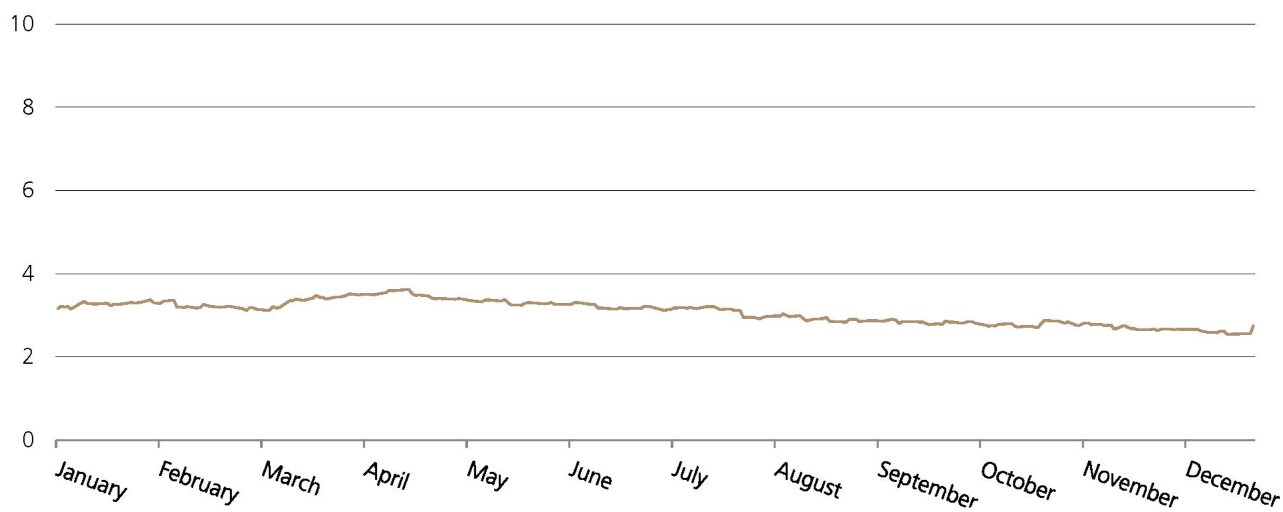
MARKET PRICE RISK

The Bank incurs market price risks in order to take advantage of business opportunities. A market price risk is defined as a potential loss that can 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 for both the Group and the individual management units. All remaining market price risks are restricted by a local limit, and are measured and monitored within DZ PRIVATBANK on the basis of a Value-at-Risk 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.

Back testing 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 2017 - DZ PRIVATBANK S.A.



EUR million, figures from 01/01/2017 to 31/12/2017, 99% confidence level, ten-day holding period.

CREDIT RISK

Credit risk indicates the risk of unexpected losses caused by counterparty default. 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 cooperative banks and the guaranteed lending business of 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 against companies of the DZ BANK Group with regard to limiting major risks.

OPERATIONAL RISK

According to the banking supervision definition, the Bank defines operational risk as the risk of an unexpected loss arising from human actions, process or project management weaknesses, technical failure, or due to external influences. The definition takes legal risk into account, but it does not cover strategic and reputational risks. Operational risks involve their own form of risk and correspondingly 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 for the systematic detection and recognition of as many of the risks as possible that are involved in banking. Risk indicators, measured using fixed thresholds, are warning signals that indicate possible operational risks. They can therefore serve as an early warning system for the Bank in relation to unwelcome trends or developments in banking operations.

– LOSS DATABASE

Data on losses is especially useful for identifying operational risks. The systematic collating and analysis of such data enables weak points to be identified so that measures can be undertaken for their improvement. To comply with the need for completeness, quality and security of auditing, the Bank uses VöB-ORC software to acquire data on losses. 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 this (evaluation of loss frequencies and amounts). Here, a distinction is made between Group-wide, limited (across DZ PRIVATBANK) and individual scenarios.

To counter possible risks in staffing, the Bank sets great store by selecting, training, deploying, promoting and developing its employees. The Bank's structural and procedural organisation is characterised by the strict separation of tasks, the observance of the principle of dual control, strict access control, deputising and competence regulations. All corporate handbooks and work instructions are continually updated.

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

The risk capital requirement for the operational risk is determined at a central level by DZ BANK AG. The economic model is affected both by the historical data on losses and the risk potential estimates from the risk self-assessment.

BUSINESS RISK

Business risk indicates the risk of losses due to unexpected changes in the current and future business volumes or margins (e.g. due to a change in the competitive situation).

In accordance with the risk management and 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 by the volatility of the two above-mentioned risk drivers – income and expenses – and their correlation.

INVESTMENT RISK

Investment risks are calculated for investments that are not directly included in the risk management strategy of DZ PRIVATBANK S.A. Since all units of DZ PRIVATBANK are involved in risk management, this approach to the reporting date is irrelevant.

LIQUIDITY RISK

DZ PRIVATBANK S.A. interprets liquidity risk as the risk of there being insufficient funds available to meet payment obligations. Liquidity risk is thus considered as insolvency risk. Refinancing risk is the risk of loss that may arise for DZ PRIVATBANK from a deterioration in the liquidity spread (as part of the own-issue spreads). With rising liquidity spreads, 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 model for measuring and controlling liquidity risks. This ensures transparency for expected and unexpected liquidity flows (forward cash exposure) and for the liquidity reserves used to offset liquidity shortages (counterbalancing capacity) on a daily basis. Both a normal scenario and several stress scenarios are considered. The objective is a positive cash surplus in all relevant scenarios in the corresponding prognosis 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, 16 February 2018

The Board of Management

Dr. Stefan Schwab (Chairman)

Ralf Bringmann

Dr. Frank Müller

AUDITOR'S REPORT

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

AUDIT OPINION

We have audited the annual financial statements of DZ PRIVATBANK S.A. (the "Bank"), consisting of the balance sheet as at 31 December 2017 and the profit and loss statement for the financial year ending on this date, as well as the notes containing a summary of the significant accounting methods.

According to our assessment, the enclosed annual financial statements provide a realistic picture of the finances and assets of DZ PRIVATBANK S.A. as at 31 December 2017, as well as its profits and growth for the financial year ending on this date. These statements are in accordance with the legal requirements and stipulations that are applicable in Luxembourg with regard to the preparation of 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 under this regulation, this law and these standards is described in more detail in the section "Responsibility of the auditor for the annual audit". We are independent of DZ PRIVATBANK S.A. as required for conformity with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) that is accepted by the CSSF for Luxembourg, as well as the professional rules of conduct that are to be adhered to for auditing annual financial statements; and we have fulfilled all other professional duties in accordance with these rules of conduct. We believe that the audit evidence which we have obtained is sufficient and appropriate for providing a basis for our audit 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, as well as the formation of the audit opinion, and we do not provide a separate audit opinion in relation to these issues.

We set out below audit issues which relate to the valuation of the holdings in affiliated companies and which, are in our opinion, particularly important for the audit of the annual financial statements as at 31 December 2017.

a) Description of the issues involved:
DZ PRIVATBANK S.A. has holdings in affiliated companies with a book value of EUR 180.6 million. Information provided by the Bank about the valuation of the shares held in affiliated companies is contained in the notes in the individual explanations relating to the balance sheet under the heading "Shareholdings in affiliated companies", and in the individual explanations under the heading "Valuation principles", Point D "Financial assets".

The valuation of the shareholding is either at historic acquisition costs or the fair value, whichever is lower. 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 market risk premium. The values contained in these plans are based on assumptions in relation to the determination of which the Bank's Board of Management has discretionary leeway, or which require the use of estimates. Notably, current uncertainties regarding future economic development in the light of the continuing low interest rate levels 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 duration, based on the use of capital market models for deriving the capitalisation interest rate to be applied to the net payment flows for the budget.

We deemed this issue a particularly important one within the audit, since the valuation of the shares held in affiliated companies is largely based on assumptions made by the legal representatives and which contain estimates or discretionary judgements. In this regard, our focus was on the valuation of the shares held in DZ PRIVATBANK (Schweiz) AG, whose business model is at present primarily influenced by the continuing low interest rates and whose business activities are currently being restructured.

b) Our audit procedure:
We reviewed the methodical approach and the mathematical accuracy of the valuation model that is used. We assessed the appropriateness of net payment flows and the capitalisation interest rate, as well as other factors which affect values and on which the valuation is based.
To assess the appropriateness of the forecast net payment flows, we undertook a retrospective assessment of the performance and financial development of DZ PRIVATBANK (Schweiz) AG, and we used further supplementary information to evaluate the other parameters and planning assumptions that formed the basis of 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. We checked the plausibility of individual data and assumptions by comparing them with publicly available information about expected trends affecting volumes and margins in the Swiss private banking market, and we assessed how the long-term results were derived.

In order to assess the appropriateness of the capitalisation interest rate used, we investigated whether it is in accordance 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 suitability of the distributable capital that is incorporated into the budget, we tracked how the capital planning modelling was undertaken, and we 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. In order to assess the recoverability of the book values of the shareholdings, we used specialists in the audit team who have relevant specialist knowledge in the company valuation field.

OTHER INFORMATION

The Board of Management is responsible for the other information, which includes information 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 to assess whether there is a major inconsistency between this and the annual financial statements or with the findings obtained from the audit, 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 the drafting and correct overall presentation of the annual financial statements in accordance with the legal requirements and stipulations that are applicable in Luxembourg and the standards for the preparation of annual financial statements, and for any internal checks which it deems necessary in order to ensure that the annual financial statements are free from significant intentional or unintentional misrepresentations.

In preparing the annual financial statements, the Board of Management is responsible for assessing the Bank's ability to continue to operate and, if relevant, for providing information on matters relating to the continuation of company operations. It also has a responsibility to use the assumption of a continuation of the business as a thriving concern as the basis for the accounting, unless the Board of Management intends to liquidate the Bank or cease its operations, or no longer has any realistic alternative other than to do so. Those responsible for supervision are accountable for overseeing the process of drawing up the annual financial statements.

RESPONSIBILITY OF THE AUDITOR FOR THE ANNUAL AUDIT

The aim of our audit is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from significant intentional or unintentional misrepresentations, and also to issue an audit certificate containing 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 significant misrepresentations that may be present. Misrepresentations may result from errors or violations, and are deemed significant if it can reasonably be assumed that they 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 significant representations in the annual financial statements resulting from errors or violations, we plan and execute audit operations in response to these risks, and we obtain audit evidence that is adequate and appropriate to serve as the basis for the audit assessment. The risk of significant 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 that 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 the accounting policies applied by the Board of Management, the accounting estimates made, and the corresponding information provided in the notes to the accounts;

46/56

- we draw conclusions as to the appropriateness of the application of going-concern accounting policy by the Board of Management and, on the basis of the audit evidence obtained, as to whether there is significant uncertainty in connection with events or circumstances which could give rise to serious doubts regarding the Bank's ability to continue its business operations. If we conclude that there is any significant uncertainty, we are obliged to refer in the audit report to the relevant details contained in the notes to the annual financial statements, or to modify the audit opinion if the information is inappropriate. These conclusions are set out on the basis of the audit evidence obtained up to the date of the audit. However, future events or circumstances may mean that the bank can no longer continue its operations;

- we assess the overall presentation, the structure and the content of the annual financial statements, including the notes to the accounts, and whether the underlying business operations and events are described accurately.

We inform those responsible for supervision of the planned scope of the audit and the period covered by it, as well as of any significant audit conclusions including significant flaws in the internal control system, that we identify during the audit.

We provided a declaration to those who are responsible for supervision, confirming that we have satisfied the relevant independence requirements, and that we have discussed with them all the relationships and issues that may reasonably be assumed to have an effect on our independence, as well as – if relevant – the safeguards adopted in relation to them.
Among the issues discussed with those responsible for supervision, we identify as especially important audit issues those which were the most significant in relation to the audit of the annual financial statements for the current reporting period. We describe these issues in our report unless laws or other legal regulations prohibit the public disclosure of the issue concerned or unless – in rare cases from an external perspective – we are of the opinion that the matter concerned should not be described in our report since it may reasonably be assumed that the negative consequences of such reporting would exceed the expected public interest benefit.

REPORT ON OTHER LEGAL AND REGULATORY OBLIGATIONS

We were appointed as the auditor (Réviseur d'entreprises agréé) by the Board of Management on 15 May 2017. The uninterrupted duration of our mandate is seven years, including previous extensions and re-appointments. The operations report, which is the responsibility of the Board of Management, is consistent with the annual financial statements and meets the applicable legal requirements.

We confirm that the audit opinion is in line with the additional report provided to the audit committee or its equivalent. 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 the Bank as regards the undertaking of our audit.

The operations report, which is the responsibility of the Board of Management, is consistent with the annual financial statements and meets the applicable legal requirements.

Luxembourg, 16 February 2018

ERNST & YOUNG

Société Anonyme

Approved audit firm (Cabinet de révision agréé)

Christian Brüne

COMMITTEES

SUPERVISORY BOARD

DR. CHRISTIAN BRAUCKMANN

(since 1 July 2017)

CHAIRMAN

(since 5 July 2017)

Member of the Board of Management
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main

WOLFGANG KÖHLER

VICE-CHAIRMAN

(since 5 July 2017)

Member of the Board of Management
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main

RALF BAUMBUSCH

Member of the Board of Management
VR-Bank Ostalb,
Aalen

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Spokesperson of the Board of Management
Volksbank Ruhr-Mitte eG,
Gelsenkirchen

KARL-HEINZ DREHER

Spokesperson of the Board of Management
Volksbank Breisgau Nord eG,
Emmendingen

ANDREAS HOF

Chairman of the Board of Management
VR-Bank Main-Kinzig-Büdingen eG,
Linsengericht

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Member of the Management Board
TEBA Kreditbank GmbH & Co. KG,
Landau

DR. ANDREAS MARTIN

Member of the Board of Management
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V. (BVR),
Berlin

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Member of the Board of Management
Kölner Bank eG, Köln

JÜRGEN WACHE

Chairman of the Board of Management
Hannoversche Volksbank eG,
Hannover

LARS HILLE

(until 9 June 2017)

KARL-HEINZ MOLL

(until 30 June 2017)

MANAGEMENT BOARD

DR. STEFAN SCHWAB

Chairman

RALF BRINGMANN

DR. FRANK MÜLLER

RICHARD MANGER

(until 31 March 2017)

ADVISORY BOARD

Status: 31 December 2017

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CHAIRMAN

Chairman of the Board of Management
Volksbank Bonn Rhein-Sieg eG,
Bonn

DR. MARKUS SCHAPPERT
VICE-CHAIRMAN

Member of the Board of Management
Volksbank-Raiffeisenbank Bayreuth-Hof eG,
Hof

UWE ARENDT

Member of the Board of Management
Bank 1 Saar eG,
Saarbrücken

UWE AUGUSTIN

Member of the Board of Management
Volksbank Pinneberg-Elmshorn eG,
Pinneberg

HERMANN BACKHAUS

Chairman of the Board of Management
Märkische Bank eG,
Hagen

UWE BARTH

Chairman of the Board of Management
Volksbank Freiburg eG,
Freiburg

MARIO BAUMERT

Member of the Board of Management
Raiffeisen-Volksbank eG,
Aurich

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Member of the Board of Management
VR-Bank Mittelsachsen eG,
Freiberg

SANDRA BINDLER

Member of the Board of Management
Münchner Bank eG,
München

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Volksbank Ulm-Biberach eG,
Ulm

GERD-ULRICH COHRS

Member of the Board of Management
Volksbank Lüneburger Heide eG,
Winsen

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Raiffeisenbank Neumarkt i.d.OPf. eG,
Neumarkt i.d.OPf.

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Member of the Board of Management
VR Bank Rhein-Neckar eG,
Mannheim

CLAUS EDELMANN

Member of the Board of Management
Volksbank Strohgäu eG,
Korntal-Münchingen

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Chairman of the Board of Management
Volksbank Jever eG,
Jever

NORBERT FRIEDRICH

Member of the Board of Management
Volksbank Trier eG,
Trier

GÜNTHER HECK

Chairman of the Board of Management
Volksbank Dreiländereck eG,
Lörrach

PETER HERBST

Member of the Board of Management
Nordthüringer Volksbank eG,
Nordhausen

JOHANNES HOFMANN

Member of the Board of Management
VR-Bank Erlangen-Höchstadt-Herzogenaurach eG,
Erlangen

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Chairman of the Board of Management
Volksbank Hameln-Stadthagen eG,
Stadthagen

DR. RALF KÖLBACH

Member of the Board of Management
Westerwald Bank eG Volks- und Raiffeisenbank,
Hachenburg

KLAUS KÖNIGS

Member of the Board of Management
VR Bank Biedenkopf-Gladenbach eG,
Biedenkopf

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Chairman of the Board of Management
Raiffeisen-Volksbank Donauwörth eG,
Donauwörth

RAINER MELLIS

Chairman of the Board of Management
Volksbank Düsseldorf Neuss eG,
Düsseldorf

ANDREAS MERTKE

Member of the Board of Management
Berliner Volksbank eG,
Berlin

JÖRG MOLTRECHT

Member of the Board of Management
Bank für Kirche und Diakonie eG - KD Bank,
Dortmund

JÖRN G. NORDENHOLZ

Chairman of the Board of Management
Volksbank eG, Sulingen
Sulingen

CHRISTOPH OCHS

Chairman of the Board of Management
VR Bank Südpfalz eG,
Landau

HUBERT OVERESCH

Member of the Board of Management
VR-Bank Kreis Steinfurt eG,
Rheine

JÜRGEN PINNISCH

Member of the Board of Management
Volksbank Heilbronn eG,
Heilbronn

ROLAND SCHÄFER

Chairman of the Board of Management
Volksbank Bruchsal-Bretten eG,
Bretten

BERND SCHMIDT

Member of the Board of Management
Kieler Volksbank eG,
Kiel

DR. KLAUS SCHRAUDNER

Chairman of the Board of Management
Pax-Bank eG,
Cologne

STEFAN SENDLINGER

Member of the Board of Management
VR-Bank Rottal-Inn eG,
Eggenfelden

REINER TÜRK

Chairman of the Board of Management
Volksbank Raiffeisenbank Rhön-Grabfeld eG,
Bad-Neustadt

DEPARTMENTS

AUDIT/DATA PROTECTION/IT SECURITY

Axel Rau

CENTRAL STAFF DIVISION

Corinna Frank

COMMITTEES/SUBSIDIARIES

Petra Gören

CORPORATE PLANNING

Dr. Christian Elbert

FUND SERVICES I

Julien Zimmer

FUND SERVICES II

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 SALES LOCAL SERVICES/
PRIVATE BANKING INTERNATIONAL

Michael Mohr

PRIVATE BANKING SALES GERMANY/B2B

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The DZ PRIVATBANK is the cooperative private bank of the Volksbanken Raiffeisenbanken and specializes in the business areas of private banking, fund services and loans in all major currencies. For our customers, we combine performance and cooperative values such ase partnership, stability and security.

Weil nicht nur zählt, was zählbar ist.

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