Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

DZ PRIVATBANK

LUXEMBOURG

ANNUAL FINANCIAL STATEMENTS AND OPERATIONS REPORT 2016 DZ PRIVATBANK S.A.

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REPORT OF THE SUPERVISORY BOARD

In 2016, the Supervisory Board, and 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 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.

DRAWING UP OF THE ANNUAL FINANCIAL STATEMENTS

The Presidential Committee and the Supervisory Board held detailed discussions on the annual financial statements and the operations report for the 2016 financial year. The audit report of Ernst & Young S.A. was also available.The representatives of the auditor were present at the Presidential Committee meeting at which the annual financial statements were discussed. They reported in detail to the Presidential Committee on the results of the audit and were available to give additional explanations and opinions. The auditor issued an unqualified audit report.

The Supervisory Board did not raise any objections to the annual financial statements drawn up by the Board of Management for the 2016 financial year and endorsed the auditor's report.

Operating profits remained around the previous year's level. Profits were, however, negatively affected by one-off factors. These included, in particular, provisions for increased liability risks in the depositary function, a significant collective general valuation adjustment for future as yet unquantifiable risks, and a provision for the Luxembourg guarantee systems. It is proposed that an unchanged dividend of EUR 0.5 per share compared with the previous year be distributed to shareholders.

The Supervisory Board expressed its thanks to the Board of Management and all the employees of DZ PRIVATBANK S. A. for their work in 2016.

Luxembourg, 17 February 2017

DZ PRIVATBANK S.A.
Lars Hille
Chairman of the Supervisory Board

OPERATIONS REPORT

GENERAL PERFORMANCE

DZ PRIVATBANK S.A. reported earnings after taxes of EUR 11.4 million for the 2016 financial year. The good level of operating profit of EUR 60.3 million was impacted by a number of one-off effects. The costs in connection with the closure of a subsidiary company, the collective general valuation adjustment and the allocation to provisions for depositary business risks reduced the annual financial performance by EUR 46.4 million. During the year under review, the Bank transferred EUR 1.8 million to the fund for general banking risks.

The balance sheet total as at 31 December 2016 rose slightly by EUR 0.2 billion to EUR 15.9 billion.

ASSETS

Amounts due from banks totalled EUR 4.1 billion (2015: EUR 4.3 billion), with EUR 0.6 billion (2015: EUR 0.6 billion) originating from currency loans to cooperative banks.

Loans and advances to customers decreased to EUR 5.5 billion (2015: EUR 5.7 billion). They included an amount of EUR 4.9 billion (2015: EUR 5.2 billion) customer loans guaranteed by local cooperative banks (LuxCredit). Investments in securities fell slightly by EUR 0.1 billion to EUR 4.0 billion. These included EUR 2.5 billion with banks and EUR 1.2 billion with public bodies. Certificates eligible for refinancing with the European Central Bank made up 86% of fixed-income securities.

LIABILITIES

Securitised liabilities rose by EUR 0.8 billion to EUR 4.4 billion, which was primarily attributable to higher demand due to the Bank's good rating.

As at the balance sheet date, amounts due to banks decreased by EUR 0.6 billion to EUR 2.0 billion; of this amount, 19% was attributable to cooperative banks.

Customer deposits rose by EUR 0.1 billion to EUR 8.4 billion. These consisted of deposits from private legal entities amounting to EUR 6.8 billion and deposits from natural persons amounting to EUR 1.6 billion. Together with securitised liabilities, these deposits represented 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 653.2 million. The equity-to-capital ratio of DZ PRIVATBANK S.A. as at the balance sheet date was significantly higher at 19.9% than the statutory prescribed minimum standard in relation to the risks assumed.

PROFIT AND LOSS STATEMENT

Interest income including dividend income rose by 14% to EUR 88.8 million (2015: EUR 77.9 million). The reason for the increase was, in particular, a EUR 9.0 million boost in positive contributions from shares in affiliated companies.

As regards commissions income, the Bank had a slight decrease of barely 1.5% to EUR 124.9 million (2015: EUR 126.8 million) due to the risk aversion of investors, with major assets still being held in liquid investments and securities being avoided.

Financial transaction income of EUR 11.7 million (2015: EUR 20.2 million) resulted mainly from the EUR 7.8 million from currency brokerage and from the realised profits from sales of securities of EUR 2.2 million.

General administrative expenses, excluding depreciation on fixed assets, rose to EUR 154.9 million (2015: EUR 148.3 million). The EUR 5.9 million rise in personnel expenses to EUR 100.5 million was attributable to the increase in the workforce due to centralisation measures, regulatory issues and an expansion in business.

General administrative expenditure rose by EUR 0.7 million to EUR 54.4 million (2015: EUR 53.7 million).

Scheduled depreciation on intangible and tangible assets fell by 39% to EUR 10.8 million (2015: EUR 17.5 million).

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

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

EMPLOYEES

At the balance sheet date the Bank had 923 employees; this figure corresponds to an FTE figure of 847.

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 risk are regularly updated 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 monitored at fixed intervals and the Bank’s risk, capital and liquidity strategy is adjusted when necessary.

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 relating to the 2016 financial year occurred after the balance sheet date.

In view of the improving global economic outlook towards the end of 2016, DZ PRIVATBANK is cautiously optimistic about the new year. Important economic indicators in the USA, Japan, Europe and also major emerging countries have, after an initially weak start to the year, recently shown visible gains. This is particularly reflected in the recovery of commodities markets.

In Europe, the still weak euro and the continuing expansive monetary policy should continue to support the economic momentum. Although during the year there were signs of a slow move away from the current extremely expansive trend, a standardisation of monetary policy in the eurozone cannot, however, be expected for some time. The resulting improvement in the employment environment continues to favour private consumption; nevertheless, in view of the rising pressure on prices, the contributions to growth from this will not reach the previous year's level.

The growth dynamic in the USA is expected to increase. Visible momentum should come in particular from the recovery in the energy sector. In view of the rallying economic dynamic, the US central bank is likely to further tighten its monetary policy. Increased growth is also expected in Japan. In China, the government will definitely oppose a rapid decline in growth. However, the global economy is also exposed to risks. The still unclear economic policy of President Donald Trump is cause for considerable uncertainty. The UK Brexit negotiations and consequences will also be a stress factor. The eurozone's ongoing sovereign debt and banking crisis is also the cause of continuing uncertainty on the markets in 2017.

In view of this unsteady environment, investor sentiment is only cautiously optimistic. This is due to interest rate products not being expected to produce attractive returns in view of the still very low gains at present and the risks of price falls. On the other hand, the outlook on the international equities markets looks better, but the high risk environment will once again mean marked levels of volatility.

In our three business lines - private banking, loans and fund services - we expect continued growth in the current year. Nevertheless, the burdening effects of low and negative interest rates, pressures on margins and regulatory issues are still present, as is the case for the whole of the financial sector. Despite the careful cost management in our Bank, these continuing negative factors are likely to impact our earnings situation. As a consequence, we are also pursuing the initiatives to meet the constantly evolving digitisation strategy for DZ PRIVATBANK and establishing a management innovation approach across all sites.

PRIVATE BANKING

Along with DZ PRIVATBANK's business volume of over EUR 18 billion, in the relevant segments of high net worth customers and private banking customers with assets of EUR 250,000 upwards (BVR net worth pyramid), the cooperative banking group is now one of the leading providers to high net worth corporate and private customers.

This joint positioning was achieved as a result of DZ PRIVATBANK, along with its two foreign sites and ten sites located in Germany, establishing itself as a central subsidiary service provider in the cooperative finance group. The private banking market initiative launched in 2011 was successfully completed. The challenges which need to be anticipated in the market and competitive environment are, however, manifold. Cooperative banks are forming increasingly large structures by merging. Their cooperative private banking expertise centres are facing different demands, primarily in consultancy services and also in products and services, which need to adjust to market conditions and the continuing low-interest phase. The upcoming regulatory measures (including MiFID II) will create changes to the existing subsidiary partnership models. Customer expectations in the business segment continue to evolve with a growing need for diversified and customised products and solutions.

DZ PRIVATBANK has taken decisive steps to change course to meet these requirements for specific target customers. Due to proven expertise in attracting new customers, gross inflows of EUR 3.9 billion were generated from all sites, a remarkable result in a competitive market environment. This exceeds the growth achieved in previous years and confirms the successful joint servicing of target customers with roughly 500 partner banks. With AuM exceeding EUR 500 million in asset management for foundations, the excellent sales cooperation with the cooperative banks and the convincing services targeted at specific groups is exemplary.

In close cooperation with the partner banks, DZ PRIVATBANK is prioritising improving profitability in the business line. For this purpose, in the context of sales planning in close association with DZ Bank Group companies, sales activities are being expanded and intensified. More consideration is being given to the integral approach by means of ethically sustainable asset management. We are also working on expanding our portfolio management approaches. As part of the advisory quality process introduced by the cooperative banking group, DZ PRIVATBANK, along with BVR and selected cooperative banks, is setting the course for a customer-focussed expansion stage.

LOANS

DZ PRIVATBANK is well established as a financial specialist for monetary financing in the cooperative banking group. With a wide range of options for loans in all currencies marketed under the product name of LuxCredit, the Bank intends, along with the cooperative banks, to further consolidate its competitive position. The lending business will, in 2017, once again be characterised by a diversification of the currency loan portfolio. The high proportion of loans thus far in Swiss francs under LuxCredit is therefore likely to further decrease. New business in Swiss francs is still especially concentrated in cross-border commuting regions, where customers should benefit from the continuing low interest rate environment. With the decline in Swiss franc loans, financing in euros and other currencies is becoming more and more the focus of our sales activities. Variable rate euro loans successfully round off the cooperative banks' own product offer.

We expect a further rise in demand for flexible finance options for pre- and intermediate financing as seasonal or EURIBOR loans with negative reference rates. By taking out loans in the relevant currency, future currency income, such as export losses, of an equivalent value of EUR 10,000 and upwards, can be hedged at the interest level of the target currency simply, flexibly and cheaply against possible currency fluctuations. This offer is increasingly appealing for corporate customers. For private customers, the flexibility of LuxCredit short-term and variable product options, for instance as a variable component for long-term financing of housing construction, is the most common source of demand and is driving growth accordingly. Simple and more secure processes are convincing our alliance partners to offer standardised euro loans as general consumer loans via DZ PRIVATBANK.

The market success of the cooperative banks in LuxCredit is conditional upon the constant improvement and expansion of our customer service concept, which encompasses on-site exchange in the cooperative banks along with training courses in our many forms of application. More training has been arranged for 2017 in the usage of our LuxCredit model calculator in the agree 21 bank application. Strategy and sales meetings, and on-the-job training along with regular telephone and mail contact are still important instruments in our sales support. Via various media, we notify our partner banks at regular intervals of sales and service topics. The new opportunities offered by digitalisation will also offer considerable advantages for targeted and timely communication. Our offer of webinars, which already had good participation rates last year, will be further expanded in 2017. They are designed and implemented based on specific product topics or individually for cooperative banks.

At a low administrative cost, LuxCredit finance supplements the product range of the cooperative banking group economically and flexibly. We would like to continue to maintain this standard.

FUND SERVICES

In 2017, DZ PRIVATBANK intends to generate further profitable growth in the fund services business segment and to consolidate its strong competitive position, which has been constantly expanded over the past few years with extensive fund services and the specialist expertise recognised in the market by the cooperative banking group companies, banks and independent asset managers The intensive cooperation with Union Investment, DZ Bank Group’s investment company, has been reflected in the comprehensive perception of the depository function and is also reflected in its growth strategy abroad.

In the business with fund initiators such as banks, asset managers or family offices, DZ PRIVATBANK, together with its IPConcept subsidiaries in Luxembourg and Switzerland, is planning to further expand its market leadership in its core German-speaking markets. By constantly optimising procedures, the modern and powerful IT infrastructure and the skills of our employees, customised service packages will be offered across the entire value-added fund management chain. These customised packages must fulfil the many and completely different needs of the fund initiators in order to create significant added value and to generate future growth for them.

In 2017, a further priority will be to adapt to new regulatory conditions. Primarily, the revision of the Markets in Financial Instruments Directive (MiFID II), which aims for increased market transparency, investor protection and harmonisation across the EU in the supervision of financial service companies, requires the commitment of substantial resources.

THANKS

We would like to thank our employees for their tireless service and outstanding commitment, which significantly contributed to the company's success and to the achievement of our common goals in 2016. Our sincere thanks also go to the cooperative banks and to our private and institutional customers for their confidence in us.

Luxembourg, 17 February 2017

The Board of Management

Dr. Stefan Schwab Chairman	Ralf Bringmann	Richard Manger	Dr. Frank Müller

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 DECEMBER 2016

ASSETS

		31/12/2016	31/12/2015
	EUR '000	EUR '000	EUR '000
Cash, credit balances at central issuing banks and post office cheque accounts		1,943,848	1,273,719
Due from banks		4,105,344	4,269,291
a) Due on demand	2,950,526		2,250,697
b) Other receivables	1,154,818		2,018,594
Due from clients		5,474,997	5,672,667
Bonds and other fixed-interest securities		3,999,102	4,060,693
a) Public issuers	1,192,805		1,403,233
b) Other issuers	2,806,297		2,657,460
Equities and other variable-interest securities		3,858	3,975
Shares in affiliated companies		187,767	200,852
Intangible assets		7,310	11,529
Tangible fixed assets		46,962	48,338
Other assets		49,149	109,202
Accruals and deferrals		95,387	99,623
Total assets		15,913,724	15,749,889

LIABILITIES

		31/12/2016	31/12/2015
	EUR '000	EUR '000	EUR '000
Liabilities to banks		2,040,257	2,583,521
a) Due on demand	145,388		348,253
b) With an agreed maturity or notice period	1,894,869		2,235,268
Liabilities to clients		8,438,665	8,297,745
Other liabilities	8,438,665		
a) Due on demand	7,431,497		7,453,314
b) With an agreed maturity or notice period	1,007,168		844,431
Securitised liabilities		4,399,037	3,641,602
a) Issued debt instruments	1,849,118		1,562,847
b) Other	2,549,919		2,078,755
Sundry liabilities		22,921	29,887
Accruals and deferrals		151,145	330,943
Provisions		93,248	100,626
a) Provisions for pensions and similar obligations	6,099		2,966
b) Provision for taxation	16,334		37,966
c) Other provisions	70,815		59,694
Subordinated loans (external)		15,000	15,000
Fund for general banking risks		112,800	111,000
Subscribed capital		116,555	116,555
Offering premium		426,973	426,973
Reserves		85,741	84,655
a) Statutory reserves	11,655		11,655
b) Other reserves	74,086		73,000
Profit for the year		11,382	11,382
Total liabilities		15,913,724	15,749,889

BALANCE SHEET ITEMS

Contingent liabilities		44,725	44,621
incl.: Liabilities from sureties and liability from the placing of securities	44,725		44,621
Credit risks		28,241	25,779

PROFIT AND LOSS ACCOUNT 2016

		2016	2015
	EUR '000	EUR '000	EUR '000
Interest income and similar income		302,701	296,041
incl. fixed-interest securities	80,010		91,707
Interest expenditure and similar costs		-225,206	-220,331
Income from securities		11,288	2,203
a) Income from equities, shares and other variable-interest securities	85		0
b) Income from holdings in affiliated companies	11,203		2,203
Commission income		160,342	165,645
Commission expenses		-35,451	-38,863
Result from financial transactions		11,732	20,191
Other operating income		8,719	8,802
General administrative costs		-154,900	-148,279
a) Personnel expenses	100,540		-94,599
incl.:			
- Wages and salaries	-78,491		-75,430
- Social insurance	-20,501		-18,051
incl.: Social insurance for pensions	-10,955		-8,890
b) Other administrative costs	-54,360		-53,680
Depreciation and value adjustments on intangible and tangible assets		-10,754	-17,495
Other operating expenditure		-18,729	-11,268
Depreciation and valuation adjustments on receivables and allocations to provisions for contingent liabilities and credit risks		-32,250	0
Depreciation and value adjustments on securities expenses in relation to financial assets, on equity interests and shares in affiliated companies		-1,735	-37,600
Income from the release of valuation adjustments on securities expenses in relation to financial assets, on equity interests and shares in affiliated companies		112	407
Allocation to the fund for general banking risks (Art. 63)		-1,800	0
Tax on the result of ordinary activities		-2,615	-8,001
Operating income on ordinary activities after tax		11,454	11,452
Other taxes, provided they are not included under the items above		-72	-70
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 2016, 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 2016, 90.7% of the Bank's capital was held by DZ BANK AG, Frankfurt am Main, and 9.3% by 354 cooperative banks in Germany. The post-tax returns of the Bank, measured against the balance sheet total, amounted to seven basis points in 2016.

Under Article 80 of the Law of 17 June 1992 covering the annual financial statements and consolidated financial statements of banks operating under Luxembourg law, the Bank is released from the obligation to prepare consolidated financial statements and a consolidated operations report if all shareholders who own less than 90% of the shares of the bank agreed to this. The annual financial statements of DZ PRIVATBANK S.A. are included in the consolidated financial statements of DZ BANK AG, which are filed at the Commercial Register in Frankfurt am Main.

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 "Systeme 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 impartiality 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 %
Software and licences	25 %

D) FINANCIAL ASSETS

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

The Bank's financial assets are valued at the acquisition cost. The cost prices are calculated according to the average method. In the event of reductions in value, value adjustments are made regardless of their duration. For certain 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, which are linked to an asset swap, are amortised for 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 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 portfolios.

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

F) RECEIVABLES

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

G) VALUE ADJUSTMENTS AND PROVISIONS

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

Collective general valuation adjustments of the permissible amount are created based on the Luxembourg tax authority instruction of 16 December 1997. The risk assets calculated from the balance sheet and off-balance sheet transactions are used as the basis for determining the equity capital cover. The value adjustments are deducted from the corresponding asset items.

In order to cover possible future and as yet not quantifiable risks from the depositary business, provisions are created in the permitted fiscal amount applying the principle of prudence.

H) LIABILITIES

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

NOTES ON INDIVIDUAL ITEMS 2016

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	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Other receivables from banks	771	1,369	191	330	184	228	9	91	**1,155**	2,019
Due from clients	4,424	4,456	219	306	356	440	136	104	**5,135**	5,306

Amounts due on demand from clients totalled EUR 340 million (2015: EUR 367 million).

BONDS AND OTHER FIXED-INTEREST SECURITIES

Bonds and other fixed-income securities totalling EUR 708 million (2015: EUR 681 million) are due within the next year.

In accordance with the retention option, the Bank has maintained value adjustments totalling EUR 14 million (2015: EUR 16.5 million), which are no longer justified.

Bonds and other fixed-income securities amounting to EUR 2,889 million (2015: EUR 2,544 million) are attributable to current assets. Part of fixed assets is an amount of EUR 1,110 million (2015: EUR 1,517 million), which includes debt instruments approved for refinancing, an amount of EUR 3,438 million (2015: EUR 3,611 million). Bonds of a nominal amount of EUR 2,302 million (2015: EUR 1,877 million) are in a valuation unit with hedging transactions; the market value of these securities amounts to EUR 2,411 million (2015: EUR 1,990 million). The corresponding market values of the hedging transactions amount to EUR -93 million (2015: EUR -101 million).

REPURCHASE TRANSACTIONS

On the balance sheet date, securities with a market value of EUR 376 million (2015: EUR 344 million) were delivered as genuine repurchase agreements.

LISTED AND UNLISTED SECURITIES

	Listed		Unlisted		Total	
in EUR million	2016	2015	2016	2015	2016	2015
Bonds and other fixed-interest securities	3,927	3,974	72	87	3,999	4.061
Equities and other variable-interest securities	0	0	4	4	4	4
Shares in affiliated companies	0	0	188	201	188	201
Total	3,927	3.974	264	292	4,191	4.266

On the balance sheet date, an amount of securities of EUR 311 million (2015: EUR 194 million) were deposited as collateral.

SHARES IN AFFILIATED COMPANIES

The Bank holds shares in affiliated credit institutions totalling EUR 177.5 million (2015: EUR 198 million), in an affiliated financial institution EUR 3 million (2015: EUR 3 million), and in DZ PRIVATBANK Singapore Ltd. (in liquidation) EUR 7.3 million. Shares in affiliated companies in which the Bank has a stake of not less than 20% of the equity capital:

	Registered office	Holding in &	Book value	Equity	Latest net profit figure
In EUR '000			2016	*)	*)
DZ PRIVATBANK (Schweiz) AG	Zürich	100	177,500	162,729	181
DZ PRIVATBANK Singapore Ltd. **)	Singapore	100	7,267	7,267	-1,065
IPConcept (Luxemburg) S.A.	Luxembourg	100	3,000	4,580	4,441

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

**) currently in liquidation

During the reporting year, Europäische Genossenschaftsbank S.A. merged with DZ PRIVATBANK S.A. The effects of the merger (other revenue reserves of EUR 1.4 million and collective general valuation adjustments of EUR 0.1 million) were transferred to other revenue reserves and collective general valuation adjustments respectively without recognition as profit or loss.

OTHER ASSETS

in EUR million	31/12/2016	31/12/2015
Tax assets	20	13
Other receivables	29	25
Option premiums paid	0	71

The other receivables mainly include commission claims.

ACCRUALS AND DEFERRALS

Prepayments and accrued income of EUR 95.4 million are mainly comprised of EUR 58.7 million in deferred interest, as well as foreign currency adjustment items of EUR 25.6 million and upfront payments of EUR 11 million. Deferrals of EUR 151.1 million are mainly comprised of EUR 54.8 million in deferred interest, as well as foreign currency adjustment items of EUR 44.6 million, upfront payments of EUR 21.9 million and discounts of EUR 26.8 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	2016	2015	2016	2015	2016	2015
Gross value as at 1 January	244	244	1,518	1,693	1,762	1,937
Additions	0	0	8	0	8	0
Disposals	11	0	413	176	424	176
Foreign exchange adjustments	0	0	1	1	1	1
Gross value as at 31 December	233	244	1,114	1,518	1,347	1,762
Cumulative value adjustments as at 1 January	45	43	0	0	45	43
Additions	0	0	4	1	4	1
Net value as at 31 December	188	201	1,110	1,517	1,298	1,718

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	2016	2015	2016	2015	2016	2015
Gross value as at 1 January	83	83	51	52	134	135
Additions	0	0	3	2	3	2
Disposals	0	0	12	3	12	3
Gross value as at 31 December	83	83	42	51	125	134
Accumulated additions for value adjustments	43	42	35	44	78	86
Net value as at 31 December	40	41	7	7	47	48

The share of real property used by the Bank for its own business operations amounts to EUR 37 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	2016	2015	2016	2015	2016	2015
Gross value as at 1 January	39	37	44	41	83	78
Additions	0	2	2	3	2	5
Disposals	0	0	3	0	3	0
Gross value as at 31 December	39	39	43	44	82	83
Accumulated additions for value adjustments	36	35	39	36	75	71
Net value as at 31 December	3	4	4	8	7	12

The gross value of goodwill as at 1 January 2016 relates to private customer portfolios acquired in 2011, 2012 and 2013. The capitalised goodwill is amortised over a period of five years. The net book value of software/licences was divided into software of EUR 2 million and licences of EUR 2 million.

RECEIVABLES AND LIABILITIES TO/FROM AFFILIATED COMPANIES AND SUBORDINATED ASSETS

	Affiliated companies	
in EUR million	2016	2015
Assets	568	1,315
Due from banks	401	1,198
Due from clients	27	5
Bonds and other fixed-interest securities	140	41
Other assets	0	71
Liabilities	227	1,104
Liabilities to banks	177	949
Liabilities to clients	50	155

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	2016	2015
Assets	7,687	7,237
Liabilities	6,863	7,153

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

ACCUMULATED WRITE-OFFS ON PREMIUMS AND DISCOUNTS

Write-offs accumulated since the day of purchase on premiums and discounts charged/paid on bonds and other fixed-interest securities forming part of the financial assets amount to EUR 11.9 million and EUR -1.1 million respectively (2015: EUR 9.2 million (EUR -3.1 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	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Liabilities to banks	1,564	1,713	322	507	9	10	0	5	**1,895**	2,235
Other amounts due to clients	874	715	120	95	3	24	10	10	**1,007**	844
Bonds issued	0	0	842	164	693	1.328	314	71	**1,849**	1,563
Other securitised liabilities	2,122	1,773	428	204	0	0	0	0	**2,550**	1,977

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	31/12/2016	31/12/2015
Preferential liabilities	4	2
Redemption liabilities	8	15
Sundry liabilities	11	13

The redemption liabilities essentially relate to maturing fund coupons. Sundry liabilities relate, inter alia, to open commission payments (EUR 0.8 million), outstanding administrative expenses (EUR 2.5 million) and liabilities towards pension funds (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 916,000 during the financial year. Subordinated bearer bonds of EUR 7.5 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

Tax-allowable collective general valuation adjustments of EUR 43.9 million (2015: EUR 11.7 million) are capitalised. An amount of EUR 32.2 million was added during the reporting year.

FUND FOR GENERAL BANKING RISKS

The fund is endowed with EUR 112.8 million for general banking risks (2015: EUR 111 million). An amount of EUR 1.8 million was added during the reporting year.

SUBSCRIBED CAPITAL

The subscribed capital amounts to EUR 116.6 million. The capital is divided into 18,281,925 fully paid-up A registered shares and 4,482,688 fully paid-up B registered shares of no par value.

RESERVES

Statutory reserves amount to EUR 11.7 million. In accordance with Article 72 of the law of 10 August 1915, 5% of the annual profit is required to be transferred to the reserve until it is equal to 10% of the subscribed capital. Statutory reserves may not be distributed. After the allocation (not carried to profit or loss) due to the merger with Europäische Genossenschaftsbank S.A., other reserves amount to EUR 74.1 million, of which EUR 56.6 million are earmarked for the purpose of settling the wealth tax.

LUXEMBOURG RESOLUTION FUNDS, DEPOSIT GUARANTEE SCHEMES AND INVESTOR COMPENSATION

Under the law of 18 December 2015 on the implementation of the BRRD (Bank Recovery and Resolution Directive) in Luxembourg law, EU Directive 2014/49/EU on deposit guarantee schemes and investor compensation was also implemented. The Luxembourg Deposit Guarantee Fund (Fonds de garantie des dépôts Luxembourg, FGDL) was founded under Article 154 of this Law. The Luxembourg investor compensation scheme (Système d'indemnisation des investisseurs Luxembourg, SIIL) was created under Article 156 of the same law.

These deposits are guaranteed up to an amount of EUR 100,000 and assets under custody up to an amount of 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 above-mentioned law. DZ PRIVATBANK S.A. paid a bank levy of EUR 2.3 million during the reporting year. The ADGL provision is used in a corresponding amount for these purposes. DZ

PRIVATBANK S.A. used the option to deposit 15% (EUR 0.3 million) of the bank levy as Irrevocable Payment Commitments (IPC). Exercising the option means that only 85% of the bank levy can be recognised in the income statement.

DZ PRIVATBANK S. A. is also, by means of a voluntary guarantee scheme, a member of the BVR protection scheme under 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 guarantee obligations that are accepted by BVR for the collective guarantee scheme, DZ PRIVATBANK S.A. has assumed a guarantee obligation of EUR 4.8 million pursuant to the statute 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	2016	2015
Guarantees and other credit substitutes	45	45

As at 31 December 2016, contingent liabilities in relation to affiliated companies amounted to EUR 11.0 million (2015: EUR 11.0 million).

CREDIT RISKS

Credit risk is as follows:

in EUR million	2016	2015
Company loan commitments	28	26
incl.: Forward purchases of assets	5	3

As at the balance sheet date, there were no fixed lending commitments.

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	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Forward exchange transactions on organised markets (futures/options)	773	836	0	0	0	0	0	0	**773**	836
Forward exchange transactions OTC (swaps/outrights)	14,057	21,302	2,799	4,421	33	58	0	0	**16,889**	25,781
Interest rate and currency swaps	0	240	322	374	733	941	0	102	**1,055**	1,657
Non-value dated spot transactions	406	483	0	0	0	0	0	0	**406**	483

These include transactions with affiliated companies amounting to EUR 2,178 million (2015: EUR 4,685 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	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Interest rate swaps	208	203	538	553	2,877	2,870	1,267	995	**4,970**	4,621
Interest rate futures	7,662	6.875	703	222,639	1,352	714	0	0	**9,717**	230,138
Options on organised markets	1,402	123	87	0	0	0	0	0	**1,489**	123
Interest limit agreements (caps)	3	104	0	0	0	0	0	0	**3**	104

Interest rate linked transactions that are not for hedging purposes include open positions amounting to EUR 70 million (2015: EUR 60 million); EUR 709 million (2015: EUR 650 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	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Futures on variable interest securities	12	7	0	5	2	3	0	0	**14**	15
Options on variable interest securitites	2,243	1,165	677	400	322	135	0	0	**3,242**	1,700

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 advice or asset management
- Securities deposit and management
- Safe deposit box rental
- Trusteeship services
- Payment agent function
- Custodian bank function
- Services to cooperative banks
- Business procurement

PROFIT AND LOSS ACCOUNT

Other operating expenditure:

in EUR '000

Operating expenditure	2016	2015
Addition to provision for risks on depositary activities*	10,000	0
Contribution to subsidiary companies	2,485	0
Off-period expenditure	2,442	1,465
Addition to investor protection (SIIL) provision	2,400	0
Addition to provision for closure costs of subsidiary companies	800	0
Addition to provision for private banking	120	0
Addition to provision for staff costs	100	8
Addition to provision for banking operations risks	76	7,100
Other expenses	306	1,229
Summe	18,729	11,268

*The Bank made use of the tax option during the year to create a provision for latent risks of EUR 99,532 million for 0.1 per mille of the volume of funds in custody.

Other operating income:

in EUR '000

Operating income	2016	2015
Writing back of provisions	4,355	1,845
Refund of wage continuation insurance	1,054	1,353
Off-period income	1,896	3,406
Rental income	902	865
Other income	512	1,332
Summe	8,719	8,801

STAFF AND CORPORATE BODIES

AVERAGE NUMBER OF STAFF

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

Group	2016	2015
Board of Management, Chief Representatives, Directeurs and Directeurs-Adjoints	47	46
Senior management	67	62
Employees	795	751
Total	909	859

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	2016	2015	2016	2015
Salaries, emoluments, benefits	7,385	8,255	277	284
Social insurance for pensions	985	1,261	0	0
Loans, guarantees	1,363	791	786	800

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	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Interest and similar income	12	12	221	216	51	50	19	18	303	296
Commission income	106	109	47	50	4	3	3	4	160	166
Other operating income	7	7	2	2	0	0	0	0	9	9
Total	125	128	270	268	55	53	22	22	472	471

AUDITOR'S FEES

The audit fee for Ernst & Young for the 2016 financial year consists of auditing fees of EUR 444,000 and other audit services of EUR 98,000 (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 31/12/2016, the plan assets of the fund for employees of the Bank amounted to EUR 68.3 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.

The provisions for pensions and similar obligations reported on the Bank’s balance sheet primarily relate to the pension commitments for the employees of the Dusseldorf branch, amounting to EUR 1.9 million, the creation of a EUR 3 million provision for future pension claims and the flat-rate income taxes adopted by the Bank amounting to EUR 1.1 million.

Future expenses resulting from rental liabilities, due over the remaining term of the lease, amount to EUR 30.6 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. Europäische Genossenschaftsbank S.A. ceased to be a group company during the year due to the merger with DZ PRIVATBANK S.A.

ANALYSIS OF PRIMARY FINANCIAL INSTRUMENTS

The following tables subdivide the Bank's primary financial instruments of the non-trading portfolio and by balance sheet items and residual maturities as at 31 December 2016. 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	1,944	-	-	-	-	1,944
Due from banks	3,721	191	184	9	-	4,105
Due from non-banks	4,764	219	356	136	-	5,475
Bonds and other fixed-interest securities	259	449	2,426	865	-	3,999
Equities and other variable-interest securities	-	-	-	-	4	4
Total financial assets						15,527
Other assets						**387**
Total assets						15,914

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	1,709	322	9	-	-	2,040
Liabilities Non-banking institutions	8,306	120	3	10	-	8,439
Securitised liabilities - bonds	-	842	693	314	-	1,849
- Other	2,122	428	-	-	-	2,550
Subordinated loans (external)	-	-	15	-	-	15
Sundry liabilities	23	-	-	-	-	23
Total financial assets						14,916
Other assets						**998**
Total assets						15,914

ANALYSIS OF FINANCIAL DERIVATIVES

The following tables provide a summary of the Bank's derivative financial instruments. The transactions are subdivided into the various underlying transactions and residual maturities as at 31 December 2016. The classification of derivative instruments into assets or liabilities depends on whether the transaction has a positive or negative market value. A positive market value corresponds to the expenses incurred by the Bank for a substitute transaction should the contracting party default. Options are classified according to maturity.

DERIVATIVE INSTRUMENTS NOT PART OF TRADING PORTFOLIO

	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 Class of instruments		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest - OTC											
Swaps	4,971	11	277	171	367	575	2,302	482	786	1,239	3,732
Caps / Floors	6	-	-	0	-	2	3	-	1	2	4
Interest - listed											
Futures	10	-	-	-	-	10	-	-	-	-	10
Foreign currencies / precious metals - OTC											
Forwards	11,001	5,044	4,646	641	639	16	15	-	-	5,701	5,300
Swaps (FX/CCS)	7,044	2,347	2,063	1,259	627	93	655	-	-	3,699	3,345
Total										10,641	12,391

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

As at 31 December 2016 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	-110	1	-111
Currency forwards	2	-	2
Swaps - Currencies	98	-	98
Swaps - Interest	-204	-44	-160
Summe	-214	-43	-171

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	4,347	10	30	-	40	-	40
Bonds-Futures	10	-	-	-	-	-	-
Currency swaps/ CCS / forwards	15,853	246	187	-	433	-	433
Caps / floors / swaptions	4	-	-	-	-	-	-
Total							473

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

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, DZ PRIVATBANK Singapore Ltd., IPConcept (Luxemburg) S. A. and IPConcept (Schweiz) AG.

The Bank's risk management covers all actions taken by the divisions responsible for implementing a chosen risk strategy. 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

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

BASIC PRINCIPLES OF INTEGRATED RISK AND INVESTMENT CONTROL

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

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

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

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

- Risk measurement: an adequate definition of the Bank's risk position is a core element of the IRKS. This requires risk to be classified into types, for all material risks and minimum requirements, in terms of 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 against the reduced risk cover amount around the capital buffer needs.
- 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 and investment management: the IRKS is applied in practice through continuous involvement in the planning process, standardised monitoring for KPIs and regular reporting 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 subgroup 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
- Operational risk
- Business risk
- Investment risk
- Liquidity risk

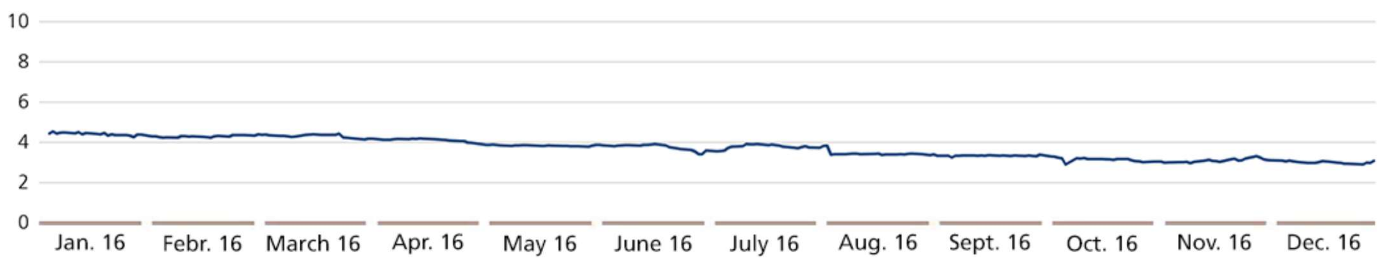
MARKET PRICE RISK

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 both for the Group and the individual management units. All remaining market price risks are restricted by a local limit and 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 based on 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 and stress test procedures, in which various market movements are simulated, widen the monitoring of market price risk.

MARKET PRICE RISK DEVELOPMENT - DZ PRIVATBANK S.A.



EUR million, figures from 01/01/2016 to 31/12/2016, 99% confidence level, ten-day holding period.

CREDIT RISK

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

– CONCENTRATION OF CREDIT RISKS

The credit department of DZ PRIVATBANK S.A. is responsible throughout the group 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 through external influences. The definition takes into account legal risk, but does not cover strategic and reputation 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 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, to indicate 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 determined centrally by DZ Bank. The specific scenario descriptions and characteristics are based on this (evaluation of amount and frequency of losses). 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 each quarter. 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 through unexpected changes in the current and future business volumes or margins (e.g. due to a change in competition).

In accordance with the risk management and controlling concepts of 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 both of thrisk 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. There will be no separate deposit with risk capital. A liquidity contingency plan is in place to allow the bank to respond to a crisis situation quickly and in a coordinated manner.

Luxembourg, 17 February 2017

The Board of Management

Dr. Stefan Schwab Chairman	Ralf Bringmann	Richard Manger	Dr. Frank Müller

AUDITOR'S REPORT

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Following our appointment by the Board of Management on 1 April 2016, we audited the accompanying annual financial statements of DZ PRIVATBANK S.A., which comprise the balance sheet as at 31 December 2016 and the profit and loss statement for the financial year ending on this date, as well as a summary of significant accounting methods and other explanatory information.

RESPONSIBILITY OF THE BOARD OF MANAGEMENT FOR THE ANNUAL 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 provisions applicable in Luxembourg and the standards for the preparation and presentation of annual financial statements, and for any internal checks it deems necessary to ensure that the annual financial statements are free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF THE AUDITOR

Our responsibility is to issue an auditor's opinion on the basis of our audit of these annual financial statements. We conducted our audit in accordance with the International Standards on Auditing for Luxembourg as adopted by the Commission de Surveillance du Secteur Financier. These standards stipulate that we observe professional requirements, and plan and conduct the audit in such a way that we can determine, with an adequate degree of certainty, whether the annual financial statements are free from material misstatement.

An audit involves conducting auditing procedures in order to issue an auditor's opinion on the valuations and information found in the annual financial statements. The procedures selected depend on the auditor's judgement, as is the assessment of the risk that material misstatements are included in the annual financial statements, whether due to fraud or error. As part of this risk assessment, the auditor examines the overall internal control system set up for the preparation and appropriate presentation of the annual financial statements to determine adequate auditing procedures under these circumstances, but not to give an opinion on the effectiveness of said internal control system. An audit also involves assessing the appropriateness of the accounting principles and methods used and the acceptability of the estimates made by the Board of Management, in addition to assessing the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDIT OPINION

According to our assessment, the annual financial statements convey a realistic account of the finances and assets of DZ PRIVATBANK S.A. as at 31 December 2016, as well as its profits and growth for the financial year ending on this date, in accordance with the legal requirements and stipulations applicable in Luxembourg with regard to the preparation and presentation of annual financial statements.

REPORT ON OTHER LEGAL AND REGULATORY OBLIGATIONS

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, 17 February 2017

ERNST & YOUNG

Société Anonyme

Approved audit firm (Cabinet de révision agréé)

Christian Brüne

COMMITTEES

SUPERVISORY BOARD

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Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main

KARL-HEINZ MOLL
VICE-CHAIRMAN

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

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Raiffeisenbank, Aalen

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Gelsenkirchen

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Volksbank Breisgau Nord eG,
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Volksbank Mittelhessen eG,
Gießen (until 3 March 2016)

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VR-Bank Main-Kinzig-Büdingen eG,
Linsengericht (since 4 March 2016)

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Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main

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

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Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V. (BVR),
Berlin

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Kölner Bank eG, Köln

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Hannoversche Volksbank eG,
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Chairman

RALF BRINGMANN

RICHARD MANGER

DR. FRANK MÜLLER

ADVISORY BOARD

Status: 31 December 2016

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Münchner Bank eG,
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Ulm

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Volksbank Lüneburger Heide eG,
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Neumarkt i.d.OPf.

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VR Bank Rhein-Neckar eG,
Mannheim

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Volksbank Strohgäu eG,
Korntal-Münchingen

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Jever

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Volksbank Trier eG,
Trier

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Volksbank Dreiländereck eG,
Lörrach

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Nordthüringer Volksbank eG,
Nordhausen

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Erlangen

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Volksbank Hameln-Stadthagen eG,
Stadthagen

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Westerwald Bank eG Volks- und Raiffeisenbank,
Hachenburg

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

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Raiffeisen-Volksbank Donauwörth eG,
Donauwörth

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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

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Volksbank eG, Sulingen
Sulingen

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Chairman of the Board of Management
VR Bank Südpfalz eG
Landau

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VR-Bank Kreis Steinfurt eG,
Rheine

JÜRGEN PINNISCH

Member of the Board of Management
Volksbank Heilbronn eG,
Heilbronn

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Volksbank Bruchsal-Bretten eG,
Bretten

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Kieler Volksbank eG,
Kiel

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

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
(since 1 January 2017)

Klaus Peter Bräuer
(until 31 December 2016)

LOANS

Alexander Steinmetz

OPERATIONS / SERVICES

Andreas Lechtenberg

ORGANISATION, IT, ADMINISTRATION

Hermann Wetzel

PORTFOLIO MANAGEMENT

Dr. Albrecht Michler

PRIVATE BANKING
NORTH GERMANY

Michael Mohr

PRIVATE BANKING
SOUTH GERMANY

Uwe Seeberger

PROJECT PORTFOLIO MANAGEMENT

Hauke Meintz

RISK CONTROLLING

Stephan Thräm
(since 15 January 2016)

TREASURY / BROKERAGE

Thomas Gehlen

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

DZ PRIVATBANK S.A.
Business address:
4, rue Thomas Edison
L-1445 Strassen, Luxembourg
Postal address:
BP 661
L-2016 Luxembourg

Tel.: +352 44903-1
Fax: +352 44903-2001

www.dz-privatbank.com
E-Mail: info@dz-privatbank.com
www.gb.dz-privatbank.com

BERLIN
DÜSSELDORF
FRANKFURT
HAMBURG
HANNOVER
LEIPZIG
MUNICH
NUREMBERG
OLDENBURG
STUTTGART

LUXEMBOURG
ZURICH

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 as partnership, stability and security.

Weil nicht nur zählt, was zählbar ist.

DZ PRIVATBANK