

**DZ BANK PERPETUAL FUNDING ISSUER (JERSEY) LIMITED**

**Directors' report and audited financial statements  
for the year ended 31 December 2017**

**Ocorian Limited**  
PO Box 75, 26 New Street  
St. Helier, Jersey  
Channel Islands, JE4 8PP

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The directors present their report together with the audited financial statements of DZ BANK Perpetual Funding Issuer (Jersey) Limited (the 'Company') for the year ended 31 December 2017.

### **Incorporation**

The Company was incorporated as a public company in Jersey, Channel Islands on 1 September 2005.

### **Principal activities**

The Company was incorporated as a special purpose vehicle for the purpose of participating in a public structured Tier I capital financing programme (the 'Public Programme'), arranged by and for DZ BANK AG Deutsche Zentral – Genossenschaftsbank, Frankfurt am Main ('DZB'). Under the Public Programme, the Company can issue Tier I perpetual limited recourse securities (together, the 'Notes') up to a maximum aggregate principal amount of €1,000,000,000 (or its equivalent in any other currency). The Notes are listed on the regulated market of the Luxembourg Stock Exchange and the Frankfurt Stock Exchange.

The proceeds from the issuance of the Notes are used by the Company to purchase classes of preference shares ('Preferred Securities') issued by DZ BANK Perpetual Funding (Jersey) Limited (the 'Funding Company'), a wholly owned subsidiary of DZB. In turn, the Funding Company uses the proceeds of the issue of the Preferred Securities to purchase subordinated notes issued by DZB ('Initial Debt Securities'). The Preferred Securities issued by the Funding Company are on terms that reflect nearly exactly those of the Initial Debt Securities. The denomination of the Preferred Securities is €1,000 with the exception of the Class II preferred securities which had a denomination of £100,000. As such, all classes other than the Class II preferred securities, which were redeemed in 2015, are caught by the transparency directive and subsequent legislation.

Income received by the Funding Company on the Initial Debt Securities is paid by way of dividends to the Company, as holder of the Preferred Securities, and must be distributed to the holders of the Notes without material delay. The payment of such dividends by the Funding Company is subject to the satisfaction of certain financial tests (the 'Conditions to Dividends') detailed in the statement of rights for each class of Preferred Securities. The Conditions to Dividends include, among others, satisfaction of certain financial tests relating to DZB and DZ BANK Group.

On 9 November 2005 pursuant to a collateral agency agreement (the 'CAA'), Deutsche Bank AG, London Branch became the collateral agent (the 'Collateral Agent'). The obligations of the Company under the Notes are secured in favour of the Collateral Agent on behalf of the holders of the Notes. Pursuant to the CAA, the Company has created possessory security over the Preferred Securities to the Collateral Agent in favour of the holders of the Notes.

The Notes are limited recourse obligations of the Company as detailed in the Public Programme documentation. Holders of the Notes have the right to receive payments of principal and interest on the Notes solely from redemption payments and dividends on the corresponding class of Preferred Securities.

To the extent that there is a shortfall in the monies due to the holders of the Notes, no debt will be owed by the Company in respect of any shortfall remaining after realisation of the Preferred Securities and application of the proceeds thereof in accordance with the terms of the CAA. In the event that the Notes are redeemed other than at the option of the Company, such redemption will be carried out by transferring to the holders of the Notes pro rata Preferred Securities of the relevant class.

The Company commenced activities on 9 January 2006 with the first issuance of Notes ('Class VI') under the Public Programme. A second issuance of Notes was made on 13 February 2006 ('Class VII'), a third issuance of Notes was made on 17 March 2006 ('Class I'), a fourth issuance of Notes was made on 4 September 2006 ('Class VIII'), a fifth issuance of Notes was made on 16 April 2007 ('Class IX'), a sixth issuance of Notes was made on 4 September 2007 ('Class X'), and a seventh issuance of Notes was made on 24 September 2008 ('Class II'). As at the date of approving these financial statements the Company has fully redeemed the Class X Notes and the Class II Notes.

On 26 May 2008 the class X Initial Debt Securities were repaid to the Company in full and the proceeds were utilised to redeem in full the Class X Preferred Securities.

On 9 October 2012 €5,000,000 of the Class VI Preferred Securities were repaid to the Company and the proceeds were utilised to redeem €5,000,000 of the Class VI Notes.

On 18 October 2012 €16,000,000 of the Class VII Preferred Securities were repaid to the Company and the proceeds were utilised to redeem €16,000,000 of the Class VII Notes.

On 25 October 2012 €5,700,000 of the Class I Preferred Securities were repaid to the Company and the proceeds were utilised to redeem €5,700,000 of the Class I Notes.

### Principal activities (continued)

On 8 November 2012 €13,000,000 of the Class VIII Preferred Securities were repaid to the Company and the proceeds were utilised to redeem €13,000,000 of the Class VIII Notes.

On 15 November 2012 €10,000,000 of the Class IX Preferred Securities were repaid to the Company and the proceeds were utilised to redeem €10,000,000 of the Class IX Notes.

On 24 September 2015 €250,000,000 of the Class II Preferred Securities were repaid to the Company in full and the proceeds were utilised to redeem in full the Class II Notes.

During 2016 and 2017 no significant events occurred since the last repayment made in September 2015.

### Unrecognised financial instruments

As stated in note 2 the Preferred Securities, income receivable on the Preferred Securities and the liabilities on the Notes are not recognisable as financial instruments in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement ('IAS 39').

### Directors

The directors of the Company, who served during the year and subsequently, are:

Shane Michael Hollywood  
Ariel Samantha Pinel

### Secretary

The secretary of the Company during the year and subsequently is:

Ocorian Secretaries (Jersey) Limited

### Results and dividends

The results for the year are shown in the statement of comprehensive income.

In the year no dividend was declared or paid by the directors in respect of the year ended 31 December 2016 (2016: no dividend was paid in respect of the year ended 31 December 2015).

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2017 (2016: €nil).

The directors confirm that to the best of their knowledge the cash flows relating to the Preferred Securities and Notes disclosed in the notes to the financial statements complied with the respective contractual arrangements.

### Independent auditor

Ernst & Young LLP has previously been appointed and has expressed willingness to continue in office. A resolution to reappoint Ernst & Young LLP as auditor will be proposed at the next annual general meeting.

### Going concern

The Public Programme documents are structured such that the obligations of the Company are limited in recourse and the Company has the benefit of bankruptcy remoteness (non-petition) provisions pursuant to which each Public Programme party recognises the limited financial resources of the Company and the intended bankruptcy remoteness of the Company. DZB undertakes to meet all expenses of the Company. After making enquires, the directors have a reasonable expectation that the Company has adequate resources and support from DZB to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis in preparing the financial statements.

### Future developments

The directors do not anticipate that the Company will issue any additional classes of Notes under the Public Programme.

**Statement of directors' responsibilities with regard to the financial statements**

The directors are responsible for preparing the financial statements in accordance with applicable Jersey law and International Financial Reporting Standards ('IFRS').

The directors are required by the Companies (Jersey) Law 1991, as amended, to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and appropriate;
- specify the generally accepted accounting principles that have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The financial statements are prepared in accordance with accounting principles generally accepted in the island of Jersey, incorporating IFRS.

The directors are responsible for keeping accounting records that are sufficient to show and explain the Company's transactions. These records must disclose with reasonable accuracy at any time the financial position of the Company and to enable the directors to ensure that any financial statements prepared comply with the Companies (Jersey) Law 1991, as amended. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

By order of the board



Secretary - Ocorian Secretaries (Jersey) Limited

Date 31 JANUARY 2018

**Registered office**

26 New Street  
St Helier  
Jersey  
JE2 3RA

**Statement of directors' responsibilities with regard to the financial statements**

The Company is listed on the regulated market of the Frankfurt Stock Exchange and Luxembourg Stock Exchange. Due to the nomination of Luxembourg as its home member state, and pursuant to the requirements of Article 3(2)(c) of the Luxembourg law of 11 January 2008 (as amended) relating to the transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, the Company is required to include a directors' responsibility statement in the financial statements.

To the best of their knowledge, the directors confirm that the directors' report and financial statements for the year ended 31 December 2017, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

To the best of their knowledge, the directors confirm that the directors' report and financial statements for the year ended 31 December 2017 include a fair review of important events that have occurred during the year ended 31 December 2017 and their impact on the financial statements, together with a description of the principal risks and uncertainties for the year as disclosed in note 8.

By order of the board



Director - Ariel Pinel

Date 31 JANUARY 2018

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF DZ BANK PERPETUAL FUNDING ISSUER (JERSEY) LIMITED**

**Opinion**

We have audited the financial statements of DZ BANK Perpetual Funding Issuer (Jersey) Limited (the 'Company') for the year ended 31 December 2017 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 10, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS).

In our opinion, the financial statements:

- ▶ give a true and fair view of the Company's affairs as at 31 December 2017 and of its result for the year then ended;
- ▶ have been properly prepared in accordance with IFRS; and
- ▶ have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Overview of our audit approach**

Key audit matter	<ul style="list-style-type: none"> <li>• The application of derecognition principles may be inappropriate</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall materiality of £1.301,500 which represents 0.5% of total assets before derecognition.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF DZ BANK PERPETUAL FUNDING ISSUER (JERSEY) LIMITED (continued)**

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to those charged with governance.
<p><b>The application of derecognition principles may be inappropriate</b></p> <p><b>Preferred Securities (£260,300,000, 2016: £260,300,000), and Notes (£260,300,000, 2016: £260,300,000)</b></p> <p><i>Refer to the Accounting policies (page 15-16); and Notes 5 and 7 of the Financial Statements (pages 18-17)</i></p> <p>There is a risk that the derecognition requirements of IFRS are inappropriately applied to the Preferred Securities and Notes of the Company resulting in a material misstatement.</p>	<p>We read management's assessment on the derecognition of the Preferred Securities and Notes under IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>We read the contracts relating to the Preferred Securities and Notes and validated that the Note holders' right to the cash flows of the Company are limited only to those of the Preferred Securities.</p> <p>We recalculated the contractual cash flows of the Preferred Securities and Notes based on the contractual terms and agreed these cash flows to those recorded in the company bank statements.</p> <p>We validated that the cash receipts arising from the Preferred Securities as recorded in the company bank statements were remitted to the Note holders.</p>	<p>We reported that there were no matters identified during our audit work to indicate that application of the derecognition principles may be inappropriate.</p>



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF DZ BANK PERPETUAL FUNDING ISSUER (JERSEY) LIMITED (continued)**

**An overview of the scope of our audit**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £1,301,500 (2016: £1,301,500), which is 0.5% (2016: 0.5%) of the total assets before derecognition. We believe that the total assets provides us with most important metric that investors use in measuring the performance of their holdings.

**Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £976,125 (2016: £976,125). We have set performance materiality at this percentage due to the low level of audit differences in the prior year.

**Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £65,075 (2016: £65,075), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF DZ BANK PERPETUAL FUNDING ISSUER (JERSEY) LIMITED (continued)**

**Other information**

The other information comprises the information set out on pages 1 to 5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**

As explained more fully in the statement of directors' responsibilities set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF DZ BANK PERPETUAL FUNDING ISSUER (JERSEY) LIMITED (continued)**

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Andrew Jonathan Dann, ACA  
for and on behalf of Ernst & Young LLP  
Jersey, Channel Islands  
31 January 2018

Notes:

1. The maintenance and integrity of the DZ BANK AG website, in which all information regarding the Company is housed, is the responsibility of the directors of DZ BANK AG; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Statement of comprehensive income for the year ended 31 December 2017**

	2017 €	2016 €
<b>Income</b>		
Foreign exchange gain	-	-
<b>Profit for the year</b>	-	-
<b>Other comprehensive income</b>	-	-
<b>Total comprehensive income for the year</b>	-	-

The notes on pages 15 to 20 are an integral part of these financial statements.

Statement of financial position as at 31 December 2017

	Note	2017 €	2016 €
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		<u>2</u>	<u>2</u>
<b>Total assets</b>		<u>2</u>	<u>2</u>
<b>Equity attributable to the owner of the Company</b>			
Share capital	6	<u>2</u>	<u>2</u>
<b>Total equity</b>		<u>2</u>	<u>2</u>

The financial statements on pages 11 to 20 were approved and authorised for issue by the board of directors on 31/01/18 and were signed on its behalf by:



Director - Shane Michael Hollywood



Director - Ariel Pinel

**Statement of changes in equity for the year ended 31 December 2017**

	Share capital	Retained earnings	Total
	€	€	€
Balance as at 1 January 2016	2	-	2
Profit for the year	-	-	-
Total comprehensive income for the year ended 31 December 2016	-	-	-
Transactions with owners: Dividends paid	-	-	-
Balance as at 31 December 2016	<u>2</u>	<u>-</u>	<u>2</u>

	Share capital	Retained earnings	Total
	€	€	€
Balance as at 1 January 2017	2	-	2
Profit for the year	-	-	-
Total comprehensive income for the year ended 31 December 2017	-	-	-
Transactions with owners: Dividends paid	-	-	-
Balance as at 31 December 2017	<u>2</u>	<u>-</u>	<u>2</u>

The notes on pages 15 to 20 are an integral part of these financial statements.

**Statement of cash flows for the year ended 31 December 2017**

	Note	2017 €	2016 €
<b>Cash flows from operating activities</b>			
Net cash flows generated from operating activities		-	-
<b>Cash flows used in financing activities</b>			
Dividends paid		-	-
Net cash flows used in financing activities		-	-
<b>Net movement in cash and cash equivalents in the year</b>		-	-
Cash and cash equivalents as at the start of the year		2	2
Effect of foreign exchange rate changes		-	-
<b>Cash and cash equivalents as at the end of the year</b>		<b>2</b>	<b>2</b>

The notes on pages 15 to 20 are an integral part of these financial statements.

## 1 General information

The Company is a public limited company incorporated in Jersey, Channel Islands. The principal activities of the Company are described in the directors' report.

## 2 Accounting policies

The financial statements for the year ended 31 December 2017 on pages 11 to 20 have been prepared in accordance with accounting principles generally accepted in the island of Jersey, incorporating IFRS as issued by the IASB.

### Basis of preparation

The financial statements have been prepared under the historical cost convention.

These financial statements are presented in Euro ('€'), which is the Company's functional and reporting currency.

A summary of the more important policies in dealing with items that are considered material to the Company are shown below:

### Going concern

The Public Programme documents are structured such that the obligations of the Company are limited in recourse and the Company has the benefit of bankruptcy remoteness (non-petition) provisions pursuant to which each Public Programme party recognises the limited financial resources of the Company and the intended bankruptcy remoteness of the Company. The current respective long and short term ratings of DZB are AA- and A-1+ by S&P and Aa3 and P-1 by Moody's. DZB undertakes to meet all expenses of the Company.

After making enquires, the directors have a reasonable expectation that the Company has adequate resources and support from DZB to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis in preparing the financial statements.

### Standards and interpretations in issue not yet adopted

At the statement of financial position date, the following standard which has not been applied in these financial statements, was in issue but not yet effective:

- International Financial Reporting Standard 9 Financial Instruments (effective 1 January 2018) ('IFRS 9').

The directors anticipate that the adoption of IFRS 9 will not have a significant impact upon the results of the Company.

In reaching this conclusion, the directors note that the Company is a special purpose vehicle whose obligations are limited in recourse and the Company is structured so as to be bankruptcy remote. After the assessment of the expected impact of derecognition under IFRS9 the directors conclude there is no significant impact on the financial statements as the Company also satisfies the derecognition criteria set out in IFRS 9.

The directors have reviewed and considered all other standards, amendments and interpretations issued but not yet effective as at the date the financial statements are authorised for issue. In the opinion of the directors the other standards, amendments and interpretations issued but not yet effective are either not relevant to the activities of the Company or will have no impact on the financial statements of the Company.

### Critical judgements and accounting estimates

The preparation of these financial statements requires the directors to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent liabilities as at the statement of financial position date. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In the event such estimates and assumptions which are based on the best judgement of the directors as at the statement of financial position date deviate from the actual circumstances in the future, the original estimates and assumptions will be modified as appropriate in the year or period in which the circumstances change.



## 2 Accounting policies (continued)

### Critical judgements and accounting estimates (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The directors have reviewed the Company's accounting policy concerning the recognition or derecognition of its financial instruments. In the opinion of the directors, the Company is still required by International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39) not to recognise its principal financial instruments.

The Preferred Securities are not recognisable as financial instruments as the Company has an agency role in connection with the collection of the cash flows generated from the Preferred Securities and does not enjoy the risks and rewards, rights and obligations of the Preferred Securities in a principal capacity. The Company has the contractual right to receive the cash flows generated from the Preferred Securities, but has a contractual obligation to pay any cash flows received to the holders of the Notes without material delay. In addition the Company is prohibited from selling or pledging the Preferred Securities other than as security to the holders of the Notes.

For the same reason, the financial liabilities relating to the Notes are not recognisable as financial instruments. The holders of the Notes are entitled only to receive the cash flows generated from the Preferred Securities and, therefore, have no recourse to the Company in the event of default.

### Recognition and derecognition of financial assets and liabilities

The Company initially recognises financial assets and liabilities on the date at which they are originated. Purchases and sales of financial assets are recognised on the date on which the Company commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date on which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. The Company derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other financial institutions.

### Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are revalued at the rate of exchange ruling at the statement of financial position date.

Foreign exchange gains and losses are included in the statement of comprehensive income for the year in which they arise.

## 2 Accounting policies (continued)

### Expenses

All expenses of the Company are borne by DZB with no recourse against the Company.

### Dividends

Under International Accounting Standard 10 Events After the Reporting Period ('IAS 10'), proposed dividends are not considered to be a liability until the dividends are approved and declared by the directors of a company for interim dividends or the shareholders of a company, at the annual general meeting, for final dividends.

### Income

Interest receivable by the Company is used to fund the dividends payable.

## 3 Taxation

The Company is registered in Jersey, Channel Islands as an income tax paying company. The general rate of income tax for companies resident in Jersey (such as the Company) is 0% for the current year of assessment (2016: 0%).

## 4 Income receivable on the Preferred Securities

In accordance with note 2, the Preferred Securities are not recognised in the statement of financial position. As the Preferred Securities are not recognised neither is the income receivable on the Preferred Securities. The interest receivable matches the interest payable to the holders of the Notes and these funds are payable without material delay. The following information is presented in the financial statements in order to provide information to the reader.

	Interest rate	2017 €	2016 €
Class VI	3 month Euribor +1.10%	354,600	421,650
Class VII	3 month Euribor +0.80%	403,200	510,720
Class I	3 month Euribor +1.00%	29,326	33,841
Class VIII	3 month Euribor +0.80%	417,600	513,300
Class IX	3 month Euribor +0.50%	70,800	129,200
		<u>1,275,526</u>	<u>1,608,711</u>

## 5 Preferred Securities

In accordance with note 2, the Preferred Securities are not recognised in the statement of financial position. The following information is presented in the financial statements in order to provide information to the reader. No consideration has been given to the possibility of future losses on the Preferred Securities as any such losses would have no effect on the financial position of the Company, nor on its aggregate financial performance.

	Issue date	Principal amount 2017 €	Fair value 2017 €	Principal amount 2018 €	Fair value 2018 €
Class VI	9 January 2006	45,000,000	37,800,000	45,000,000	34,650,000
Class VII	13 February 2006	84,000,000	70,560,000	84,000,000	68,800,000
Class I	17 March 2006	4,300,000	3,569,000	4,300,000	3,010,000
Class VIII	4 September 2006	87,000,000	73,080,000	87,000,000	61,770,000
Class IX	16 April 2007	40,000,000	33,600,000	40,000,000	27,200,000
		<b>260,300,000</b>	<b>218,609,000</b>	260,300,000	185,430,000

Pursuant to the Preferred Securities purchase agreements, the Company has purchased the above Preferred Securities from the Funding Company as part of the pass-through arrangement. The Preferred Securities are non-cumulative, non-voting preference shares of the Funding Company representing ownership interests in the Funding Company.

Income received by the Funding Company on the Initial Debt Securities is paid by way of dividends to the Company, as holder of the Preferred Securities, and must be distributed to the holders of the Notes without material delay. The payment of such dividends by the Funding Company is subject to the satisfaction of the Conditions to Dividends and directors' approval. The Conditions to Dividends include, among others, satisfaction of certain financial tests relating to DZB and DZ BANK Group.

The Preferred Securities are perpetual, with no fixed maturity date and are not redeemable at any time at the option of the Company. Each class of Preferred Securities is supported by DZB through a subordinated support undertaking.

### *General valuation method*

The fair values of the class VI, class VII, class I, class VIII, and class IX Initial Debt Securities are determined by the use of the market values of the respective Funding Notes.

The most recent trade for the Funding note connected to the Class VI Preferred Security was on 29 December 2017. The price of the trade was 84% of the nominal value of the preferred security with 10,080 units traded.

The most recent trade for the Funding note connected to the Class VII Preferred Security was on 5 December 2017. The price of the trade was 84% of the nominal value of the preferred security with 4,155 units traded.

The most recent trade for the Funding note connected to the Class I Preferred Security was on 21 December 2017. The price of the trade was 83% of the nominal value of the preferred security with 8,300 units traded.

The most recent trade for the Funding note connected to the Class VIII Preferred Security was on 29 December 2017. The price of the trade was 84% of the nominal value of the preferred security with 33,600 units traded.

The most recent trade for the Funding note connected to the Class IX Preferred Security was on 29 December 2017. The price of trade was 84% of the nominal value of preferred security with 8,400 units traded.

## 6 Share capital

	2017 €	2016 €
<b>Authorised:</b>		
2 ordinary shares of €1.00 each	<u>2</u>	<u>2</u>
<b>Issued and fully paid:</b>		
2 ordinary shares of €1.00 each	<u>2</u>	<u>2</u>

There are no other share classes which would dilute the rights of the ordinary members. Amongst other rights as prescribed in the articles of association of the Company, the rights of the ordinary members include:

- the right to attend meetings of members. On a show of hands every member present in person or by proxy shall have one vote and on a poll every member shall have one vote for each share of which the member is a shareholder; and
- the right to receive dividends recommended by the directors and declared in a general meeting.

## 7 Notes

In accordance with note 2, the Notes are not recognised in the statement of financial position. The following information is presented in the financial statements in order to provide information to the reader. No consideration has been given to the possibility of future losses on the Preferred Securities (and thereby on the Notes) as any such losses would have no effect on the financial position of the Company, nor on its aggregate financial performance.

	Issue date	Principal amount 2017 €	Fair value 2017 €	Principal amount 2016 €	Fair value 2016 €
Class VI	9 January 2006	45,000,000	37,800,000	45,000,000	34,650,000
Class VII	13 February 2006	84,000,000	70,560,000	84,000,000	58,800,000
Class I	17 March 2006	4,300,000	3,569,000	4,300,000	3,010,000
Class VIII	4 September 2006	87,000,000	73,080,000	87,000,000	61,770,000
Class IX	16 April 2007	40,000,000	33,600,000	40,000,000	27,200,000
		<u>260,300,000</u>	<u>218,609,000</u>	<u>260,300,000</u>	<u>185,430,000</u>

The Public Programme documentation prescribes that interest will be paid by DZB on the Initial Debt Securities held by the Funding Company. Such interest payments will, in turn, fund dividends paid by the Funding Company on the Preferred Securities held by the Company. Upon receipt, the Company has a contractual obligation to pay any cash flows received to the holders of the Notes without material delay under the terms of the relevant Notes. Each class of Notes issued by the Company is referenced to and limited in recourse to the performance of the corresponding class of Preferred Securities. The amount distributed on the Notes is referenced to and limited in recourse to the receipt of income on the corresponding class of Preferred Securities. This explains the agency role of the company, and the need for the fair values of the assets to be equal to the fair values of the notes.

The distributions on the Notes match the interest received on the Preferred Securities. As such, these are not recognised as the holders of the Notes are entitled to receive the cash flows generated from the Preferred Securities and, so through the pass through arrangement, the Company has discharged its obligations to the holders of the Notes in accordance with IAS 39.

Save for the above, the holders of the Notes have no legal right to participate in the profits of the Company. The holders of the Notes are unable to attend meetings of the Company and have no voting rights in the Company.

The fair value of the Notes are derived from using quoted prices on the last trading day of the year, as disclosed in note 5. The fair values of the Preferred Securities and the Notes are assessed to be the same as their risks and rewards are deemed to be identical and there is no material delay arising from the pass-through arrangements in place regarding cash flows.

## 7 Notes (continued)

IFRS 13 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs to value the Company's financial instruments. The hierarchy of inputs is summarized below:

- a quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

Changes in valuation methods may result in transfers into or out of a financial instrument's assigned level.

At the reporting date, the directors conclude that the Preferred securities and Notes are both at the level 2 in the fair value hierarchy as there is deemed a low level of market activity regarding the trading of these Notes and the fair value of the Preferred securities is derived using market observable inputs.

## 8 Financial risk management

In the opinion of the directors the Company is not exposed to market risk, credit risk, liquidity risk or fair value estimation and disclosures on financial instruments and associated risks are not necessary due to the limited recourse feature of the Preferred Securities and Notes.

### Capital management

Capital consists of equity attributable to the equity shareholders. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 9 Ultimate controlling party

The Company is owned by Ocorian Trustees (Jersey) Limited as trustee of the DZ Bank Perpetual Funding Issuer (Jersey) Charitable Trust.

The Financial Statements are consolidated in the financial statements of DZB and therefore, for financial reporting purposes, the ultimate controlling party of the Company considered to be DZB.

## 10 Related party transactions

Corporate administration services are provided to the Company by Ocorian Limited, including the provision of the Company secretary, Ocorian Secretaries (Jersey) Limited and the directors. Shane Michael Hollywood and Ariel Samantha Pinel are directors of Ocorian Secretaries (Jersey) Limited. Shane Michael Hollywood is also a director of Ocorian Limited.

All relevant expenses are borne and paid by DZB on behalf of the Company and are not rechargeable to the Company.

Total fees borne by DZB on behalf of the company and paid by DZB directly to Ocorian Limited during the year, amounted to €15,372 (£20,701) (2016: €28,472 (£24,387)). No other fees were incurred by the Company during the year.

Shane Michael Hollywood and Ariel Samantha Pinel are also directors of the Funding Company.