

# **Eurohypo Capital Funding Trust II**

Annual Financial Report  
as of December 31, 2014

**Management Report**  
**as of December 31, 2014**

Eurohypo Capital Funding Trust II (the "Trust") exists for the sole purposes of issuing the Trust Preferred Securities, investing the gross proceeds thereof in the Company Class B Preferred Securities issued by Eurohypo Capital Funding LLC II (the "Company") and engaging in activities necessary or incidental thereto. In addition to the Company Class B Preferred Securities, the Company has also issued one voting common security (the "Company Common Security") and one non-cumulative Class A preferred security (the "Company Class A Preferred Security" and, together with the Company Common Security and the Company Class B Preferred Securities, the "Company Securities"). The Company Securities will represent all of the ownership interests in the Company. The Company Common Security and the Company Class A Preferred Security are owned by Hypothekenbank Frankfurt AG (formerly known as Eurohypo AG, the "Bank").

The Company has used the proceeds from the issuance of the Company Class B Preferred Securities, together with the proceeds from the issuance of the Company Class A Preferred Security and the Company Common Security, to acquire €300,003,000 subordinated notes due March 8, 2045 (the "Initial Debt Securities") of the Bank. The income to be received by the Company from the Initial Debt Securities and any Substitute Debt Securities (the Substitute Debt Securities together with the Initial Debt Securities, the "Debt Securities"), will be available for distribution, as appropriate, to the holders of the Company Class B Preferred Securities, the Company Class A Preferred Security and the Company Common Security.

The Trust will pass through Capital Payments and redemption proceeds on the Company Class B Preferred Securities as Capital Payments and redemptions, respectively, on the Trust Preferred Securities. Capital Payments on the Company Class B Preferred Securities were payable (i) since and including March 8, 2005 (the "Issue Date") to but excluding March 8, 2007 ("Reset Date"), on a non-cumulative basis, annually in arrears on March 8 of each year, commencing March 8, 2006 at a fixed rate of 6.75% per annum and (ii), after the Reset Date, annually in arrears on March 8 of each year, commencing March 8, 2008 at the Floating Rate – meaning the Reference Rate for the accrual of Capital Payments (or, in case of the Initial Debt Securities, Interest Payments) plus 0.1% per annum, provided that no Capital Payment for any capital payment period (or, in case of the Initial Debt Securities, Interest Payments) commencing on or after the Reset Date shall accrue at a rate of more than 8.00 % per annum, calculated on the basis of the actual number of days elapsed in a year of 365 or 366 days, as the case may be.

Capital Payments on the Company Class B Preferred Securities are subject to certain conditions and are authorized to be declared and paid on any Class B Payment Date to the extent that (i) the Company has an amount of Operating Profits for the Class B Payment Period ending on the day immediately preceding such Class B Payment Date at least equal to the amount of such Capital Payments, and (ii) the Bank has an amount of Bank Distributable Profits for the most recent preceding fiscal year of the Bank for which audited financial statements are available at least equal to the aggregate amount of (x) such Capital Payments, (y) previous Capital Payments already paid on the basis of Bank Distributable Profits for such most recent fiscal year and (z) capital payments, dividends or other distributions on Parity Securities, if any, pro rata, on the basis of Bank Distributable Profits for such most recent fiscal year. Following a settlement with Ocampo International SA as holder of Trust Preferred Securities, the Trust published an announcement on November 13, 2013 with regards to the future payments on the Class B Preferred Securities as disclosed in greater detail below.

Despite sufficient Operating Profits of the Company and sufficient Bank Distributable Profits of the Bank, the Company will not be permitted to make Class B Capital Payments on any Class B Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Financial Supervisory Authority ("BaFin") or other relevant regulatory authority pursuant to the German Banking Act (KWG) or any other applicable regulatory provision prohibiting the Bank from making any distribution of its profits (including to the holders of the Parity Securities). The Company will have no obligation to make up, at any time, any Class B Capital Payments not paid in full by the Company as a result of insufficient Operating Profits of the Company, insufficient Bank Distributable Profits or an order of the BaFin.

To the extent the board of directors of the Company does not declare Capital Payments at the stated rate in full on any Class B Payment Date, the Bank - as the owner of the Class A Preferred Security of the Company - shall be entitled to receive when, as and if declared by the board of directors of the Company out of assets of the Company legally available therefore, capital payments in cash or in assets of the Company on a noncumulative basis.

The Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof. The Trust and the Company did not redeem the Trust Preferred Securities on the Initial Redemption Date on March 8, 2011, but the Trust and the Company may do so on any Capital Payment Date falling after the

Initial Redemption Date, except upon the occurrence of certain disqualification events arising from tax, U.S. Investment Company Act of 1940, as amended and regulatory capital matters.

*Capitalized terms used therein and not otherwise defined herein shall have the same meanings as defined in the Information Memorandum which is available on the Hypothekenbank Frankfurt AG website at the following URL:*

[https://www.hypothekenbankfrankfurt.com/en/hauptnavigation/investor\\_relations/emissionen\\_und\\_anleihen/\\_hybrides\\_kernkapital/hybrides\\_kernkapital\\_1.jsp](https://www.hypothekenbankfrankfurt.com/en/hauptnavigation/investor_relations/emissionen_und_anleihen/_hybrides_kernkapital/hybrides_kernkapital_1.jsp)

The Trust, the Bank and the Company have entered into a services agreement (the "Services Agreement") with Commerzbank AG, New York Branch (the "Servicer"). Under the Services Agreement, the Servicer will be obligated, among other things, to provide legal, accounting, tax and other general support services to the Trust and the Company, to maintain compliance with all applicable U.S. and German local, state and federal laws, and to provide administrative, record-keeping and secretarial services for the Company and the Trust. The fees and expenses of the Company and the Trust, including any taxes, duties, assessments or governmental charges of whatsoever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Preferred Securities or the Company Securities) will be paid by the Bank.

In addition, the Bank has entered into a Support Undertaking with the Company pursuant to which the Bank undertook that the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, all in accordance with, and subject to, the terms of such Support Undertaking.

Effective March 24, 2014, Mr. Anthony Merolla and Mr. Clifford Rooke resigned as Regular Trustees of the Trust and were replaced by Mr. John Geremia and Mr. Werner Rietze.

On September 3, 2013, a complaint was filed by Ocampo International SA in the Court of Chancery of the State of Delaware against the Bank, Eurohypo Capital Funding LLC I and Eurohypo Capital Funding LLC II seeking (i) payments of overdue Capital Payments under the Class B Preferred Securities to the Trusts and (ii) damages for breach of contract, breach of implied covenant of good faith and fair dealing and breach of fiduciary duty.

In order to settle this dispute, the Bank agreed, in accordance with its obligations under the Support Undertaking, to pay, on November 15, 2013, the full amount of capital payments on

the Trust Preferred Securities that were due on March 8, 2010, March 8, 2011, March 8, 2012 and March 8, 2013, together with interest at an annual rate of interest of 5% per annum, compounded semi-annually, for a total payment of €43,921,834.89. This relates to a payment of €146.10 per denomination of €1,000.

Following the settlement with Ocampo International SA, the Trust published an announcement on November 13, 2013 as follows:

- Commencing on the date of this announcement, regardless of whether Hypothekenbank Frankfurt AG has a fiscal year profit but otherwise subject to the terms and conditions of the Trust Preferred Securities, for those Class B Payment Dates for which the payment obligation on the Class B Preferred Securities is based on the Distributable Profits of Hypothekenbank Frankfurt AG for a fiscal year, Eurohypo Capital Funding LLC II will consider Hypothekenbank Frankfurt AG to have sufficient Distributable Profits to make Capital Payments on the Class B Preferred Securities and will cause Eurohypo Capital Funding Trust II to make Capital Payments to the holders of its Trust Preferred Securities for any fiscal year during which the domination and profit and loss transfer agreement dated 26 June 2007 between Commerzbank Inlandsbanken Holding GmbH and Hypothekenbank Frankfurt AG remains in effect. Further, solely for the purposes of determining Capital Payments under the Amended and Restated Limited Liability Company Agreement of Eurohypo Capital Funding LLC II (the "LLC Agreement"), Eurohypo Capital Funding LLC II will consider profit participation certificates (Genussscheine) to be Parity Securities as that term is defined under the LLC Agreement.

A Class B Capital Payment was declared and paid with respect to the payment date of March 10, 2014 as previously announced.

In March 2014, the Bank acquired 147,854 Trust Preferred Securities in an aggregate Liquidation Preference Amount of €147,854,000. The Bank transferred these securities to the Trust and upon receipt by the Trust, the Trust Preferred Securities were cancelled (the "Cancelled Trust Preferred Securities"). Accordingly, the Clearing System reduced the number of Trust Preferred Securities outstanding and represented by the Permanent Global Certificate from 300,000 to 152,146.

Upon receipt by the Trust of the Cancelled Trust Preferred Securities, the Property Trustee released to the Company 147,854 Company Class B Preferred Securities and these securities were cancelled and the Company issued a new Class B Preferred Certificate representing 152,147 Company Class B Preferred Securities outstanding.

Subsequently, the Company agreed to surrender to the Bank subordinated debt securities in the principal amount of EUR 147,854,000 for purposes of cancellation.

## **Outlook**

A Class B Capital Payment was declared and paid with respect to the payment date of March 9, 2015 as previously announced.

### **Actions by Rating Agencies after December 31, 2013**

The Trust Preferred Securities are rated by the rating agencies Fitch Ratings Ltd. ("Fitch") and Moody's Investor Service, Inc. ("Moody's"). After year-end 2013, the following ratings actions took place:

- On January 14, 2014, Moody's upgraded the Trust Preferred Securities from "Ca (hyb)" to "B1 (hyb)".
- On February 10, 2014, Fitch upgraded the Trust Preferred Securities from "B+" to "BB-".
- On June 2, 2014, Moody's confirmed the Trust Preferred Securities at "B1 (hyp)".
- On January 9, 2015, the Trust Preferred Securities ratings were confirmed at "BB-" and "withdrawn" by Fitch.
- On March 17, 2015, Moody's changed the outlook for the Trust Preferred Securities "B1 (hyp)" rating from "stable" to "on review for upgrade".

**Statement by reporting entity**

The accompanying consolidated balance sheet as well as the related consolidated statements of income, changes in equity and cash flows have been prepared in accordance with accounting principles generally accepted in the United States of America.



# **Eurohypo Capital Funding Trust II**

(A Delaware Trust)

**Consolidated Financial Statements  
December 31, 2014**

**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Index**  
**December 31, 2014**

---

	Page(s)
Independent Auditor's Report .....	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheet.....	2
Consolidated Statement of Income.....	3
Consolidated Statement of Changes in Equity .....	4
Consolidated Statement of Cash Flows.....	5
Notes to Consolidated Financial Statements .....	6-14



## Independent Auditor's Report

To the Trustees of  
Eurohypo Capital Funding Trust II

We have audited the accompanying consolidated financial statements of Eurohypo Capital Funding Trust II (the "Trust"), which comprise the consolidated balance sheet as of December 31, 2014 and the related consolidated statement of income, statement of changes in equity, and the statement of cash flows for the year then ended.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Trust's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eurohypo Capital Funding Trust II at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

April 23, 2015

**Eurohypo Capital Funding Trust II**  
 (A Delaware Trust)  
**Consolidated Balance Sheet**  
**December 31, 2014**

---

(in euros)

**Assets**

Cash	€ 2,279
Accrued interest receivable	2,439,149
Investment in affiliated subordinated debt securities	<u>152,149,000</u>
Total assets	<u>€ 154,590,428</u>

**Equity**

Noncontrolling interest in subsidiaries

Common equity security issued by Eurohypo Capital Funding LLC II (par value €1,000; 1 share authorized, issued and outstanding)	€ 1,000
Class A preferred security issued by Eurohypo Capital Funding LLC II (liquidation preference €1,000; 1 share authorized, issued and outstanding)	<u>1,000</u>
Total noncontrolling interest in subsidiaries	2,000

Common equity security (par value €1,000; 1 share authorized,  
issued and outstanding)

1,000

Perpetual trust preferred securities (liquidation preference €1,000; 300,000 shares  
authorized, 152,146 shares issued and outstanding)

152,146,000

Retained earnings

2,441,428

Total equity

€ 154,590,428

The accompanying notes are an integral part of these consolidated financial statements.

**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Consolidated Statement of Income**  
**For the Year Ended December 31, 2014**

---

*(in euros)*

Revenues	
Interest income	<u>€ 3,576,401</u>
Total revenues	3,576,401
Total expenses (note 7)	<u>-</u>
Net income	<u>€ 3,576,401</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Eurohypo Capital Funding Trust II**  
**(A Delaware Trust)**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended December 31, 2014**

---

*(in euros)*

	<u>Noncontrolling Interest</u>	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances at December 31, 2013	€ 2,000	€ 1,000	€ 300,000,000	€ 4,543,792	€ 304,546,792
Cancellation of securities			(147,854,000)		(147,854,000)
Dividend distribution				(5,678,765)	(5,678,765)
Net income				3,576,401	3,576,401
Balances at December 31, 2014	<u>€ 2,000</u>	<u>€ 1,000</u>	<u>€ 152,146,000</u>	<u>€ 2,441,428</u>	<u>€ 154,590,428</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Eurohypo Capital Funding Trust II**  
**(A Delaware Trust)**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2014**

---

*(in euros)*

<b>Cash flows from operating activities</b>	
Net income before noncontrolling interest	€ 3,576,401
Decrease in accrued interest receivable	2,102,420
Net cash provided by operating activities	<u>5,678,821</u>
<b>Cash flows from investing activities</b>	
Cancellation of investments in debt securities	147,854,000
Net cash provided by investing activities	<u>147,854,000</u>
<b>Cash flows from financing activities</b>	
Cancellation of trust preferred securities	(147,854,000)
Dividend distribution on trust preferred securities	(5,678,765)
Net cash used in financing activities	<u>(153,532,765)</u>
Net change in cash	56
<b>Cash</b>	
Beginning of the year	<u>2,223</u>
End of the year	<u>€ 2,279</u>

The accompanying notes are an integral part of these consolidated financial statements.

# **Eurohypo Capital Funding Trust II**

(A Delaware Trust)

## **Notes to Consolidated Financial Statements**

**December 31, 2014**

---

### **1. Nature of Operations and Organization**

#### **General**

Eurohypo Capital Funding Trust II (the "Trust") is a statutory trust formed under the Delaware Statutory Trust Act, as amended (the "Trust Act"), pursuant to the Trust Agreement executed by Eurohypo Capital Funding LLC II (the "Company"), as sponsor, Deutsche Bank Trust Company Americas, as Property Trustee, and Deutsche Bank Trust Company Delaware, as Delaware Trustee, and the filing of the Trust Agreement with the Secretary of State of the State of Delaware on February 22, 2005.

The Company was formed by Hypothekbank Frankfurt AG, a bank incorporated in Germany (the "Bank"). The Bank is a wholly owned subsidiary of Commerzbank AG.

The Trust exists for the sole purposes of:

- (1) Issuing perpetual Trust Preferred Securities representing undivided beneficial ownership interests in the assets of the Trust,
- (2) Investing the proceeds from the issuance of the Trust Preferred Securities in the Company's Class B Preferred Securities, and
- (3) Engaging in those other activities necessary or incidental thereto.

The Trust may also in the future issue, in one or more transactions, further Trust Preferred Securities with generally identical terms as the currently existing Trust Preferred Securities in consideration of the purchase of an equal amount of additional Class B Preferred Securities issued by the Company.

The Trust was funded on March 8, 2005 through the issuance of 300,000 noncumulative Trust Preferred Securities with a liquidation preference value of €1,000 per security (the "Trust Preferred Securities") to various investors and one class of common security (the "Trust Common Security") to the Bank. The Trust used all the proceeds derived from the issuance of Trust Preferred Securities to purchase 300,001 noncumulative Class B Preferred Securities (liquidation preference €1,000 per security) issued by the Company (the "Class B Preferred Securities").

The Trust, as the Class B Preferred Security holder, is entitled to receive up to and including March 8, 2007 on an annual and noncumulative basis, cash dividend payments on such securities accruing at a rate of 6.75% per annum in arrears. This payment is not guaranteed and if not paid on one payment date in part or at all is noncumulative to any subsequent period. Payments after March 8, 2007 will be based on the EUR-ISDA-EURIBOR swap rate plus a margin of 0.1%, not to exceed 8.00% per annum, and will be payable annually in arrears. The Class B Preferred Securities have an initial redemption date of March 8, 2011 and thereafter on any of the annual Class B payment dates. The interest rate as of December 31, 2014 was 1.957%.

As further discussed in Note 4, the Trust consolidates the Company, the issuer of the Class B Preferred Securities, under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC") 810 - Consolidation. Accordingly, the Class B Preferred Securities are eliminated in consolidation.



**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Notes to Consolidated Financial Statements**  
**December 31, 2014**

---

The Company invested the proceeds from the issuance of Class B Preferred Securities in subordinated debt securities issued by the Bank. Accordingly, these securities represent the Trust's investments on a consolidated basis.

Trust capital payments are expected to be paid out of Class B capital payments received by the Trust from the Company. Class B capital payments are expected to be paid by the Company out of its Operating Profits. If the Company does not declare (and is not deemed to have declared) a Class B capital payment in respect of any Class B Payment Period, the Trust will have no right to receive a Class B capital payment in respect of such Class B Payment Period, and the Company will have no obligation to pay a Class B capital payment in respect of such Class B Payment Period, whether or not Class B capital payments are declared (or deemed to have been declared) and paid on the Company Class B Preferred Securities in respect of any future Class B Payment Period.

Class B capital payments are the periodic cash distributions (at times referred herein as dividends) to the holders of the Class B Preferred Securities. Class B capital payments are authorized to be declared and paid on any Class B payment date to the extent that:

- The Company has an amount of Operating Profits (as per offering document dated March 8, 2005) for the Class B Payment Period ending on the day immediately preceding such Class B payment date at least equal to the amount of such Class B capital payments, and
- The Bank has an amount of Distributable Profits (as per offering document dated March 8, 2005) for the most recent preceding fiscal year for which audited financial statements are available at least equal to the aggregate amount of such Class B capital payments and capital payments or dividends or other distributions or payments on Parity Securities, if any, pro rata on the basis of Distributable Profits for such preceding fiscal year.

Despite sufficient Operating Profits of the Company and sufficient Distributable Profits of the Bank, the Company will not be permitted to make Class B capital payments on any Class B payment date (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Agency for Financial Services (Bundesanstalt für Finanzdienstleistungsaufsicht) ("BaFin") or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities (as per offering document dated March 8, 2005)). The Company will have no obligation to make up, at any time, any Class B capital payments not paid in full by the Company as a result of insufficient Operating Profits of the Company, insufficient Distributable Profits of the Bank or an order of the BaFin.

Commencing on November 13, 2013, as publicly announced by the Trust on such date (the "November 2013 Announcement") regardless of whether the Bank has a fiscal year profit but otherwise subject to the terms and conditions of the Trust Preferred Securities, for those Class B payment dates for which the payment obligation on the Class B Preferred Securities is based on the Bank Distributable Profits of the bank for a fiscal year, the Company will consider the Bank to have sufficient Bank Distributable Profits to make capital payments on the Class B Preferred Securities and will cause the Trust to make capital payments to the holders of its Trust Preferred Securities for any fiscal year during which the domination and profit and loss transfer agreement dated 26 June 2007 between Commerzbank Inlandsbanken Holding GmbH and the bank remains in effect. Further, solely for the purposes of determining capital payments under the Amended

# **Eurohypo Capital Funding Trust II**

(A Delaware Trust)

## **Notes to Consolidated Financial Statements**

**December 31, 2014**

---

and Restated Limited Liability Company Agreement of Eurohypo Capital Funding LLC II (the "LLC Agreement"), the Company will consider profit participation certificates (Genussscheine) to be Parity Securities as that term is defined under the LLC Agreement. Upon maturity or redemption of the debt securities issued by the Bank, the Company may reinvest the proceeds in other debt securities, subject to certain limitations.

### **Common and Class A Preferred Securities**

The Bank is the owner of both the common equity and the Class A preferred security of the Company and the owner of the common equity of the Trust, such securities having a liquidation preference, in each case, of €1,000.

As the owner of the Class A preferred security of the Company, the Bank shall be entitled to receive capital payments on these Class A Preferred Securities, but only to extent that:

- Class B capital payments are not permitted to be paid on the Company Class B Preferred Securities in full on any Class B Payment Date due to insufficient Distributable Profits of the Bank or on such date an order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities) is in effect; and
- The Company has sufficient Operating Profits.

### **Trust Preferred Securities**

The Trust Preferred Securities issued are perpetual and had an initial optional redemption date of March 8, 2011 and annually thereafter on specified payment dates. Trust Preferred Securities have a stated dividend rate of 6.75% per annum payable in arrears until March 8, 2007, after which the dividend rate will be based on the EUR-ISDA-EURIBOR swap rate plus a margin of 0.1%, not to exceed 8.00% per annum, and will be payable annually in arrears. Such dividend payments are subject to the availability of funds based on the Class B capital payments the Trust receives from the Company on the Class B Preferred Securities in the respective payment period. Accordingly, if a dividend payment is not made in full or at all on any payment date, it is not cumulative to any subsequent period. The Trust Preferred Securities are not redeemable at any time at the option of the holder thereof, and can only be redeemed by the Trust in conjunction with a redemption of the Class B Preferred Securities issued by the Company. Upon occurrence of such event, the redemption price per Trust Preferred Security equals €1,000 per security (liquidation preference), plus any accrued and declared (or deemed declared) dividends.

The Trust Preferred Securities are listed on the Euronext Amsterdam N.V. Stock Market and on the Boerse Frankfurt. The number of Trustees shall initially be four and will in no event be less than three. At December 31, 2014, the Trust has four Trustees. At least one Trustee (the regular trustee) must be an employee or officer of, or is affiliated with the Bank. In addition, one Trustee shall be the Property Trustee and, as required by Delaware State Law, one Trustee will be a Delaware Trustee. The Regular Trustees are determined by a vote of the Common Security Holder of the Trust, which is the Bank.

### **Support Undertaking**

The Bank entered into a Support Undertaking with the Company on March 8, 2005 pursuant to which the Bank undertakes that (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, and (ii) in the event of a liquidation of

**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Notes to Consolidated Financial Statements**  
**December 31, 2014**

---

the Company, it will have sufficient funds to pay the aggregate liquidation preference amount of the Class B Preferred Securities. The Bank's obligations under the Support Undertaking are subordinated to all of its senior and subordinated debt obligations.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation and Use of Estimates**

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses for the year then ended. Actual results could differ from those estimates.

These consolidated financial statements include the accounts of the Trust as well as the Company, a variable interest entity in which the Trust is the primary beneficiary as defined by ASC 810. All intercompany transactions and balances have been eliminated.

**Cash**

Cash and cash equivalents are comprised of cash and amounts due from banks and other financial institutions, including short-term investments and other financial instruments which are readily convertible into known amounts of cash with an original maturity of 90 days or less. There were no cash equivalents outstanding at December 31, 2014. All cash was held at the Bank.

**Investments**

The subordinated debt securities issued by the Bank are the sole investment of the Trust on a consolidated basis. The Trust's securities investment has been designated as held to maturity as the Trust has the intent to hold these securities until maturity and the available evidence does not indicate that it is more likely than not that the Trust will be required to sell the security before its recovery. These securities are carried at amortized cost on the consolidated balance sheet. Held to maturity securities are evaluated for impairment based on various factors, including the length of time and extent to which the fair value has been less than cost. If, based on such analysis, it is determined that an impairment is other than temporary, the respective security is written down to fair value. The amount of the total other than temporary impairment related to the credit loss is recorded in current income. The amount related to other factors is recognized in other comprehensive income, net of applicable taxes.

**Fair Value Measurements**

The Trust discloses its investments at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures* (Note 6).

Fair value is defined under ASC 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a hierarchy of inputs for measuring value. The hierarchy gives the highest priority to unadjusted quoted prices in actual markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1     Unadjusted quoted prices at the measurement date in active, accessible markets for identical assets or liabilities.

**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Notes to Consolidated Financial Statements**  
**December 31, 2014**

---

- Level 2 Quoted prices in inactive markets for identical instruments, quoted prices in active markets for similar instruments, other observable inputs (interest rates and yield curves, implied volatilities and credit spreads) or other inputs derived from/corroborated by observable market data.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

In valuing its investments, the Trust uses quoted prices in active markets for similar instruments. As such, the Trust's investments are classified in Level 2.

**Securities Issued by the Trust**

The Trust Preferred Securities are classified as equity as they have the characteristics of equity instruments rather than debt securities. Accordingly, dividends declared on the Trust Preferred Securities are not recorded in current income, but are rather recorded as a reduction of retained earnings when declared.

The common equity security issued by the Trust and the Company, and the Class A preferred security issued by the Company represent ownership rights in the Company and Trust, respectively and are classified as equity. These securities are held by the Bank.

**Functional Currency**

The functional currency of the Trust is the Euro. The Trust's activities are governed by agreements, which effectively limit the operating activities to the issuance of the Trust Preferred Securities and the reinvestment of the proceeds initially in securities issued by the Bank and subsequently in other securities, as permitted. All of the Trust's activities, including its equity, are denominated in Euro.

**Income Taxes**

The Trust is treated as a Grantor Trust for U.S. federal income tax purposes. Accordingly, in computing its U.S. federal income tax liability for a taxable year, U.S. holders of Trust Preferred Securities are required to take into account their distributive share of the Trust's income for the taxable year of the Trust ending with or within such U.S. holders' taxable year, regardless of whether such U.S. holders have received any distributions from the Trust. Accordingly, the Trust has made no provisions for federal or state income taxes in the accompanying statement of income.

**Recent Accounting Pronouncements**

In January 2015, the FASB amended accounting principles related to extraordinary and unusual items of income statement (ASC 225 *Income Statement*). The amendment eliminates the concept of extraordinary items from current GAAP and includes the disclosure of items that are both unusual in nature and infrequently occurring. The amendment, effective in 2016, is not expected to significantly affect the Company's financial statements.

In November 2014, the FASB amended accounting principles related to derivatives and hedging (ASC 815 *Derivatives and Hedging*). The amendment clarifies how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. In addition, the amendment clarifies that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features when considering how to weight those terms and features. The impact of the

## **Eurohypo Capital Funding Trust II**

(A Delaware Trust)

### **Notes to Consolidated Financial Statements**

**December 31, 2014**

---

amendment, effective in 2016, is not expected to significantly affect the Company's financial statements.

In August 2014, the FASB amended accounting principles related to presentation of financial statements (ASC 205 *Presentation of Financial Statements*). The amendment defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendment, effective in 2016, is not expected to significantly affect the Company's financial statements.

In May 2014, the FASB amended accounting principles related to revenue from contracts with customers (ASC 606 *Revenue from Contracts with Customers*). The amendment requires an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The impact of the amendment, expected to be effective in 2019, is being analyzed, but the Company does not expect it to have a significant effect on its financial statements.

### **3. Dividends**

On March 10, 2014, the Trust declared and paid dividends in the amount of €5,544,000 on the Trust Preferred Securities. On March 25, 2014, the Trust paid dividends in the amount of €134,766 on the cancelled 147,854 Trust Preferred Securities (Note 5). Dividends on the Trust Preferred Securities are recorded as reduction of retained earnings when declared.

### **4. Variable Interest Entity**

The Trust invests in the Class B Preferred Securities issued by the Company. The Trust has determined that the Company is a variable interest entity ("VIE") as defined by ASC 810. As the sole holder of the Class B Preferred Securities, the Trust is the primary beneficiary of the Company and accordingly has consolidated the VIE. The effect of consolidating the Company on the Trust's balance sheet at December 31, 2014 was the elimination of investments in Class B Preferred Securities of the VIE of €152,147,000, as well as the recording of investments in held to maturity securities of €152,149,000, equity representing the Common Securities and Class A Preferred Securities issued by the VIE to the Bank of €2,000, and cash of €1,892.

### **5. Investments**

The Company initially invested €300,003,000 in subordinated debt securities issued by the Bank. These securities bear a fixed interest rate of 6.75% until March 8, 2007, after which date the interest rate converts to EUR-ISDA-EURIBOR swap rate plus 0.1%, not to exceed 8.00%. Interest is paid annually. Beginning March 8, 2011, the Bank has a unilateral right to redeem these securities which have a final maturity date of March 8, 2045.

In March 2014, the Bank acquired 147,854 Trust Preferred Securities in an aggregate Liquidation Preference Amount of €147,854,000. The Bank transferred these securities to the Trust and upon receipt by the Trust the Trust Preferred Securities were cancelled (the "Cancelled Trust Preferred Securities"). Accordingly, the Clearstream Banking AG reduced the number of Trust Preferred Securities outstanding and represented by the Permanent Global Certificate from 300,000 to 152,146.

**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Notes to Consolidated Financial Statements**  
**December 31, 2014**

---

Also in March 2014, upon receipt by the Trust of the Cancelled Trust Preferred Securities, the Property Trustee released to the Company 147,854 Company Class B Preferred Securities and these securities were cancelled (the "Cancelled Company Class B Preferred Securities") and the Company issued a new Class B Preferred Certificate representing 152,147 Company Class B Preferred Securities outstanding. Subsequently, the Company agreed to surrender to the Bank subordinated debt securities in the principal amount of €147,854,000 for purposes of cancellation. The outstanding principal for the Bank subordinated debt securities as of December 31, 2014 was €152,149,000.

Accrued interest receivable on the remaining €152,149,000 of subordinated debt securities amounted to €2,439,149 at December 31, 2014. Interest income on these remaining securities for the year ended December 31, 2014 was €2,947,568. The interest rate as of December 31, 2014 was 1.957%. The following table presents the amortized cost and fair value of the Company's investments in held to maturity securities:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Subordinated debt securities issued by Hypothekenbank Frankfurt AG	€ 152,149,000	€ -	€ 11,030,802	€ 141,118,198
	€ 152,149,000	€ -	€ 11,030,802	€ 141,118,198

The estimated fair value of these securities has been less than amortized cost for more than twelve months. While the decline of fair value below amortized cost is significant, the Company has determined that the issuer of these securities has sufficient liquidity and capital resources to continue making principal and interest payments when due. The Company has the intent and ability to hold these securities to redemption (which requires repayment of principal and applicable interest, if any), as the Company's financing is perpetual, and cannot be early redeemed prior to redemption of the held to maturity securities.

**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Notes to Consolidated Financial Statements**  
**December 31, 2014**

---

**6. Fair Value of Financial Instruments**

All financial instruments, other than those held to maturity securities noted below, have carrying values on the consolidated balance sheet that approximate fair value, and are Level 1 in the fair value hierarchy. There is no active market for the Company's investment in affiliated subordinated debt securities, a valuation based on an internal model resulted in a value of €148,381,060. However, since the affiliated subordinated debt securities are deemed comparable to the Trust Preferred Securities issued by the Trust (the securities are described in Note 1. "Trust Preferred Securities" and Note 5 "Investments") the Estimated Fair Value as per December 31, 2014 is based upon quotes for the Trust Preferred Securities, resulting in a Level 2 classification in the fair value hierarchy.

	December 31, 2014	
	Carrying Value	Estimated Fair Value
Investment in affiliated subordinated debt securities	€ 152,149,000	€ 141,118,198

**7. Related Party Transactions**

At December 31, 2014, the Trust maintained cash accounts amounting to €2,279 with the Bank.

As disclosed in Note 1 above, the Trust has an investment in the Company, an affiliated company which is consolidated in these financial statements.

As also disclosed in Note 1, the Bank is the owner of both the common equity and the Class A preferred security of the Company and the owner of the common equity of the Trust.

As common equity holder, the Bank is responsible for all set-up and on-going costs and expenses of the Trust and of the Company including routine administrative expenses, servicer costs, tax return preparation, taxes, and related items. For 2014, these expenses amounted to €110,114. The Trust and the Company have entered into a services agreement with the Bank pursuant to which the Bank, acting through Commerzbank AG, New York Branch, will provide administrative and other related services. The Bank is responsible to make all payments on the behalf of the Trust and the Company.

The Bank has also provided a Support Undertaking pursuant to which the Bank undertakes to ensure that the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable including its obligations to pay dividends and the redemption price.

**8. Commitments and Contingencies**

There are currently no actions, suits or proceedings by or before any arbitrator or court pending against the Company and/or the Trust and there were no such actions, suits or proceedings at any time during the course of the 2014 calendar year.

At December 31, 2014, there were no contingent assets or liabilities.

**Eurohypo Capital Funding Trust II**  
(A Delaware Trust)  
**Notes to Consolidated Financial Statements**  
**December 31, 2014**

---

**9. Subsequent Events**

The Trust has evaluated subsequent events occurring after the balance sheet date until April 23, 2015. Based on this evaluation, the Trust has determined that no subsequent events, except as described below, have occurred which require recognition or disclosure in the financial statements.

A Class B capital payment in the form of a dividend distribution was declared with respect to the payment date of March 9, 2015. Consequently, payments were made on the Class B Preferred Securities and the Trust Preferred Securities in the amount of € 2,977,497 on March 9, 2015.

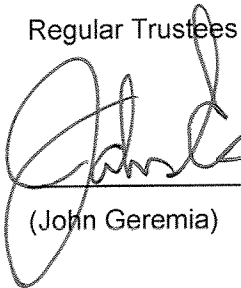


### **Responsibility Statement by Regular Trustees**

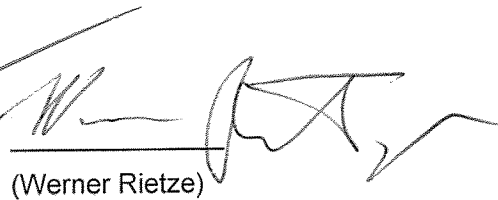
To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the financial statements of the Trust give a true and fair view of the assets, liabilities, financial position and profit or loss of the Trust, and the management report of the Trust includes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

New York, New York, April 23, 2015

Regular Trustees



(John Geremia)



(Werner Rietze)