

# Excerpts from the Annual Report 2015 of DKB AG

**Disclaimer**

Please note that this document is based upon excerpts from the German Annual Report 2015 of DKB AG. The text is a translation for convenience only and not legally binding. In the event of any ambiguity, the German text will prevail.

The German Annual Report 2015 of DKB AG can be downloaded from our website [www.dkb.de](http://www.dkb.de).

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# Group fundamentals

## Structure and business model

### A major German bank

The Berlin-based Deutsche Kreditbank AG (DKB) is a fully-owned subsidiary of BayernLB and has 18 branches. Business activity is focussed geographically on the Federal Republic of Germany.

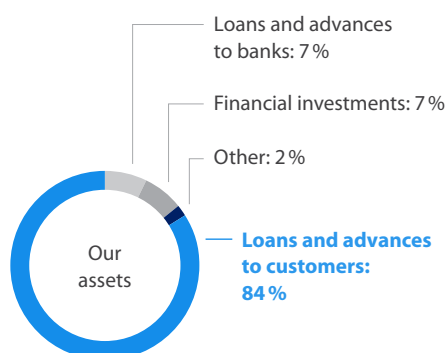
The DKB Group includes, inter alia, the fully owned subsidiaries DKB Service GmbH, DKB Grundbesitzvermittlung GmbH, DKB Finance GmbH, MVC Unternehmensbeteiligungs GmbH and FMP Forderungsmanagement Potsdam GmbH. In addition, there are further, smaller holdings.

In 2015, the Group employed an average of 2,900 full-time equivalents (FTE) (FY 2014: 2,836).

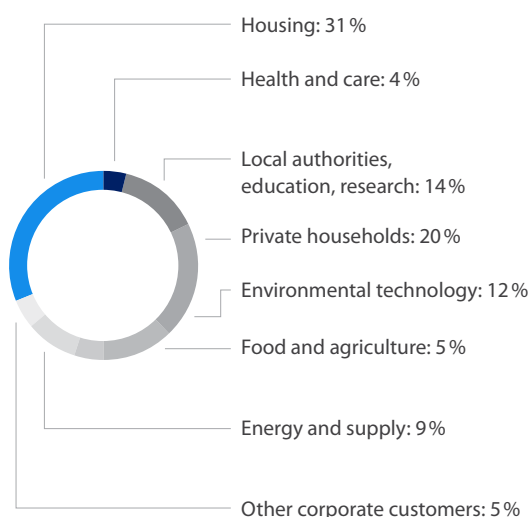
As at the balance sheet date, the Group was managing customer receivables in the amount of EUR 61.6 billion (FY 2014: EUR 59.6 billion) and customer deposits in the amount of EUR 48.6 billion (FY 2014: EUR 47.3 billion). The net interest income generated in the financial year was EUR 790 million (FY 2014: EUR 670 million). Net income in 2015 amounted to EUR 236 million.

DKB is one of Germany's larger banks. As such, we pass on more than 80% of our total assets via loans to medium-sized companies, local authorities and retail customers in Germany. We do not engage in investment banking or asset management.

DKB's business is based on 2 pillars: as an internet bank, we provide banking services to more than 3.2 million retail customers across Germany via the internet, offering simple and self-explanatory products at competitive terms. As a bank for business and corporate customers, we target companies and local authorities through our branch network, offering tailor-made financing and investment solutions. Here we focus on selected industries in Germany: we finance the construction and operation of wind farms, bio-energy plants and photovoltaic systems, the renovation and construction of residential buildings, schools, kindergartens and health centres as well as projects in the German agricultural sector. We pass on our industry know-how within the BayernLB Group and the savings banks association. Through our business activities therefore, the Bank contributes to regional economic and power supply stability.



### EUR 62 billion, i. e. 84%, is reinvested in Germany via loans



## Sustainability is of key importance

We strive to create profitable and long-term business relationships, whereby we attach great importance to sustainable action. When granting loans, we ensure compliance with environmental and social standards. In addition, we endeavour to conserve resources and we take our responsibility as an employer seriously. We also meet our obligations to society through the independent DKB foundation for corporate responsibility (DKB Stiftung).

As a high-performance and efficiency-oriented retail and business bank, we rely on the technical tools of modern banking processes, on innovation and on targeted partnerships and co-operations that offer our customers greater added value. When supporting our corporate and business customers, we draw on our long years of regional and industry knowledge and utilise a network of specialists.

## Market cultivation via 3 market segments

The DKB Group structures its activities into 3 market segments: Retail Customers, Public Infrastructure and Corporate Customers as well as into the segments Financial Markets, Non-Core Business and Other. The focus of the 3 customer segments is as follows:

In the **Retail Customers segment** we target Internet-savvy retail clients who are comfortable using credit cards by offering the financial services of a modern internet bank. Here we rely on transparent services at competitive terms. The main products in the segment are the DKB-Cash account package, home loan financing and personal loans, investment products and the partner (co-branding) credit card business. In addition to the retail customer business of DKB, the companies FMP Forderungsmanagement Potsdam GmbH and DKB Grundbesitzvermittlung GmbH are also assigned to the Retail Customers segment.

In the **Public Infrastructure segment** we offer customised financing and investment products to customers in the fields of housing, energy and utilities, health and care as well as local authorities, education and research. Key products include loans, pass-through loans, term loans and overdraft facilities, sureties, deposit banking and the offer of business accounts including payment transaction services. In elaborating appropriate customer solutions, we provide a high level of expertise in integrating development aid and civic participation.

In the **Corporate Customers segment** we focus on customers from the areas of environmental technology, food and agriculture, tourism and the freelance professions. The products and services on offer correspond largely to those in the Public Infrastructure segment.

The activities of DKB Finance GmbH and MVC Unternehmensbeteiligungs GmbH are assigned to this sector.

The 3 segments, Retail Customers, Public Infrastructure and Corporate Customers, comprise our strategic core business, on which we concentrate particularly in our role as a retail and business bank. In the Retail Customers sector, we want to be our customer's primary bank and a trustworthy partner on all financial matters. To achieve this, we offer our customers market-leading products and solutions and ensure that they can profit from meaningful innovations, which we make accessible and easy to understand. In the Infrastructure and Corporate Customers sectors, we want to further develop our market position in the aforementioned target industries with focussed industry know-how.

The other 3 segments are as follows:

The **Financial Markets segment** comprises the Treasury division of DKB. It is responsible for, among other things, asset-liability management. Via the Treasury, we operate in the capital markets as an issuer of debt instruments, in particular covered bonds in the form of Pfandbriefs. In addition, the regulatory securities portfolio held for liquidity purposes and the intragroup funding to BayernLB are assigned to this segment.

The **Non-Core Business segment** bundles all the business that no longer complies with our business strategy. This includes certain investments (including the associated funding provided by DKB), securities portfolios and customer loans portfolios. The corresponding reduction of business is part of the superordinate restructuring concept of the BayernLB Group.

In the **Other segment**, we bundle cross-divisional transactions and earnings contributions which cannot be assigned to the segments according to source. These include, among others, the central administrative expenses and the earnings contribution of DKB Service GmbH.

## Management and supervision

### Corporate management with traditional division of functions

The DKB Board of Management continued to have 5 members in financial year 2015: the Chairman Stefan Unterlandstättnner and the other members Rolf Mähliß, Dr Patrick Wilden, Tilo Hacke and Thomas Jebesen. The Board of Management runs the company and is responsible for its operational affairs. It develops the strategic alignment, coordinates this with the Supervisory Board and ensures its implementation.

So that the Board can effectively perform the tasks assigned to it, areas of responsibility are defined for the board members, who then take charge of the associated operations. Relevant strategic decisions are taken by the Board of Management as a whole.

The Board of Management of DKB is appointed by the Supervisory Board. The Supervisory Board advises the Board of Management in matters relating to the running of the company and supervises its business management. The focus of the Supervisory Board's work in the past year is set out in the Supervisory Board's report. At the end of 2015, the Supervisory Board comprised 16 persons, with equal numbers of shareholder and employee representatives.

The Board of Management and the Supervisory Board work closely together. The Board of Management reports regularly, promptly and comprehensively to the Supervisory Board, particularly with regard to all issues concerning corporate planning, strategic development, the earnings and financial situation and the risk situation of the company.

Conflicts of interest in connection with the performance of tasks or functions in other companies or organisations did not arise in the past financial year – neither for members of the Board of Management nor for members of the Supervisory Board.

### A clear commitment to governance standards

The Board of Management and the Supervisory Board of DKB are committed to responsible corporate management and supervision that is focussed on long-term value creation. The principles of corporate governance form the basis and the guiding principle for the conduct of all managers in the company.

The Board of Management and the Supervisory Board abide by the corporate governance principles of DKB in the performance of their tasks. These principles are based on the stipulations of the German Corporate

Governance Code. They are regularly reviewed and adjusted on the basis of statutory stipulations, the refinement of national and international standards, the regulations in the shareholder's Group and new experiences.

Good corporate governance strengthens the trust that customers, business partners, investors, employees and the public have in our Bank. It increases corporate transparency and supports the credibility of our company.

For us, good corporate governance also involves a strict interpretation of compliance. For DKB lawful conduct is a basic prerequisite for lasting and stable business relationships and for long-term, successful corporate development. The Board of Management sees the topic of compliance as a key management task and expressly commits itself to lawful, socially-minded and ethical action.

Our Bank's demanding understanding of management and conduct is also reflected in a wealth of conduct standards and guidelines. These include the criteria employed for strategic corporate decision-making, which are oriented towards long-term success, and the Code of Conduct, by which all employees of DKB are guided.

Strong corporate governance also encompasses a transparent approach to remuneration and to the remuneration policy of our company. We meet this challenge through the annual publication of a remuneration report which can be viewed on our website.

## Corporate management

### Operational management derives from a strategic plan

The strategic plan forms the basis for the operational management and supervision processes within the DKB Group. Combined with this is a risk management plan and a multi-year plan, from which our short- and medium-term targets are derived. These objectives are incorporated into the operational planning of the organisational units and are linked with corresponding measures at operational level.

Risk management plays an important role for operational planning as well as for operational decision-making. All operational units are incorporated into this process.

## Ongoing review of profitability and performance

Our commercial management focusses on achieving net assets and a financial position that are stable and structured in the long term and positive results of operations. To this end we use financial ratios that factor in earnings, profitability and value-oriented perspectives.

The performance indicators that we use for management at Group level are:

- Cost/income ratio (CIR): The ratio measures the relationship between costs and income and gives us information on our economic efficiency. The CIR represents the ratio of the administrative expenses to the sum total of income items (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments, other income).
- Return on equity (ROE): This ratio measures the relationship between earnings and equity and provides information on the return on equity employed. The ROE is calculated as a quotient between the profit before taxes and the assigned regulatory core capital.
- Net interest income: Given the significance of the traditional lending and deposit business for the DKB Group, the net interest income (difference between interest income and interest expenses) is a key control parameter and an important performance indicator.
- Profit before taxes: The profit before taxes figure is taken from the income statement.
- Total assets: The performance of total assets provides information on the achievement of our volume targets.
- Risk provisions: The change in risk provisions provides information on the achievement of our risk targets.

The regularly determined key figures are incorporated into a monthly report for bank management and are compared with the Bank's target figures.

At segment level, we use the following additional performance indicators:

- Volume of receivables (nominal): The change in receivables provides information on the achievement of our growth targets.
- Deposit volume: The change in liabilities provides information on the achievement of our funding targets.

- Number of customers in the Retail Customers segment: The change in retail customers provides information on the achievement of our growth targets in the retail segment.

## Monitoring non-financial performance indicators supports long-term success

In addition to the financial control ratios, we regularly also consider a range of non-financial success factors. These involve employee, customer, market and product-related information that we use primarily as indicators or signs of a further improvement in our services.

In terms of implementation, we take a range of measures, presented in section non-financial performance indicators, which contribute to achieving targets of employee composition, satisfaction, further training levels and health as well as the strengthening of customer satisfaction and market shares, and the positive evaluation of our products and services by external institutions.

These targets are always pursued with a view to sustainable corporate development.

# Business performance

## Business performance of the DKB Group

### Business performed well and exceeded expectations

In 2015 our Bank once again forged ahead successfully. We had set ourselves challenging targets for the year and we achieved and, in some cases, surpassed these. The environment remained difficult: competition was still tough in all segments and at times actually intensified. New regulatory requirements were imposed on our Bank and further new ones have already been announced.

### Forecast/actual comparison of the performance indicators

Group	Forecast 2015	Actual 2015
<b>Net interest income</b>	Increase by 5 % to 10 % (FY 2014: EUR 670 million)	<b>Forecast significantly exceeded</b> Net interest income increased by 18%. The increase was due to a sharper drop in interest expenses compared to interest income.
<b>Risk provisions</b>	At the previous year's level (FY 2014: EUR 134 million)	<b>Slightly above the previous year</b> Risk provisions rose slightly and amounted to EUR 144 million. The increase was the result of specific loan loss provisions in the non-core business.
<b>Profit before taxes</b>	Greater than EUR 200 million (FY 2014: EUR 151 million)	<b>Forecast significantly exceeded</b> Profit before taxes increased, predominantly due to the improved net interest income, by 57 % to EUR 236 million.
<b>Total assets</b>	Increase by EUR 2 billion to EUR 5 billion (FY 2014: plus EUR 3 billion)	<b>Forecast range almost achieved</b> Total assets increased by EUR 1.8 billion to EUR 73.4 billion. This was attributable in particular to the increase of EUR 2.0 billion in loans and advances to customers due to new business.
<b>ROE</b>	8 to 9 % (FY 2014: 6.1 %)	<b>Forecast exceeded</b> The return on equity rose, against the backdrop of an improvement in earnings before tax, from 6.1 % to 9.6 %.
<b>CIR</b>	Slightly above the previous year (FY 2014: 54.9 %)	<b>Forecast significantly exceeded</b> The cost/income ratio improved to 48.0 %, due in particular to the improved net interest income.



There were no fundamental structural changes in the Group in 2015. The most important change was the merger towards the middle of the year of SKG BANK AG with DKB, which was effective retroactively to 1 January 2015. The business unit has since focussed on instalment loans and is run as a branch of DKB. The SKG BANK brand remains in place.

### Further increase in regulatory activity

The number of regulations rose further in 2015, thereby increasing the organisational challenges facing our Bank yet again:

- The interchange fees for credit and debit card payments by consumers have been capped since December 2015.
- Minimum standards were imposed for the safety of internet payments.
- In 2015, church tax had to be retained directly by the banks for the first time and forwarded to the tax authorities.

In addition, DKB spent a great deal of time in the reporting period preparing for numerous regulatory reforms, which will take effect in 2016 and 2017.

The implementation of the regulatory requirements is causing further increases in costs in the areas of Human Resources, IT and external consulting.

Added to this are the direct costs for the bank levy, deposit insurance scheme and banking supervision. Compared to 2014, these annual costs alone increased by more than 100% to EUR 23.7 million.

EUR million	2015	2014
Bank levy*	12.4	2.3
Deposit insurance scheme	9.5	7.2
Banking supervision ECB	1.0	0.0
Banking supervision BaFin	0.8	0.6
<b>Total</b>	<b>23.7</b>	<b>10.1</b>

\* Bank levy in 2015 in the amount of 17.6 less 30% payment obligation not recognised through profit or loss

## Business performance of the segments

In the operative business of our segments, we developed our services further as we had also done in the previous year. In the reporting period, new products were introduced, existing services were improved and co-operations were entered into with new partners, through which our customers were able to achieve added value.

### Forecast/actual comparison of the performance indicators

Segments	Forecast 2015	Actual 2015
	Customer increase by 300,000 new customers	<b>Forecast exceeded overall</b> New customers: +310,000
	Volume of receivables at level of previous year (EUR 13.8 billion), or slight decline	Volume of receivables: – EUR 1.3 billion
<b>Retail customers</b>	Increase in deposits by EUR 1.5 billion	Deposit volume: + EUR 2.6 billion
	Growth in lending by just under EUR 1 billion	<b>Forecast exceeded overall</b> Volume of receivables: + EUR 2.5 billion Deposit volume: – EUR 1.4 billion
<b>Public Infrastructure</b>	Slight growth in deposit-taking business	Due to the strong growth in deposits of retail customers, deposits in the Infrastructure segment were procured only to a very limited extent.
	Growth in lending by at least EUR 1 billion	<b>Forecast achieved</b> Volume of receivables: + EUR 1.0 billion
<b>Corporate customers</b>	Growth in deposits by EUR 0.5 billion to more than EUR 4 billion	Deposit volume: + EUR 0.4 billion
	Further reduction in the non-strategy-compliant portfolio	<b>Forecast achieved</b>
<b>Non-core business</b>	Reduction in the securities portfolio that is not strategy-compliant	Reduction activities continued

## Retail Customers segment

### Framework conditions: Dynamic, highly competitive market

The popularity of online banking continued to grow in 2015: in accordance with information from 'Statista' 58 % of internet users used online banking services last year. A comparison – in particular with the figures of northern European countries – indicates that this trend will continue in the coming years. Accordingly, the industry is investing intensively in expanding its online presence and digitising its offering.

Moreover, customers now have higher expectations of their banks as a result of their everyday experiences in an increasingly digital world: well-informed and accustomed to selecting products easily, immediately and independently of time and place, they are looking particularly for powerful mobile banking applications.

The continuing digitisation of the financial business is significantly intensifying competition in the retail customer segment: new customers were intensively courted again in 2015 by the established banks in Germany and abroad – at times with bonuses of up to EUR 250. FinTechs increasingly offered products and financial services for retail customers and further increased the competition.

The economy continued its positive influence on the retail customer business: bolstered by the persistent low interest-rate environment, private households' propensity to consume remained high. This drove the German economy onward, particularly in the second half of the year.

The numerous new and amended regulatory requirements had a huge impact on the Retail Customers segment.

### Number of customers grew further, deposit volume rose

In the financial year, the Retail Customers segment succeeded in increasing its customer base by 310,000 customers (2014: around 310,000), thereby exceeding the new customer target set for 2015. With around 3.2 million retail customers, DKB remains the second largest online bank in Germany.

Measured by the number of current accounts, DKB is still the market leader: as at the reporting date, the number of DKB-Cash accounts was 2.2 million (FY 2014: 2.0 million).

Despite the still difficult market environment, the segment increased its deposit volume in 2015 significantly by EUR 2.6 billion to EUR 22.3 billion, a result slightly above the planned values at the year's end. The increase in deposits payable on demand, despite the lower interest return, contributed to this higher deposit volume. This was due to the lack, from the customers' perspective, of profitable investment alternatives.

The lending business proceeded as expected in 2015 and posted a slight decline on the previous year, which was only partly offset by the moderate increase in the volume of new business. This is largely attributable to scheduled repayments in the area of home loan financing. The volume of receivables in 2015 was EUR 12.5 billion (FY 2014: EUR 13.8 billion).

### Customer contact platforms continued to improve

The focus of business activities was on intensifying the customer-bank relationship while at the same time optimally structuring the costs situation. In keeping with the digitisation of the banking business, the segment worked on enhancing the retail customer business through in-house developments and by expanding and establishing strategic partnerships including with companies from the FinTech environment.

In 2015 the DKB entered into a new cooperation with the Berlin-based start-up FinReach. The heart of this partnership is the establishment of an automated account switching service that takes only a few clicks.

To make the use of internet banking more convenient, the DKB website was optimised at the year's end: it now uses a responsive design. This means that it adjusts its display to the specific characteristics of the end device being used by the customer.

The company's 25th anniversary provided an occasion for numerous special promotions: our customers received advantageous interest rates on personal loans and discounts on security transaction order fees. Furthermore, customers profited from extra DKB points for the DKB Club.

### DKB-Cash: Conditions adapted, customer interest remains high

With DKB-Cash, our free current account with credit card, we adjusted the interest on credit balances in 2015 from 0.9% p.a. to 0.7% p.a., thus bringing it in line with the current interest rate environment. Customer interest in our product in the current account area remains high: in 2015 we recorded growth of more than 8% year-on-year.

### Personal loans: Volume increased

We also passed on the generally low interest rate level to our customers on the loan side, by reducing our interest rate. The DKB personal loan was thus well positioned in the market. Accordingly, the volume increased here to EUR 1.0 billion.

### DKB-Broker: Trading activity increased

We offered a new product for security transactions in the past year: the "Broker u18" now makes it possible to open a securities account for minors. Overall, we recorded a significant increase in the trading activities of customers. For the first time, we had more than 100,000 securities accounts. Assets managed amounted to EUR 1.8 billion.

### Co-branding portfolio performs soundly

With our co-branding credit cards, we offer a range of credit card services in cooperation with strategic partners. These include Lufthansa and also the student organisation, ISIC. As part of the partnership with BMW and MINI, we extended our product portfolio in 2015 with the introduction of the BMW credit card and the MINI credit card product lines. These credit cards function both as a means of payment and a key for vehicles of the car sharing service DriveNow. The integration of modern NFC technology makes this possible. Membership of DriveNow is linked to the new card, so that customers can utilise the full functionality of the cards immediately on receipt. The number of co-branding credit cards rose at year's end to exceed 645,000 overall (FY 2014: 615,000).

### SKG BANK AG successfully merged with DKB

Former subsidiary SKG BANK AG was legally merged with DKB on 13 July 2015. The merger is effective retroactively to 1 January 2015. Business operations are being continued under the name "SKG BANK, a branch of Deutsche Kreditbank Aktiengesellschaft". The brand SKG BANK remains in effect and will also be used in future in the market. After the strategic realignment, the business unit is focussing on the instalment loan product.

### DKB Grundbesitzvermittlung GmbH: Sale of real estate and financial services

DKB Grundbesitzvermittlung GmbH, which is assigned to the Retail Customers segment, focuses on the sale of real estate and financial services. This encompasses the sale and rental of real estate to owner-occupiers and capital investors for Group companies and third parties as well as the mediation of home loans and personal loans for DKB.

In 2015, the focus lay on real estate sales and investor transactions as well as on mediating home loans both for DKB and for third-party banks.

### FMP Forderungsmanagement Potsdam GmbH: Specialist for terminated loans

FMP Forderungsmanagement Potsdam GmbH acquires, services and realises terminated loans for the Group.

### Public Infrastructure segment

#### Significant growth, despite more difficult market conditions

The Infrastructure segment encompasses business customers from the customer groups "Housing", "Energy and supply", "Health and care" and "Local authorities, education, research".

In an intensely competitive environment, the segment enjoyed great success in further developing its operative business. The forecast growth in the lending business was significantly exceeded. The customer groups "Housing", "Energy and supply" and "Local authorities, education, research" contributed particularly to this growth in volume.

The low interest rate environment remained the driving force behind this good performance. It motivated an increasing number of customers to apply for loans and consequently to actual, credit-financed investments: the volume of receivables (nominal) improved year-on-year by 7.6% to EUR 35.9 billion, thus exceeding the forecast.

The low interest rates accelerated the momentum of investment, but also put pressure on the deposit-taking business. The deposit volume declined by EUR 1.4 billion to EUR 17.9 billion and thus fell short of the previous year's forecast. This was due to pricing-related outflows – in particular by large investors and institutional customers, largely in the customer groups "Energy and supply" and "Health and care".

#### Housing: Slight growth in lending, despite extensive repayments by customers

In 2015, the market environment for home loans remained generally favourable. However, housing companies increasingly used the favourable interest-rate level to reduce loans. Furthermore, the competition from insurance companies and other banks in the home loan market remained very strong. In addition, the general lack of attractive investment alternatives led to investments being made increasingly from equity.

Nonetheless, it was possible to increase the volume of receivables in the customer group "Housing" to EUR 19.0 billion (FY 2014: EUR 18.3 billion). In the area of long-term commitments, the share of KfW-funded loans fell further. Financing using development aid is earmarked for a specific purpose and, due to the generally low interest-rate level, is not always attractive.

Customer deposits increased by the end of the year to EUR 4.9 billion (FY 2014: EUR 4.5 billion). Over the course of the year, the volume of liabilities proved however to be very volatile.

In the past year, market penetration with housing companies remained stable in the new federal states at 88%. In the old federal states, the market share rose by 1 percentage point to 60%. The basis for the calculation is the share of companies in the target customer segment, with which DKB has a business relationship.

The assets held in property manager accounts increased in the reporting period by EUR 0.5 billion to EUR 2.3 billion. As at the reporting date, 6,500 property managers with around 38,500 residential property owners associations administrated their portfolios with DKB.

The property manager platform is very popular with users, who, according to a recent survey, particularly appreciate the ease of account management, the security deposit administration as well as the price/performance ratio. 95% of users would recommend the platform. 24,000 customers are now using the DKB property manager platform to manage their own and third-party real estate; this figure includes 15,700 retail customers.

### **Energy and supply: Energy sector invests in renewable energies**

The "Energy and supply" customer group was marked by strong competition. Nonetheless, the lending business here was even more dynamic than in the previous year, particularly in the energy and the water and waste water management sectors. In terms of energy suppliers, the increases resulted in part from the provision of project financing in the area of renewable energies. The area of transportation (local public transportation) likewise reported solid growth. In total, the volume of receivables including new loan business rose to EUR 5.7 billion (FY 2014: EUR 4.9 billion). The volume of deposits was EUR 3.1 billion (FY 2014: EUR 4.1 billion).

To create strong ties with customers, we introduced an analysis instrument for municipal utilities in the first half of 2015, which compares the financial ratios of

municipal utilities. This puts us in a position to give our customers valuable comparison data with respect to the most important financial ratios. The offer was very well received by customers, with the result that we will develop it further and continue to offer it in the future.

### **Health and care: High repayment tendency and continued investment restraint**

Performance in the health economy was stable with unchanged conditions. Under intense competition and in a challenging interest-rate environment, our lending business was characterised by an increased willingness to make repayments. With a view to the imminent reform projects in the hospital and care facility area, significant restraint was noted in terms of investment projects. In the outpatients sector, we gained more new customers but the figure was lower than expected.

Due to the increased repayment tendency, the volume of receivables rose only slightly by 0.6% to EUR 2.4 billion (FY 2014: EUR 2.4 billion). Customer deposits declined (pricing-related) by EUR 0.7 billion to EUR 3.7 billion, particularly amongst institutional investors.

### **Local authorities, education, research: Increase in volume**

The debt ceiling imposed on the federal republic and the federal states has brought about a persistent investment backlog in public infrastructure. Nonetheless, it was possible to generate new business in this customer group and to expand the loan volume. Particularly in the lending business with local authorities we recorded growth, especially in the area of short-term funding. Strong competition and intense pressure on margins made business in this sector more difficult. The need to increase the number of available childcare places remains high – primarily in the old federal states and in the conurbations of the new federal states.

The volume of receivables of the "Local authorities, education, research" customer group rose by 13.7% to EUR 8.9 billion. The customer base grew continuously over the year to 8,500 customers (FY 2014: 8,100 customers). The volume of deposits was largely unchanged at EUR 6.4 billion.

### **Civic participation: Great interest amongst initiators and citizens**

In the area of civic participations, we provide funding support for regional investments in renewable energies and infrastructure projects, in which local customers and citizens are involved. Here the DKB finances actual projects. At the same time, there is the option for

interested citizens to sign up for a special DKB savings product, which facilitates an ideal form of participation in the project.

The area of civic participation performed positively in 2015 as expected. Over the course of the year, 18 new civic participation projects were agreed, particularly in the area of citizen-owned wind farms and solar parks. The number of successfully agreed DKB civic participation projects thus rose to 73. In each case the funding is assigned to the relevant customer group.

## Corporate Customers segment

### Good performance overall

The demand for loans in the Corporate Customer business remained high in 2015. The volume of receivables (nominal) increased further, rising, in line with the forecast, from EUR 11.7 billion to EUR 12.7 billion. The Environmental technology and Agriculture customer groups were the growth drivers. Deposits increased by EUR 0.4 billion to EUR 3.7 billion. This corresponded to the growth forecast in the previous year.

### Environmental technology: Slight growth with the market

The competition is intense in the Environmental technology business area. The market environment was characterised by reductions in conditions and greater appetite for risk. In addition, there was an increase in the complexity of the projects to be financed.

The demand for investment in wind power remained high, despite fewer authorisations for wind power projects in some federal states. Overall, it was possible to stabilize growth, both in wind power and in photovoltaics, in line with the market trend. The volume of receivables of the Environmental technology customer group rose nominally in the financial year by 8.0% to EUR 7.1 billion. Customer deposits increased by EUR 0.3 billion to EUR 1.1 billion.

### Food and agriculture: Customer base increased further

For farming businesses, the economic framework conditions in 2015 were challenging. The price trend in individual segments weighed tangibly on this sector. Overall, the period was characterised by excess supply with subdued demand.

Most farming businesses were, however, able to fall back on reserves from profitable previous years. The

new lending business stems predominantly from land purchases, the acquisition of agricultural companies and the financing of shed building. Added to this was the increased use of overdraft facilities. The volume of receivables rose accordingly by 14.4% to EUR 3.3 billion. At EUR 1.0 billion, the volume of deposits was at the level of the previous year.

In the new federal states, it proved possible to increase the already high market share. The number of customers served in the old federal states likewise grew. As at the reporting date, 8,300 customers from the agricultural sector banked with DKB.

### Tourism: Steady performance

Tourism continued to post a stable performance in 2015. At EUR 1.1 billion, nominal, the volume of receivables remained at the level of the previous year as expected. With EUR 0.1 billion, the deposit business continued to play a subordinate role.

### Freelance professions: Further customer growth

The range of services for legal and tax consulting professions and for business consulting, technical and scientific professions continued to experience strong demand in the market. Thus the number of customers rose last year to 25,000 (FY 2014: 23,000).

At EUR 0.9 billion, the volume of receivables was at the level of the previous year. The volume of deposits rose accordingly in the financial year by 8.7% to EUR 1.5 billion.

### DKB Finance GmbH: Investment and management company in the DKB Group

As an organisationally independently-run participation and management company, DKB Finance GmbH with its subsidiary MVC Unternehmensbeteiligungs GmbH assumes responsibility for company and property investments to reduce financial losses. In addition, it generates potential for added value for the DKB Group and its customers through targeted asset management in various areas, by providing project and growth funding.

In 2015, the focus lay on taking possession of the collateral from debt-equity swap transactions and on the area of food and agriculture. In addition, the company financed civic participation projects and projects based on the German Renewable Energy Act (EEG).

As part of merging SKG BANK AG with DKB, the participation certificates issued were paid back in full last year.



## Financial Markets segment

### Liquidity increased further

To further strengthen our regulatory liquidity buffer, we increased the portfolio of highly liquid securities by EUR 1.0 billion net to EUR 5.2 billion at the end of 2015, in accordance with the definitions of the Capital Requirements Directive.

At the end of the year, the revaluation reserve was slightly above the starting figure for 2015. More detailed information on this is included in the notes to the consolidated financial statements.

Despite the bond market being volatile in the reporting period, a defensive approach for the securities portfolio meant that strong fluctuations in fair values were avoided.

### Refinancing

The key refinancing pillars in the DKB Group are customer deposits, the issue of Pfandbriefs and the funding through development banks.

We posted slight growth in customer deposits in the financial year: these increased by EUR 1.2 billion to EUR 48.6 billion.

DKB's Pfandbrief issues amounted to EUR 1.9 billion. The ratings agency Moody's gave both the DKB-issued public Pfandbriefs and the mortgage Pfandbriefs its best rating of "Aaa".

The total volume of new business with development banks rose in 2015 by EUR 0.1 billion to EUR 2.2 billion in 2015. The portfolio of programme loans and global loans amounted in total to EUR 13.1 billion as at the end of 2015.

## Non-core Business segment

### Reduction activities continued

The reduction in business activities assigned to the Non-Core Business segment continued as planned in 2015. Key measures were the repayment of loans and repayments in relation to successful resolutions.

The volume of receivables in the segment was EUR 0.7 billion as at the reporting date and was thus below the previous year's value of EUR 0.8 billion.

## Successful sale of participations and progress in restructuring

In 2014, the DKB Group sold its shares in Stadtwerke Cottbus GmbH as part of a structured bidding process. The transfer of DKB shares took place in 3 successive partial steps. After the sale of the first tranche in 2014, tranches 2 and 3 followed in 2015.

DKB Wohnungsbau und Stadtentwicklung GmbH with its key subsidiaries DKB Wohnen GmbH and Bauland GmbH focussed further on restructuring the companies in 2015. The key task of the companies is to complete legacy business of the construction management companies and to successfully wind up the remaining activities in the business field. In 2015, these measures were continued successfully. The "Bärenschanze" property in Nuremberg, acquired the year before, was sold in the reporting period.

### Other segment

Under "Other", we deal with cross-divisional transactions and earnings contributions which cannot be allocated to the segments according to source. These include, among others, the central administrative expenses and the earnings contribution of DKB Service GmbH.

### DKB Service GmbH

DKB Service GmbH's activities include processing back office tasks for the DKB Group and standardisable bulk business for DKB products as well as providing services for the Group companies. These include, in particular, services in facility management and IT, personnel administration and payroll as well as accounting. The lion's share of services rendered by DKB Service GmbH in 2015 was for DKB.

## Results of operations

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Net interest income	790.4	670.2	120.2	18
Risk provisions	-143.8	-134.4	-9.4	-7
<b>Net interest income after risk provisions</b>	<b>646.6</b>	<b>535.8</b>	<b>110.8</b>	<b>21</b>
Net commission income	-1.3	-4.2	2.9	69
Gains or losses on fair value measurement	14.0	17.6	-3.6	-20
Gains or losses on hedge accounting	-36.2	-30.7	-5.5	-18
Gains or losses on financial investments	11.2	15.4	-4.2	-27
Administrative expenses	-376.8	-368.6 <sup>1</sup>	-8.2	-2
Expenses for the bank levy, deposit insurance scheme and banking supervision	-23.7	-10.1 <sup>1</sup>	-13.6	< -100
Other income and expenses	7.4	2.5	4.9	> 100
Gains or losses on restructuring	-5.2	-7.2	2.0	28
<b>Profit before taxes</b>	<b>236.0</b>	<b>150.5</b>	<b>85.5</b>	<b>57</b>
Income taxes	-11.0	14.6	-25.6	< -100
<b>Consolidated net income</b>	<b>225.0</b>	<b>165.1</b>	<b>59.9</b>	<b>36</b>

<sup>1</sup> Figure for previous year adjusted by EUR 7.8 million due to restructuring of administrative expenses into expenses for the bank levy, deposit insurance scheme and banking supervision.

The DKB Group succeeded in increasing its profit before taxes significantly in the financial year by EUR 85.5 million. The main reason for this was the great improvement year on year in net interest income by EUR 120.2 million. This more than offset the negative effects caused by increased expenses from the implementation of regulatory requirements, which are recognised in the increased administrative expenses, and the higher expenses for the bank levy, deposit insurance scheme and banking supervision.

This positive performance is also reflected in the improved CIR in the financial year, up by 6.9% to 48.0% as well as in the increased ROE, up from 6.1% to 9.6%.

### Net interest income

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Interest income	2,206.6	2,321.4	-114.8	-5
Interest expenses	-1,416.2	-1,651.2	235.0	14
<b>Net interest income</b>	<b>790.4</b>	<b>670.2</b>	<b>120.2</b>	<b>18</b>

**Net interest income** improved significantly in the financial year.



This resulted in particular from the appreciably lower interest expenses from liabilities in the amount of EUR 886.1 million (FY 2014: EUR 1,098.7 million). The drop is attributable to changes in conditions due to the persistently low interest rate. The interest expenses arising from interest rate swap agreements, which are likewise reported under interest expenses, remained stable in comparison to the previous year at EUR 510.7 million.

**Interest income**, at EUR 2,032.6 million (FY 2014: EUR 2,135.0 million), came from loans and advances to customers. The decline in interest income is also attributable to the persistently low interest rate, despite the increase in the corresponding loan volume.

Net interest income is allocated to the **segments** as follows:

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Retail customers	423.4	467.9	-44.5	-10
Public Infrastructure	236.4	235.4	1.0	0
Corporate customers	159.9	142.0	17.9	13
Financial markets	-33.5	-170.7	137.2	80
Non-core business	3.2	8.9	-5.7	-64
Other	17.2	6.5	10.7	> 100
Carryforward/consolidation	-16.2	-19.8	3.6	18
<b>Net interest income</b>	<b>790.4</b>	<b>670.2</b>	<b>120.2</b>	<b>18</b>

## Risk provisions

The increase in risk provisions is due to the year-on-year increase in risk-provision expenses from the non-core business. In contrast, risk-provision expenses from the market segments declined:

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Retail customers	-32.4	-48.4	16.0	33
Public Infrastructure	-13.4	-35.2	21.8	62
Corporate customers	-17.9	-26.0	8.1	31
Financial markets	-	-	-	-
Non-core business	-75.6	-23.9	-51.7	< -100
Other	-0.7	-0.8	0.1	13
Carryforward/consolidation	-3.8	-0.1	-3.7	< -100
<b>Risk provisions</b>	<b>-143.8</b>	<b>-134.4</b>	<b>-9.4</b>	<b>-7</b>

## Net commission income

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Credit card business	57.1	41.3	15.8	38
Payment transactions	-58.0	-51.4	-6.6	-13
Lending business	0.4	10.4	-10.0	-96
Other services business	-0.8	-4.5	3.7	82
<b>Net commission income</b>	<b>-1.3</b>	<b>-4.2</b>	<b>2.9</b>	<b>69</b>

Net earnings in the **credit card business** increased, due particularly to the number of co-branding credit cards rising to 645,000 as well as to refunds relating to other periods in the amount of EUR 9.2 million resulting from a company audit.

Net expenses for **payment transactions** rose due to the higher number of customers.

Net earnings in the **lending business** fell, in particular due to the lower earnings from handling charges in the amount of EUR 19.6 million (FY 2014: EUR 31.8 million).

The net commission income is allocated to the **segments** as follows:

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Retail customers	-35.1	-45.9	10.8	24
Public Infrastructure	1.1	0.7	-0.4	-57
Corporate customers	23.4	32.1	-8.7	-27
Financial markets	-1.4	-3.5	2.1	60
Non-core business	0.5	1.4	-0.9	-64
Other	8.8	11.7	-2.9	-25
Carryforward/consolidation	1.4	-0.7	2.1	> 100
<b>Net commission income</b>	<b>-1.3</b>	<b>-4.2</b>	<b>2.9</b>	<b>69</b>

### Gains or losses on fair value measurement/ Gains or losses on hedge accounting

The **gains or losses on fair value measurement** and the **gains or losses on hedge accounting** essentially reflect the interest rate-induced effects of the interest rate derivatives and their underlying transactions concluded by DKB for hedging purposes.

### Gains or losses on financial investments

The **gains or losses on financial investments** result primarily from the gains on the sale of securities.

## Administrative expenses

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Staff costs	-208.0	-198.4	-9.6	-5
Other administrative expenses	-162.6	-158.8	-3.8	-2
Depreciation and impairments on property, plant and equipment and intangible assets	-6.2	-11.4	5.2	46
<b>Administrative expenses</b>	<b>-376.8</b>	<b>-368.6</b>	<b>-8.2</b>	<b>-2</b>

The higher **staff costs** result from the agreed increase in pay rates in the banking industry and the required increase in staffing, particularly for the implementation and fulfilment of new regulatory requirements.

Despite an increase in variable costs in order to achieve business and customer growth, it was possible to keep **other administrative expenses** at almost the same level as the previous year.

The administrative expenses are allocated to the **segments** as follows:

Allocation according to segments	2015 EUR million	2014 EUR million	Change EUR million	Change %
Retail customers	-151.8	-144.3	-7.5	-5
Public Infrastructure	-87.7	-88.0	0.3	0
Corporate customers	-69.7	-70.3	0.6	1
Financial markets	-4.0	-3.7	-0.3	-8
Non-core business	-17.6	-22.0	4.4	20
Other	-167.3	-152.9	-14.4	-9
Carryforward/consolidation	121.3	112.6	8.7	8
<b>Administrative expenses</b>	<b>-376.8</b>	<b>-368.6</b>	<b>-8.2</b>	<b>-2</b>

## Expenses for the bank levy, deposit insurance scheme and banking supervision

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Bank levy	-12.4	-2.3	-10.1	< -100
Deposit insurance scheme	-9.5	-7.2	-2.3	-32
Banking supervision	-1.8	-0.6	-1.2	< -100
<b>Expenses for the bank levy, deposit insurance scheme and banking supervision</b>	<b>-23.7</b>	<b>-10.1</b>	<b>-13.6</b>	<b>&gt; -100</b>

The increased expenses due to implementation of the regulatory requirements are evident in particular in the significantly higher bank levy, which had to be

calculated in accordance with European specifications for the first time in the financial year.

## Other income and expenses

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Other income	44.5	121.5	-77.0	-63
Other expenses	-37.1	-119.0	81.9	69
<b>Other income and expenses</b>	<b>7.4</b>	<b>2.5</b>	<b>4.9</b>	<b>&gt; 100</b>

The drop in other income and other expenses is due in particular to the deconsolidation in 2014 of Stadtwerke Cottbus GmbH, whose share in other income in the previous year was EUR 66.5 million and whose share in other expenses was EUR 59.6 million in the same period.

### Return on capital in accordance with Section 26a (1) sentence 4 German Banking Act (KWG)

The return on capital in the financial year was 0.31 % (FY 2014: 0.23 %).

## Net assets

Assets	2015 EUR million	2014 EUR million	Change EUR million	Change %
Loans and advances to banks	4,864.6	5,567.2	-702.6	-13
Loans and advances to customers	61,582.1	59,609.5	1,972.6	3
Risk provisions	-429.5	-454.8	25.3	6
Portfolio hedge adjustment	1,145.6	1,603.6	-458.0	-29
Financial investments	5,324.7	4,482.4	842.3	19
Further assets	941.3	779.3	162.0	21
<b>Total assets</b>	<b>73,428.8</b>	<b>71,587.2</b>	<b>1,841.6</b>	<b>3</b>

The **loans and advances to banks** are down on the previous year's figure due to the lower loan portfolio with respect to BayernLB within the framework of intra-group funding.

The increase in **loans and advances to customers** is due in particular to new business in the Infrastructure and Corporate Customers segments.

The **risk provisions** developed as follows in the financial year:

EUR million	As at 1 Jan	Additions	Releases*	Utilisation	As at 31 Dec
Specific loan loss provisions	-392.6	-171.3	58.8	135.4	-369.7
Portfolio provisions	-62.2	-17.9	2.5	17.8	-59.8
<b>Risk provisions</b>	<b>-454.8</b>	<b>-189.2</b>	<b>61.3</b>	<b>153.2</b>	<b>-429.5</b>

\* Incl. unwinding.

The **portfolio hedge adjustment** is determined from the fair value hedges on interest rate risks formed at portfolio level. The development of the portfolio **hedge adjustments** corresponds to the negative fair values from derivative financial instruments on the liabilities side.

The increase in **financial investments** is due to purchases made with a view to the regulatory level of liquidity that must be maintained in accordance with Basel III/CRD IV. Sales and scheduled maturities had a compensating effect.

Liabilities	2015 EUR million	2014 EUR million	Change EUR million	Change %
Liabilities to banks	15,787.2	15,576.6	210.6	1
Liabilities to customers	48,558.2	47,319.0	1,239.2	3
Securitised liabilities	4,098.9	3,147.5	951.4	30
Negative fair values from derivative financial instruments	1,267.5	1,769.3	-501.8	-28
Provisions	121.3	104.8	16.5	16
Other liabilities	650.0	905.7	-255.7	-28
Equity	2,945.7	2,764.3	181.4	7
<b>Total liabilities</b>	<b>73,428.8</b>	<b>71,587.2</b>	<b>1,841.6</b>	<b>3</b>

**Liabilities to banks** remained on a par with the previous year. Here the increase in liabilities from pass-through loans was almost completely offset by the lower obligations from overnight and term money and the promissory note loan which fell due in the financial year.

**Liabilities to customers** increased due to increased liabilities from demand deposits and overnight money, which significantly exceeded the decline in fixed-term liabilities.

**Securitised liabilities**, which included public and mortgage Pfandbriefs as well as bearer bonds, increased in the financial year due to the issue of new securities which exceeded the maturities of the financial year.

**Negative fair values from derivative financial instruments** is determined from the fair value hedges on interest rate risks formed at portfolio level. The performance of negative fair values from derivative financial instruments corresponds to the portfolio hedge adjustment on the assets side.

**Provisions** include in particular provisions for pensions and other long-term staff obligations, provisions for litigation risks and provisions in the lending business.

**Equity** is comprised as follows:

	2015 EUR million	2014 EUR million	Change EUR million	Change %
Subscribed capital	339.3	339.3	0.0	0
Capital surplus	1,314.4	1,314.4	0.0	0
Retained earnings	970.1	1,010.1	-40.0	-4
Revaluation reserve	250.1	132.9	117.2	88
Net retained profit	71.8	-32.4	104.2	> 100
<b>Equity</b>	<b>2,945.7</b>	<b>2,764.3</b>	<b>181.4</b>	<b>7</b>

The drop in **retained earnings** of EUR 41.5 million resulted primarily from withdrawals.

The increase in the **revaluation reserve** of EUR 117.0 million is due in particular to the revaluation of the shares in Visa Europe Limited. The revaluation took place against the backdrop of the planned takeover of Visa Europe Limited by Visa Inc., from which the DKB Group expects to receive a cash payment and preference shares. With completion of the takeover in 2016, the valuation effect, already recorded in equity as at 31 December 2015 in accordance with IAS 39, will be realised with an impact on earnings in the income statement. The resultant earnings are particularly dependent on transaction costs and possible objections on the part of members of Visa Europe Limited.

**Net retained profit** results primarily from the consolidated net income less the profit payable to BayernLB plus the loss carryforward from previous periods.

## Financial position

Liquidity management is based on the principles derived from the German Banking Act (KWG), which are explained in the risk report. For this reason, we will refrain from including a detailed analysis of the cash flow statement at this point, and instead refer you to the statements made in the risk report and to the cash flow statement itself.

# Events after the end of the reporting period

No events having a material impact on the net assets, financial position and results of operations occurred after the end of the reporting period.

## Non-financial performance indicators

Non-financial performance indicators are of great importance to us. In order to achieve our targets in this respect, our focus is not on quantitative key figures but instead on numerous measures.

In particular, it was through the measures presented below that we were able to achieve our targets in 2015 with respect to:

- our employees – their job satisfaction, further training levels and health,
- our customers – their satisfaction with our products, quality and innovations and
- our sustainability.

### Employees

#### Number of employees rose further

In financial year 2015, the DKB Group employed on average 2,900 people (FTE), an increase of 2.3% on the previous year. The parent company accounted for 1,494 employees in the past year (FY 2014: 1,359).

We also filled open positions in 2015, giving preference to qualified employees from within the Group. For positions that require special expertise, we also increasingly recruit from outside the Group.

As was already the case in the years before, our focus in terms of developing junior staff is very much on working with college graduates.

In 2015, 11 college graduates were taken on as direct entrants. In addition, from the trainee year which began in autumn 2014, 5 new employees joined the company in the past year. After the success of the inaugural year, a new group of 8 trainees started in 2015.

In addition to the permanent jobs, DKB also employs students and interns on fixed-term contracts. In order to highlight our attractiveness as an employer and to tie potential high-performers to our company, we also support young adults on a broad basis across Germany through scholarships.

The average age of our employees in the last year was 42.5 years (FY 2014: 42.1). The share of employees under the age of 30 was 12.1% (FY 2014: 13.2%). The average length of service in the Group was 7.9 years (FY 2014: 7.4 years).

#### Employees of SKG BANK AG legally restructured

As at 13 July 2015, the former subsidiary SKG BANK AG was merged with the parent company DKB. This organisational change brought about a transfer of business in accordance with Section 613a German Civil Code (BGB). The former employees of SKG are deployed largely in the DKB Group in the retail customers area.

## Modern work time models and equal opportunities are promoted

By making working hours more flexible, we further advanced the “Work/life balance” project in 2015. Since 2015, in addition to the first level management, all second level management employees at the parent company DKB now also work according to the working time honour system model.

The job rotation model in the DKB Group, which also applies to BayernLB, was continued successfully in the past year. Temporary job rotation promotes mutual understanding, cross-divisional thinking and cooperation within the Group.

The DKB Group places great importance on equal opportunities. The gender distribution in 2015 was 59.5 % women and 40.5 % men. In order to further boost equal opportunities in the DKB Group and in particular to encourage the employment of women in management positions, binding targets were defined at the various levels in accordance with Section 111 (5) Stock Corporation Act (AktG) in conjunction with the law promoting equal participation of men and women in management positions:

### Targets – Supervisory Board

The Supervisory Board of DKB currently has 16 members, 3 of whom are women. This corresponds to a proportion of women of 18.75 %. The Supervisory Board is aiming at increasing this share to 25 % by 30 June 2017. As DKB and DKB Service GmbH jointly account for the vast majority of the Group's workforce, the values for both companies are set out below.

### Management targets/first and second level management

The Board of Management of DKB comprises 5 male members, resulting in a current proportion of women of 0 %. It is currently not possible to stipulate a target here as the term of office of the current Board members runs beyond 30 June 2017. In DKB Service GmbH, 2 out of 3 management positions are occupied by women, therefore a proportion of women amounting to 66.6 % has already been reached. The aim is not to allow this to fall below a target of 30 %.

The proportion of women in senior management positions is currently 11.9 % at DKB, and this is to be increased to 16 % by 30 June 2017. DKB Service GmbH has a proportion of women of 30.8 %, which is not to fall below 30 %.

At second level management, the proportion of women is currently 33.6 % at DKB; the target is an increase to

34 % by 30 June 2017. DKB Service GmbH has a proportion of women of 47.6 %; again the target here is to ensure that it does not fall below 30 %.

## Voluntary social benefits for employees

We offer our employees voluntary social benefits (above the general pay scale), subsidies for insurances and childcare, and benefits for retirement provision. As part of a service for families, employees can obtain free advice, via a fixed contractual partner, for example on issues relating to childcare or the care of relatives. The company is the contact partner for all circumstances of life (private or professional), but also provides specific advice on the selection of the optimal form of care, mediates appropriate childcare solutions and provides rapid assistance in the event of care bottlenecks.

Furthermore, employees of DKB and its wholly-owned subsidiaries receive profit participation certificates and can thus participate in the success of the Bank. The profit participation certificates have a basic interest rate of 4 % and a variable interest rate premium that is dependent on the cost/income ratio.

## Increasing knowledge and skills are hugely important

We give our employees ample opportunity to further develop both professionally and personally: to this end, the DKB Management School offers numerous seminars, skills training courses, specialist training courses and workshops. In 2015, 301 seminar events took place in the Group, in which a total of 1,956 employees and management staff participated. 358 employees and managers took advantage of external seminars totalling 868 training days. On average, employees of our firm spent 2.4 days on further training in the last financial year.

The further training programme for 2015 focussed on “Promoting cooperation and team spirit”. The key competences of openness to change, team work, negotiating skills, transfer thinking, self-organisation and new customer acquisition were further increased via skills and management seminars. Using various formats to impart specialist knowledge, participants were able to enhance their understanding of current topics and trends in the markets, exchange best practice solutions and deepen their specialist knowledge. In 2015, 3,126 training days alone were spent on professional further training.

## Health measures expanded

The focus of our health management is on the creation of preventive structures, and measures to maintain health. Furthermore, our employees – and with them their friends and family members – can avail themselves



to a diverse range of workshops focused on health as well as offers relating to physical activities. The health quota in the DKB Group remains very high: in 2015 it was 95.3%. The health quota is calculated from the share of days missed due to illness compared to total working days.

Since 2012, 33 DKB employees have made use of our offer to acquire the "Health Coach" qualification through part-time study at a technical college. The trained employees are deployed at all locations of DKB. They act as multipliers to promote occupational health, by implementing location-specific measures in cooperation with selected partners.

Again in the past year, voluntary vaccines and medical health checks were offered in cooperation with health and care centres.

In 2015 we ran a health campaign focussed on stress prevention for all employees of DKB. As part of the campaign, sports scientists from the University of Health & Sports, Technology & Arts Berlin performed free examinations and gave the employees individual recommendations.

### Regular external evaluations

At DKB, the topics of employee health and employee satisfaction are evaluated regularly by external parties: in 2015 an external consultancy firm performed a comprehensive employee survey on the topics of the corporate culture. In addition, we had our corporate health management system re-audited in December 2014 as part of the "Corporate Health Award".

## Customers

### Products, quality, innovations are aimed completely at the customers

In order to maintain our position and our lead in an intensely competitive environment with an increasing number of direct and indirect market participants, we are constantly developing and improving our products and services. The approach and the target here are always to improve the user experience for our customers. When further developing our products and services, we focus consistently on selected business fields.

We strive towards achieving a very high level of customer satisfaction. To this end, we are expanding our digital services in the retail customer area, offering added value to customers, with the aim of designing our products and services so that they are as intuitive as possible. If

required, we enter into long-term co-operations – both on the technology and on the product side.

As a commercial bank for local authorities and medium-sized companies, it is our ambition to offer our customers the best quality consultancy. The basis for this objective is our extensive knowledge of the industry. We maintain this knowledge by employing technical specialists in our customer teams, for example from the fields of agricultural and civil engineering, process and environmental engineering. In addition, we cooperate within the respective regions and industries with professional associations, development banks and scientific institutions.

### Numerous improvements and innovations to improve our offering

In 2015 we also improved our banking services: since November 2015 our customers have been able to use our website comfortably on different end devices with a display that adjusts to suit the relevant end device. This responsive design improves the user experience significantly, particularly on mobile devices.

In the past year, we entered into a partnership with the FinTech company FinReach. Using FinReach's new technology, switching accounts has once again been made significantly easier for new customers.

Together with BMW Bank and MasterCard we are issuing the new generation of BMW and MINI credit cards. The cards serve as contactless means of payment and, at the same time, as car keys for vehicles of the car sharing service, DriveNow. There is a chip on the cards that supports Near Field Communication technology (NFC). It is this chip that processes both payments and the radio key functionality.

DKB was an early adopter of the latest NFC technology. Consequently, the vast majority of issued DKB VISA cards (90 percent) now feature VISA payWave. payWave is an innovative option for contactless payment. For amounts up to EUR 25, the card just needs to be held up to the reader; confirmation with a PIN or signature is not required. Secure processing is ensured here in that a dynamic code is generated for every payment process. Advantages for DKB customers include a faster and more convenient payment process, without the need to search for loose cash.

DKB's 25th anniversary provided occasion for special promotions. Under the slogan, "Wir feiern und belohnen Ihre Treue" ("We are celebrating and rewarding your loyalty") we conducted numerous customer promotions – with favourable interest rates on personal loans, special fees on securities transactions and the

opportunity to collect DKB points, which can be cashed in for great rewards from the DKB Club.

To take care of our customers in the field of Energy and supply, we introduced an analysis instrument for municipal utilities in the first half of 2015. It compares financial ratios of municipal utilities and provides a focussed overview of the industry. The instrument was very well received in the first few months.

For the Infrastructure and Corporate Customer segments, we have been offering a new leasing product since July 2015 in cooperation with Deutsche Leasing. It enables customers to quickly finance acquisitions in a manner that protects their equity: the financing decision for investment sums of up to EUR 150,000 can be made within 1 working day.

In the reporting year, DKB introduced the new event format “DKB-Zukunftsforum” (DKB future forum). Speakers from the fields of business, science and research discuss important questions facing us in the future and present possible approaches to solutions. Participants include board members and managers from the various customer groups of DKB. Two future forums were held in 2015. The topics were “Strategies for the working world of tomorrow” and “Future-oriented Companies – sustainable, commercial, socially committed”.

## Sustainability

### A sustainability-focussed corporate policy

For DKB, a sustainable increase in corporate value requires the meaningful combination of economic, ecological and social targets. For this reason, the company is working on continuously improving its sustainability. This means:

- an alignment towards sustainable banking products,
- optimal consideration of and support for the social needs of employees,
- the assumption of social responsibility through participation in socially beneficial projects,
- the minimisation of the environmentally damaging consequences of business activity, and
- maintaining dialogue with the various target groups regarding sustainability topics as an opportunity to further develop ourselves and to contribute to the sustainable development of the company.

### Regular rating by imug and oekom

To underline how serious we are about sustainability, but also as a signal to the sustainability-oriented capital market, we regularly undergo relevant rating processes. Thus, the sustainability rating agencies imug and oekom audit DKB for compliance with sustainability standards, for the presence of and compliance with in-house directives as well as for special measures designed to suit the business activity of the company.

oekom research currently rates DKB as the sole “Industry Leader” with a sustainability rating of “B-“. This is the highest grade awarded to any rated German business bank, Landesbank or regional bank. At the same time, this corporate rating means “prime status” and, at the time it was awarded, we were the first and currently the only institute to be categorised as “good”.

The Bank’s low risk level in relation to controversies and ESG risks (environmental, social and corporate governance), its achievements as an employer and the sustainable alignment of its lending were key factors in it being awarded this excellent grade. DKB has been financing wind farms and solar installations since 1996 and has one of the largest loan portfolios (approx. EUR 9 billion) in renewable energies in Germany.

The sustainability ratings agency imug sees DKB’s strengths as being, inter alia, its socially responsible products, environmental reporting, workplace safety, equal opportunities for male and female employees and its cooperation with development banks.

imug also rates DKB’s public and mortgage Pfandbriefs highly: initially with the rating “very positive (A)”, more recently with the rating “positive (B)”.

# Group Balance Sheet

as of 31 December 2015

## Assets

EUR million	31/12/2015	31/12/2014
Cash reserves	719.9	657.1
Loans and advances to banks	4,864.6	5,567.2
Loans and advances to customers	61,582.1	59,609.5
Risk provisions	-429.5	-454.8
Portfolio hedge adjustment assets	1,145.6	1,603.6
Assets held for trading	4.2	4.6
Positive fair values from derivative financial instruments (hedge accounting)	6.9	1.0
Financial investments	5,324.7	4,482.4
Property, plant and equipment	46.6	47.1
Intangible assets	5.6	6.3
Current tax assets	11.7	13.8
Deferred tax assets	0.0	0.0
Non-current assets held for sale	117.0	16.0
Other assets	29.4	33.4
<b>Total assets</b>	<b>73,428.8</b>	<b>71,587.2</b>

Rounding differences may occur in the tables in the amount of +/- one unit.

**Liabilities**

<b>EUR million</b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Liabilities to banks	15,787.2	15,576.6
Liabilities to customers	48,558.2	47,319.0
Securitised liabilities	4,098.9	3,147.5
Liabilities held for trading	55.4	18.3
Negative fair values from derivative financial instruments (hedge accounting)	1,267.5	1,769.3
Provisions	121.3	104.8
Current tax liabilities	10.3	0.4
Deferred tax liabilities	0.8	1.4
Other liabilities	263.9	298.7
Subordinated capital	319.6	586.9
Equity	2,945.7	2,764.3
Equity excluding non-controlling interests	2,945.7	2,764.3
Subscribed capital	339.3	339.3
Capital surplus	1,314.4	1,314.4
Retained earnings	970.1	1,010.1
Revaluation reserve	250.1	132.9
Net retained profit	71.8	-32.4
Non-controlling interests	-	0.0
<b>Total liabilities</b>	<b>73,428.8</b>	<b>71,587.2</b>

Rounding differences may occur in the tables in the amount of +/- one unit.

# Consolidated Statement of Comprehensive Income

for the period from 1 January 2015 to 31 December 2015

## Consolidated Income Statement

EUR million	01/01 – 31/12/2015	01/01 – 31/12/2014
Interest income	2,206.6	2,321.4
Interest expenses	-1,416.2	-1,651.2
Net interest income	790.4	670.2
Risk provisions	-143.8	-134.4
Net interest income after risk provisions	646.6	535.8
Commission income	322.4	316.6
Commission expenses	-323.7	-320.8
Net commission income	-1.3	-4.2
Gains or losses on fair value measurement	14.0	17.6
Gains or losses on hedge accounting	-36.2	-30.7
Gains or losses on financial investments	11.2	15.4
Administrative expenses	-376.8	-368.6 <sup>1</sup>
Expenses for the bank levy, deposit insurance scheme and banking supervision	-23.7	-10.1 <sup>1</sup>
Other income and expenses	7.4	2.5
Gains or losses on restructuring	-5.2	-7.2
<b>Profit before taxes</b>	<b>236.0</b>	<b>150.5</b>
Income taxes	-11.0	14.6
<b>Consolidated net income</b>	<b>225.0</b>	<b>165.1</b>
attributable:		
to DKB AG shareholders	225.0	165.1
to non-controlling interests	-	0.0
Profit transferred to controlling interests	-162.3	-204.5
Profit brought forward	9.1	7.0
Allocation to retained earnings	0.0	0.0
Allocation to non-controlling interests	-	0.0
Suspension of distribution payments on profit participation certificates	-	-
<b>Net retained profit</b>	<b>71.8</b>	<b>-32.4</b>

Rounding differences may occur in the tables in the amount of +/- one unit.

<sup>1</sup> Figure for previous year adjusted by EUR 7.8 million due to reclassification of administrative expenses into expenses for the bank levy, deposit insurance scheme and banking supervision.

## Carryforward of Comprehensive Income of the period

EUR million	01/01 – 31/12/2015	01/01 – 31/12/2014
<b>Consolidated net income</b>	<b>225.0</b>	<b>165.1</b>
<b>Components of other comprehensive income temporarily not recognised in profit or loss</b>		
<b>Changes in revaluation reserve arising from AfS financial instruments</b>	<b>0.2</b>	<b>111.6</b>
Change in measurement	9.3	106.7
Reclassification adjustment due to realised gains and losses	-9.7	4.7
Change in deferred taxes	0.6	0.2
<b>Changes in revaluation reserve arising from non-current assets held for sale</b>	<b>117.0</b>	<b>-</b>
Change in measurement	117.0	-
<b>Components of other comprehensive income permanently not recognised in profit or loss</b>		
<b>Changes from the revaluation of defined benefit plans</b>	<b>1.5</b>	<b>-13.2</b>
Change in measurement	1.5	-13.2
Change in deferred taxes	0.0	0.0
<b>Other comprehensive income</b>	<b>118.7</b>	<b>98.4</b>
<b>Comprehensive income</b>	<b>343.7</b>	<b>263.5</b>
attributable:		
to DKB AG shareholders	343.7	263.5
to non-controlling interests	-	0.0

Rounding differences may occur in the tables in the amount of +/- one unit.

## Group cash flow statement

EUR million	2015	2014
<b>Consolidated annual profit</b>	<b>225.0</b>	<b>165.1</b>
<b>Items in the annual profit not affecting the cash flow and carryforwards to cash flow from operating activities</b>		
Depreciation, impairments and write-ups on receivables, property, plant and equipment and financial investments	137.9	140.1
Changes to provisions	36.1	28.5
Changes to other items not affecting cash flow <sup>1</sup>	185.3	164.9
Gains or losses on the sale of financial investments and property, plant and equipment	0.2	-1.0
Other adjustments (net)	-790.1	-669.7
<b>Sub-total</b>	<b>-205.6</b>	<b>-172.1</b>
<b>Changes to assets and liabilities from operating activities after adjustment for components not affecting the cash flow</b>		
Loans and advances to banks	696.7	-100.8
Loans and advances to customers <sup>1</sup>	-2,123.0	-2,006.5
Securities (unless financial investments) <sup>1</sup>	-815.3	-823.3
Other assets from operating activities	20.9	59.0
Liabilities to banks	207.1	-108.8
Liabilities to customers	1,245.4	3,229.2
Securitised liabilities	949.3	-287.2
Other liabilities from operating activities	-280.9	-290.6
Interest and dividends received	2,222.6	2,314.0
Interest paid	-1,398.1	-1,658.7
Income tax payments	-0.4	-0.4
<b>Cash flow from operating activities</b>	<b>518.7</b>	<b>153.8</b>

<sup>1</sup> The figures for the previous year were adjusted for the measurement effects from the AFS financial instruments not recognised in profit or loss that were recorded here in the previous year. This has no impact on the cash flow from operating activities.

EUR million	2015	2014
Cash inflows from the sale of financial investments	16.0	1.4
Cash inflows from the sale of property, plant and equipment	0.6	1.8
Cash outflows for the acquisition of financial investments	-3.0	0.0
Cash outflows for the acquisition of property, plant and equipment	-5.5	-8.4
Effects from changes in the scope of consolidation		
Cash inflows from the sale of subsidiaries and other business units	-	6.1
Cash outflows for the acquisition of subsidiaries and other business units	-	-
Changes in cash from other investment activities (net)	-	-
<b>Cash flow from investment activities</b>	<b>8.1</b>	<b>0.9</b>
Cash inflows from allocations to equity	-	-
Cash outflows for equity decreases	-	-
Disbursements to company owners and non-controlling interests	-200.4	-136.7
Changes in cash from other capital (net)	-263.6	113.7
<b>Cash flow from financing activities</b>	<b>-464.0</b>	<b>-23.0</b>
<b>Cash in hand at end of previous period</b>	<b>657.1</b>	<b>525.4</b>
Cash flow from operating activities	518.7	153.8
Cash flow from investment activities	8.1	0.9
Cash flow from financing activities	-464.0	-23.0
Effects from changes in exchange rates, measurement and the scope of consolidation	-	-
<b>Cash in hand at end of period</b>	<b>719.9</b>	<b>657.1</b>



**Notes to the cash flow statement:**

The cash flow statement presents the performance and composition of the financial resources for the financial year classified into "operating activities", "investment activities" and "financing activities".

The cash flow from operating activities is presented on the basis of the consolidated annual net income before the profit and loss transfer agreement, in accordance with the indirect method.

Payment flows from loans and advances to banks and customers, liabilities to banks and customers, securities of trading portfolios, securitised liabilities and other assets and liabilities are reported here. Likewise included are the interest and dividend payments from operating activities.

The cash flow from investment activities includes payments for the investment, securities and property, plant and equipment portfolios as well as from changes to the scope of consolidation.

The cash flow from financing activities essentially shows the change in subordinated capital and disbursements made to company owners.

The reported financial resources correspond to the "cash reserves" item in the balance sheet and thus encompass the cash balance and deposits with central banks.

In the previous year, the DKB Group sold its shares in Stadtwerke Cottbus GmbH amounting to 74.9% in total as part of a structured bidding process. The sale took place in 3 tranches (A, B, C). After the purchase price for tranche A was settled in the previous year, the remaining shares amounting to 24.925% in each case (tranche B and tranche C) were transferred on 27 January 2015 upon payment of the purchase price. This is reported as a cash inflow from the sale of financial investments under cash flow from investment activities.

With the merger agreement of 6 August 2015, both DKB IT-Services GmbH and LBG Liebenberger Betriebsgesellschaft mbH were merged in full with DKB Service GmbH, retroactively to 1 January 2015, through the transfer of their assets by dissolution without liquidation. The mergers had no impact on the cash flows presented in the cash flow statement.

## Multi-year overview

### Key income figures

EUR million	2015	2014	2013	2012	2011
Net interest income	790.4	670.2	621.1	614.5	607.3
Risk provisions	143.8	134.4	133.5	132.1	132.4
Net commission income	-1.3	-4.2	-20.4	-14.0	-1.7
Administrative expenses	376.8	368.6	338.6	331.9	319.7
Profit before taxes	236.0	150.5	156.8	223.4	159.2
Cost/income ratio (CIR) in %	48.0	54.9	52.7	46.8	51.1
Return on equity (ROE) in %	9.6	6.1	6.4	9.6	8.3

### Key balance sheet figures

EUR million	2015	2014	2013	2012	2011
Total assets	73,428.8	71,587.2	68,722.2	67,799.3	61,916.7
Equity	2,945.7	2,764.3	2,717.9	2,728.0	2,570.4
Core capital ratio in %	8.2	8.7	8.2	8.2	7.7
Lending to customers	61,582.1	59,609.5	57,759.2	55,552.2	53,010.0
Share of Loans and Advances to Customers as a % of total assets	83.9	83.3	84.0	81.9	85.6
Customer deposits	48,558.2	47,319.0	44,082.1	39,725.6	33,613.3

### Key customer figures

	2015	2014	2013	2012	2011
Number of customers	3,250,968	3,071,434	2,849,933	2,589,729	2,382,293
Number of retail current accounts (DKB-Cash)	2,214,771	2,003,377	1,749,978	1,564,179	1,354,561

### Key employee figures

	2015	2014	2013	2012	2011
Ø Employees in full-time equivalent   Head count	2,900   3,179	2,836   3,097	1,731   1,875	1,706   1,845	1,780   1,912
Ø Age in years	42.5	42.1	42.5	-	-
Ø Length of service in years	7.9	7.4	8.9	-	-
Gender distribution m   f in %	40.5   59.5	40.9   59.1	42.8   57.2	-	-
Gender distribution in management positions m   f in %	62.5   37.5	65.1   34.9	68.7   31.3	-	-
Employee health rate in %	95.3	96.2	96.5	-	-
Training days/employee	2.4	2.4	3.7	-	-

2014: First time consolidation DKB Service GmbH.

## Contacts and imprint

### Contact us

Deutsche Kreditbank AG  
Taubenstraße 7–9  
10117 Berlin  
info@dkb.de  
info@dkb.epost.de  
Tel +49 30 120 300 00  
www.dkb.de

### Postal address

Deutsche Kreditbank AG  
10919 Berlin, Germany

Deutsche Kreditbank AG is a BayernLB Group company.

### Contacts

#### Press

Frauke Plaß  
Head of Corporate Development  
Tel +49 30 120 30-3600  
presse@dkb.de

Dana Wachholz  
Press officer  
Tel +49 30 120 30-3610  
presse@dkb.de

#### Investor Relations

Thomas Pönisch  
Head of Treasury  
Tel +49 30 120 30-2900  
zentrale.treasury@dkb.de

**Deutsche Kreditbank AG**

Taubenstraße 7–9  
10117 Berlin

[info@dkb.de](mailto:info@dkb.de)  
[info@dkb.epost.de](mailto:info@dkb.epost.de)

[www.dkb.de](http://www.dkb.de)

Tel +49 30 120 300 00

Fax +49 30 120 300 01