Annual Report 2016

Investing in assets that last: land and people

Deutsche Kreditbank AG

Deutsche Kreditbank AG

Company profile

Deutsche Kreditbank AG (DKB) employs more than 3,300 people, has net assets of approx. EUR 76.5 billion and is one of the top 20 banks in Germany. Our products are leaders in the market and distinguished by fair terms. We serve more than 3.5 million customers. They can conduct their banking transactions comfortably and securely online using the latest technology. Our industry experts assist our business customers in person at their offices.

Entrepreneurial, sustainable actions are of great importance to us: this is why we use more than 80% of our net assets for loans, e.g. for the construction of energy-efficient housing adapted to the needs of the elderly and families as well as in- and outpatient healthcare facilities and building projects in schools and daycare facilities in Germany. We ensure that the local agricultural sector remains competitive by investing in factors of production and bioenergy. In addition, we have been providing loans for a large number of renewable energy projects in the wind, solar and hydropower sectors since 1996.

We foster a culture of appreciation and togetherness – both amongst ourselves as well as with our customers and business partners. A variety of tasks and development opportunities for our employees and optimal framework conditions for daily working life make us a responsible and attractive employer. The DKB MANAGEMENT SCHOOL is our in-house further education and training academy for strengthening our employees' and customers' competencies. Our social commitment via our foundation, DKB STIFTUNG, is proactive and comprehensive.

Investing in Germany

We are the bank that sets new benchmarks in our industry by investing in lasting values: for our customers and for a sustainable future in Germany. Via loans, we return 83 % of our lending volume into the economy of our country. The funds are invested in industries that ensure regional economic and power supply stability and enable the implementation of new ideas. **Das kann Bank.**

Housing

EUR 19.6

billion

The requirements for housing in the 40 million German households are rising and represent a challenge for the housing industry, e. g. in the areas of energy efficiency and housing for the elderly. Our customers now include 1,700 housing companies and associations who own more than 3.6 million homes. More than 2/3 of these have undergone energy-efficient refurbishment / modernisation since 1990. We also assist our customers with sector-specific solutions beyond traditional banking products for the purchase and sale of housing.

Improved housing space

Civil engineer and DKB employee, Franziska Röder, talks to Klaus Grünert from the management of Bauträgergesellschaft mbH about the current project status.

Health and care

EUR 2.5

billion

Demographic change and new medical care options are increasingly raising public awareness on the topics of health and care. As a financing partner for hospitals, medical care facilities and nursing institutions, we offer our customers cross-sectoral healthcare models and close networking of the disciplines within the sector. We have financed 9,000 doctors' practices and pharmacists as well as 440 care homes and hospitals since 1999.

Supporting regional services

No shortage of doctors here: Dr Ulrich Schwantes ensures that the residents of Oberkrämer in Brandenburg are well looked after with his rural medical practice.

Local authorities, education, research

EUR 9.0

billion

The numerous local, educational and research institutions in our country ensure that our everyday life runs smoothly and that the regions can successfully develop their key areas of performance. As a financing partner, we assist them in fulfilling their public service mandate – by providing loans, account management services and investment forms tailored to their needs. Thanks to our excellent regional expertise, we now finance around 1,000 daycare facilities and schools.

Making educational diversity possible

Lars Schulze, managing director of Gallierhaus GmbH, with his daughter in a daycare facility built by a parent initiative – a project financed by DKB.

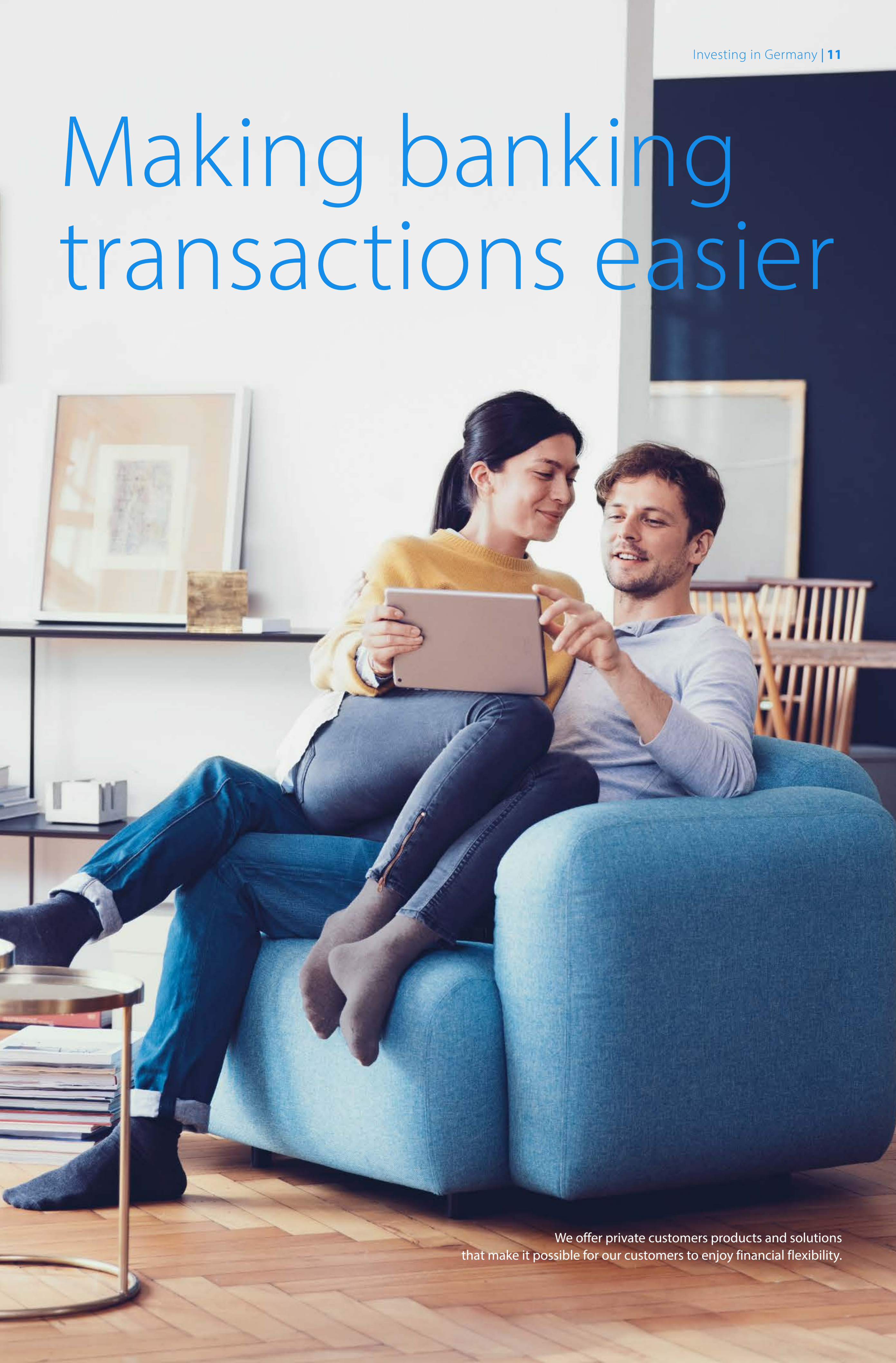
Private households

EUR 12.0

billion

Our private everyday life needs successful financial management. Throughout Germany, we assist more than 3.4 million customers with the financial services provided by a modern online bank. In doing so, we provide our customers with more than just easy to understand services at competitive terms. We also ensure that they can easily access these services at any time throughout the world. Regular, independent evaluations prove that this is not mere lip service.

Making banking transactions easier



We offer private customers products and solutions that make it possible for our customers to enjoy financial flexibility.

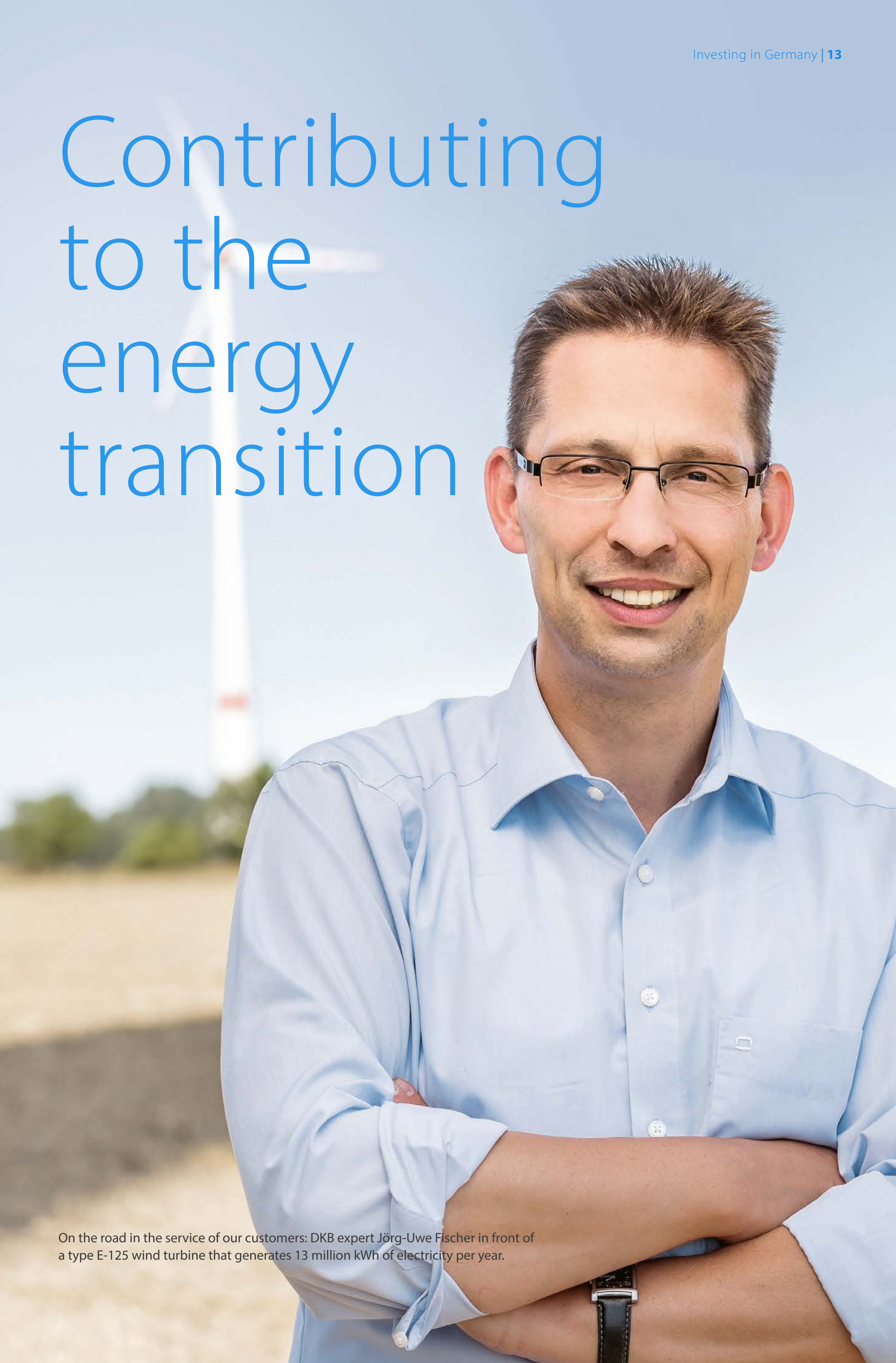
Environmental technology

EUR 8.1

billion

Energy turnaround in Germany: we have been involved in this for more than 20 years – you could say we are one of the pioneers. As a lender for green electricity, we have realised 2,150 wind-power projects, 1,350 photovoltaic projects and financed 600 biogas projects since 1996. The installed electrical output is equivalent to 7.5 gigawatts. With the power these facilities have generated, around 4.3 million 2-person households can be supplied or 5 nuclear power stations can be replaced.

Contributing to the energy transition



On the road in the service of our customers: DKB expert Jörg-Uwe Fischer in front of a type E-125 wind turbine that generates 13 million kWh of electricity per year.

Energy and utilities

EUR 5.9

billion

In more than 12,000 German cities and municipalities, many people work at making sure that our local infrastructure functions well: they work for municipal utilities, organise waste disposal or regulate the regional bus and rail transport services. By reliably assisting them in financial matters, we help ensure they can focus on their core duties in their everyday life. For example, 2 billion passengers are transported annually by transport companies with which we have a business relationship.

Securing utility services

Annette Meyer and Dr Alfred Kruse from the municipal utility Stadtwerke Burg ensure that the region is supplied with gas, district heating and electricity – we look after the finances.

Food and agriculture

EUR 3.5

billion

In Germany, more than 16 million hectares of agricultural land contributes to ensuring the food supply. Some of this land is managed by our 6,000 agricultural customers to whom we provide EUR 3.5 billion. This makes us a leading agricultural bank in Germany. Our consultants – many of them qualified agricultural engineers and process engineers – find solutions that allow each of these customers to establish competitive production systems.

Supporting local agriculture

Our customer Wolfgang Jaeger (Managing Director Bauernverband retired) checks the quality of the canola.

Performance indicators

EUR million	2016	2015
Net interest income	795.1	790.4
Risk provisions	128.7	143.8
Net commission income	6.9	–1.3
Administrative expenses	417	376.8
Profit before taxes	331.2	236.0
Cost/income ratio (CIR) in %	45.8 %	48.0 %
Return on equity (ROE) in %	12.4 %	9.6 %

Balance sheet figures

EUR million	2016	2015
Total assets	76,522.3	73,428.8
Equity	3,019.1	2,945.7
Core capital ratio in %	8.9 %	8.2 %
Customer receivables	63,228.3	61,582.1
Customer deposits	53,438.0	48,558.2

Customer figures

	2016	2015
Number of customers	3,518,055	3,250,968
Number of retail current accounts (DKB-Cash)	2,501,689	2,214,771

Employee figures

	2016	2015
FTE | headcount as at 31 Dec	3,032 | 3,316	2,937 | 3,220
Average age in years	42.8	42.5
Average length of service in years	8.2	7.9
Gender breakdown m | f in %	41.7 | 58.3	40.5 | 59.5
Gender breakdown by management position m | f in %	61.1 | 38.9	62.5 | 37.5
Workforce availability in %	95	95.3
Training days | employee	3.4	2.4

Contents

Deutsche Kreditbank AG

The Board of Management of DKB (from left to right): Tilo Hacke, Thomas Jebsen, Stefan Unterlandstättner (Chairman), Rolf Mähliß, Dr Patrick Wilden

Letter from the Board of Management

Dear Sir or Madam,

The framework conditions for banks remained challenging in 2016: the negative interest rates payable on central bank deposits decreased further. The regulatory requirements were increased again. The competition in the private and corporate customer business in Germany intensified. However, despite this we were able to continue on our path and close the financial year with good results. We reached our business goals and laid important operational foundations for the future.

Our earnings before taxes of EUR 331 million were up by a significant EUR 95 million year on year. Given the interest rate situation and the pressure on margins, it was particularly pleasing that we succeeded in not only maintaining net interest income but even increasing it slightly to EUR 795 million. As in previous years, we used part of our profits to top up our equity, as a precaution. We distributed EUR 257 million to our parent company this year.

The number of new retail customers of 400,000 even exceeded our expectations. This is an indication that we are meeting the needs of our customers with our products and services. Our partnerships with fintechs also made an important contribution to this result. With their support, we were able to offer our customers a number of new solutions in 2016: Holders of securities now have the option of transferring their custody accounts easily on a digital platform. New functions, such as photographic transfer and drawing cash at retail shops, are available in our new app. Holders of the DKB VISA card can make contactless payments for their purchases using near-field communication technology (NFC).

All our innovations meet 3 conditions: They make banking easier for our customers, they are efficient and they are secure. We intend to continue to use the opportunities of the digital transformation to our benefit in the future. To this end, we will develop our own innovative capacity further and intensify our partnerships with fintechs.

These efforts will be undertaken in an environment that is expected to remain at least as demanding as in recent years. In order to be able to meet this challenge, we will be increasing the efficiency of our processes further. This will allow us to compensate, at least partly, for the rising costs and maintain a high level of profitability.

In 2017, we intend to leverage further potentials with our existing clients in our business with customers and local authorities, expand the lending business in our core industries and – together with strong partners – develop new products. The operational focal points include further developing our branch presence with a focus on new customers: after opening new branches in Düsseldorf, Frankfurt am Main and Hamburg in 2016, we will open additional branches in Hanover, Kassel, Kiel, Münster, Oldenburg, Paderborn and Stuttgart this year. The new branches will allow us to be closer to our existing and new customers, gain more in-depth knowledge of the local conditions and develop better networks with regional actors.

"We intend to continue to use the opportunities of the digital transformation for our benefit in the future."

We would like to take this opportunity to thank you, our customers and business partners, for placing your trust in DKB. We would like to thank you, our employees, for your dedicated commitment with which you contribute to making our bank more attractive for our customers on a day-to-day basis. We look forward to shaping the future of DKB together with you in 2017.

The Board of Management

March 2017

Stefan Unterlandstättner **Rolf Mähliß** **Dr. Patrick Wilden**

Tilo Hacke **Thomas Jebsen**

Executive bodies

Board of Management

Stefan Unterlandstättner
CEO

Strategy and investments
Business with savings banks
Human resources and legal
Sustainability
Treasury
Corporate communication and marketing
Audit

Rolf Mähliß
Member of the Board of Management

Finance
Compliance
Processes
Mid Office
IT
Data protection and security

Dr. Patrick Wilden
Member of the Board of Management

Risk controlling
Back office
Workout

Tilo Hacke
Member of the Board of Management

Retail customers
Business customers
– Food and agriculture
– Renewable energy
– Tourism

Central and South-East sales regions

Thomas Jebsen
Member of the Board of Management

Business customers
– Housing industry
– Local authorities and social infrastructure
– Energy and utilities

Individual customers

North, South, Berlin-Brandenburg,
South-West, Magdeburg-Hanover
and West sales regions

Supervisory Board

Shareholder representative:

Dr. Johannes-Jörg Riegler
(Chairman of the Supervisory Board)
CEO of
Bayerische Landesbank

Bernd Fröhlich
Chairman of the Board of Directors
of Sparkasse Mainfranken Würzburg

Michael Huber
Chairman of the Board of Directors
of Sparkasse Karlsruhe Ettlingen

Marcus Kramer
Member of the Board of Management
of Bayerische Landesbank

Walter Pache
Chairman of the Board of Directors
of Sparkasse Günzburg-Krumbach
Independent financial expert

Michael Schneider
Chairman of the Management Board
of LfA Förderbank Bayern retired

Dr. Markus Wiegelmann
Member of the Board of Management
of Bayerische Landesbank
Independent financial expert

Dr. Edgar Zoller
Deputy CEO
of Bayerische Landesbank

Honorary member:

Günther Troppmann
Former Chairman of the Board
of Management
Deutsche Kreditbank AG

Employee representatives:

Bianca Häsen
(Deputy Chairperson of the
Supervisory Board)
Employee
Deutsche Kreditbank AG

Michaela Bergholz
Union Representative
Deutscher Bankangestellten Verband (German association of bank employees)

Christine Enz
Union Representative
Deutscher Bankangestellten Verband (German association of bank employees)

Jörg Feyerabend
Employee
DKB Service GmbH

Jens Hübler
Executive employee
Deutsche Kreditbank AG

Wolfhard Möller
(until 31 January 2016)
Employee
Deutsche Kreditbank AG

Frank Radtke
Employee
Deutsche Kreditbank AG

Frank Siegfried
(from 1 February 2016)
Employee
Deutsche Kreditbank AG

Gunter Wolf
Employee
Deutsche Kreditbank AG

Authorised representatives

Bettina Stark
Jan Walther

Directors

Thomas Abrokat
Mario Bauschke
Christof Becker
Harald Bergmann
Christian Breitbach
Sabine Breitschwerdt
Mark Buhl
Matthias Burger
Dominik Butz
Gerhard Falkenstein
Karl Peter Forch
Mark Hauel
Steffen Haumann
Frank Heß
Martin Honerla
Henrik Hundertmark
Jens Hübler
Axel Kasterich
Andreas Kaunath
Christoph Klein
Herbert Klein
Jana Kröselberg
Carsten Kümmerlin
Lars Lindemann
Wolfgang Lohfink
Jörg Naumann
Frauke Plaß
Thomas Pönisch
Dr. Stefan Popp
Roland Pozniak
Wolfgang Reinert
Johann Scheiblhuber
Otto Schwendner
Dr. Jens Schwope
Burkhard Stibbe
Dr. Wulf-Dietmar Storm
Ralf Stracke
Claudia Stübler
Thomas Teuber
Karsten Traum
Holm Vorpagel
Friedrich Wehrmann
Ekkehard Weiß
Jürgen Wenzler
Andreas Wilmbusse
Dr. Thomas Wolff

Trustees

Dr. Bernhard Krewerth
Former Board member

Josef Baiz
Former Board member

Report of the Supervisory Boards

Dear Sir or Madam,

On behalf of the Supervisory Board, I hereby report on the following monitoring and consultation issues handled by our Board in financial year 2016. We supported DKB's Board of Management throughout an overall good financial year with a pleasing result.

DKB not only reached its high goals but even exceeded some of them, despite the persistently challenging environment in the past year, characterised by low interest rates, an intensely competitive environment and increasing regulatory requirements.

In accordance with the tasks conferred on it by law and the Articles of Association, the Supervisory Board monitored the management of the Board of Management in financial year 2016 on a continuous basis and worked closely with it in the direction of the company. The members of our Board believe that the Board of Management's activities were lawful, appropriate and correct at all times. The Board of Management met its public information obligations at all times and informed us of events and measures relevant to the company on a regular basis, promptly and comprehensively, in writing and orally.

Priorities of the Supervisory Board

During financial year 2016, the Supervisory Board held 4 meetings at regular intervals. The priorities in all the meetings focused on strategy and planning, business development, significant strategic and regulatory projects and the monitoring of the risk situation. In addition, the Supervisory Board discussed market developments on a regular basis in its consultations.

The agenda for the meeting held on 10 March 2016 focused on DKB's annual financial statements and consolidated financial statements for 2015 which the Supervisory Board approved after thorough review and consultation as well as taking the auditor's audit reports into account. Further issues discussed were the annual reports on the prevention of money laundering, terrorism financing and economic crime, securities and MaRisk compliance, the proposal for the appointment of the auditor for financial year 2016 as well as the status of winding down non-core business.

On 13 June 2016, the Supervisory Board examined DKB's partnerships and brand communication in detail. In addition, it noted the reports on investments, human resources and significant Group regulations.

In the meeting held on 19 September 2016, the Supervisory Board discussed the report on the status of the current corporate concept. The new corporate concept valid as from 1 January 2017 was presented to the Supervisory Board at the same time. The members discussed the concept in detail. Other agenda items related to the IT strategy and current regulatory topics.

In its meeting held on 12 December 2016, the Supervisory Board dealt in detail with the multi-year planning as well as the risk capital and capital planning, taking into account the various interest rate scenarios, and it obtained information regarding the status of significant projects such as BCBS 239.

The Supervisory Board Chairman was also in regular, intensive contact with DKB's Board of Management in between meetings. The Supervisory Board was notified of important events in writing between meetings. Resolutions were also passed between meetings as necessary.

Committee work

In order to effectively carry out its tasks, the Supervisory Board formed 5 committees: a Risk Committee, an Audit Committee, a Nomination Committee, a Compensation Committee as well as a Conciliation Committee. Apart from the Conciliation Committee, which did not meet in the past year, all the committees met regularly in 2016. They prepared topics to be discussed and decided by the Supervisory Board. In addition, they took decisions in the context of their decision-making authority.

The 5-member risk committee held 4 meetings in 2016. Among other things, it dealt with issues relating to the risk situation, risk provisions, risk strategy as well as current regulatory issues. Other issues discussed were DKB's loans, financing and transactions reportable by law or under the Articles of Association.

The audit committee comprises 5 members and met 4 times. It supported the work of the Supervisory Board in monitoring the accounting processes, the annual audit as well as the effectiveness of the risk management system. In addition, it dealt with internal audit and the topic of compliance.

The 4-member nomination committee held 2 meetings in which it dealt with the efficiency audit of the activities of the management and Supervisory Board pursuant to Section 25 (11) Nos. 3 and 4 KWG [German Banking Act] as well as the concept to promote women to management positions.

In 2016, the Compensation Committee, consisting of 4 members, held 3 meetings in which it monitored the appropriateness of the remuneration systems and assisted in the preparation of relevant documentation.

No staffing changes took place on the Board of Management during the reporting period.

Wolfhard Möller resigned from the Supervisory Board as at 31 January 2016. Frank Siegfried was appointed as a new Supervisory Board member on 1 February 2016.

Annual audit

The consolidated financial statements and the combined management report as well as the accounting records these documents are based on for 2016 were audited by the auditors appointed by the shareholders meeting, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, and provided with an unqualified audit opinion.

After a detailed discussion and review of the consolidated financial statements, the Supervisory Board endorsed the results of the annual audit. No objections to the result of the audit of the consolidated financial statements and the combined management report as at 31 December 2016 were raised. At its meeting today, the Supervisory Board approved the consolidated financial statements presented to it by the Board of Management.

The Supervisory Board thanks the Board of Management and all the employees of DKB for their hard work and achievements during the financial year.

Berlin, 9 March 2017
On behalf of the Supervisory Board

Dr. Johannes-Jörg Riegler
Chairman

Highlights in 2016

October:

DKB endows digital chair

The world is becoming more digital. And so are we. In order to secure our access to the latest insights of the digital transformation, DKB has for the first time endowed a chair at the new "Einstein Center Digital Future" in Berlin where inter-university research on various aspects of digitalisation is conducted.

January: "Das kann Bank"

A new year, a new logo. We have redesigned our brand presence and will now feature the new logo and new claim. "Das kann Bank" stands for services provided by DKB and sets us apart from the competition. We are positioning ourselves as an empathetic challenger among banks, are always searching for the best solution, challenge our own standards and those of the industry, act intelligently and with compassion – with our customers and among ourselves.

January: New branches

We opened new offices in Hamburg, Frankfurt am Main and Düsseldorf to enable us to better leverage our opportunities on the market in the western federal states and to establish the DKB brand in the regional markets. More will follow. The new branches allow us to consolidate our presence as a regional partner throughout Germany.

February: 20 years of wind-power financing

We financed our first wind energy project in Niedergörsdorf, Brandenburg in 1996. Since then, we have worked closely with energy turnaround projects. So far, we have issued up to around EUR 10 billion in "green loans", making us one of the largest financiers of renewable energy in Germany.

March: DKB art collection exhibited for the first time

"reVISION – new walls for art" is the name of the exhibition at the Rostock Art Gallery where more than 100 works owned by the DKB's foundation, DKB STIFTUNG, were presented to the general public for the first time.

April: A2 for DKB

Moody's Investor Service, the ratings agency, published an independent bank rating for DKB. The long-term rating for deposits was assigned A2 (outlook stable) and the provisional issuer rating for uncovered bonds A3 (outlook stable) – very good for our positioning on the bond market.

April: Click and pay

Simply make a transfer by photograph. We have added a practical function to the banking app. Our customers can now also do transfers by photograph. Simply take a photograph of the invoice or transfer notice with your smartphone and pay it with a few clicks. No more tedious typing.

April: SCHUFA enquiry just a few clicks away

The partnership with the German credit reference agency, SCHUFA, provides our customers tangible added value: From DKB's administrator platform, you can go directly to the SCHUFA platform to receive information with just a few clicks. Commercial real estate administrators and private landlords can now check potential tenants' credit rating in advance and protect themselves even better from rental defaults – a critical advantage in particular for private landlords and administrators with a low to medium information requirement.

May:
Economics 4.0

The 3rd DKB Future Forum held by the DKB MANAGEMENT SCHOOL brings together academics and practitioners on the subject of "Economics 4.0 – digital and innovative" at the Liebenberg Castle and Manor. The participants held lively discussions on topics ranging from the challenges of virtualisation and networking in today's working world to various aspects relating to companies' innovative capacity and the new roles of employees and managers.

→ **www.dkb-management-school.de**

May:
"Excellence" certificate awarded by the German Education Prize

We put our company's education and talent management to the test and the result is excellent. All the phases of a DKB employee's career – from recruitment to appointment through to development and long-term relationship – were examined, evaluated and awarded using the quality model of the German Education Prize.

June:
First green bond issue

The investor roadshow was a success. Our first "green bond" issue with a volume of EUR 500 million was oversubscribed three times. The bond is based exclusively on sustainable project funding in Germany. DKB's green bond is the first bond issued by a bank in Germany in the senior unsecured format and has a maturity of 5 years.

→ **www.dkb.de/greenbond**

June:
Diversity Charter signed

Diversity – variety. On the 4th German Diversity Day, DKB signed the Diversity Charter. This makes us one of the 2,250 companies in Germany committed to the principles of the initiative. We are committed to a working environment that is free of prejudice, one in which all employees are respected equally and where they are appreciated.

August:
DKB meets sustainability standards

Our first sustainability performance report in accordance with the standard of the German Sustainability Code (Deutscher Nachhaltigkeits Kodex: DNK). With the compliance statement for reporting year 2015, we show how economic, ecological and social aspects are entrenched in our corporate strategy and consistently implemented in all areas. We thus already comply with the EU reporting obligation for disclosing non-financial, diversity-related information which is only mandatory from 2017.

→ **www.dkb.de/nachhaltigkeitsbericht**

September:
Drawing money at the supermarket

You can now also obtain cash from the supermarket till. In more than 6,000 retail partner branches our customers can now draw cash free of charge from their current account using their smartphone. This is possible thanks to our cooperation with the company, Barzahlen. Simply enter the required amount in online banking, show the barcode generated at the till and take the cash.

September:
Transformation in the energy market

The energy turnaround is changing the world in which we live – and us. With the study "Structural change in the energy market" conducted jointly with the University of Leipzig, we show what actions and adjustments need to be undertaken by the municipal utilities. The study identified new requirements for modern, contemporary provision of energy and provides answers: the potential for change in particular in distribution, expected changes in consumer behaviour to an increased propensity for changing providers and more efficient consumption as well as a high need for investments.

→ **www.dkb.de/stadtwerkestudie**

September:
Custody account switch with just a few clicks

Switching custody account is difficult and takes a lot of time. Not with us: in cooperation with our partner FinReach we are the first bank in Germany to provide a fully automated service that carries out the custody account switch within minutes. The entire custody account or individual securities can be transferred to DKB with just a few clicks.

October:
TAB and DKB finance Thuringia's infrastructure

DKB and Thüringer Aufbaubank (TAB – Thuringia development bank) signed a new global loan – now the fifth in a long-term partnership. We were able to provide EUR 20 million via individual loans to housing companies, municipal enterprises, commercial companies and charitable organisations, e. g. for investments in residential properties, elderly care facilities, health and education projects, public transport infrastructure and renewable energies. And our customers in Thuringia receive funding at favourable interest rates at even better terms.

November:
DKB – award-winning

We do not aim to win prizes but they confirm our path. We are delighted to win the Corporate Health Award in the Finance category for our above-average commitment to the health of our employees and our sustainable personnel strategy. We are the first issuer of a green bond to receive an "a" in the oekom Sustainability Rating. Among the 240 green bonds, that is the best rating so far that oekom research has given – especially in Europe.

December:
DKB-Cash – now even better

Update for DKB-Cash. After more than 15 years, it was high time for some changes. Contrary to the general developments on the market, we still refuse to engage in short-term false bait advertising to acquire new customers. We offer special benefits for our existing customers – our active customers: they can now also make payments globally free of charge with the DKB VISA card. An emergency package and fully comprehensive card insurance is available. In all our innovations, one thing remains the same: DKB-Cash is free of charge – for all DKB customers.

Awards

Focus Money – Fairest online bank in 2016

We are again the "fairest online bank" – for the 5th time in succession. In the test by Focus Money, we were awarded a mark of "very good". Customers from a total of 15 institutions rated how fair they think their bank is based on their own experience.

Top Service Deutschland – top result for customer focus

For the 10th time in succession, we are one of Germany's most customer focused service providers. This is confirmed by our customers in the competition held by Service Rating, Handelsblatt and the University of Mannheim who rated DKB's service particularly positively.

BankingCheck Award – Triple BankingCheck Award

In the 5th BankingCheck Award, our products won in a total of 3 categories. We received 1st place in each of the categories "Best current account", "Best credit card" and "Best customer transparency".

oekom Sustainability Bond Rating – best rating score "a" for green bond issue

Our first green bond issue garnered an "a" ("excellent") in oekom research's Sustainability Bond Rating. At the time the rating was awarded, this was the best rating score to date given by oekom among around 240 green bond issues worldwide.

Corporate Health Award – Excellent healthcare management

We are delighted to have received 1st place in the Corporate Health Award in the Finance category. This award reflects our above-average commitment to the health of our employees and sustainable personnel strategy.

German Education Prize 2016 – Excellent education and talent management

The German Education Prize awarded us the "Excellent" certificate for 2016 for our education and talent management. All the phases of an employee's career were reviewed – from recruitment through to appointment, development and the long-term relationship.

n-tv/FMH – Best current account in 2016

DKB-Cash is the test winner in the bank account comparison offered by FMH and n-tv. Our free current account was rated as "very good" in a comparative test of 41 banks

Focus Money – DKB-Cash is the best current account in 2016

Focus Money tested us: our DKB-Cash came out on top again in a national bank account comparison.
We took 1st place in the category "Online accounts".

Handelsblatt/FMH – Best instalment loan

Our personal loans achieved 1st place in Handelsblatt's comparison of instalment loans. With the most favourable lending rates in the comparison, our loan is the best product nationwide across all maturities.

€uro – DKB personal loan in 1st place

In Germany's largest banking test, our DKB private loan took the top place in the "Instalment loan" category. In the test offered by S.W.I. Finance and €uro, the products of 31 financial institutions with activities throughout Germany were examined by 180,000 participants.

Handelsblatt – top spot in the construction loan comparison

We achieved excellent results among the products tested in the construction loan test offered by Handelsblatt and FMH. Among the products tested, our real estate financing was highly convincing and secured a top placement.

Focus Money – Fairest building society

We provide the fairest price-performance ratio when it comes to real estate financing. We received top marks in Focus Money's "Fairness of building societies" test.

Combined Management Report

Basic principles of the Group

Structure and business model

One of Germany's largest banks

Deutsche Kreditbank AG, headquartered in Berlin, is one of Germany's largest banks. Our company is a wholly owned subsidiary of BayernLB. From a geographical perspective, our business activities focus on the territory of the Federal Republic of Germany.

Besides the parent company, DKB AG, the DKB Group comprises, in particular, DKB Service GmbH, DKB Grund GmbH, DKB Finance GmbH, MVC Unternehmensbeteiligungs GmbH and FMP Forderungsmanagement Potsdam GmbH.

The management report of Deutsche Kreditbank AG and the consolidated management report for the 2016 financial year are combined. This presentation was selected due to the key importance of DKB AG within the DKB Group. Unless DKB AG or the DKB Group are mentioned explicitly in this report, the mention of DKB means that both the DKB Group as well as DKB AG are affected.

As of the end of 2016, the DKB Group employed 3,032 staff members on a capacity basis (previous year: 2,937).

As at the balance sheet date, the DKB Group was responsible for customer receivables in the amount of EUR 63.2 billion (previous year: EUR 61.6 billion) as well as customer deposits in the amount of EUR 53.4 billion (previous year: EUR 48.6 billion). Net interest income realised in the financial year amounted to EUR 795 million (previous year: EUR 790 million). The DKB Group's pre-tax profits amounted to EUR 331 million in 2016 (previous year: EUR 236 million). Profit after taxes increased by EUR 102 million to EUR 327 million compared to 2015.

DKB AG is one of the largest banks in Germany. As such, DKB passes approximately 83 % of its balance sheet total on to companies, local authorities and retail customers in Germany in the form of loans. We are neither an investment bank nor do we provide asset management services.

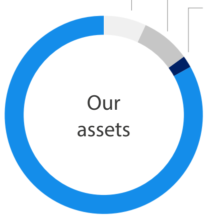
DKB's business is based on two pillars – online banking and corporate customers: As an online bank, we help 3.4 million retail customers across Germany over the internet, offering them simple and intuitive products on competitive terms. As a bank for commercial and corporate customers, we focus on companies and local authorities via branches with financing and investment solutions. In doing so, we focus on selected industries in Germany: among others, we finance the construction and operation of wind farms, hydro power plants, bio-energy plants and photovoltaic systems, the renovation and construction of residential buildings, schools, childcare facilities, health centres as well as projects in the German agricultural sector. We provide our industry expertise in the BayernLB Group as well as in the Association of Savings Banks. DKB contributes to economic and power supply stability in the region by means of this business activity.

Focus on sustainability

We strive to create profitable and long-term business relationships, and 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).

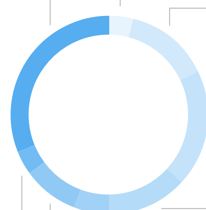
As a high-performance and efficiency-oriented retail and business bank, we rely on the technical tools of modern banking processes, on innovation and on targeted partnerships and co-operations that offer our customers greater added value. When supporting our corporate and business customers, we draw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

DKB contributes to regional economic and power supply stability in Germany



As at 31/12/2016

EUR 63.2 bn, i. e. 83 %, is reinvested in Germany via loans



Green energy for 4.3 million households

DKB has been financing renewable energy generation plants for more than 20 years.

They provide green energy for 4.3 million two-person households. That would be enough for the whole of Lower Saxony.

Market cultivation via three market segments

The DKB Group structures its activities into three market segments: retail customers, infrastructure and corporate customers as well as into the segments financial markets, non-core business and other:

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 DKB AG's retail customer business, the companies FMP Forderungsmanagement Potsdam GmbH and DKB Grund GmbH are also assigned to the Retail Customers segment.

In the **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. We provide a high level of expertise in integrating development aid and civic participation when creating appropriate customer solutions.

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

The three segments, Retail Customers, 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 for all financial matters. To achieve this, we offer our customers market-leading products and solutions and develop 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 **Financial Markets segment** comprises the Treasury division of DKB. It is responsible for, among other things, interest-book management and regulatory liquidity security. Via the Treasury, we operate in the capital market as an issuer of debt instruments, in particular, covered bonds in the form of Pfandbriefs and uncovered bonds in the form of green bonds. 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 refinancing 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 of DKB AG and the earnings contribution of DKB Service GmbH.

Management and supervision

Corporate management with traditional division of functions

The DKB AG Board of Management continued to have five members in the past financial year: the Chairman Stefan Unterlandstättner and the other members Rolf Mähliß, Dr Patrick Wilden, Tilo Hacke and Thomas Jebsen. 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.

In order for the Board to 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 AG 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 2016, 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 joint commitment to corporate governance standards

The Board of Management and the Supervisory Board of DKB AG 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. DKB's corporate governance principles are regularly reviewed and adjusted, where required, on the basis of statutory stipulations, the refinement of national and international standards, the regulations in the shareholder's Group and new experiences. The corporate governance principles apply to both DKB AG and the other companies of DKB.

The Board of Management of DKB AG believes that 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.

DKB'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.

At the level of DKB AG, corporate governance also includes the annual publication of a remuneration report in accordance with the company's remuneration policy that can be viewed on the company's website.

Corporate management

Operational management derives from a strategic plan

Strategic planning forms the basis for the operational management and supervision processes within DKB. Two key fields here are risk management which allows us to secure the stability of our Group, and the 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.

Financial key performance indicators provide information regarding earnings and performance

Our commercial management focuses on achieving a net assets and financial position that is stable and structured in the long term and a positive earnings situation. To this end we use financial key performance indicators that factor in earnings, profitability and value-oriented aspects.

DKB is managed using the following IFRS-based financial performance indicators:

- Cost/income ratio (CIR): The KPI 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 KPI 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 DKB, 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.

Based on the German Commercial Code (HGB), DKB AG uses net profit before profit transfer as a control parameter.

At segment level, we use the following additional performance indicators to assess the attainment of growth targets:

- Volume of receivables (nominal)

- Deposit volume

- Number of customers in the Retail Customers segment

Non-financial data supports the qualitative further development

In addition to the financial control KPIs, 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 further improvement in our services.

In terms of implementation, we take a range of measures, presented in the section on non-financial performance indicators, which contribute to achieving targets in relation to 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.

Report on the economic position

Development of the environment

Development of the macroeconomic environment

Little momentum in global economy

With an increase of 3.1%, global economic growth in 2016 was at almost the same level as in the previous year (2015: 3.2 %). Primarily driven by private consumption, the advanced economies also expanded. After a weak first six months, production in the USA recovered again in the second half of the year. In Japan, the appreciation of the yen had a dampening effect whilst stimulus programmes were able to revive economic activity. The situation stabilised somewhat in the emerging markets. The development in the eurozone remained at a restrained but positive level.

German economy: Stable labour market and robust consumption

In 2016, the German economy experienced a moderate upswing that was mainly supported by a stable labour market and robust consumption.

Compared to the spring forecasts of the economic research institutes, the Federal Statistical Office, Destatis, recorded a slightly upward corrected growth of 1.9 % for 2016 (previous year: 1.7 %). The unemployment rate remained at the historical low of 6.1%; employment figures experienced an upward trend. On an annual average, the inflation rate was 0.5 % and thereby significantly far off the ECB's inflation target of 2 %. At the end of the year, inflation increased by +1.7 % in December. Private consumption benefited from an increase in wage levels which, according to the Federal Statistical Office, was at a nominal 1.8 % in 2016.

Development of the industry environment

No turbulence, key interest rates raised at year's end

The global financial system remained comparatively robust in 2016 although numerous events gave reason for concern: the Brexit vote in June 2016 led to temporary turbulence on the financial markets which, however, calmed down again later. Specific exit negotiations had not started by year's end. In 2016, the difficulties experienced by the Italian banks also provided for turmoil on the financial markets as did the continuing problematic situation in Greece and Portugal. After Donald Trump's election as the new President of the United States in November 2016, the Dow Jones experienced a significant upward trend reaching a high of 19,975 points at the end of the year.

After raising key interest rates to a range of 0.25 % to 0.5 % in December 2015, the US Fed followed that with a further increase to 0.5 to 0.75 % in December 2016. Many market participants regard this as a signal that the phase of cheap money is slowly coming to an end.

The low interest rate phase continues in Europe. In March 2016, the ECB reduced the deposit facility again to –0.4 %. Particularly, in connection with the negative interest rates for bank deposits with the ECB, this continues to burden the earnings position in the banking sector as a whole. In addition, the continuing low inflation rate resulted in new purchasing programmes by the ECB (CSPP – Corporate Sector Purchasing Programme).

Volatility in the financial markets

The equity markets were characterised by high levels of volatility in 2016. The yield on 10-year German federal bonds dropped to below 0 % for the first time, ending the year at 0.21 %. In February, the DAX fell to an annual low of 8,752 points, reaching a significant annual high in December with 11,481 points. Over the course of the year, it therefore fluctuated by approximately 2,500 points. The euro to US dollar exchange rate was variable, dropping from EUR/USD 1.1614 in May to 1.0344 in December. The MSCI World index, which represents the equity markets of 23 industrial countries, swung upwards with a performance of +8.15 %, with MSCI Emerging Markets rising significantly in the past year 2016 by 11.6 %, after having dropped in 2015.

Banking environment remains under intense competitive pressure

The low interest rate environment continues to challenge banks' profitability. In connection with the negative interest rates for bank deposits with the ECB, this significantly burdens the overall situation of banks. New product solutions must be developed, while regulatory requirements grow, a challenge that will intensify competition as a whole.

In the interests of greater clarity, more detailed information on the market position and competitive situation in DKB's various target markets is provided further below in the statements on the course of business in the three market segments (Retail Customers, Infrastructure and Corporate Customers).

Business development

Overall trend at DKB

Good performance in the past financial year

DKB continued its successful track record in the past year. Earnings performed well and essentially met our expectations:

- At the **DKB Group**, the result before taxes amounted to EUR 331.2 million, thus EUR 95.2 million above the previous year's result of EUR 236.0 million.

- **DKB AG** realised net profit before profit transfer of EUR 257 million (previous year: EUR 162 million), an increase of EUR 95 million.

This positive overall performance is also reflected in DKB's key performance indicators:

DKB Group	Forecast 2016	Actual 2016
Net interest income	At the 2015 level (previous year: EUR 790 million)	**Forecast achieved** Net interest income increased to EUR 795 million. The increase in net interest income was achieved due to the positive performance in the individual segments of DKB and due to adjustments in the interest rate terms.
Risk provisions	Slightly below 2015 (previous year: EUR 144 million)	**Forecast achieved** Risk provisions were lower than the previous year's figures at EUR 129 million.
Profit before taxes	Around EUR 100 million to EUR 130 million above 2015 (previous year: EUR 236 million).	**Profit forecast after taxes achieved** Profit before taxes increased by EUR 95 million to EUR 331 million due to a one-off special effect in the amount of EUR 132 million from the sale of shares in Visa Europe Limited. Profit after taxes increased by EUR 102 million compared to 2015. The further increasing regulatory requirements and ensuing internal projects, with high external consulting costs as well as IT and personnel expenses, had a negative impact on results.
Total assets	Slightly above 2015 (previous year: EUR 73.4 billion)	**Forecast achieved** Total assets increased by EUR 3.1 billion to EUR 76.5 billion, largely due to higher customer receivables and deposits.
ROE	ROE >10 % (previous year: 9.6 %)	**Forecast achieved** ROE rose to 12.4 %.
CIR	CIR < 48 % (previous year: 48.0 %)	**Forecast achieved** CIR improved to 45.8 %.

DKB AG	Forecast 2016	Actual 2016
Retail customers	By EUR 100 million to EUR 130 million above 2015 (previous year: EUR 162 million)	**Forecast almost achieved** Profit before profit transfer increased by EUR 95 million to EUR 257 million due to a one-off special effect in the amount of EUR 132 million from the sale of shares in Visa Europe Limited. The further increasing regulatory requirements and ensuing internal projects, with high external consulting costs as well as IT and personnel expenses, had a negative impact on results. In the financial year, DKB AG added an additional EUR 100 million to reserves pursuant to Section 340g HGB to increase the regulatory equity.

Overall performance of the segments

We developed our operative services further in all segments in 2016: we introduced new products, improved existing services and entered into co-operations with partners that provide our customers with more added value.

Forecast/actual comparison of key performance indicators

Segments	Forecast 2016	Actual 2016
Retail customers	New customers: 250,000 new customers (previous year: 310,000)	**Forecast achieved overall** Around 400,000 new customers
	Receivables volume: At the 2015 level (previous year: EUR 12.5 billion)	The volume of receivables decreased by EUR 0.5 billion.
	Deposit volume: Slightly above 2015 (previous year: EUR 22.3 billion)	The deposit volume increased by EUR 4.6 billion.
Infrastructure	Receivables volume: Slightly above 2015 (previous year: EUR 35.9 billion)	**Forecast achieved overall** The receivables volume increased by EUR 1.1 billion.
	Deposit volume: Slightly above 2015 (previous year: EUR 17.9 billion)	The deposit volume decreased slightly by EUR 0.1 billion.
Corporate customers	Receivables volume: Slightly above 2015 (previous year: EUR 12.7 billion)	**Forecast achieved** The receivables volume increased by EUR 1.0 billion.
	Deposit volume: At the 2015 level (previous year: EUR 3.7 billion)	The deposit volume increased slightly by EUR 0.4 billion.
Non-core business	Further reduction of portfolios not in line with our strategy and reduction of securities portfolios not in line with our strategy.	**Forecast achieved** The reduction was continued as planned.

Retail Customers segment

Framework conditions: Dynamic, highly competitive market and rising customer expectations

The trend of transacting banking business online also continued to grow in 2016. In addition, the development on the banking market was varied: many branch banks introduced account management fees and limited the number of free account functions. At the same time, online banks and some major institutions continued to vie for new customers with, in some cases, high incentives. The high innovation pressure from technology start-ups continued unabated.

Due to experiences in their digital day-to-day life, customers' expectations of their banks also grew. Extensively informed and used to being able to access their product irrespective of time and place, they therefore expect more than just quick and easy banking available at all times. The established financial institutions are responding to this trend by further digitalising their business and improving their online banking offerings.

The economy had a positive impact on the retail customer business in 2016. The continuing low interest rate environment provided for a high propensity for consumption in private households and drove the German economy forward, particularly in the second half of the year.

Number of customers grew further, deposit volume rose

In financial year 2016, the Retail Customers segment increased its customer base by around 400,000 customers (2015: around 310,000), thereby significantly exceeding the new customer target set for 2016. With around 3.4 million retail customers, DKB remains the second largest online bank in Germany. The higher number of customers is primarily due to the increase in demand for our anchor product, DKB-Cash. The willingness to move to DKB was fuelled by the higher account management fees charged by many branch banks. The implementation of the German Payment Accounts Act (Zahlungskontengesetz; ZKG) also made it easier for customers to change accounts. Video identification in the application process for DKB-Cash has been very well received by customers (including in a comparison with competitors). Every third new customer is using the service.

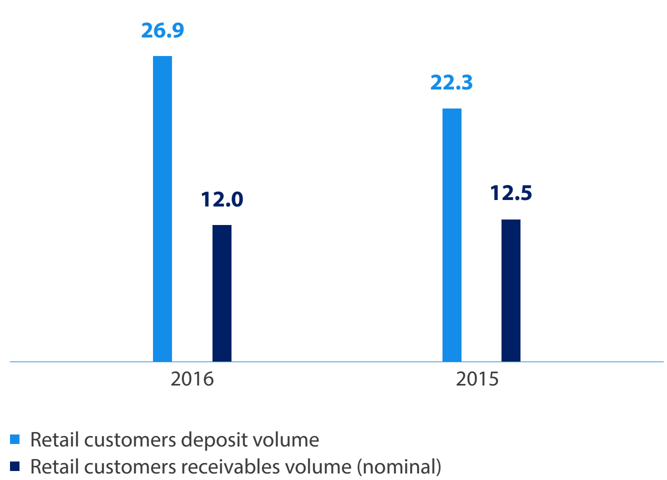
Measured by the number of current accounts, DKB remains the market leader. As at the balance sheet date, the number of DKB-Cash accounts amounted to 2.5 million (previous year: 2.2 million).

The lending business declined in 2016. This is primarily due to the fact that the scheduled repayments for construction financing could not be fully compensated for by the new business. The receivables volume (nominal) decreased from EUR 12.5 billion to EUR 12.0 billion.

The segment deposit volume was significantly higher in the past financial year than in the previous year recording an increase of EUR 4.6 billion and rising to EUR 26.9 billion (previous year: EUR 22.3 billion). This is mainly due to the increase in deposits on VISA cards and demand deposits as well as the growth in new customers.

Retail customers deposit and receivables volume

In EUR bn



Intensifying customer relationships, developing co-operations and services

Our business activities in 2016 continued to focus on intensifying sustainable and profitable customer-bank relationships while at the same time optimally structuring the costs situation. For the lending business, developing the high-margin consumer lending business and further establishing the two-brand strategy were key focal points.

Besides DKB, our second brand is the SKG BANK which focuses on granting instalment loans.

As a result of the digitalisation of the banking business, we worked on further developing the retail customer business with an appropriate mix of in-house developments (such as the establishment of a digital postbox and overhauling Internet banking) and the development and expansion of strategic partnerships. Particular mention should be made here of the development of the cooperation with FinReach in the area of account and custody account switch services and the new co-operations with Barzahlen and Gini.

In addition to the account switch service, we have been offering our customers a free **online service for custody account switches** since September in cooperation with FinReach. This service makes it possible to transfer individual securities or your entire custody account to the free DKB broker with just a few clicks. There is no need to transfer securities identification numbers as all securities in the existing custody account are automatically recognised.

In collaboration with Barzahlen we have been offering our customers the **"Cash in Shop"** service since September. Thousands of partner branches in the retail sector allow customers to withdraw money free of charge at the tills by means of a smartphone. A customer selects the function in the DKB banking app and then decides on an amount between 50 and 300 euro (no minimum purchase amount).

The new **"PhotoTransfer"** function in the DKB banking app is made possible by our cooperation with Gini. Since April, DKB customers can now photograph their paper invoices using their smartphone and pay them. The transfer form is automatically filled in.

DKB-Cash: Terms adapted, services expanded

In 2016, for our anchor product, DKB-Cash – the free current account with credit card – we initially modified the interest rate on credit balances for credit cards from 0.7 % to 0.6 % for a deposit volume of up to EUR 100,000 in June (previously the threshold was EUR 300,000). In October, taking into account the market development, we further reduced the interest rate to 0.4 % and 0.15 % for deposits over EUR 100,000. At the same time, the overdraft interest rate was reduced from 7.5 % to 6.9 % p.a. and the effective annual interest rate for DKB's personal loans by 0.3 percentage points to 3.69 % p.a. for DKB customers. The surcharge reimbursement was dropped in June.

As of 1 December 2016, we further developed the other services of DKB-Cash with a package of measures, while maintaining the free of charge principle for customers. New customers in the first year, and active customers with a monthly minimum cash inflow of EUR 700 benefit from free payments by credit card globally. The international service fee due previously for payments by credit card will in future be reimbursed by DKB. If a card is lost, for instance due to theft, customers receive a free emergency card and emergency cash. Fully comprehensive cover for the card protects customers from potential losses in the time between card loss and card blocking.

The points collection programme DKB-Club was discontinued at the end of the year. Customer recommendations are now rewarded with direct premiums. In addition, our customers benefit from the discount programmes, Online and City Cashback, as well as free entry to sporting and cultural events with DKB live.

Personal loans: Receivables volume increased

In February 2016, we passed on the generally low interest rate level to our customers on the loan side, by reducing our interest rate. The demand for DKB personal loans was significantly above that of the previous year and resulted in an increase in the volume of receivables (nominal) to EUR 1.2 billion (previous year: EUR 1.0 billion).

DKB-Broker: Platform expanded, new service offering introduced

In 2016, we significantly expanded our securities platform by 30 % to more than 130,000 custody accounts. Growth was supported by the introduction of savings-plan-based ETFs (Exchange Traded Funds) in co-operation with iShares, the ETF division of asset manager, BlackRock. With this index fund, which is traded on the secondary market, customers can choose between 96 savings-plan-based ETFs and various savings rates.

Co-branding portfolio: Continued stable development

In our co-branding portfolio, we offer credit card services in collaboration with strategic partners. The partners include Lufthansa, Porsche, BMW and MINI. In 2016, the number of co-branding customers remained stable at 640,000.

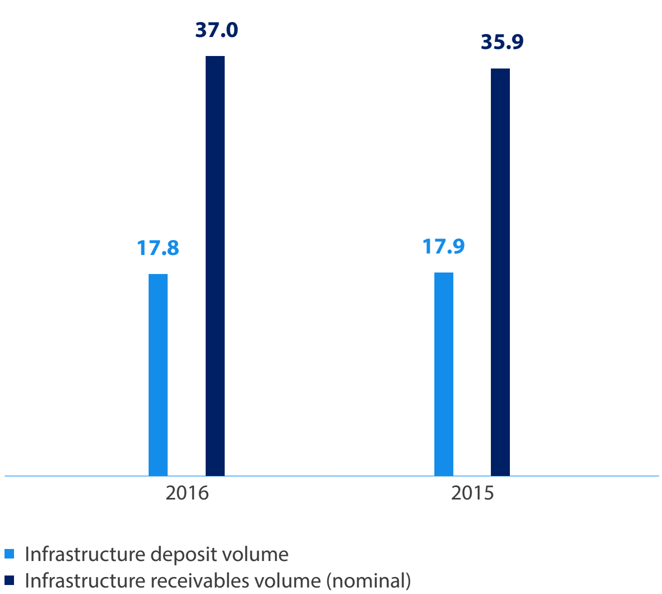
Infrastructure segment

Positive overall result under difficult framework conditions

The general framework conditions for the Infrastructure segment continued to be positive. Credit growth developed at varying paces due to the high repayment instalments in the customer groups. The receivables volume (nominal) nevertheless improved from EUR 35.9 billion to EUR 37.0 billion. The drivers for this development were mainly the customer groups "Housing", "Energy and supply", and "Health and care". The deposit business amounted to EUR 17.8 billion and was thus below that of the previous year (EUR 17.9 billion).

Infrastructure deposit and receivables volume

In EUR bn



Housing: Active growth despite high repayments

The market situation in the "Housing" customer group remained demanding in 2016. The inflow of capital for real estate continued, keeping the financing requirement high. However, there is strong competition among banks in the real estate sector which further reduces the margins that are already under pressure due to the low interest rate phase. Despite higher repayments, the asset volume in the "Housing" customer group increased slightly. We were thus able to record stable business development on the whole. The receivables volume (nominal) increased by EUR 0.6 billion to EUR 19.6 billion (previous year: EUR 19.0 billion); customer deposits increased to EUR 5.6 billion (previous year: EUR 4.9 billion).

Housing companies' market penetration was around 82 % in the past year. The calculation is based on the percentage of companies in the target customer segment with which DKB has a business relationship.

The assets managed in administrator accounts increased by EUR 0.4 billion to EUR 2.7 billion in the reporting period. As of the reporting date, more than 7,200 commercially active real estate administrators with more than 44,200 residential property owners associations managed their portfolios at DKB.

Energy and supply: Energy sector generates growth

The "Energy and supply" customer group recorded restrained development in the lending business in the past year. In contrast to the previous year, financing for renewable energy projects by municipalities played a more subordinate role. Significant growth was, however, generated in the energy sector mainly in the traditional power supply business. The receivables volume (nominal) increased by EUR 0.2 billion to EUR 5.9 billion on the whole (previous year: EUR 5.7 billion). The deposit volume amounted to EUR 2.3 billion (previous year: EUR 3.1 billion).

Health and care: Wait-and-see investment attitude and rising percentage of development loans

Unchanged framework conditions, intense competition and an increased repayment trend due to the low interest rate environment continued to characterise the health industry's business environment in 2016. Against the backdrop of the statutory reform projects in the care facility area, significant restraint was noted in the investment attitude of actors. In the new business area, financing for social infrastructure projects and projects for increasing energy efficiency played a larger role. Here, we recorded a higher percentage of development loans. Customer growth remained stable in the outpatient sector. Due to the increased repayment tendency, the volume of receivables (nominal) rose only slightly by EUR 0.1 billion to EUR 2.5 billion (previous year: EUR 2.4 billion). Customer deposits amounted to EUR 3.3 billion (previous year: EUR 3.7 billion).

Local authorities, education, research: Stable credit volume despite increased competition

The investment requirement in local authority and social infrastructure remains extremely high – mainly in the old federal states as well as in the conurbations of the new federal states. There is great dynamic in particular in the area of childcare facilities expansion. Despite the demographic development in Germany and although the expansion of childcare facilities by local authority and independent institutions is progressing, the number of places in childcare facilities is still far from meeting demand. Increasing competition was tangible in local authority financing. It is no longer limited to long terms; the pressure on margins also increased significantly for short and medium terms.

Against this background, we succeeded in keeping the credit volume in the "Local authority, education, research" customer group at the previous year's level despite repayments. The receivables volume (nominal) increased by EUR 0.1 billion to EUR 9.0 billion (previous year: EUR 8.9 billion). The customer base grew continuously throughout the year to more than 8,900 customers (previous year: 8,750 customers). The deposit volume increased slightly to EUR 6.5 billion (previous year: EUR 6.4 billion).

Civic participation: New investment projects

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 ideational form of participation in the project.

The area of civic participation continued to perform positively in 2016. Over the course of the year, 17 new civic participation projects were agreed. The number of successfully agreed DKB civic participation projects thus rose to 90.

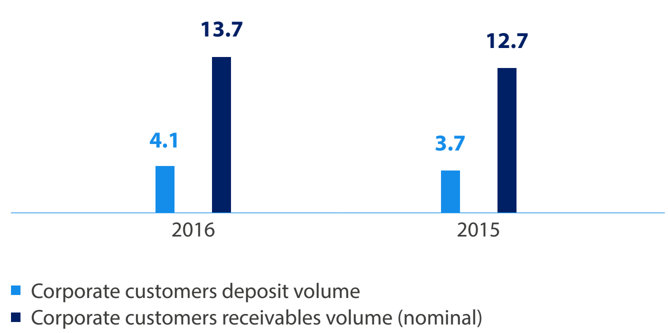
Corporate Customers segment

Positive performance in a challenging environment

The Corporate Customers segment was also characterised by challenging underlying conditions in financial year 2016. However, the demand for loans remained high. The receivables volume (nominal) increased by EUR 1.0 billion to EUR 13.7 billion. This positive development was mainly driven by the environmental technology as well as agriculture and food customer groups. In addition, the increased sales activities in the old federal states posted their first successes. The volume of liabilities increased by EUR 0.4 billion to EUR 4.1 billion (previous year: EUR 3.7 billion).

Corporate customers deposit and receivables volume

In EUR bn



Environmental technology: Growth in line with the market

The situation for power generation plants from renewable sources was defined in 2016 by the amendment of the German Renewable Energies Act. The tender for determining funding amounts per competition established by the legislator resulted in anticipatory effects in wind energy. As a result, the wind energy business segment performed particularly dynamically at DKB.

After several years of intensive dealings with the electricity market and storage technologies, DKB financed energy storage projects for the first time in 2016 in the relevant scope. This gave us the opportunity to emphasise our position as an industry specialist in this sub-segment also. On the whole, the growth in this business segment was in line with market developments. The receivables volume (nominal) in the environmental technology customer group increased in total by 14 % to EUR 8.1 billion in 2016; the deposit volume remained at the previous year's level at EUR 1.1 billion (previous year: EUR 1.1 billion).

Food and agriculture: Funding volume increased despite difficult market environment

The market environment in 2016 was extremely difficult for farming businesses. Price trends placed enormous pressure on producers in some areas. The extremely low milk prices in particular weighed tangibly on the affected businesses. However, the situation bottomed out during the year: decreased milk supply with a simultaneous, moderate recovery in demand in the fourth quarter resulted in noticeable price increases.

The new lending business focuses on financing for land purchases and the acquisition of agricultural companies. Financing for shed buildings tended to be restrained as a result of the producer price environment compared to previous years.

Irrespective of the temporary price weakness, DKB was able to use farmers' investment behaviour and further increased the volume of receivables by 6 % to EUR 3.5 billion (previous year: EUR 3.3 billion). As at the balance sheet date, DKB supported more than 8,600 farming customers (previous year: 8,300)

Tourism: Steady performance

The underlying conditions for the tourism business in DKB's regional target markets remain stable. On the one hand, the offering was expanded by new openings and, on the other hand, the number of overnight stays increased. The receivables volume (nominal) remained stable at EUR 1.1 billion (previous year: EUR 1.1 billion). In 2016, the deposit business continued to have subordinate importance.

Freelance professions: Further customer growth

The Freelance professions customer group performed positively in line with the general economy – these include the legal and tax consulting professions as well as the business consultancy, technical and scientific professions. The number of customers increased by 8 % to around 27,200.

The volume of receivables remained at the previous year's level at EUR 0.9 billion (previous year: EUR 0.9 billion). The granular deposit volume increased by 13 % to EUR 1.7 billion (previous year: EUR 1.5 billion).

Financial Markets segment

Liquidity increased further

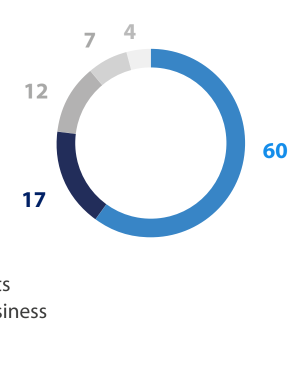
In order to further increase our regulatory liquidity buffer, we increased our portfolio of highly liquid securities, according to the definitions of the capital adequacy regulation, by EUR 0.6 billion (net) to EUR 5.6 billion at the end of 2016. Securities in our own holdings were due in the total amount of EUR 605 million in 2016.

Refinancing

The key refinancing pillars at DKB are customer deposits, the issue of Pfandbriefs and the development business.

Our refinancing sources

In %



We posted growth in customer deposits of EUR 4.8 billion to EUR 53.4 billion (previous year: EUR 48.6 billion).

DKB's Pfandbrief issues amounted to EUR 90 million (previous year: 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". In addition, DKB received an independent bank rating for the first time. In doing so, Moody's assessed the long-term rating for deposits as A2 (Outlook: stable) and categorised the issuer rating for unsecured bonds (senior unsecured rating) as A3.

In June, we placed a green bond for the first time. The issue in the amount of EUR 500 million met with high demand from investors. The rating agency, Moody's, classified the DKB green bond with a good "A3" rating in a first issuer rating for unsecured bonds. For the oekom Sustainability Bond Rating, DKB received an "a" for the green bond it issued.

DKB's ratings

	Public sector Pfandbriefs	Mortgage Pfandbriefs	Corporate and issuer rating (unsecured bonds)
Moody's rating	Aaa	Aaa	A3
oekom rating	–	–	B– (Prime-Status)
imug rating	very positive (A)	positive (B)	neutral (CCC)

In 2016, the total volume of new business in programme loans with development banks increased by EUR 2.8 billion and was thus EUR 0.6 billion above that of the previous year. The focus was on programmes for funding renewable energy projects. This was offset by a decrease in global loans. The total portfolio of programme loans and global loans increased to EUR 13.2 billion as at the end of the year (previous year: EUR 13.1 billion).

Non-Core Business segment

Reduction activities continued

The reduction in business activities assigned to the Non-Core Business segment continued as planned in 2016. The key measures were the repayment of loans and repayments in relation to successful resolutions. The volume of receivables (nominal) in the segment was EUR 0.5 billion as at the reporting date and was thus below the previous year's value of EUR 0.7 billion.

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 of DKB AG and the earnings contribution of DKB Service GmbH. DKB Service GmbH rendered the majority of services for DKB AG in 2016 too.

Results of operations and net assets of the DKB Group (IFRS)

Results of operations

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Net interest income	795.1	790.4	4.7	1
Risk provisions	–128.7	–143.8	15.1	11
Net interest income after risk provisions	**666.4**	**646.6**	**19.8**	**3**
Net commission income	6.9	–1.3	8.2	> 100
Gains/losses on fair value measurement	46.2	14.0	32.2	> 100
Gains/losses on hedging transactions	–94.4	–36.2	–58.2	> –100
Gains/losses on financial investments	160.8	11.2	149.6	> 100
Administrative expenses	–417.0	–376.8	–40.2	–11
Expenses from bank levies, deposit protection and banking supervision	–29.8	–23.7	–6.1	–26
Other income and expenses	–5.0	7.4	–12.4	> –100
Gains/losses from restructuring	–2.9	–5.2	2.3	44
Profit before taxes	**331.2**	**236.0**	**95.2**	**40**
Income tax	–4.3	–11.0	6.7	61
Consolidated net income	**326.9**	**225.0**	**101.9**	**45**

The DKB Group was able to increase its **net interest income after risk provisions** due to the overall positive development of its market areas despite the continuing low interest rate environment.

Consolidated net income improved significantly. Besides the positive business development on the whole, a one-off special effect in the amount of EUR 131.8 million from the sale of the shares in Visa Europe Limited was crucial to this development. The result for the financial year was mainly negatively impacted by internal projects with high external consultancy costs as well as high IT and personnel expenses in particular from the implementation of regulatory requirements.

Net interest income

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Interest income and positive interest expenses	2,065.4	2,206.6	–141.2	–6
Interest expenses and negative interest income	–1,270.3	–1,416.2	145.9	10
Net interest income	**795.1**	**790.4**	**4.7**	**1**

Net interest income improved in the financial year due to the positive performance in the individual segments of DKB and due to adjustments in the interest rate terms.

Net interest income is allocated to the segments as follows:

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Retail customers	384.1	423.4	–39.3	–9
Infrastructure	256.0	236.4	19.6	8
Corporate customers	175.1	159.9	15.2	10
Financial markets	–33.7	–33.5	–0.2	–1
Non-core business	7.6	3.2	4.4	> 100
Other	11.9	17.2	–5.3	–31
Reconciliation/consolidation	–5.9	–16.2	10.3	64
Net interest income	**795.1**	**790.4**	**4.7**	**1**

Risk provisions

The decrease in risk provisions is due to the lower risk provisions expenses from the non-core business compared to the previous year:

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Retail customers	–47.6	–32.4	–15.2	–47
Infrastructure	–22.4	–13.4	–9.0	–67
Corporate customers	–37.1	–17.9	–19.2	> –100
Financial markets	–	–	–	–
Non-core business	–20.9	–75.6	54.7	72
Other	–0.7	–0.7	0.0	0
Reconciliation/consolidation	0.0	–3.8	3.8	100
Risk provisions	**–128.7**	**–143.8**	**15.1**	**11**

Net commission income

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Credit card business	54.5	57.1	–2.6	–5
Payment transactions	–56.6	–58.0	1.4	2
Other net commission income	9.0	–0.4	9.4	> 100
Net commission income	**6.9**	**–1.3**	**8.2**	**> 100**

The increase in net commission income was, in particular, achieved through improved net commission income in the retail customer and corporate customer business.

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Retail customers	–31.2	–35.1	3.9	11
Infrastructure	0.9	1.1	–0.2	–18
Corporate customers	28.3	23.4	4.9	21
Financial markets	–2.2	–1.4	–0.8	–57
Non-core business	0.6	0.5	0.1	20
Other	5.6	8.8	–3.2	–36
Reconciliation/consolidation	4.9	1.4	3.5	> 100
Net commission income	**6.9**	**–1.3**	**8.2**	**> 100**

Gains or losses on fair value measurement/gains or losses on hedging transactions

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

Gains/losses on financial investments

In addition to the gains on disposal from the sale of securities, the gains/losses on financial investments result primarily from a one-off effect in the amount of EUR 131.8 million from the sale of shares in Visa Europe Limited.

Administrative expenses

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Personnel expenses	–213.9	–208.0	–5.9	–3
Other administrative expenses	–196.4	–162.6	–33.8	–21
Amortisation, depreciation and impairments on tangible and intangible assets	–6.7	–6.2	–0.5	–8
Administrative expenses	**–417.0**	**–376.8**	**–40.2**	**–11**

The higher **personnel expenses** result from the agreed increase in pay rates and the required increase in staffing.

Other administrative expenses increased in particular due to higher costs for external consultants and higher IT expenses. These expenses mainly served to implement the new regulatory requirements such as the requirements imposed by the Basel Committee on Banking Supervision for risk data aggregation and reporting (BCBS 239) and the IFRS 9 regulations applicable from 2018.

Administrative expenses are allocated to the segments as follows:

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Retail customers	–184.7	–151.8	–32.9	–22
Infrastructure	–87.5	–87.7	0.2	0
Corporate customers	–69.0	–69.7	0.7	1
Financial markets	–4.8	–4.0	–0.8	–20
Non-core business	–17.4	–17.6	0.2	1
Other	–184.6	–167.3	–17.3	–10
Reconciliation/consolidation	131.0	121.3	9.7	8
Administrative expenses	**–417.0**	**–376.8**	**–40.2**	**–11**

Expenses from bank levies, deposit protection and banking supervision

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Bank levies and banking supervision	–20.0	–14.2	–5.8	–41
Deposit protection	–9.8	–9.5	–0.3	–3
Expenses from bank levies, deposit protection and banking supervision	**–29.8**	**–23.7**	**–6.1**	**–26**

Other income and expenses

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Other income	36.2	44.5	–8.3	–19
Other expenses	–41.2	–37.1	–4.1	–11
Other income and expenses	**–5.0**	**7.4**	**–12.4**	**> –100**

Return on capital in accordance with Section 26a (1) sentence 4 German Banking Act (KWG) (ratio of net gains and total assets)

The return on capital in the financial year was 0.43 % (previous year: 0.31 %).

Net assets

Assets

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Loans and advances to banks	5,365.5	4,864.6	500.9	10
Loans and advances to customers	63,228.3	61,582.1	1,646.2	3
Risk provisions	–448.8	–429.5	–19.3	–4
Portfolio hedge adjustment	831.4	1,145.6	–314.2	–27
Financial assets	5,880.1	5,324.7	555.4	10
Other assets	1,665.8	941.3	724.5	77
Total assets	**76,522.3**	**73,428.8**	**3,093.5**	**4**

The **loans and advances to banks** are up on the previous year's figure due to the higher central bank balance.

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 m	As at 1 Jan	Additions	Reversals[1]	Utilisation	As at 31 Dec
Specific loan loss provisions	–369.7	–163.6	53.6	94.7	–385.0
Portfolio provisions	–59.8	–20.1	0.1	16.0	–63.8
Risk provisions	**–429.5**	**–183.7**	**53.7**	**110.7**	**–448.8**

[1] 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 adjustment corresponds to the development of the market values from derivative financial instruments.

The increase in **financial investments** is mainly 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.

At EUR 1,428.6 million, **other assets** primarily consisted of cash reserves (previous year: EUR 719.9 million).

Equity and liabilities

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Bank loans and overdrafts	14,510.0	15,787.2	–1,277.2	–8
Liabilities to customers	53,438.0	48,558.2	4,879.8	10
Securitised liabilities	4,459.0	4,098.9	360.1	9
Negative market values from derivative financial instruments (hedge accounting)	119.2	1,267.5	–1,148.3	–91
Provisions	143.3	121.3	22.0	18
Other liabilities	833.7	650.0	183.7	28
Equity	3,019.1	2,945.7	73.4	2
Total assets	**76,522.3**	**73,428.8**	**3,093.5**	**4**

Bank loans and overdrafts decreased compared to the previous year. This is due to lower obligations from overnight and term money and open market operations and was offset by an increase in liabilities from pass-through loans.

Liabilities to customers increased mainly due to increased deposits on credit cards as well as current accounts.

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 market values from derivative financial instruments (hedge accounting) is determined from the fair value hedges on interest rate risks formed at portfolio level. The performance of negative market values from derivative financial instruments corresponds to the portfolio hedge adjustment on the assets side. In the financial year, DKB's derivatives were subject to the clearing obligation imposed by the European Market Infrastructure Regulation (EMIR) for the first time. For this reason, the negative market values were netted against the cash securities deposited for the derivatives subject to clearing.

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

Other liabilities primarily comprise subordinated capital of EUR 406.8 million (previous year: EUR 319.6 million) as well as the liability from the profit transfer to BayernLB of EUR 256.9 million (previous year: EUR 162.3 million).

Balance sheet **equity** is comprised as follows:

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Subscribed capital	339.3	339.3	0.0	0
Capital reserve	1,414.4	1,314.4	100.0	8
Retained earnings	1,024.0	970.1	53.9	6
Revaluation reserve	161.7	250.1	–88.4	–35
Consolidated profit	79.7	71.8	7.9	11
Equity	**3,019.1**	**2,945.7**	**73.4**	**2**

The increase in the **capital reserve** is due to a EUR 100 million contribution to the capital reserve by BayernLB to increase DKB's equity.

The higher **retained earnings** are due to contributions to retained earnings of EUR 62.1 million and changes from the revaluation of defined benefit pension plans of EUR –8.2 million.

The decrease in the **revaluation reserve** relates to changes in the revaluation reserve from available-for-sale non-current assets (EUR –117.0 million) and changes in the revaluation reserve from available-for-sale financial instruments (EUR 28.6 million).

Consolidated profit results primarily from the consolidated net income less the profit payable to BayernLB plus the change in retained earnings.

Results of operations and net assets of DKB AG (HGB)

Results of operations

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Net interest income and income from investments	787.5	775.2	12.3	2
Net commission income	–22.4	–13.2	–9.2	–70
Administrative expenses	–391.1	–344.9	–46.2	–13
Other operating profit	–43.8	–30.7	–13.1	–43
Operating profit before risk provisions and net measurement gain	**330.2**	**386.4**	**–56.2**	**–15**
Risk provisions and net measurement gain	29.5	–119.4	148.9	> 100
Addition pursuant to Section 340g HGB	–100.0	–100.0	0.0	0
Extraordinary profit/loss	–2.8	–4.7	1.9	40
Profit before taxes and profit transfer	**256.9**	**162.3**	**94.6**	**58**
Taxes	0.0	0.0	0.0	0
Profit before profit transfer	**256.9**	**162.3**	**94.6**	**58**
Profits transferred	–256.9	–162.3	94.6	58
Net profit for the year	**0.0**	**0.0**	**0.0**	**0**

Due to the overall positive business development in its market areas, DKB AG increased its **net interest income and income from investments** despite the continuing low interest rate levels.

Operating profit before risk provisions and net measurement gain was mainly burdened by the higher administrative expenses due to the implementation of regulatory requirements and was thus below the level of the previous year.

Profit before profit transfer was well above that of the previous year due to the significant improvement in risk provisions and net measurement gain. This improvement in risk provisions and net measurement gain is primarily due to the one-off special effect of EUR 131.8 million from the sale of the shares in Visa Europe Limited. In 2016, DKB AG also added EUR 100 million to the reserve pursuant to Section 340g HGB to increase its equity recognised for regulatory purposes.

Net interest income and income from investments

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Interest income	2,054.2	2,209.3	–155.1	–7
Interest expenses	–1,273.4	–1,452.9	179.5	12
Current income from shares and other variable-yield companies, participating interests and shares in affiliated companies	2.6	2.9	–0.3	–10
Income from profit pools, profit transfer and partial profit transfer agreements	4.1	15.9	–11.8	–74
Net interest income and income from investments	**787.5**	**775.2**	**12.3**	**2**

At EUR 1,933.7 million (previous year: EUR 2,046.7 million), **interest income** arises from loans and advances to customers. The decrease in interest income is due to the continuing low interest rates despite an expansion of the relevant loan volume.

The **lower interest expenses** of EUR 424.1 million relate mainly to loans and advances to customers (previous year: EUR 473.8 million). The decrease is due to changes in terms due to the continuing low interest rate levels. At EUR 849.3 million (previous year: EUR 979.1 million), other interest expenses also fell.

Net commission income

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Credit card business	54.4	58.7	–4.3	–7
Payment transactions	–46.0	–48.9	2.9	6
Other net commission income	–30.8	–23.0	–7.8	–34
Net commission income	**–22.4**	**–13.2**	**–9.2**	**–70**

Other net commission income primarily relates to net broker commissions (EUR –54.7 million; previous year: EUR –40.6 million) as well as structuring commissions (EUR 12.4 million; previous year: EUR 3.2 million).

Administrative expenses

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Personnel expenses	–138.4	–131.7	–6.7	–5
Other administrative expenses	–252.7	–213.2	–39.5	–19
Administrative expenses	**–391.1**	**–344.9**	**–46.2**	**–13**

The higher **personnel expenses** result from the agreed increase in pay rates and the required increase in staffing.

Other administrative expenses increased in particular due to higher costs for external consultants and higher IT expenses. These expenses mainly served to implement the new regulatory requirements such as the requirements imposed by the Basel Committee on Banking Supervision for risk data aggregation and reporting (BCBS 239) and the IFRS 9 regulations applicable from 2018.

Other operating profit

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Other operating income	7.1	13.9	–6.8	–49
Other operating expenses	–50.9	–44.6	–6.3	–14
Other income and expenses	**–43.8**	**–30.7**	**–13.1**	**–43**

Other operating income relates primarily to income from cost reimbursements, the reversal of provisions as well as foreign currency translation.

Other operating expenses mainly include losses from, among others, misuse in the credit card business and legal risks as well as the contribution to the restructuring fund for banks (bank levy). The increase in other operating expenses was, in particular, caused by the higher bank levy of EUR 17.5 million (previous year: EUR 12.4 million) compared to the previous year.

Risk provisions and net measurement gain

Risk provisions and net measurement gain is comprised as follows:

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Risk provisions in the lending business	–123.1	–135.2	12.1	9
Net measurement gain on securities and investments	152.6	15.8	136.8	> 100
Expenses from loss assumptions	0.0	0.0	0.0	0
Risk provisions and net measurement gain	**29.5**	**–119.4**	**148.9**	**> 100**

In addition to the gains on disposal from the sale of securities, the net measurement gain on securities and investments results primarily from a one-off special effect in the amount of EUR 131.8 million from the sale of shares in Visa Europe Limited.

Addition pursuant to Section 340g HGB

To increase its equity recognised for regulatory purposes, DKB AG contributed EUR 100 million to its reserve pursuant to Section 340g HGB.

Extraordinary profit/loss

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Extraordinary income	0.0	1.7	–1.7	–100
Extraordinary expenses	–2.8	–6.4	3.6	56
Extraordinary profit/loss	**–2.8**	**–4.7**	**1.9**	**40**

The **extraordinary income** in the previous year resulted from the merger with SKG AG.

Extraordinary expenses include restructuring expenses arising from the implementation of the restructuring measures set out for DKB AG as part of the BayernLB Group.

Return on capital in accordance with Section 26a (1) sentence 4 German Banking Act (KWG) (ratio of net gains and total assets)

Based on the profit before profit transfer, the return on capital amounted to 0.34 % in the financial year (previous year: 0.22 %).

Net assets

Assets

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Loans and advances to banks	5,366	4,865.8	500.2	10
Loans and advances to customers	62,746.2	61,129.0	1,617.2	3
Bonds and other fixed interest securities	5,619.2	5,707.2	–88.0	–2
Other assets	2,664.5	970.6	1,693.9	> 100
Total assets	**76,395.9**	**72,672.6**	**3,723.3**	**5**

Equity and liabilities

	2016 EUR m	2015 EUR m	Change EUR m	Change %
Bank loans and overdrafts	14,749.9	16,061.8	–1,311.9	–8
Liabilities to customers	53,434.4	48,541.6	4,892.8	10
Securitised liabilities	4,527.1	4,765.7	–238.6	–5
Provisions	170.8	169.9	0.9	1
Other equity and liabilities	340.8	247.9	92.9	37
Subordinated capital and participation rights	407.0	319.8	87.2	27
Reserve pursuant to Section 340g HGB	330.0	230.0	100.0	43
Equity	2,435.9	2,335.9	100.0	4
Total assets	76,395.9	**72,672.6**	**3,723.3**	**5**

The net asset position of DKB AG is almost the same as the DKB Group. For this reason, the items that differ significantly to the DKB Group are mentioned below.

Other assets mainly comprise the cash reserve (EUR 1,428.6 million; previous year: EUR 719.9 million) and the cash securities for derivatives requiring clearing (EUR 955.1 million; previous year: none[1]).

Other liabilities primarily comprise the profit transfer to BayernLB amounting to EUR 256.9 million (previous year: EUR 162.3 million).

Subordinated capital increased by EUR 82.2 million to EUR 380.2 million due to issues that exceeded the maturities. Participation rights increased by EUR 5.0 million to EUR 26.8 million mainly due to new issues.

[1] In the financial year, DKB´s derivates were subject to the clearing obligation imposed by the European Market Infrastructure Regulation (EMIR) for the first time.

In the financial year, EUR 100.0 million was added to the **reserve pursuant to Section 340g HGB** to increase the equity required for regulatory purposes.

Balance sheet **equity** comprises subscribed capital (EUR 339.3 million), the capital reserve (EUR 1,414.4 million) as well as retained earnings (EUR 682.2 million). The capital reserve increased by EUR 100.0 million in the financial year due to the addition to the capital reserve from BayernLB.

A **control and profit and loss transfer agreement** is in place with BayernLB. The profit transferred to BayernLB based on the profit and loss transfer agreement amounted to EUR 256.9 million (previous year: EUR 162.3 million).

Financial position of DKB

DKB's 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 of the DKB Group itself.

Non-financial performance indicators

Non-financial performance indicators are also of great importance to us for the management of our company. In order to achieve our targets in this respect, our focus is not on quantitative KPIs but instead on numerous measures.

We distinguish between three focal areas with respect to the non-financial performance indicators:

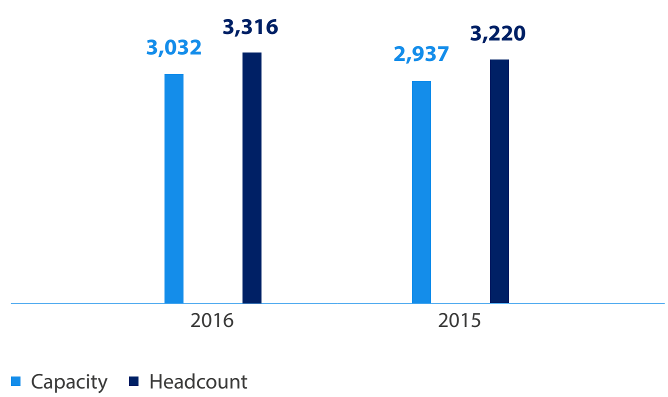
- **Employees:** We focus our attention on the areas of employee satisfaction, further training levels and health.
- **Customers:** Our key benchmark here is customer satisfaction through products, quality and innovations.
- **Sustainability:** As an organisation, we want to meaningfully combine our interplay of economic, ecological and social targets.

Employees

Number of employees rose further

As of the reporting date, the DKB Group employed 3,032 staff members on a capacity basis. This is 3.2% more than in the previous year (2,937 employees). DKB AG accounted for 1,586 employees (previous year: 1,526 employees).

Number of Group employees as at 31.12.2016



The average age in the DKB Group was 42.8 years (previous year: 42.5 years). The share of employees under the age of 30 was 11.6% (previous year: 12.1%). The average length of service in the past financial year was 8.2 years (previous year: 7.9 years).

In line with our personnel policy, appointments for open positions were preferably given to qualified employees from within our own company. For positions that require special expertise not available in-house, we recruited suitable employees from outside the company.

DKB AG focuses on actively developing junior staff

When developing junior staff, we continue to focus particularly on college graduates. Besides direct entry, we have a trainee programme with the aim of offering successful candidates permanent employment. In addition, we made preparations in 2016 to be able to offer dual places of study in the subjects of banking and business information systems from autumn 2017. Students and interns are also able to gain important practical experience with the fixed-term contracts that we offer.

In order to highlight our attractiveness as an employer and to tie potential high-performers to our company, we also support highly qualified young adults across Germany through scholarships.

Further development of the corporate culture initiated

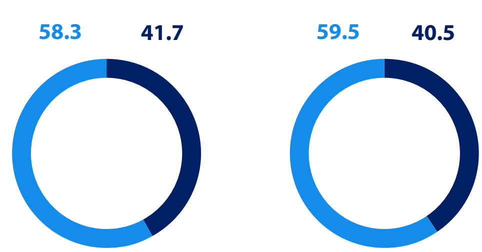
In 2016, we drove forward the further development of our corporate culture and initiated decisive steps. We determined our strengths, identified potential and decided on specific measures. These include, for example, regular brainstorming sessions for creative thinking and learning outside of the usual work structures and more room for individuality in our employees' style of clothing.

Equal opportunities and modern working time models are promoted

DKB places great importance on equal opportunities. The proportion of women amounted to 58.3 % at year's end (previous year: 59.5 %). At the first and second management levels, the proportion of women was 33.2 % (previous year: 33.5 %).

Gender distribution in the DKB Group

In %



2016 2015

■ Women ■ Men

In order to boost equal opportunities in management positions in the DKB Group, binding targets were defined at the various levels. They also take into account the requirements of Section 111 (5) Stock Corporation Act (AktG) in conjunction with the law promoting equal participation of men and women in management positions:

Targets for the Supervisory Board

The Supervisory Board of DKB AG currently has 16 members, three of whom are women. This corresponds to a proportion of women of 18.75 %. The Supervisory Board is aiming to increase that share to 25 % by 30 June 2017.

Management targets/first and second level management

As DKB AG and DKB Service GmbH jointly make up the majority of the Group's employees, the figures for both companies are provided below:

The Board of Management of DKB AG comprises 5 male members, giving 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. At DKB Service GmbH, two out of four management positions are occupied by women, therefore a proportion of women amounting to 50% 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 14 % at DKB AG and this is to be increased to 16 % by 30 June 2017.

DKB Service GmbH has a proportion of women of 27.3 %, which should not fall below 30 %.

At second level management, the proportion of women is currently 34 % at DKB AG. DKB Service GmbH has a proportion of women of 47.5 %; both proportions should not fall below 30 %.

Special measures improve equal opportunities

Flexible working time models are also of great importance to us with regard to equal opportunities. Since 2015, the first and second level management at DKB AG work according to the working time honour system model. By making working hours more flexible, we further advance the "Work/life balance" undertaking, thereby contributing to equal opportunities in the company. In order to further improve the underlying conditions for promoting women in the company, we offer an optional mentoring programme for female managers.

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

Numerous social benefits for employees

In order to achieve long-term loyalty to our company, we offer our employees numerous special benefits. These include voluntary (and above the general pay scale) social benefits, subsidies for insurances and childcare, and benefits for retirement provision.

When it comes to child care or looking after relatives, employees can make use of consultations provided by external partners. The experts provide our employees with specific advice on the selection of the optimal form of care, mediate childcare solutions and provide rapid assistance in the event of care bottlenecks. In addition, they are also available as contact persons for other private issues or questions relating to the employee's career.

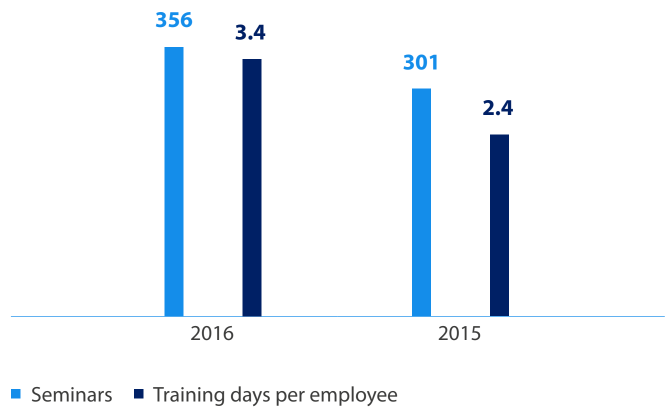
Furthermore, employees of DKB AG and its wholly-owned subsidiaries can purchase profit participation certificates and thus participate directly in the success of the company. The profit participation certificates have a basic interest rate of 4 % and a variable interest rate premium that is dependent on the cost/income ratio (pursuant to HGB).

Offers to increase knowledge and skills

We give our employees ample opportunity to develop further. An important instrument to this end is the DKB MANAGEMENT SCHOOL, which offers employees numerous internal and external seminars, skills training courses, specialist training courses and workshops in which they can develop both professionally and personally.

In 2016, 356 seminar events took place at the DKB MANAGEMENT SCHOOL. On average, employees spent 3.4 days (previous year: 2.4 days) on further training in the past year.

DKB MANAGEMENT SCHOOL



We also extended our offering of training courses in the last year. Thus, we worked on the "Breakfast Training Event" (Wissensfrühstück) monthly format. The interactive talk is a continuing education session near to the workplace and offers employees the opportunity to gain knowledge in a compact form and simultaneously network with other work areas and levels.

With the event series "DKB Zukunftsforum" (DKB Future Forum) and "DKB meets Campus", the DKB MANAGEMENT SCHOOL also offers a platform to highlight current developments and future trends across industries. Well-known partners from academia, business, politics and culture regularly participate in the networking events.

In the company's day-to-day life, it is evident that the number of special projects is increasing and, with it, the need for employees with project skills. For this reason, we introduced a project career path in 2016 in addition to the previous management and specialist career paths.

Training report published

In the past financial year, we published a training report for the first time. It gives interested parties a closer look into the key performance indicators of training management at DKB. The figures in the training report relate to financial year 2015. Data collection and reporting assist us in analysing our company's further training measures and, based on the results, developing and implementing further measures.

DKB's training and talent management was recognised in the past year and awarded the "Excellence" certificate by the German Education Prize. All the phases of an employee's career were highlighted – from recruitment through to development and a long-term relationship.

Health quota remains high

The focus of our health management is the creation of preventive structures, and measures to maintain health. The measures we offer extend beyond the circle of our employees: besides our employees, their friends and family members can avail of a diverse range of workshops focused on health as well as offers relating to physical activities.

The health quota at the DKB Group remained high in 2016, at 95 % (previous year: 95.3 %). The health quota is calculated from the share of days missed due to illness compared to total working days.

Our employees can also participate actively in preventive health by acquiring the "Health Coach" qualification through part-time study at a technical college. Since the introduction of this option in 2012, 33 DKB employees have taken up this offer. The trained employees are deployed at all locations of DKB. There, 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.

Regular external evaluations: Top place in the Corporate Health Award

Our company has the topics of employee health and employee satisfaction evaluated regularly by external parties: after a comprehensive employee survey in 2015, we had our occupational health management re-audited in the past year in the context of the "Corporate Health Award". DKB AG was awarded the "Excellence" certificate. In the Finance category, our company also took first place.

Corporate Volunteering commitment

We believe that the opportunity to become involved outside of the company has a positive influence on the well-being and satisfaction of our employees. For this reason, our employees have the opportunity to assist voluntarily in selected projects in the context of our Corporate Volunteering programme. For this purpose, they can be released for up to two working days in the year and assist e. g. in the "My Finance Coach" initiative, refugee aid or the DKB STIFTUNG (DKB Foundation).

Customers

Further improvement of the user experience

In order to maintain our position and our lead in an intensely competitive environment with an increasing number of market participants, we are constantly further developing our products and services. Our most important objective is to improve our customers' user experience.

In the Retail Customer segment, we are focusing on expanding digital services characterised by intuitive use. Where applicable, we enter into long-term co-operations for this purpose both on the technology as well as on the product side.

In our role as a commercial bank for local authorities and medium-sized companies, we strive to advise our clients at the highest possible level. For this purpose, we employ specialists at our Bank that know these fields inside out, also on a professional level, for example agricultural and civil engineers, process and environmental engineers. The industry specialists are deployed in customer teams and work hand-in-hand with the Bank's advisers. In addition, we cooperate within the respective regions and industries with professional associations, development banks and scientific institutions.

Revised products to improve our offering

We revised our anchor product, DKB-Cash, in the past year: all DKB-Cash customers can use the additional functions for one year as from December 2016: the account and card remain free. After one year, customers will continue to benefit from the new functions if they have monthly cash inflows of EUR 700 and above. These are: For payments by credit card abroad, customers no longer pay the international fee. In addition, customers have the option of accessing a free emergency card and emergency cash in the event of theft. Fully comprehensive cover for the card protects customers from losses that may occur in the time between card loss and card blocking.

We have maintained a partnership with the fintech company, FinReach, since 2014. We developed this further in the past year. Besides automatic account switching, we also use FinReach's technology for custody account switching.

Since September 2016, DKB customers have been able to use the "Cash in Shop" service to withdraw money in numerous retail partner branches via their smartphone, free of charge. With the "Cash in Shop" function and a TAN they can select an amount between EUR 50 and EUR 300 that is paid out to them at the till. There is no minimum purchase amount. Customers can see the withdrawal immediately in their DKB banking app. This product is made possible due to a co-operation with the fintech company, Barzahlen.

In collaboration with the fintech company, Gini, DKB AG expanded the DKB banking app with the "Photo transfer" function. Paper invoices or transfer slips only need to be photographed; the software identifies all the information required for the transfer and fills in the transfer form automatically. "Photo transfer" has been available for all users of the banking app since April 2016 for Android and iOS.

Since mid-2016, all DKB VISA cards have the option of contactless payments via the NFC technology, payWave. Besides contactless payment, our customers benefit from the full scope of functions and information in online banking on mobile end devices through our banking update this year.

In order to become closer to our customers in the old federal states, we opened three branches in Düsseldorf, Hamburg and Frankfurt am Main in the past year.

In the Infrastructure segment, in collaboration with Kompetenzzentrum Öffentliche Wirtschaft, Infrastruktur und Daseinsvorsorge e. V. (Competence Centre for the Public Economy, Infrastructure and Public Services), DKB presented the study "Strukturwandel im Energiemarkt: Implikationen für die Unternehmenstätigkeit der Stadtwerke" (Structural changes in the energy market: implications for the corporate activities of municipal utilities) at the University of Leipzig. Based on a municipal utilities survey, it was investigated whether municipal utilities face challenges from the energy turnaround and what strategies are used in order to counter these. The aim of the study was to understand our customers even better and to provide the right information that will support them in their management decisions in a constantly changing environment.

We continued the DKB Future forum format in 2016. With the forum, we want to give our customers an opportunity to think about and discuss important issues in an interdisciplinary manner and to formulate individual answers. In 2016, we invited our customers to two future fora with the themes "Wirtschaft 4.0 – digital und innovativ" (Economy 4.0 – digital and innovative) and "Kein Wandel ohne Kulturwandel" (No transformation without cultural transformation).

Sustainability

First DNK compliance statement published and diversity charter signed

For us, the meaningful combination of economic, ecological and social targets forms the basis for sustainably increasing the enterprise value. For this reason, we are continuously striving to improve our sustainability performance. We will achieve this by:

– an alignment towards sustainable banking products,

– a best possible 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,

– maintaining dialogue with the various target groups regarding sustainability topics.

To underline how serious we are about sustainability, and to make our starting points transparent for our stakeholders, we submitted our declaration of compliance with the German Sustainability Code (Deutsche Nachhaltigkeitskodex: DNK) for the first time in the past year, which was launched by the Council for Sustainable Development. The statement includes 20 criteria as well as a set of non-financial performance indicators in the areas of strategy, process management, environment and society. By publishing the compliance statement in August 2016, DKB offers its stakeholders a comprehensive sustainability report for the first time.

In June 2016, DKB officially signed the diversity charter, an initiative under Federal Chancellor Dr Angela Merkel's patronage sending a clear signal for diversity in working life: we are committed to a working environment that is free of prejudice, one in which all employees are respected equally and where they are appreciated.

Regular rating by imug and oekom

As a signal to the sustainability-oriented capital market, we regularly undergo relevant rating processes. Thus, the sustainability ratings agencies imug and oekom audit our Bank regularly for compliance with sustainability standards, for the presence of and compliance with in-house directives as well for special measures designed to suit the business activity of our company.

oekom research currently rates DKB with a sustainability rating of "B-". This is the highest grade awarded to any rated German business bank, Landesbank or regional bank (industry leader). 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. We have been financing wind farms and solar installations since 1996 and have one of the largest loan portfolios (approx. EUR 10 billion) in renewable energies in Germany.

The sustainability ratings agency imug sees our Bank'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. We publish our environmental performance in our annual environment statement in accordance with EMAS (Eco-Management and Audit Scheme) and make our progress in this area transparent through the development of the core indicators of the EMAS locations.

Core indicators

	2015	2014	2010
Relative electricity consumption (in MWh/employee)	1.44	1.60	1.89
Relative heating energy consumption (in MWh/employee)	1.26	1.28	2.57
Materials efficiency in paper (in kg/employee)	32.1	41.4	83.8
Business travel distance/employee (in km)	2,793	2,848	3,699
Relative water consumption (in litres/employee)	6,743	7,472	6,583
Relative waste generation (in kg/employee)	239	236.2[1]	299.5
Relative gross greenhouse gas emissions (in kg/employee)	798	829	2,029

[1] Since 2014, an average consumption survey of waste paper has been carried out; this is included in the calculation.

In June 2016, our Bank issued a green bond in the form of a senior unsecured bank bond for the first time. The bond has a volume of EUR 500 million and its purpose is exclusively to refinance solar projects and onshore wind energy projects in Germany. oekom research rates the quality of the green bond with respect to sustainability as "a" through the Sustainability Bond Rating. This corresponds to the best grade among the 240 green bonds rated by oekom globally.

DKB has been a member of Green Bond Principles (GBP) since 2016. This market initiative for voluntary guidelines for green bonds focuses on transparency and defines how projects can be categorised as environmentally friendly investments. The Green Bond Principles outline selection and assessment processes, give recommendations on managing underlying loan pools and require regular reporting on the sustainable impact of green bonds.

Report on risks and opportunities

Risk report

Unless explicitly indicated otherwise, the risk report relates to the DKB Group in accordance with the internal risk management. As the parent company, DKB represents a dominant share in the DKB Group. The Group figures therefore arise primarily from DKB.

Risks are understood as potential future developments or events that may result in negative deviations from forecasts or targets for the Bank. We refer to the statements in the opportunities report with respect to opportunities.

For quantitative information that goes beyond the statements in the risk report, and in particular serves to meet the requirements of IFRS 7, we refer to the Notes to the consolidated financial statements (note 64 "Risks from financial instruments").

Significant developments in the reporting period

Complying with the regulatory capital requirements and securing risk-bearing capacity are key elements in the management of the DKB Group. In the reporting period, the DKB Group met both the regulatory requirements in respect of the equity base and liquidity as well as the requirements on economic capital adequacy as part of the risk bearing capacity calculation. The Group takes adequate account of all the known risks through precautionary measures and has implemented suitable instruments for detecting risks early on.

Major methodical changes during the reporting period relate to the refinement of the procedure for quantifying the market price risk.

As part of the risk bearing capacity calculation, Value-at-Risk (VaR) was determined for the market price risk up to and including 31 December 2015 by aggregating the values for custody account-A and the values for the banking book. The calculation of the individual values is based on the holding period specific to the portfolio. Since the procedure was updated, the values for custody account-A and the banking book are no longer aggregated. A cross-portfolio VaR is simulated using a uniform holding period of 250 trading days. Since the switchover to a holding period of 250 trading days, it is also no longer necessary to deduct potential losses from fixed income securities that arise until the stop-loss limits are reached from the cover funds.

For a more suitable representation of implicit termination rights and interest rate capping agreements in the current continuing negative interest rate environment, the underlying valuation method was also changed.

As a result of the annual validation of the method for quantifying counterparty and market price risks, parameters were also updated.

In the risk-bearing capacity calculation, the utilisation of the limit for risk capital was 37% as at 31 December 2016 and thus continues to be at a comfortable level. Likewise, the limits for the risk capital requirement of individual risk types were adhered to throughout the reporting period.

In the stress testing carried out, the risk capital was also sufficient to cover the scenario losses.

According to estimates by the DKB Group, there are no existential risks at this time.

Regulatory capital adequacy

The assessment of the appropriateness of equity is based on the European equity regulation "Capital Requirements Regulation" (CRR) and is carried out at the level of the individual institution in accordance with the standard approach for credit risk.

The corresponding bank regulatory KPIs of DKB can be found in the following table:

Regulatory capital adequacy

In EUR m	31.12.2016	31.12.2015
Counterparty risks	30,009	28,913
Operational risks	1,045	964
Credit Valuation Adjustment (CVA)	1	3
Total positions subject to mandatory inclusion	31,055	29,880
Equity	3,097	2,719
of which core capital	2,766	2,460
Equity ratio	9.97 %	9.10 %
Core capital ratio	8.91 %	8.23 %

The extension of the risk positions for the counterparty risks is mainly due to the growth in lending volume. The increase in operational risks is due to higher gross earnings in 2016.

During the course of the reporting year, the core capital was, on the one hand, increased by EUR 200 million to EUR 330 million, due to the increase in the special item for general banking risks pursuant to Section 340g HGB. On the other hand, an addition of EUR 100 million was made to the capital reserve in April 2016, which rose to EUR 1,414 million. Besides contributing to growth in the risk positions, the core capital ratio increased to 8.91 % compared to the previous year as a result.

The proportional reduction of subordinate liabilities and their maturities was countered with new assumptions of EUR 100 million in May 2016. Together with the slight increase in participation rights liabilities, this resulted in an increase of EUR 72 million in the qualifying supplementary capital to EUR 331 million.

The impacts in both capital components resulted not only in changes in the risk positions but also in an increase of 0.87 % in the equity ratio to 9.97 %.

The regulatory minimum capital backing requirement of 8.0 % and the additional quotas required for the capital buffers since 1 January 2016 were met at all times.

Risk-oriented management

Organisation of risk management

The risk committee of the Supervisory Board monitors the risk management for which the Board of Management is responsible. The risk committee primarily deals with issues relating to business strategy, risk strategy and the risk situation. Furthermore, it decides on loans that, pursuant to the German Banking Act (KWG) are the responsibility of the Supervisory Board as well as on loans above the limits for which the Board of Management has authority.

The Board of Management bears the responsibility for the proper organisation of risk management and for implementing the risk strategy in the DKB Group. In order to meet its responsibility for implementing an appropriate and functioning risk management system, the Board of Management has established a risk management organisation that, in particular, is responsible for the determination and documentation of principles relating to the risk policy. Besides regulations for the organisation of structures and workflows, processes for identifying, assessing, managing, controlling as well as communicating risks are set out in accordance with MaRisk (German requirements for risk management).

Besides functionally separating the commercial banking and back-office units and the trading and settlement units, a properly functioning business organisation requires appropriate internal control processes as well as adequate control and monitoring of significant risks. The areas of Risk Office, Compliance, Credit Analysis and Approvals, Credit Risk Support as well as Mid Office form the basis for the risk management and monitoring system and are assigned to the Head of Risk and the Chief Financial Officer.

In accordance with MaRisk AT 4.4.1, the Risk Office is responsible for the tasks related to risk controlling. In particular, this includes supporting the Board of Management in all issues related to risk policy, i.e. in particular in the development and implementation of the risk strategy and the design of the system for limiting overall banking risks via risk management and controlling processes, as well as early risk identification processes. The Risk Office is supported in its tasks by various divisions within DKB. Besides continuously monitoring the risk situation, risk bearing capacity and risk limits, the Risk Office also compiles risk reports. The risk controlling function is managed by the Head of Risk.

The Mid Office division is responsible for ensuring that the internal and external requirements for the management of collateral are met as well as the methods, procedures and processes for collateral measurement. Furthermore, the Rating unit is responsible for integrating and further developing the rating and scoring systems as well as the default and loss data systems.

The Audit division is responsible for the risk-oriented and process-independent auditing of the effectiveness and appropriateness of the risk management system. It is responsible for internal auditing tasks in accordance with MaRisk BT 2. The objectives of internal auditing are to monitor the effectiveness, efficiency and propriety of business activities as well as to facilitate optimisation of the control and monitoring procedures.

In addition, the Compliance division and the Data Protection and Security unit are responsible for implementing effective procedures to comply with the legal regulations and stipulations as well as corresponding controls relevant to the Bank; they also manage risks resulting from financial transactions in the area of money laundering prevention, fraud prevention and data protection.

Risk strategy

The whole Board is responsible for determining and implementing the risk strategy, reviews it as required and adjusts it to current developments where applicable. As part of the annual review and updating process, the risk strategy is brought to the attention of and discussed with all members of the Supervisory Board. As a significant requirement for banking business, it is part of the written rules of procedure.

The risk strategy comprises the principles and sub-strategies for the individual risk types. The specific elements of the risk management system (methods, instruments, processes) are described in detail in the risk manual.

The content of the risk strategy is based on the business strategy and is in line with the Group Risk Strategy Guideline as well as the definitions set out in the business strategy, i.e. in accordance with the Group risk strategy and the sub-risk strategies of BayernLB. The risk strategy defines the objectives of risk management in the major business activities and thereby specifies the planning premises made in the business strategy with respect to the identification, control and monitoring of significant risks. The risk strategy extends across all business and significant risks in accordance with MaRisk AT 2.2 and 2.3.

The stipulations set out in the risk strategy are intended to meet the company's objectives based on the risk profile aimed for over time and thereby to ensure a balanced risk-return ratio as well as continuous risk-bearing capacity. The risk strategy therefore forms the basis for guaranteeing risk-bearing capacity.

In accordance with MaRisk AT 4.2 subs. 2, the risk strategy sets out the DKB Group's fundamental approach for assuming risk and risk management, in a manner consistent with the business strategy. Deriving the risk strategy from the business strategy is a component of the strategy process set up in accordance with MaRisk AT 4.2 subs. 4. Together with the business strategy and the risk-bearing capacity concept, the risk strategy describes the underlying conditions for the internal risk capital allocation and planning process. The risk capital provided is determined and distributed across the risk types as part of the formulation of risk tolerances for the individual types of risk. In this process, potential adverse developments are also taken into account. The amount of the risk capital provided documents the DKB Group's risk appetite.

In addition, the risk strategy sets out the framework conditions for granting loans and for the composition of the securities portfolio. In principle, the commitment focuses only on business fields in which the DKB Group has the relevant expertise to assess and manage the specific risks. In principle, entering new business fields or adding new products requires adequate risk analysis.

As a member of the BayernLB Group, the DKB Group is included in its Group-wide risk management and risk-bearing capacity concept. In principle, the DKB Group applies the standards and methods applicable at BayernLB. Should the DKB Group's risk profile require a different view, the Group will use its own procedures and methods that are coordinated with the central Risk Controlling unit of the BayernLB Group. The DKB Group follows the stipulations of the Group strategy and the Group-wide sub-risk strategies of BayernLB and is also obligated to comply with the guidelines applicable throughout the Group. The Group Risk Control division of BayernLB monitors the risk strategy requirements for the Group in respect of whether they are achieving the defined targets as well as in respect of reporting. Any deviations from the Group risk strategy are reported to the DKB's Board of Management as well as BayernLB's Board of Management on an ad hoc basis. In addition, transactions and actions that are in conflict with the Group risk strategy require the consent of the Board of Management of BayernLB.

Risk inventory and significant risk types

Regular risk inventories are carried out in order to identify significant risks and to review the appropriateness of the risk management system in relation to the degree of risk. The materiality of the risk is estimated based, inter alia, on the actual risk costs of the last 5 years and the forecast risk capital amount.

Counterparty risks, market price risks, participation and operational risks as well as liquidity, reputation and business risks have all been identified as significant risk types. In addition, there are significant sub-types of risks that are integrated in the risk management processes of the risk types.

The analysis and measurement of the individually identified types of risk and their management and monitoring are set out in the related bank policies, the risk-bearing capacity manual and the various team manuals.

Counterparty risks comprise the risk that a contractual partner (borrower, issue, counterparty) cannot, or cannot completely, meet their contractual obligations, and the risk of loss and changes in value arising from collateral provided. In addition, the country risk is taken into account. It comprises the risk that restrictions may arise based on economic or political developments that would compromise the transfer of funds to foreign creditors. The DKB Group is exposed to counterparty risks in the traditional customer business (lending risk) and in the form of issuer and counterparty risks as well as those arising from internal Group receivables. Country risks arise mainly in the securities portfolio in the case of foreign issuers. These are not significant given the portfolio as a whole. The Bank is exposed to counterparty risks in the form of replacement risks only to a negligible extent, mainly for hedging interest rate risks and in secured money market trading. The Bank does not permit products such as securitisations in the form of ABS and MBS structures or the purchase of securitised receivables. The Bank is not exposed to such risks.

Our **participation risks** comprise counterparty risks from participation positions. These relate to potential losses in value due to the provision of equity or equity-type financing (e.g. silent partnerships) from liability risks as well as losses in value from payment obligations or profit transfer agreements. Loans to participations are an element of the counterparty risk.

Market price risks are defined as potential losses from changes in the market prices of securities, money market and foreign exchange products and derivatives as well as a change in interest rates and foreign exchange rates. The Bank is exposed to market price risks in the form of interest rate risks in the banking book and securities portfolio. The Bank is not actively exposed to foreign currency risks; these result mainly from participations. There are no commodity and securitisation risks. Option risks are primarily a result of implicit options arising from termination rights in the lending business pursuant to Section 489 German Civil Code (Bundesgesetzbuch; BGB) and interest rate capping agreements that are taken into account when measuring the interest rate risk in the banking book.

Liquidity risks comprise the risk of present or future payment obligations not being fully met or not being met in time. In addition, higher costs for maintaining solvency are allocated to the liquidity risk. In the context of risk-bearing capacity, liquidity risks are considered together with reputation risks.

Reputation risk refers to the risk of a financial loss or profits foregone due to an (anticipated) loss or deterioration in the Bank's reputation among its customers, employees, business partners, institutions/shareholders or the (broader) public due to relevant reports in the public media including social media (Facebook, Twitter, etc.), e.g. due to personal negative actions by bank representatives internally or externally. In this respect, reputation is the public standing of a bank in respect of its competence, integrity and trustworthiness as perceived by stakeholder groups. Reputation risks exist, in particular, in the context of unexpected outflows of customer deposits as well as the consequence of a massive loss of trust in the Bank's creditworthiness or IT security with impacts on liquidity holdings and results of operations.

Operational risks, closely modelled on the banking regulatory requirements of CRR, are defined as the risk of unexpected losses caused by human conduct, process and control weaknesses, technological failures, disasters or external influences. The legal risk is included in this definition and is defined as the risk of losses due to a failure to consider the framework prescribed by legal regulations and jurisprudence as a result of ignorance, inadequate application of the law with due care or not reacting in time to a change in the legal framework conditions. In addition, information security risks are included in operational risks. They are defined as the risk of realising losses as a result of violations of the confidentiality, availability, integrity and authenticity of data, e.g. due to an attack carried out by exploiting weaknesses in the IT infrastructure.

Business risks comprise the risk of economic losses induced by unexpected changes in the economic, legal, regulatory, political, technological, social or ecological business environment and that were not already explicitly or implicitly regarded as other risk types included in the risk-bearing capacity statement. Business risks also include strategic risks.

Inclusion of subsidiaries

All of DKB's subsidiaries are part of the risk strategy and are taken into account in the strategic requirements and risk management system in accordance with their importance for the overall risk profile. In order to implement the requirements for risk management at Group level, the Strategy & Participations unit, in coordination with the Risk Office, carry out a participation inventory annually to determine significant risk potentials of direct subsidiaries.

Risk-bearing capacity and stress testing

Risk-bearing capacity

The risk-bearing capacity analysis within the framework of the internal capital adequacy assessment process (ICAAP) is an integral part of overall bank management. This determines whether the existing risk capital is sufficient to cover future risks from the underlying transactions. By actively managing the economic capital adequacy based on the internal risk measurement methods, the Bank ensures that the risks it is exposed to, or the planned risks, are at all times in line with the Bank's capital resources.

The DKB Group has selected a liquidation approach as the key management approach in the context of the ICAAP.

The utilisation of the overall risk capital and risk type limits are reviewed by the Risk Office and reported on to the Board of Management in the monthly risk report. If the risk type limits are exceeded, the measures set out in the escalation model are initiated. In addition, DKB provides the responsible central units of BayernLB with the data required to represent the Group risks and risk-bearing capacity of the BayernLB Group on a monthly basis.

Risk coverage capital

The risk coverage capital is based on a mixed concept of balance sheet and income statement figures of the DKB Group. Qualitatively, it is suitable for absorbing any losses that arise and, in accordance with the liquidation approach, is calculated by adding equity and subordinate capital less items not available should the Bank be liquidated (e.g. intangible assets). Furthermore, results realised during the course of the financial year are taken into account.

In order to determine the available coverage, buffers for risks that are difficult to quantify, such as liquidity, reputation, business and strategic risks, are deducted. A differentiated view is taken with the result that various buffers are used in the ICAAP as well as in the stress scenarios considered. The underlying assumptions of the buffers are assessed on an annual basis.

Part of the available coverage capital is allocated to business operations and is available to cover loss potential in the ICAAP. The remainder is additionally available to cover the standard "Severe economic downturn" scenario.

Risk capital requirement

When determining the risk capital requirement, counterparty risks, market price risks, participation risks and operational risks are taken into account on a quantitative basis. With the exception of operational risk, the DKB Group selects a standard confidence level of 99.95 % for economic risk measuring processes. The holding period used is, in principle, one year. The DKB Group follows the regulatory offsetting requirements for participation risks and operational risks. For participation risks, the regulatory requirements in accordance with Article 155 CRR are followed. The risk capital requirement for operational risks is determined using the standard approach in accordance with Article 317 CRR.

The individual risk capital requirements for the risk types are aggregated uniformly throughout the Group by summation in accordance with the specifications of BayernLB.

Development of the risk situation

The following risk profile arises as of the current reporting date:

In EUR m	31.12.2016	31.12.2015
Counterparty default risk	415	427
of which customer receivables	361	374
of which internal Group receivables from BayernLB	54	53
Market price risks	219	395
Participation risks	6	11
Operational risks	84	77
Total risk capital requirement	**724**	**910**
Available cover funds	**3,539**	**3,131**
of which allocated as limits	1,965	2,045

Compared to the previous year, the risk capital requirement dropped by EUR 186 million to EUR 724 million.

The risk capital requirement for counterparty risks declined slightly in the reporting period by a total of EUR 12 million and is at approximately the previous year's level.

The EUR 176 million decrease in the risk capital requirement for market price risks is primarily due to the conversion of the measurement model for implicit termination rights and interest rate capping agreements.

The risk capital requirement for operational risks, based on the gross earnings of the business fields prescribed by the regulator in accordance with the standardised approach, increased only slightly and continues to be above the losses incurred in the amount of EUR 25 million (after taking into account direct loss reduction) in 2016.

The available coverage capital amounted to EUR 3,539 million as of the reporting date. The increase of around EUR 400 million compared to 31 December 2015 relates to the addition of EUR 100 million to the capital reserve in April 2016, the assumption of a subordinated loan of EUR 100 million as well as the higher net profit for the year compared to the previous year. Furthermore, with the conversion of the method for quantifying market price risks, it was no longer necessary to deduct potential losses from fixed income securities from the cover funds.

Of the available cover funds, EUR 1,965 million are allocated as limits to coveri business operations. The remainder is available to cover the standard "Severe economic downturn" scenario. As of the reporting date, 37 % of the limit (31 December 2015: 44 %) was utilised. The utilisation continues to be at a comfortable level. The risk-bearing capacity was assured at all times in the reporting period. Likewise, the limits for the risk capital requirement of individual risk types were adhered to throughout the reporting period.

Stress testing

In stress testing and scenario analyses, the DKB Group analyses the impact of exceptional but plausible events on all relevant portfolios. Stress scenarios are employed here that take into account the impact on the capital situation in addition to observing the economic impact.

The standard scenario used by the BayernLB Group, "Severe economic downturn", in accordance with the ICAAP, is based on a liquidation approach and impacts all risks types. Here, testing checks whether the risk-bearing capacity is met even in a severe recession. The resulting risk capital requirement is compared to the available cover funds. From the stress scenario as at 31 December 2016, an additional risk capital requirement over and above the ICAAP of EUR 1,196 million (31 December 2015: EUR 1,526 million) was determined; this is covered by the available cover funds. Overall, the risk capital required for the scenario is EUR 1,920 million (31 December 2015: EUR 2,437 million).

The considerations in the liquidation approach are supplemented with a going concern perspective. The "5-year loss" going concern approach, and second scenario in the BayernLB Group, also affects all risk types and simulates a major change in the relevant risk parameters which can be expected over a time horizon of 5 years. From the going concern perspective, the capital available in the short term must be sufficient to cover the scenario loss, so that business operations can be continued in compliance with the regulatory minimum capital requirements. The risk capital considered is based on the free movement of own funds as defined by the Capital Requirements Regulation (CRR) after taking into account the capital preservation buffer. An income component is also factored in which takes into account the achievable income as well as the share of the net profit for the year which has already been produced and which is capped by the respective current projection of net profit for the year. For liquidity risks and/or business and strategic risks, a buffer is deducted from the cover funds in the same way as for the ICAAP observations.

Due to the methodical refinement of the procedure for estimating market price risks and lower interest rate fluctuations, utilisation of the going concern capital fell to 33 % as at 31 December 2016 (31 December 2015: 63 %).

In addition to the standard stress tests prescribed by the BayernLB Group, the DKB Group introduced bank-specific stress tests so that the requirements of MaRisk are considered in an individualised risk assessment even for extreme stress situations. The bank-specific scenarios include, for instance, market share losses in significant business fields, singular industry crises due to changes in the framework conditions as a result of exogenous shocks, impacts of a regulatory interest rate shock on the loan portfolio, a sharp increase in operational risks as well as negative developments in the participation portfolio. These scenarios are also based on a going concern approach. The bank-specific stress scenarios had sufficient backing capital on all reference dates in the reporting year.

Furthermore, sensitivity analyses supplement the considerations by increasing transparency with respect to the impacts of conceivable changes in individual risk factors such as the probability of default.

For all stress scenarios, the responsibility for quantification and comments lies with the Risk Office. The results of the standard stress tests in the BayernLB Group are communicated to the Board of Management in the monthly risk report. In addition, the results of the bank-specific stress scenarios are set out quarterly in the credit risk report. For the monthly and quarterly reports, case-specific stress tests are carried out for the event of e. g. acute market disturbances, and the results and any recommendations for action, are communicated to the Board of Management by means of an ad hoc report.

The appropriateness of the stress scenarios is reviewed once per year and the stress scenarios are updated where applicable. For the bank-specific stress scenarios, the actual losses incurred in the previous year are, in addition, compared to the original losses forecast, and an adjustment requirement derived for the stress calculation, where applicable.

In addition, the DKB Group initiated inverse stress tests in accordance with MaRisk. In deviation to the conventional stress tests, retrograde scenarios are identified that may put the survival of the DKB Group at risk. As non-compliance with the regulatory minimum capital requirements may lead to the regulatory authorities ordering business operations to be discontinued, a loss is regarded as putting the Bank's survival at risk if the loss exceeds the available going concern capital. Inverse stress tests are carried out for individual risk types as well as across risk types. The quantification as well as the presentation of the stress test results and their analysis takes place at least once per year.

Counterparty risk

Risk management and monitoring
Strategies and policies

The risk management system for counterparty risks is described in the risk strategy and in the risk-bearing capacity manual. The risk strategy includes the consistent planning and allocation of the risk capital in line with the business strategy and stipulations regarding new business. The requirements for limiting credit risks are derived therefrom. The codes of practice stipulate these requirements in detail.

The lending business is governed by the lending policy which sets out the general philosophy for the lending risk as well as the methods for actively controlling the risk. The lending policy defines important organisational requirements, competencies and responsibilities as well as principles for credit risk management, and applies to all lending business.

The management of the counterparty risk is a joint task for the commercial banking and back-office units. In this process, the Credit Analysis and Approvals division takes over the back-office functions and is responsible for the risk analysis, assessment and control with respect to the commitment relevant to risk. Furthermore, it bears responsibility for the ongoing creditworthiness and transactions analysis and gives the back-office the authority to approve loans. The credit authorisation regulation governs the competencies of the various authorised persons depending on the credit volume to be approved, the customer group and the rating category.

The respective team manuals or lending guidelines contain guidelines or matrices per customer group that set out the underlying conditions for new customer acquisition, new business and renewals from a sales and risk point of view. For the portfolios to be wound down, the DKB Group has set out framework conditions in the form of an overall reduction strategy as well as reduction strategies for individual customers.

At issuer level, the DKB Group uses a loan authorisation and credit approval process similar to the counterparty risks of the lending business and a system of ceilings to ensure that the "no transaction without a limit" principle is adhered to even for trading activities. For this purpose, the DKB Group determines the maximum amount of the limit, depending on the creditworthiness of the respective issuer and allocates these to product-specific sub-limits for debtor risks, issuer risks, replacement risks and settlement risks. The Risk Office monitors compliance with the limits on a daily basis and includes this in the daily and monthly report. If the limits are exceeded, the escalation process in place is activated. For risks arising from trading activities, the framework conditions for issuer and counterparty risks are set out in the market price risk strategy for the purposes of a holistic view.

The DKB Group reports on the development of the counterparty risks in its monthly risk report and the quarterly credit risk report.

Risk concentration and sub-portfolio limits

In order to monitor and limit risk concentrations, the DKB Group has implemented various limit systems. The limits are monitored regularly by the Risk Office. Where limits are exceeded, recommendations for action and measures in accordance with the approved escalation model are implemented. The limit utilisation is reported to the Board of Management and the Supervisory Board of DKB as part of the monthly risk report. In addition, the limits are presented in detail in the monthly credit limit report. The limits relate to the gross exposure, i.e. without offsetting collateral provided.

In order to limit the industry risks in the BayernLB Group, Group-wide industry limits are set out for selected industries. The DKB Group participates in this process in accordance with its multi-year planning and risk profile. Sub-limits are granted to the DKB Group in this process.

In addition, the DKB Group determines customer group limits for the respective customer groups in the Infrastructure, Corporate Customers, Retail Customers, Treasury and Non-Core Business segments as well as selected sub-portfolios. These limits are derived from the multi-year plan and take the Group-wide industry limits into account.

For business with the public sector, limits are in place for the German federal states and the federal government at Group level. The DKB Group is also granted sub-limits from these.

Due to the clear focus on domestic borrowers and foreign issuers from investment-grade countries, country risks are not substantial and are not considered in the economic risk measurement due to their marginal nature.

To control the country risk, the DKB Group is included in the limit allocation process of the BayernLB Group as part of the regional roundtables and is therefore granted sub-limits. The limits also include countries that currently do not indicate a measurable risk of default. The utilisation of the sub-limits granted is monitored on a monthly basis.

In addition, a process to monitor collateral concentrations is in place. The relevant collateral concentrations are identified at least once per year and subjected to a stress test quarterly in order to quantify the potential loss. This ensures that concentrations from homogeneously reacting collateral are identified and can be limited taking into account the risk-bearing capacity.

Risk concentration and borrower limits

In order to limit borrower-related risk concentrations, the DKB Group is included in the Group-wide limits for counterparty risk concentrations in accordance with the Group Risk Customer Limitation Guideline of the BayernLB Group.

The DKB Group notifies BayernLB of new business and increases that exceed or extend the gross limit of EUR 50 million for a group of related customers pursuant to Section 4 (1) no. 39 CRR in order to be able to identify risk concentrations in the Group at an early stage. For commitments with a gross limit of at least EUR 400 million at the level of the BayernLB Group, the limits and sub-limits are allocated by BayernLB. The sub-limit amounts are cross-checked and their utilisation reviewed on a monthly basis with BayernLB.

In addition, the DKB Group has determined a bank-specific cluster ceiling based on the gross customer limit for groups of related customers in the amount of 50 % of the current large loan threshold.

Compliance with cluster ceilings is monitored in the operating business on a continuous basis as part of the credit approval process. For new loan approvals that exceed the internal cluster ceiling, a strategy must be worked out for the commitment as part of the preparation of the loan documents. The entire Board approves the commitment. The Risk Office reports on groups of related customers that exceed the cluster ceiling to the entire Board on a quarterly basis.

Project financing for the "environmental technology" customer group is excluded from the internal cluster management. These groups of related customers have a commitment ceiling in the amount of EUR 350 million based on the gross customer limit. In justified exceptional cases, credit approvals above this limit may only be granted with the approval of the entire Board as well as by the risk committee in accordance with the credit authorisation regulation. Limits are monitored quarterly by the Risk Office as part of the credit risk report.

Risk classification procedure

In order to assess the creditworthiness of customers and thereby to determine the probability of default, the DKB Group mainly makes use of the risk classification procedure offered by S Rating und Risikosysteme GmbH (SR) as part of its credit risk management. In addition, procedures by Rating Service Unit GmbH & Co. KG (RSU) are also used. The majority of the rating systems used are permitted for calculating the regulatory capital requirements in the context of the IRB Group notification of BayernLB.

The rating procedures used make use of statistical models and are primarily based on the scorecard procedure. Depending on the financing structure, simulation models are also used in assessing project financing and national real estate. On a scenario basis, they simulate the cash flows arising from the receipts and expenditures of the financed properties. Quantitative and qualitative factors are taken into account both in the scorecard and simulation procedures.

The results of the risk classification procedure are presented in an 18-level master scale where the rating classes 16 to 18 comprise the default classes. The basis for allocation to the default classes is the existence of at least one of the following reasons for default: payment default/overdraft > 90 days, impairment, improbable repayment, restructuring/debt restructuring, termination/called in, the sale of receivables, write-off or insolvency.

Rating classes 1 and 15 are divided into various probabilities of default in multiple sub-classes.

All the ratings from the manual procedure are determined by back-office units. The ratings are subject to regular review and updating. The Rating unit is responsible for maintaining the quality of the systems, the implementation and quality assurance of processes as well as the ongoing validation and implementation of re-calibrations. It is allocated to the Mid Office division.

Risk measurement

In order to measure the counterparty risk at the portfolio level, the DKB Group uses an expanded, simulation-based variant of the credit portfolio model, CreditRisk+, that was programmed and further developed by BayernLB. The credit portfolio model takes into account concentrations and, by means of a correlation model, the dependencies between the industries and borrowers in the portfolio. In addition to the gross exposure at the time of default, the collateral provided and the expected proceeds at the time of default are taken into account in the modelling. In addition, impacts from rating migrations and uncertainties when determining loss quotas are included. Furthermore, the risk contributions of individual borrowers to the unexpected loss of the overall portfolio is included for the purposes of risk analysis.

Besides the probability of default, the counterparty risk is mainly influenced by the loan amount outstanding at the time of default as well as the forecast loss quota. The DKB Group uses parameters it has estimated itself for both input variables. Information provided by RSU is used for banks, countries and local authorities.

The portfolio model and the critical parameters are validated at least once per year.

Management of problematic commitments

The DKB Group links the risk management of impending or actual problematic commitments to the rating. Credit commitments in the Corporate Customers, Infrastructure and Retail Customers customer groups whose deteriorating creditworthiness and/or liquidity requires special monitoring are classified according to commitments requiring intensive support (rating of 10–12) and problem loan monitoring (rating of 13–18). The customer service units receive a monthly summary of the relevant commitments from the Credit Risk Support division, which is responsible for the methodology in accordance with MaRisk for the above-mentioned forms of support.

Rating class	Form of support	Independent responsible unit (normal case)
1–9	Normal support	
10–12	Intensive support	Credit analysis and approval[1]
13–15	Problem loan monitoring	
16–18	Problem loan monitoring	Credit risk monitoring (CR)

[1] Drawing right for the CR division

The responsibility for supporting commitments requiring intensive support remains within the customer service units. In the context of the requirements and structuring leeway set out by the CR division, they prepare a commitment strategy and implement it using commitment-specific measures. The Credit Analysis and Approval division then generally provides the second approval required in accordance with MaRisk (back office).

According to MaRisk, the CR division is also responsible, as the authorised division, for all the decisions and stipulation of strategies and structuring leeway for problem commitments (rating of >= 13). Furthermore, the CR is granted a drawing right for commitments for normal and intensive support, on exercise of which the decision by the market can be overridden, the credit competence of the Intensive Support and Approval division can be transferred or the commitment taken over to the CR division's own support. In principle, the CR division is the authorised division for non-core business.

DKB has a specific loan loss provision policy (LLP policy) for handling impairments. This policy governs the basic principles for handling impending or actually problematic loans, the creation of risk provisions and reporting. Required loan loss provisions, provisions or their utilisation or reversal are determined regularly by the CR division and approved in accordance with the competencies set out in DKB's credit authorisation regulation. The required bookings are then made.

For commitments in rating classes 16 to 17 (classification: "doubtful"), or 18 (classification: "loss") with a gross exposure of more than EUR 0.75 million, the DKB Group creates loan loss provisions by means of a special-purpose or at least semi-annual cash value impairment on an individual basis. Commitments with smaller volumes are, in contrast, subject to a flat-rate loan loss provision (fLLP).

Collateral management

Another key instrument to minimise risk is the acceptance and continuous valuation of generally accepted collateral. In line with its customer structure, the DKB Group's collateral portfolio consists primarily of material collateral provided by retail customers, housing associations and housing industry investors, local authority guarantees and suretyships as well as assignments of receivables and assignments by way of security of the "renewable energies" customer group. Other relevant collateral is of minor importance.

The DKB Group regulates the competencies and responsibilities for processing and measuring collateral in its collateral policy – based on the Group standard provided by BayernLB. The regulations contained in the collateral policy form the basis for availing of regulatory relief in accordance with KWG and CRR and taking into account the collateral in accordance with economic interests.

Determining the market and loan values for mortgage collateral is crucial for collateral valuation. The DKB Group avails itself of the expertise of LB ImmoWert, a subsidiary of BayernLB. The Mid Office's independent Real Estate unit is responsible for determining the loan values The decentralised civil engineers are also allocated to this unit. The simplification options offered by Section 24 BelWertV [Regulation on the Determination of the Mortgage Lending Value] are utilised.

In all commitments, the collateral value for making use of the relief provided by KWG and CRR is determined on the basis of the loan values. For economic (internal) control, the liquidation values are determined on the basis of market values. The DKB Group regularly reviews the appropriateness of the value determinations when determining the loan value. It carries out controls of commitments in the context of payment controls, collateral processing, annual commitment monitoring and reviews by the Audit division on a continuous basis.

The Collateral Management unit is responsible for compliance with the collateral policy and other Group standards as well as central collateral processing.

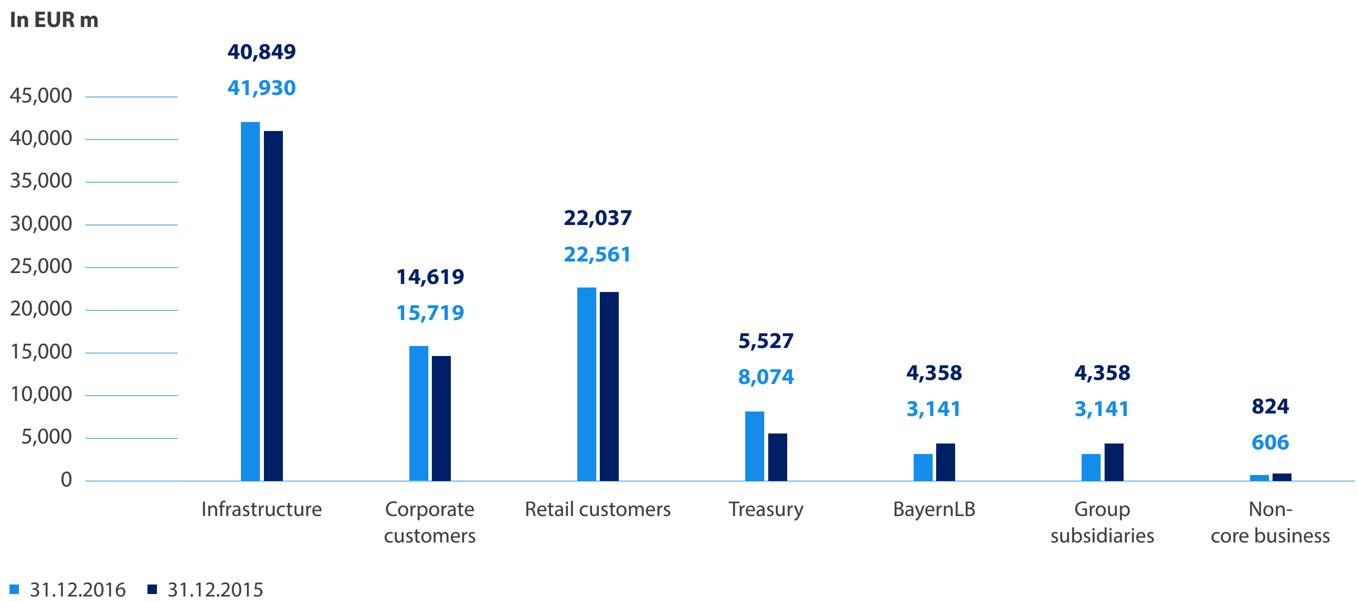
The Board of Management receives reports on the collateral amounts as part of the credit risk report provided by the Risk Office. In addition, the Board of Management receives information regarding the handling of collateral in the monthly quality reports provided by the Processes unit.

Development of the risk situation

The development of the risk situation is presented based on the business fields of the DKB Group. The Treasury and BayernLB business fields are part of the Financial Markets segment.

The gross exposure increased slightly by 4 % in the reporting year. Broken down by the DKB Group's business fields, the following picture arises:

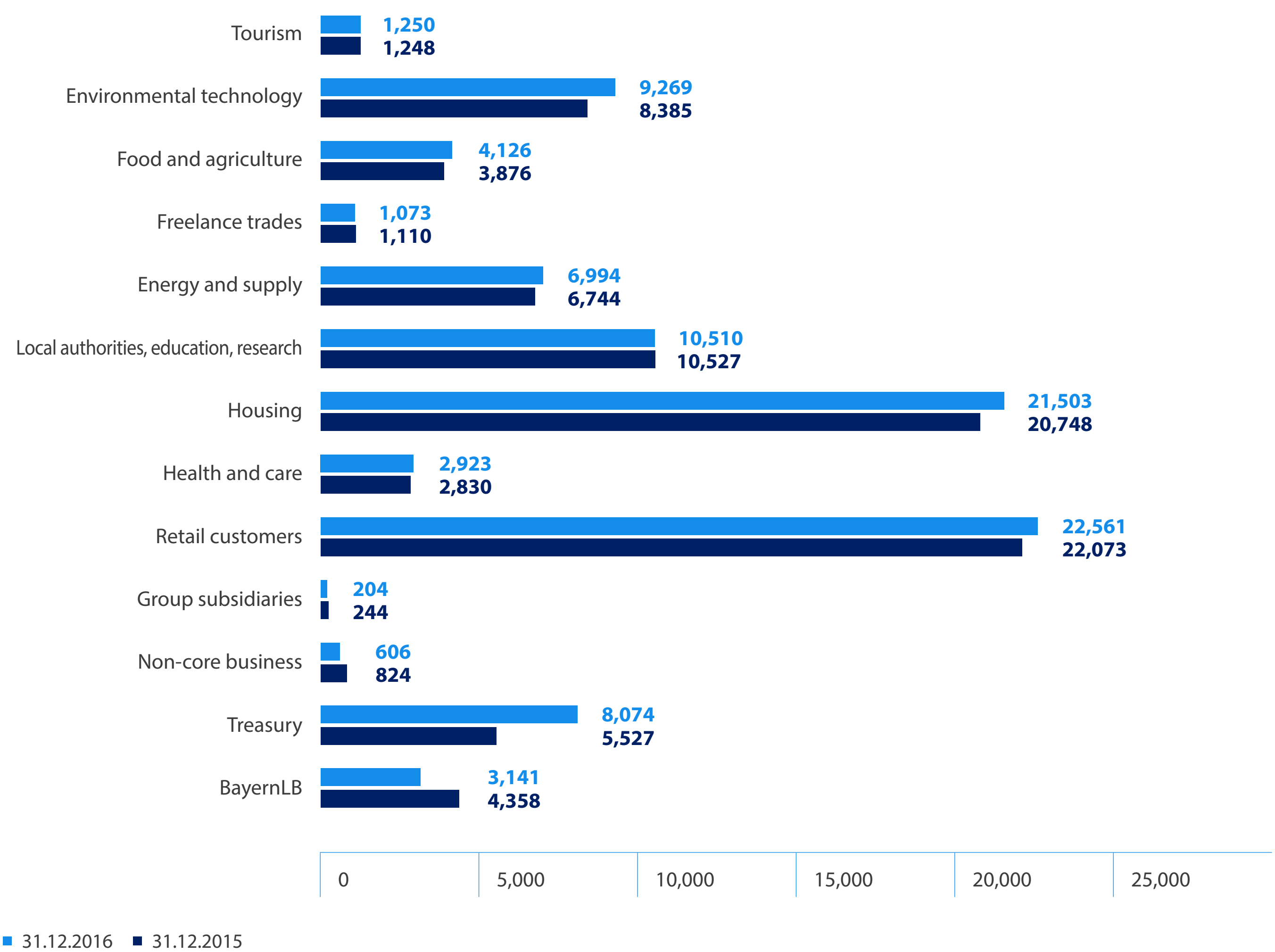
Gross exposure



The increase in the gross exposure is primarily a result of the growth consistent with the strategy in the customer business in Corporate Customers and Infrastructure as well as the development of the liquidity holdings. At the same time, the reduction of the non-core business was continued.

Gross exposure by customer groups

In EUR m



The growth in customer business is mainly concentrated in the strategic business fields of Infrastructure and Corporate Customers. In the Corporate Customers segment, the focus is on the "environmental technology" and "agriculture and food" customer groups. The growth in volume in the Infrastructure business field is mainly attributable to the "housing" and "energy and supply" customer groups.

In the Retail Customers segment, an increase in the gross exposure compared to the previous year was observed. The increase is due to the further growth in current accounts and credit cards which more than compensated for the repayments in the financing for residential buildings.

The Group's internal gross exposure in the context of funding within the BayernLB Group dropped in the reporting year due to the repayment of bonds. As of 31 December 2016, receivables from BayernLB amounted to EUR 3.1 billion (31 December 2015: EUR 4.4 billion).

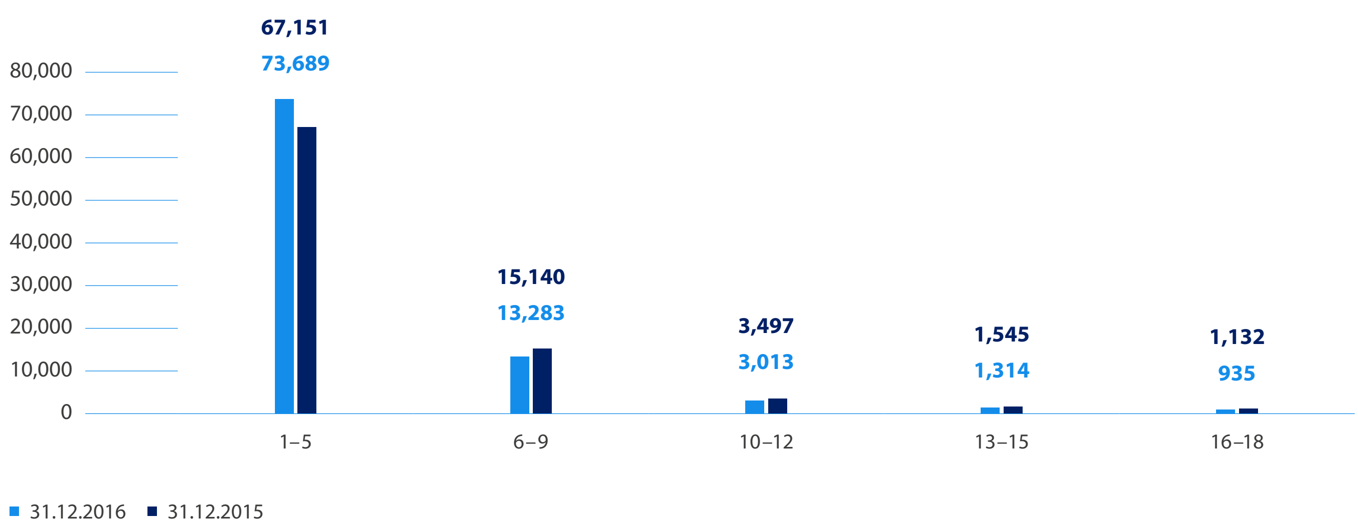
The Treasury customer group primarily comprises the securities portfolio of DKB as well as the business with institutional customers. The increase in the gross exposure is, in particular, due to the increase in liquidity holdings. The securities portfolio focuses on first-class domestic and eurozone public sector bonds as well as bonds of supranational issuers and development banks.

Open securities positions in the peripheral countries of the eurozone have been significantly and successively reduced since 2008 and, as of 31 December 2016, amounted to a nominal EUR 90 million (31 December 2015: EUR 125 million). These comprise exclusively Italian government bonds. The share in relation to the overall holdings continues to be low. During the reporting period, open positions in respect of Italian (nominal EUR 20 million) and Spanish banks (nominal EUR 15 million) were reduced by scheduled repayments or sales.

The portfolio development by rating class is as follows:

Gross exposure by rating classes

In EUR m



The quality of the portfolio improved further during the course of the year. The investment-grade share, i.e. the share in positions with ratings in classes 1 to 5 increased to 80% (31 December 2015: 76%). Besides the increase in liquidity holdings, the rise is also due to the business development in the three major business segments.

The average probability of default in the portfolio reduced to 0.65% (31 December 2015: 0.75%). This figure corresponds to rating class 6. The share of defaulted commitments (rating classes 16 to 18) decreased slightly and, as of 31 December 2016, is 1.0% (31 December 2015: 1.3%).

The DKB Group does not permit products such as securitisations in the form of ABS and MBS structures or the purchase of securitised receivables. The DKB Group is not exposed to such risks.

As at 31 December 2016, 33 groups of related customers pursuant to Article 4 (1) no. 39 CRR were identified as cluster commitments.

The risk capital requirement is mainly characterised by the strategic customer business as well as the receivables from BayernLB. The Treasury, subsidiaries and non-core business customer groups are only responsible for very small shares.

Participation risks

In order to supplement and round off the products and services for the customer groups defined in accordance with the Bank's strategy as well as to provide internal services for the DKB Group, DKB AG in principle holds strategic participations with the objective of optimising vertical integration, developing existing sources of revenue and capturing new sources of revenue. The participation policy governs the principles for exposure to equity risks.

Here, DKB aims to generate appropriate profitability according to risk for all participations (except for restructuring companies).

Activities related to dealing with the legacy business of construction management companies and the comprehensive winding up of the remaining business activities still in the companies is consistently carried out by the restructuring companies. The reduction is being driven forward while avoiding asset losses.

The Strategy & Participations unit is responsible for the continuous monitoring and control of the shareholder risks. In contrast to monitoring the participation risks, the monitoring of credit risks arising from loans granted to subsidiaries is undertaken by the branch dealing with the commitment.

The portfolio management of the entire shareholding and participation portfolio is carried out by the Board of Management.

In its strategic participations, DKB in principle aims to provide strategic direction in accordance with the current business strategy and multi-year plan as well as DKB's risk strategy. This takes place by taking on majority shareholdings. Furthermore, the business and risk policies of participation companies may be influenced by relevant measures (articles of association, bylaws, membership of supervisory committees, etc.) or by concluding relevant corporate agreements.

The impacts that participation risks have on the risk-bearing capacity are detailed in the monthly reports by the Risk Office. In addition, the Strategy & Participation unit is responsible for reporting to the Board of Management on a continuous basis. It prepares a quarterly report on the participations. In addition, the Supervisory Board is given an annual participation report for their information. The Supervisory Board also receives information on the current participation topics at its regular meetings. The Board of Management is promptly informed of any matters relating to the participations.

For participation portfolios, the risk capital requirement is determined using the risk weighting method based on the probability of default pursuant to Article 155 CRR. The probability of default here is derived from the internal ratings of the individual participations. At a confidence level of 99.95 %, 90 % is used as the LGD in accordance with the regulatory requirements.

The control and monitoring systems available ensure that DKB is continuously informed of the financial performance and strategic alignment of the participation companies.

Market price risks

Risk management and monitoring

At DKB, market price risks arise exclusively from the investment book. The market price risk comprises the following sub-risks: interest rate risks, credit spread risks, share and foreign currency risks. Due to the takeover of Visa Europe by Visa Inc., DKB has a participation in US dollars since the end of June 2016 that resulted in an increase in the foreign currency limit. In principle, however, the rule applies that no open foreign currency positions may be held and foreign currency risks entered into in the customer business must be closed with countertrades. Implicit options from termination rights and interest capping agreements are, likewise, taken into account in the measurement of the interest rate risk in the banking book.

The market price risks are monitored regularly by the Risk Office, independently of trading. Besides the regulatory requirements for risk measurement and risk control, this division ensures the daily reporting to the responsible heads of department and the weekly and monthly information for the Board of Management. In addition, it is responsible for the market conformity check.

Treasury is responsible for managing the interest rate risks from the interest-bearing business in accordance with the specifications of the Board of Management as well as for the development of interest rate strategies and the conclusion of interest rate derivatives. The Capital Market unit in the Treasury division is responsible for managing the positions of the Bank's own investments and monitoring the performance of the individual funds.

The DKB Group uses interest rate swaps for hedging and reducing interest rate risks. In order to reduce fluctuations in value arising from changes to fair values in the income statement, hedging relationships are established between interest rate swaps concluded to control the interest rate risks and receivables from customers (hedge accounting). The Finances division is responsible for the continuous supervision of the effectiveness of the hedging relationships.

In order to monitor the market price risks, the DKB Group has implemented a limit system based on Value-at-Risk (VaR) consistent with the risk-bearing capacity calculation. In addition, limits are placed on the realised and unrealised losses from market-value-related changes to the income statement as well as the revaluation reserve in accordance with IFRS.

The VaR for market price risks is calculated on the basis of a historical simulation with a holding period of one day and a confidence level of 99 %. To determine the economic risk capital requirement, this figure is then scaled to a confidence level of 99.95 % and a uniform holding period of 250 days. This allows the market liquidity risk to also be accounted for, i.e. that the risk positions could be concluded at financially less favourable conditions than expected. In addition, balance sheet and/or reportable valuation discounts for matters related to market liquidity (e.g. bid/ask spreads) are created. All the positions bearing market risks are included in the determination of the VaR. Interest rate, credit spread, share and foreign currency risks are taken into account in the calculation. In addition, for custody account-A (securities business), a separate, correlated VaR is determined as a portion of the overall portfolio that takes into account the interest rate, credit spread and share risks in the securities portfolio. There are no foreign currency risks in the securities portfolio.

The market risk measuring procedures are reviewed regularly in respect of reliability and quality. Back testing is carried out to compare the risk forecast with the actual result.

In addition to the Value-at-Risk for market price risks, market-risk-specific stress tests are determined. Stress testing is carried out in the form of sensitivity or scenario analyses. Historical and hypothetical scenarios are considered. All the relevant risk factors (interest rate, credit spread, foreign currency and share risks) are included in the stress test analyses. In an additional analysis, a drop in prices is simulated for all positions subject to a share risk. In credit spread scenarios, credit spreads are widened.

A key control parameter for the stress testing programme carried out by the DKB Group is the interest rate risk coefficient in accordance with BaFin (Federal Financial Supervisory Authority) circular 11/2011. In these regulatory scenarios of an interest rate shift of +200 basis points (BP), the maximum cash value loss in the banking book is limited to 20 % of the regulatory capital of DKB. The first escalation level in this limit system is at 18 %.

In addition to the interest rate risk coefficients, the BayernLB Group also calculates and limits standard scenarios for changes in the interest rate curve (rotation scenarios) as well as for the bank-specific interest rate scenarios for DKB.

The Risk Office monitors adherence to the limits on a daily basis (securities), weekly (banking book) or weekly/monthly (stress scenarios) and includes this in its regular reports. If limits are exceeded or about to be exceeded, relevant escalation measures are initiated.

In the daily reports to the Chief Trading and Risk Directors, the VaR for trading activities as well as the performance and adherence to all applicable limits are reported on and supplemented, on a weekly basis, with their impacts on the income statement.

In the weekly and monthly reports to the Board of Management, the results of the stress scenarios are reported in addition to the risk-bearing capacity. The results of scenarios that are regarded as relevant to risk for the DKB Group, taking into account the current interest rate situation as of the reporting date, are reported and commented on in the risk report.

All stress tests are validated once per year or as required.

Development of market price risks at the banking book level

The interest rate risk with an interest rate shift of +200 BP amounted to EUR 265 million as of the reporting date. In relation to the equity in accordance with CRR, this is equivalent to a share of 8.6 % (31 December 2015: 13.2 %). Compared to the previous year, the interest rate risk decreased. The lowest cash value loss was EUR 235 million in June and the highest EUR 497 million in November. The scenario with the greatest effect throughout the entire year was the scenario of an assumed sudden interest rate increase of 200 basis points.

The risk-increasing effect of the long-term new loans business and the increase in liquidity holdings due to fixed interest securities was more than compensated for by the conclusion of payer swaps, the assumption of subordinate capital and the inflow of customer deposits. The change in the valuation model for implicit termination rights and interest rate capping agreements to an improved option price model lead, furthermore, to a significantly lower risk burden.

The risk capital requirement for all the market price risks decreased significantly in 2016 by EUR 176 million to EUR 219 million with the highest value of EUR 482 million being reached in January 2016 and the lowest value of EUR 187 million in December 2016. The reduction in risk capital was largely a result of the conversion to the option price model.

The takeover of Visa Europe by Visa Inc. and the recognition of the participation in US dollars resulted in foreign currency risks of EUR 6 million as of 31 December 2016 that are measured and limited as part of the daily risk calculation. In connection with the above, the foreign currency limit of EUR 3 million was adjusted to EUR 12 million in June 2016.

Development of market price risks from the securities business

In addition to the risk factors at the level of the Bank as a whole, there is a sub-risk limit for the securities portfolio that is measured and monitored on a correlated basis. Due to the high proportion of fixed interest securities from public issuers in Germany, the securities portfolio is dominated by interest rate risks. These are held for the purpose of liquidity risk management. In addition, the DKB invests in shares via the purchase of fund products. In 2016, the number of fund products was reduced due to a merger.

The nominal bond portfolio of the DKB Group (excluding own issues) increased in 2016 to EUR 5.5 billion (31 December 2015: EUR 5.0 billion). The bond portfolio primarily relates to liquidity holdings required by the regulator which ensures that securities that are eligible for rediscount with the central bank and securities that are quickly realisable on private markets immediately and without value losses are available at all times.

Compared to 31 December 2015, the risk capital requirement for custody account-A increased from EUR 193 million to EUR 276 million as of 31 December 2016 due to the introduction of uniform holding periods of 250 days.

Risk concentrations are limited and controlled in accordance with the issuer, similar to the applicable cluster regulation, and in accordance with the portfolio, for regional concentrations. There are currently no concentrations with respect to individual issuers. The DKB Group has no country risks worth mentioning.

Liquidity risks

Risk management and monitoring

The Board of Management bears the overall responsibility for measuring and controlling liquidity risks. It is informed of the liquidity situation in its weekly Board meetings and from this, derives the measures for fine-tuning the liquidity risks. It then commissions the responsible divisions to implement these measures. The Asset Liability Committee (ALCO) consists of the Board of Management and the Heads of Treasury and Risk Office, and monitors the strategic liquidity situation based on the risk reports and liquidity status presented, and elaborates medium and long-term control measures. In addition, an emergency committee has been formed in which the corporate development management and ALCO are represented. It meets in the case of a liquidity emergency, decides measures to deal with the emergency and monitors their execution.

In order to ensure Group-wide uniform management, BayernLB has provided the DKB Group with a factual and organisational framework for handling liquidity risks in the form of Group Treasury Principles and Group Risk Management Principles. These Group Principles in relation to controlling the liquidity risk have been incorporated into the Bank's regulations via the risk strategy as well as via the Liquidity Policy and the Funding Policy. Here, the risk strategy governs the factual and organisational framework for handling the existing liquidity risks. The framework conditions defined in the Bank's risk strategy are then included in the Liquidity Policy and described in detail there. The Funding Policy governs the refinancing principles and processes.

The DKB Group has set out the nature and scope of the management system for liquidity risks in the Liquidity Policy. Besides the organisational structure and division of responsibilities, it also governs the risk management, limits and reporting as well as the liquidity management within the DKB Group. In addition to presenting the risk management system, the Liquidity Policy defines the term emergency, sets out the composition of the emergency committee as well as the procedures and communication pathways in the case of an emergency and describes potential measures in the case of a liquidity bottleneck.

The Treasury division is responsible for managing short-term liquidity, taking into account the regulatory requirements and the strategic medium and long-term funding. In addition, Treasury is responsible for managing the interest rate risk from the interest bearing business as well as the development of interest rate strategies and the conclusion of interest rate derivatives as directed by the Board of Management. Furthermore, this division prepares the refinancing status on a daily basis.

The Risk Office carries out independent risk measurement and reporting and escalates any limit breaches.

Liquidity overviews are prepared weekly for the purposes of strategically considering the liquidity situation. The Board of Management decides on the strategic direction of liquidity management as well as on significant individual specifications. The liquidity overviews are used to carry out analyses on the assets side, diversify the liabilities side and develop the liquidity coverage potential.

The liquidity situation is monitored at economic and regulatory level. The DKB Group has implemented various limit systems that are linked to the different escalation levels for this purpose. The escalation models ensure that changes in the liquidity position of the DKB Group can be countered early on.

The basis of the economic liquidity assessment is the comparison of the netted future incoming and outgoing funds in the capital maturity statement and the liquidity coverage potential. The liquidity coverage potential describes the ability of the DKB Group to procure liquid funds at the earliest point in time. Core elements are central bank money facilities, cover register potential, irrevocable loan commitments received and liquidation proceeds from securities. The cover register potential is taken into account via the loans in the cover pool and their capacity to be used as central bank money facilities.

The economic liquidity status is monitored on the basis of two standard scenarios within the BayernLB Group (management case and planning case) as well as bank-specific scenarios that take DKB Group's risk profile into account.

The management case represents a scenario in a normal market and customer environment and considers a period of 5 years. In addition, the planned new business of the next 3 months is included. The planning case is based on the management case. Here, the cash flow from the expected new business over a total planning horizon of 5 years is considered. The management case is calculated weekly and the planning case monthly.

Taking into account additional leeway, it is the net cash flow from the capital commitment report and the liquidity coverage potential that is of significance for the limits of the management case, whereby the minimum liquidity surplus is measured for multiple periods under consideration. Up to 4 escalation levels are determined for each period under consideration. The planning case is not limited.

The bank-specific stress scenarios comprise a market stress test that examines the effects of market distortions on the DKB Group's liquidity situation and also takes into account the market liquidity risk as well as the Infrastructure customers stress and the Retail Customers stress. In both cases, fund outflows are assumed for these customer groups. In the context of combined stress scenarios, the simultaneous occurrence of bank-specific and market-related events are analysed.

MaRisk BTR 3.2 specifies the time horizon of one week and one month for which assets that can be liquidated are to be held. The liquidity coverage potential is determined in the same way. It must be able to be liquidated within one week (LDP0) or one month (LDP1). In order to define the escalation level, the minimum liquidity leeway based on LDP0 and/or LDP1 is determined for both time horizons. The liquidity leeway is defined by how far the liquidity surplus is from the relevant applicable limit. In addition, the time-to-wall, i. e. the earliest time at which the respective liquidity coverage potential is not adequate to meet the net payment obligations of the scenario, is determined with reference to LDP0 and LDP1.

The minimum liquidity leeway in the respective horizon under consideration is crucial for allocation to an escalation level. Besides these quantitative criteria, each member of the emergency committee can also declare a higher liquidity status, e. g. if a changed market environment justifies this in the view of the member. In order to manage the quantitative requirements of the Liquidity Coverage Ratio (LCR) and the Liquidity Regulation (LiqV), the DKB Group has put in place a limit system with escalation levels that, depending on the liquidity trend forecast for the next reference date and the thresholds determined for the liquidity position, are linked to recommendations for action and responsibilities, and which are reported on to the Board of Management on a monthly basis. The Reporting unit in the Finances division is responsible for monitoring the escalation model for regulatory liquidity management (LCR and LiqV).

Refinancing

The framework conditions for refinancing are set out in the DKB Funding Policy and the DKB Refinancing Strategy. They are in line with the corresponding guidelines at BayernLB. The impacts of the business strategy on the refinancing components and the future funding requirements are presented in the funding plan. This is based on DKB's multi-year plan and is prepared annually by the Treasury division.

DKB refinances itself primarily from customer deposits, the development banking business and the issue of Pfandbriefs. Customer deposits represent more than half of the refinancing base and, due to the high number of customers, in particular in the Retail Customers and Infrastructure segments, are very granular. After strong growth in previous years, an additional EUR 4.4 billion was generated in 2016. The total volume of customer deposits now amounts to EUR 53.0 billion (31 December 2015: EUR 48.6 billion). This allowed DKB's fundamental strategy, of refinancing the net new business in the area of customer loans with customer deposits, to be successfully implemented once more. The high proportion of deposit business makes DKB significantly less sensitive to disruptions on the money and capital markets.

In addition to customer deposits, the development business represents another important pillar of refinancing. In 2016, new programme loans with a volume of EUR 2.8 billion (31 December 2015: EUR 2.2 billion) were agreed. The total portfolio of pass-through and global loans amounted to around EUR 13.2 billion at the end of 2016 (31 December 2015: EUR 13.1 billion).

In order to increase the medium- and long-term refinancing funds, DKB issues public sector Pfandbriefs and mortgage Pfandbriefs in the benchmark and/or private placement format. To this end, Pfandbriefs in a volume of EUR 90 million were placed in the reporting year. In addition, DKB's first unsecured bond was successfully placed on the market with a volume of EUR 500 million in the form of a Green Bond. The secured and now also unsecured capital market issues have a diversifying effect on the refinancing structure and underline the Bank's access to the capital market at all times. The comparatively low volume of Pfandbrief issues is a consequence of the high growth in customer deposits and the previously mentioned issue of the Green Bond. The rating agency, Moody's, rates our public sector Pfandbriefs and mortgage Pfandbriefs at "Aaa" and DKB's unsecured bonds at "A3".

As part of the Bank's short-term refinancing and liquidity management, the interbank market is used if required. In 2016, mainly collateralised transactions (repos) were carried out. Due to DKB's refinancing structure, the share of interbank refinancing is, however, low in accordance with DKB's strategy.

In addition to the aforementioned refinancing sources, the ECB's pledged securities account is available for short-term liquidity management. With an unused credit line of EUR 9.6 billion at the end of 2016, this represents a significant liquidity buffer.

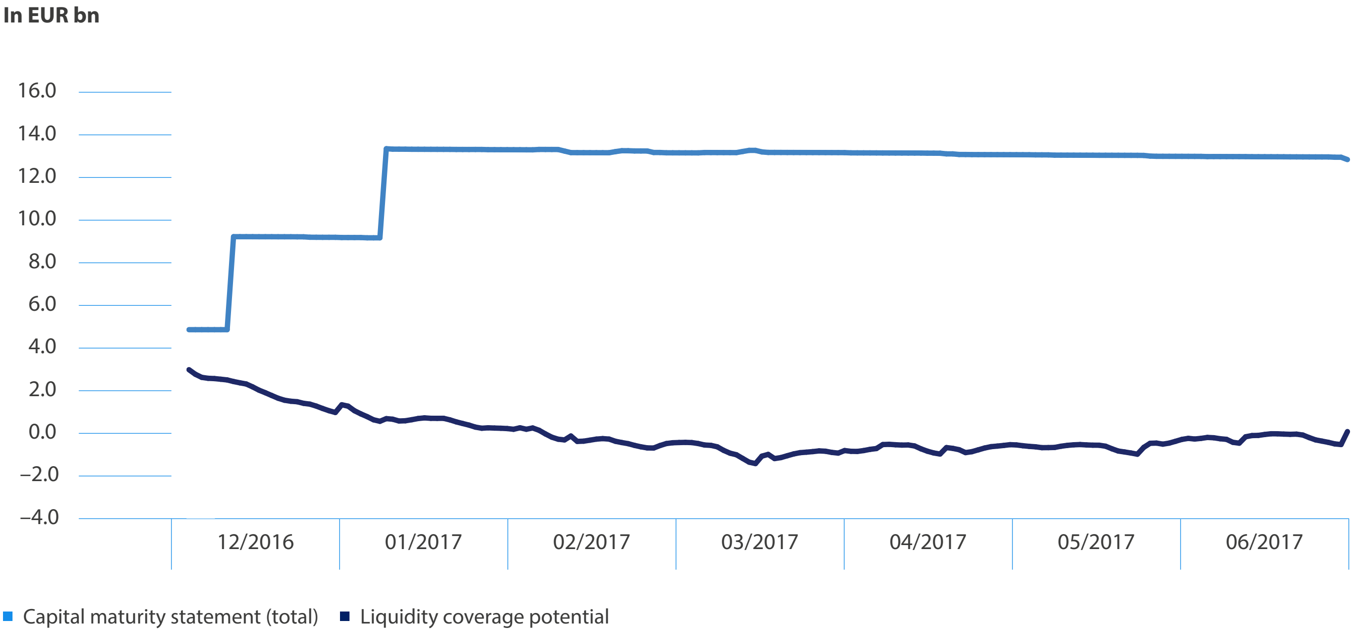
The liquidity holdings of securities increased by EUR 5.0 billion to EUR 5.5 billion over the course of the year. As a component of the liquidity coverage potential, it contributes to increasing the risk resistance in unexpected stress situations.

During the reporting year, the DKB Group was able to meet all its liabilities by the due dates.

Development of the risk situation

Due to the refinancing strategy chosen, the greatest risk is a massive, short-term outflow of customer deposits. In addition, there is the risk of having to cover existing future liquidity bottlenecks at higher refinancing costs.

DKB's liquidity overview as at 31 December 2016 has the following structure in the management case for the next 180 days:



The strategic liquidity management is carried out with the help of a weekly rolling liquidity forecast. The liquidity coverage potential covers the liquidity gaps in the capital maturity statement at all times. The balance arising from the capital maturity statement and the liquidity coverage potential is called the liquidity surplus. With the currently prevailing limit system, the lowest liquidity surplus as at the reporting date is EUR 7.4 billion within the next 180 days. DKB thus has sufficient liquidity.

In addition, for several stress scenarios the DKB Group takes into account the additional observation period of one week and one month for capital market-oriented institutions in accordance with BTR 3.2 MaRisk. In addition to the effects of a market liquidity crisis, the rapid outflow of funds in the important Retail Customers and Infrastructure segments as well as combinations of individual stress events are considered in other scenarios. The minimum liquidity surplus for an observation period of one week in the worst-case scenario (combination of market and retail customer stress) is EUR 6.0 billion, while for an observation period of one month it is EUR 7.4 billion.

The regulatory key figures in accordance with LiqV and LCR were complied with throughout 2016. The key figure in accordance with LiqV amounted to 3.31 (31 December 2015: 2.88). As at 31 December 2016, LCR amounted to 167 % (31 December 2015: 119%) and is therefore significantly above the 70% required by the regulator.

Operational risks

Risk management and monitoring

The management and monitoring of operational risk is carried out centrally by the Risk Office as well as locally in the individual customer service units and centralised units. The Risk Office is in principle responsible for the management of operational risks.

In the management of operational risks, the focus is on the early identification of these risks in order to minimise as far as possible, by means of targeted measures, the losses from operational risks that may have a significantly negative impact on the Bank's business success.

The DKB Group uses various instruments and methods to record, measure, analyse and assess the risk situation.

Recording loss data allows loss events to be identified, analysed and assessed so that patterns, trends and concentrations of operational risks can be identified. Based on a defined loss reporting process, loss events with a booked and/or estimated gross amount starting at EUR 500 are reported by DKB's organisational units to the Risk Office and recorded in the OpRisk database. Likewise, any amounts exceeding project budgets by at least 20 % as well as legal disputes with a probability of success below 50 % must be reported. The subsidiaries DKB Service GmbH, DKB Finance GmbH, DKB Grund GmbH and DKB WSE GmbH are also included in the reporting system for recording losses. In addition, all subsidiaries must report losses to DKB on an ad hoc basis. This ad hoc reporting obligation is applicable throughout the Group.

Depending on the significance of the losses incurred, measures to avoid, reduce or transfer the risk are initiated, taking cost/benefit aspects into account, or a deliberate decision to accept the risk is made. When determining a management measure, a schedule to implement the measure is prepared and the implementation is monitored by the Risk Office.

Threat analyses are used by the Compliance division to determine money laundering risks and risks from fraudulent actions. This division develops suitable prevention measures for the risks identified.

During the annual OpRisk scenario analysis, rare but realistic and potentially serious operational risks are determined and assessed under the coordination of the Risk Office and the various organisational units of the Bank. The scenarios quantified for the DKB Group do not overlap in terms of content and provide a realistic estimate of the potential operational risk.

As a supplement to loss data collection and the OpRisk scenario analysis, key risk indicators make it possible to make early statements regarding trends and accumulations in the development of risk and allow weaknesses to be identified at an early stage in the business processes so that measures can be taken without delay. The key risk indicators defined in the DKB Group relate to the topic areas of Internet fraud, for example by phishing and pharming, credit card and credit fraud, IT risks, processing errors/process weaknesses, product faults and legal risks.

In addition, the Bank has instituted a decentralised quality management process to avoid losses from process weaknesses in the market areas. At the same time, the central Processes division is responsible for the organisation, optimisation and management of Bank-wide work processes in cooperation with the affected organisational units of the Bank.

When determining legal risks arising due to or in connection with charges filed against the Bank (passive processes), the Legal unit assesses the risk parameters with respect to their probability of occurrence as well as any potential effects in terms of quantity and quality. The legal risks identified are limited and mitigated by means of legal and/or process measures or taken into account by means of provisions or equivalent risk provisions.

DKB takes comprehensive preventive measures to guarantee the security of data and applications as well as to maintain ongoing operations. The Bank has implemented an IT risk management process to identify and deal with IT risks. The IT objectives and strategic approaches are operationalised by means of specific and measurable measures. The success of the measures implemented is reviewed by means of Key Performance Indicators (KPI's). The management and monitoring of IT/information security is carried out as part of the information security management system (ISMS) by the Information Security Officer in the Data Privacy and Security unit.

In addition, the Bank manages its risk of operational business continuity in dealing with emergency cases and crises via the Business Continuity Management Strategy (BCM strategy), which prescribes core processes and measures to continue and restore business operations. In addition to the BCM strategy, the Bank has an emergency concept that contains information on the organisation of the crisis team as well as on emergency management. Furthermore, examples of crisis scenarios as well as emergency plans form part of the emergency concept. The BCM strategy and the emergency concept are regularly reviewed and kept up to date. The crisis team is deployed for an indefinite period and comprises the Heads of Corporate Development, Mid Office, Compliance, a representative from the branches as well as two managing directors of DKB Service GmbH. The Chief Operating Officer (COO) of the Bank is responsible for the BCM.

The results of all the aforementioned methods and procedures are included in the calculation of an appropriate capital requirement for potential losses arising from operational risks. To this end, the calculation is based on the requirements stipulated in the CRR for the standard approach. The DKB Group holds sufficient funds to cover the operational risks. The limits for the risk capital are calculated as part of the annual risk capital allocation process (ICAAP).

From the reports made to it, the Board of Management receives an overview of the level of losses incurred, observed accumulations as well as the development of OpRisk-relevant indicators on an ongoing basis, ensuring timely and effective management of the operational risks. In addition, the DKB Group is included in the Group-wide risk management system and therefore in the reporting process of the BayernLB Group. Accordingly, if defined reporting limits have been exceeded, losses are reported to BayernLB on a regular or ad hoc basis.

Development of the risk situation

The risk profile is characterised by the Internet-based processes in the Retail Customers segment. In the first instance, operational risks exist in terms of system availability for seamless settlement of all transactions, crashing of the Bank's Internet portal due to external influences, the security of data from unauthorised access, account opening or credit fraud with falsified documents and fraud with electronic payment means. In addition, operational risks in the recent past were strongly influenced by consumer law decisions in the Retail Customers segment which resulted, inter alia, in increased legal risks.

The losses incurred in 2016 due to operational risks, after implementation of measures to reduce losses, increased slightly compared to the previous year and, as at the reporting date, amounted to around EUR 24.9 million (31 December 2015: EUR 23.8 million). This increase in OpRisk losses is primarily due to decisions relating to consumer rights regarding the handling of incorrect cancellation policies.

The same volume of losses in operational risks is assumed for 2017. On the one hand, higher legal risks due to changing case law relating to consumer protection is expected. On the other, due to the steadily increasing number of customers, there is an inherent risk of e. g. losses in connection with credit card fraud. Furthermore, due to the increased digitalisation of processes, there is a higher potential IT risk. The DKB Group attempts to minimise these risks by implementing appropriate prevention measures.

Internal control system in relation to the accounting process

Objectives and organisation

As the legal representative of DKB AG, the Board as a whole is, pursuant to Section 264 HGB in conjunction with Section 242 HGB, responsible for preparing the annual financial statements and management report of DKB AG and, pursuant to Section 290 HGB, the consolidated financial statements and consolidated management report of the DKB Group. The Board as a whole bears responsibility for the structure, i.e. the design, implementation, maintenance and monitoring of an appropriate and effective internal control and risk management system with respect to the accounting process. On the recommendation of the Chief Financial Officer, the Board as a whole decides on all the strategies and significant issues in this regard.

An internal control and risk management system relevant for the accounting process, however, cannot give absolute certainty as to whether the related objectives will be achieved. As with all discretionary decisions, those relating to the establishment of appropriate systems may, in principle, be flawed due to errors, misconceptions, changes in environmental variables or unlawful circumventions. Due to these limits, incorrect statements in the financial statements may not be discovered or prevented with absolute certainty.

The internal control and risk management system with respect to the accounting process reflects the organisational structures and workflows. Whilst the management accounting is decentralised with respect to the recording of business transactions, the bookings relating to the annual financial statements and the preparation of the financial statements and consolidated financial statements are exclusively the responsibility of the Finance division. With respect to the organisational structure, there is a clear separation of the activities relating to execution, booking and administration. Furthermore, there are clear responsibility structures, function allocations and separations of the divisions and employees involved in the accounting process. The measures for the organisational structure comprise the regulations internal to DKB as well as subsidiaries. The supervisory committees of the major Group companies largely have the same members which ensures uniform management.

Besides largely standardised processes and software, adequate instructions for core activities and processes are set out in the organisational structure. In addition, the "two pairs of eyes" principle is obligatory for large business transactions. Compliance rules are also defined, according to which certain relevant information is only provided to employees that require such information for their work.

The Finance division is responsible for the proper execution of accounting as well as the establishment and effectiveness of the accounting process. The major tasks in this respect include the preparation of the financial statements and consolidated financial statements as well as the management report and consolidated management report, the development of accounting policies as well as the initiation of projects relating to the accounting processes. The Finance division is also responsible for implementing the relevant accounting standards and the legal accounting requirements as embodied in the accounting directives. These directives, which are an important component of the accounting-based internal control system, consist of the (Group) accounting manual, standing and work instructions, team manuals as well as specialised and product concepts. The annual financial statements and consolidated financial statements and the management and consolidated management report prepared on the basis of the accounting directives are prepared by the Board as a whole, audited by the auditor and submitted to the Supervisory Board for adoption and approval. The Supervisory Board has formed an Audit Committee that is responsible for discussing the audit reports, making preparations for the Supervisory Board's decision to adopt or approve the annual financial statements or consolidated financial statements and the management report or consolidated management report. In addition, the Audit Committee is responsible for monitoring the accounting process as well as the effectiveness of the internal control, audit and risk management system. The auditor participates in the Supervisory Board's accounts review meeting and reports on the significant results of the audit, in particular material weaknesses in the internal control and risk management system in relation to the accounting process.

The Audit division audits the business operations of DKB AG and reports to the chairman of the Board of Management. The audit activity is based on a risk-oriented audit approach and comprises all the activities and processes of DKB AG, including the outsourced activities. It includes a review of the effectiveness and appropriateness of the internal control system and risk management. Internal Audit carries out its task independently of the activities, processes and functions to be audited, taking into account the relevant applicable legal and regulatory requirements (e. g. KWG, MaRisk). In order to be able to carry out its duties, Internal Audit has a full and unrestricted right to information on activities, processes and the IT systems.

The Compliance division directly linked to the Chief Financial Officer is responsible for monitoring adherence to compliance-related legal and regulatory requirements.

Control environment and control procedures

The internal control and risk management system is based on regulations set out in writing. With respect to the accounting-related internal control system, these regulations are set out in accounting directives and bank-specific work instructions. A key component of these directives is the (Group) accounting manual that contains significant requirements for uniform accounting and measurement procedures at DKB based on HGB and IFRS regulations as well as, for consolidated accounting, the Group requirements stipulated by BayernLB. In addition, the Bank has standing and work instructions, team manuals and specialised and product concepts that contain binding requirements on accounting-related topics and processes.

In addition, with respect to risk management, there are rules for handling the significant risks at the level of DKB that, in particular, are derived from the "Group Risk Guidelines" applicable throughout the Group. These regulations document the risk management and controlling processes that include early identification, full recording and appropriate representation of the risks significant for DKB.

All the risk management regulations and rules relevant to the accounting-related internal control system are reviewed and updated on a regular basis.

DKB has implemented a number of controls to ensure complete and correct processing of its business transactions, including proper booking, data input and documentation. In particular, these include clear separation of functions, a differentiated access and authorisation concept, ongoing controls in terms of the workflow, taking into account the "two pairs of eyes" principle as well system-based controls within the IT systems employed. As part of the internal controls, the focus is mainly on coordinating the general and subsidiary ledgers, monitoring manual bookings as well as executing booking runs. This process is supplemented by additional controls and coordination to ensure appropriate transfer of the data between various IT systems. In the course of preparing the financial statements, the technically correct recognition of the underlying facts is checked by means of the "two pairs of eyes" principle, and quality assurance measures with respect to the data and information included in the annual financial statements and consolidated financial statements and in the management report and consolidated management report are carried out. The data of the Group companies included in the consolidated financial statements is reported in a uniform, standardised schedule of items using consolidation software implemented throughout the Group. The approval of the audited subsidiaries' figures by the appointed auditors is also carried out in the consolidation software.

DKB's accounting process is subject to regular controls with respect to inherent risks in order to be able to initiate relevant measures for the further development of the internal control system.

DKB has outsourced part of its services, mainly IT services, services relating to securities settlements and the credit card business to external companies. Inclusion of the outsourced areas in the internal control system of DKB is largely ensured by the Outsourcing Officer responsible for the continuous monitoring of the respective external service providers. Besides the internal audit departments of the outsourced companies, the outsourcing measures are audited by the Internal Audit unit of DKB AG at regular intervals.

Opportunities report

Opportunities profile and opportunities management

We regard opportunities as being positive deviations from our plans in terms of strategy and market development. Strategic opportunities for the company arise in connection with the implementation of measures initiated in line with our strategy. The effects realised via these measures can be more extensive or occur sooner than expected in our planning.

Market opportunities arise with market developments that occur more strongly than expected in favour of DKB irrespective of strategic decisions. These can arise due to regulatory amendments, particularly favourable developments on the (financial) markets or from positive business trends that arise at short notice.

Management of opportunities linked to company management

Pursuing opportunities is directly included in the strategic corporate plan. In the context of its forward-looking management, the Board of Management and the corporate units directly allocated to it analyse, at regular intervals throughout the year, the short, medium and long-term market developments, identify trends and, based on the facts, draw up possible development scenarios.

An important factor for deciding which resources will be made available for the utilisation of additional potential in the various segments is their expected effect on results and their probability of occurrence.

We continuously adapt our assessment of the opportunities by continuously observing the markets and trends as well as through established feedback processes. This allows us to respond quickly to developments, even those that arise at short notice.

Current opportunities situation

The **macroeconomic circumstances** may develop better than expected: low interest rates and greater trust from consumers and market participants could result in a significant upturn. In the Retail Customers segment, rising consumer trust could result in increased demand for consumer credit and an increase in the achievable margins in the Retail Customers segment. A broad-based upturn would stimulate companies' investment activities and create a corresponding demand for loans in the Infrastructure and Corporate Customers segments. At DKB this could lead to an unexpectedly sharp increase in interest income.

The **money and capital market environment** could develop more advantageously than assumed. The ECB's withdrawal (already started) from the purchase programmes could result in a rise in the interest rate curve in capital market interest rates, with the ECB raising the short term base interest rate more slowly in comparison. Assuming a constant demand for loans, this configuration could result in higher margins for long-term loans with the costs for the more short-term refinancing products increasing less rapidly in comparison. This would result in an increase in net interest income for DKB.

Should the interest rate curve become steeper and simultaneously, given a significant increase in the oil price, should inflation increase, this could result in companies expanding their investment activities and generating an increased demand for loans in the Infrastructure and Corporate Customers segments. This could result in an increase in income from the credit business.

Due to the continuing uneven economic development in Europe and the volatile performance of commodity prices, the probability of occurrence for the aforementioned three opportunities scenarios is regarded as rather low. However, should they occur, DKB will be in a position to take advantage of them.

The trend of competitors **introducing account management fees** could develop more strongly than expected. This would result in a sharp increase in the number of people switching their accounts from traditional branch banking to online banking. Given the above, the number of new customers in the Retail Customers segment could develop particularly favourably.

In the course of the **increasing sustainable focus of market participants**, investor interest in sustainable financial offers could increase sharply. Based on DKB's excellent reputation in this field, which was further boosted by the issue of its first Green Bond, the demand for DKB's services could grow to a greater extent than expected.

We plan to draw efficiency gains from the continuing digitalisation of processes within DKB in the medium term. These could occur earlier than expected, in particular in the digitalisation of the credit process which simplifies the work processes and frees up capacities for other activities. This could have either a positive or dampening effect on DKB's administrative expense.

In addition, there could be an unexpected short-term **boost from the regulatory environment**: New funding programmes initiated or initiatives implemented by the federal states, federal government or the EU could significantly increase the demand for financing for individual customer groups at DKB. Pending regulatory changes, such as the introduction of a leverage ratio, could result in lower equity than planned.

Forecast

Expected developments in the business environment

German economy continues to boom

Even though the macroeconomic upward movement was temporarily weaker in the second half of 2016, the German economy is experiencing a solid upturn. A significant pillar remains domestic demand, which benefits from a favourable labour market situation and rising incomes for private households. In its monthly report for December, the Bundesbank states that it expects an increase in growth of 1.8 % for 2017 with a slight tendency to decrease in the following years.

Against the background of pressured production capacities, continued advantageous financing conditions and an expected increase in exports, the conditions for a significant increase in investments by companies are good. The employment situation is also favourable. The generally high capacity utilisation is accompanied by rising bottlenecks on the labour market which may result in growth in wages. According to forecasts by the Bundesbank, the unemployment rate will continue to drop.

Price increase expected with persistently low base interest rates

After the inflation rate in 2016 was still down due to the low energy prices (0.5 %), experts at the Bundesbank expect it to rise to 1.4 % in 2017 with a rising tendency in subsequent years. The inflation rate is thus again trending in the direction of the ECB's benchmark of 2.0 %.

Whilst further interest rate increases by the Fed are possible, the ECB is expected to keep its base interest rate in the eurozone low for the foreseeable future. The European Central bank, the ECB, decided in December 2016 that the bond purchase programme running until March 2017 will be extended by nine months. The ECB will however reduce the monthly volume from EUR 80 billion to EUR 60 billion. On the whole, the programme volume amounts to EUR 2.3 trillion. At the same time, discussions regarding a tapering off of the expansive monetary policy are being held. According to the latest ECB decision, it can be assumed that the interest rates and thus the returns will continue to remain at an overall low level in 2017. During the course of the year and in the event of economic or inflationary momentum, there could be an increase in volatility with rising returns.

It remains difficult to predict the overall situation. For this reason, the following statements on the expected development of the Group are made under the proviso that the underlying political and economic conditions do not change significantly.

Expected performance of DKB

For 2017, DKB expects to continue its stable business development despite the difficult market conditions arising from a low interest rate environment and high regulatory requirements.

Group	Actual 2016	Forecast 2017
Net interest income	EUR 795 million	**Slightly above 2016** Due to our intended growth in the market segments, we plan a surplus slightly above that of 2016.
Risk provisions	EUR 129 million	**At the level of 2016** In terms of risk provisions, given the expected unchanged economic framework conditions, we expect risk provisions to remain at the level of the previous year.
Profit before taxes	EUR 331 million	**2016 level adjusted for special effects** We expect continued stable business development in our core business. Due to the removal of the one-off special effect recognised through profit and loss from the takeover of Visa Europe Limited, we expect a result lower by EUR 100 million to EUR 130 million compared to 2016.
Total assets	EUR 76.5 billion	**Slight increase compared to 2016** Due to the growth planned in our market segments, we expect a slight increase for 2017.
ROE	12.4 %	**2016 level adjusted for special effects** Due to the removal of the one-off special effect recognised through profit and loss from the execution of the takeover of Visa Europe Limited, we expect an ROE of between 7.5 and 8.5 %.
CIR	45.8 %	**2016 level adjusted for special effects** Due to the removal of the one-off special effect recognised through profit and loss from the execution of the takeover of Visa Europe Limited, we expect a CIR of between 50 and 55 %.

DKB AG	Actual 2016	Forecast 2017
Net profit before profit transfer	EUR 257 million	**2016 level adjusted for special effects** We expect continued stable business development in our core business. Taking into account the removal of the one-off special effect recognised through profit and loss from the execution of the takeover of Visa Europe Limited in 2016, as well as the voluntary addition of EUR 100 million to the reserve pursuant to Section 340g HGB to increase the regulatory capital, we expect a moderately lower result compared to 2016.

Development of our branch presence in all federal states

In the coming year, one of the operational focal points is the development of our branch presence. This will allow us to increase our customer proximity, expand our opportunities for customer service and improve the effectiveness of our sales.

In this development, we will focus on the old federal states, i. e. the regions in which we have been less strongly present. We plan to open new branches successively in, among other places, Hanover, Kassel, Kiel, Münster, Oldenburg, Paderborn and Stuttgart.

Refinancing strategy to be continued

We expect the uncertainties on the banking market as well as those on the monetary and capital market to continue in 2017. To this end, we will pay special attention to observing market developments. We will modify our interest rate and lending policy as well as our risk management processes as needed.

We will keep to our refinancing strategy: we will use customer deposits, Pfandbriefs, unsecured issues and the development banking business to secure liquidity. This will allow us to generate a solid base for the intended growth in the lending business and ensure that we will be able to reliably carry out our refinancing tasks within the BayernLB Group even in the future.

Expected developments in the segments

Segments	Actual 2016[1]	Forecast 2017
	Customers: 3.4 million	New customers: more than 250,000
	Receivables volume: EUR 12.0 billion	Receivables volume: At the level of 2016
Retail Customers	Deposit volume: EUR 26.9 billion	Deposit volume: Slightly above 2016
	Receivables volume: EUR 37.0 billion	Receivables volume: Slightly above 2016
Infrastructure	Deposit volume: EUR 17.8 billion	Deposit volume: At the level of 2016
	Receivables volume: EUR 13.7 billion	Receivables volume: Slightly above 2016
Corporate Customers	Deposit volume: EUR 4.1 billion	Deposit volume: At the level of 2016
Non-Core Business	Ongoing reduction strategy was implemented in an orderly fashion	Further implement ongoing reduction strategy in an orderly fashion

[1] Due to reclassifications between market segments in the first half of 2017, the segment figures published in the 2016 annual financial statements will be adjusted in subsequent financial statements.

Retail Customers segment: Our aim is to increase our customer base

We want to stabilise the earnings level of 2016 in the Retail Customers segment. In the lending business, we assume that we will be able to keep the receivables volume at the previous year's level. Given the current market and interest rate environment, we expect a slight increase in customer deposits. From an operational point of view, we will continue to direct our attention to intensifying our business relationship with customers.

For 2017, we aim to gain at least 250,000 new customers. With our service improvements in the second half of 2016, we have further increased the attractiveness of our offering enabling us to comfortably reach this target.

The market environment continues to be characterised by a high level of competition. In a parallel process to competition within the industry, banks must now deal intensively with the offerings provided by fintechs. On the customer side, digitalisation is accompanied by rising expectations: mobile use, customised services and a high level of customer experience are increasingly becoming standard expectations. We expect that the contactless payment technology will become more established. We are preparing for these developments by structuring our products more to customers' expectations and continuously developing our solutions further.

In 2017, we will establish the internal Individual Customers division within the Retail Customers segment. This division will combine wealthy retail customers and smaller business customers. Customers in the healing professions previously included in the Infrastructure segment and the "Freelance professions" previously included in the Corporate Customers segment will, in future, be allocated to the Individual Customers division. This inclusion will ensure more effective and better support for the relevant customers. When it comes to Individual Customers, the focus in the upcoming year will be on the development of the deposit business.

Infrastructure segment: financing requirement still high

In the Infrastructure segment, the underlying conditions for credit demand will remain favourable in 2017: we expect an unchanged high financing requirement in all the target industries as well as a high repayment willingness. Intensive support for our existing customers and existing new customer potential should provide a good basis for ensuring that we can continue our development of previous years – even if the competition in all areas remains high.

Given the continued low interest rate policy of the ECB, the housing and real estate market continues to develop dynamically. This applies in particular to the conurbations. Here, we expect increased activity in the construction of new buildings and a correspondingly high financing requirement. For the "housing" customer group, this does not however mean an alleviation of the market situation as the competitive situation with other banks and insurance companies is high in terms of lending.

In the "energy and supply" customer group we continue to see a high need for investment. With the ongoing low interest rate phase, however, it is expected that institutional investors will also invest more heavily in infrastructure measures in the future. This will increase competition. Due to the currently high repayment volumes, a decrease in the volume of receivables is not excluded for this customer area in 2017.

The "local authorities, education, research" customer group will be expanded in 2017 and will be called "local authorities and social infrastructure" from now on. In addition, there are the hospitals and inpatient nursing facilities from the former "health and care" customer group. The healing professions will migrate to the Retail Customers segment. The framework conditions in the new customer group are, in principle, positive. Local authority administrations and independent education providers have a high need for investment but face great challenges: according to a decision handed down by the Federal Supreme Court, local authorities can be held liable due to the lack of childcare facilities. This increases the pressure to create adequate capacities and is expected to result in increased lending. At the same time, local authorities remain under continuing pressure to consolidate, which restricts their investment options. For hospitals and nursing facilities, the focus is on financing replacement buildings, while here too, many customers face planning uncertainties due to the cost pressures in the health sector. The budget increases following the health and care reform should have a positive effect.

In the area of civic participations, we expect good demand up to the first half of 2017 for financing and participation in civic wind projects that can still be implemented as "transitional facilities" without an EEG (Erneuerbare-Energien-Gesetz; Renewable Energy Act) tender process.

Corporate Customers segment: Growth should continue

In the Corporate Customers segment, we expect an unchanged high financing requirement in the target industries. We expect to see growth in the business development.

In the "environmental technology" customer group, the new EEG subsidy system by means of tenders will initially provide for uncertainty on the market and limit demand. However, using the transitional regulations for wind energy facilities, numerous projects according to the old subsidy system (system of fixed remuneration rates) can still be expected for 2017 and 2018. In principle, the framework conditions for new investments in renewable energy systems remain positive. These will continue to be subsidised and the capital market situation also remains favourable.

We expect to see an increase in customer numbers in the "agriculture and food" customer group and, with it, an increase in the volume of business. The demand for agricultural land continues to be strong and raises expectations of stable business with land financing. New building projects relating to shed facilities will, in contrast, be more difficult to implement. The reasons for this lie in the critical public discussions with regard to livestock farming and tighter legal regulations.

In the "tourism" customer group, we expect positive framework conditions for tourism companies in German holiday areas. For lending in the area of tourism, we will proceed in a risk-adjusted manner and focus on supporting projects in regions with well-developed tourism and growth potential. The "freelance professions" customer group will be allocated to the Retail Customers segment in the upcoming year.

Financial Markets segment: ECB decision keeps interest rates low

We are continuing to pursue our refinancing strategy in the current financial year: in particular our focus is on medium to long-term refinancing via Pfandbriefs and unsecured bonds.

To increase the liquidity reserve, we continue to focus on a portfolio of highly liquid bonds from issuers with a high rating.

Non-Core Business segment: controlled reduction will be continued

We will continue to reduce activities no longer in line with our strategy in accordance with the approved reduction strategy in an orderly process. The success and duration of the measures will depend on the general economic developments as well as the realisability of individual customer solutions. Securities holdings not in line with our strategy will continue to be reduced on maturity or, if applicable, using market opportunities. In order to identify and avoid additional burdens from the reduction at an early stage, we will continue to observe and analyse the portfolios to be wound down on a continuous basis.

Non-financial performance indicators

We will focus intensively on maintaining the high level of our non-financial performance indicators in 2017. We want to further improve our products and services in terms of customer benefit. To this end, we encourage employee satisfaction, further education and health among our employees. Our aim is to achieve a high level of customer satisfaction so that we can maintain and develop our market shares. Our products and services should be positively assessed by external institutions. We also intend to further improve our sustainability performance in 2017.

Conclusion

On the whole, we expect stable business development in all three market segments of Retail Customers, Infrastructure and Corporate Customers.

Although we expect costs to be driven up further as a result of internal projects relating to the implementation of regulatory requirements and despite the continuing difficult interest rate situation, we expect a result around that of the previous year, adjusted for the special effect from the sale of VISA Europe Limited. At the level of DKB AG, net profit before profit transfer is expected to be moderately below the 2016 figure as the absence of the special effect from the sale of VISA Europe Limited is expected to be compensated for by fewer additions to the reserve in accordance with Section 340g HGB.

Consolidated Financial Statements

Consolidated statement of comprehensive income

for the period from 1 January 2016 to 31 December 2016

Statement of Income

In EUR m	Notes	01.01. – 31.12.2016	01.01. – 31.12.2015
Interest income		2,064.8	2,208.0[1]
Positive interest expenses		0.6	0.2
Interest expenses		–1,247.1	–1,416.0[1]
Negative interest income		–23.2	–1.8
Net interest income	(28)	795.1	790.4
Risk provisions	(29)	–128.7	–143.8
Net interest income after risk provisions		666.4	646.6
Commission earnings		329.1	322.4
Commission expenses		–322.3	–323.7
Net commission income	(30)	6.9	–1.3
Gains/losses on fair value measurement	(31)	46.2	14.0
Gains/losses on hedging transactions (hedge accounting)	(32)	–94.4	–36.2
Gains/losses on financial investments	(33)	160.8	11.2
Administrative expenses	(34)	–417.0	–376.8
Expenses from bank levies, deposit protection and banking supervision	(35)	–29.8	–23.7
Other income and expenses	(36)	–5.0	7.4
Gains/losses from restructuring	(37)	–2.9	–5.2
Profit before taxes		**331.2**	**236.0**
Income tax	(38)	–4.3	–11.0
Consolidated net income		**326.9**	**225.0**
attributable to DKB AG owners		326.9	225.0
Profit transferred to controlling interests		–256.9	–162.3
Profit brought forward		10.2	9.1
Transfer to retained earnings		–0.5	0.0
Consolidated profit		**79.7**	**71.8**

[1] Adjustment of previous year's figures to account for negative interest.

For mathematical reasons rounding differences of ± one unit may arise in the tables.

Reconcilation of comprehensive income for the period

In EUR m	01.01. – 31.12.2016	01.01. – 31.12.2015
Consolidated net income	**326.9**	**225.0**
Temporary components of other comprehensive income that are not recognised in profit or loss		
Changes in the revaluation reserve arising from AfS financial instruments	**28.6**	**0.2**
Change in measurement	45.3	9.3
Change in portfolio due to realisation of profit or loss	–17.0	–9.7
Change in deferred taxes	0.3	0.6
Changes in the revaluation reserve arising from non-current assets held for sale	**–117.0**	**117.0**
Change in measurement	12.5	117.0
Change in portfolio due to realisation of profit or loss	–129.5	–
Permanent components of other comprehensive income that are not recognised in profit or loss		
Changes from the revaluation of defined benefit pension plans	**–8.2**	**1.5**
Change in measurement	–8.2	1.5
Change in deferred taxes	0.0	0.0
Other comprehensive income	**–96.6**	**118.7**
Comprehensive income	**230.3**	**343.7**
attributable to DKB AG owners	230.3	343.7

For mathematical reasons rounding differences of ± one unit may arise in the tables.

Consolidated balance sheet

as at 31 December 2016

Assets

In EUR m	Notes	31.12.2016	31.12.2015
Cash reserves	(7/39)	1,428.6	719.9
Loans and advances to banks	(8/40)	5,365.5	4,864.6
Loans and advances to customers	(8/41)	63,228.3	61,582.1
Risk provisions	(9/42)	–448.8	–429.5
Portfolio hedge adjustment attributable to assets	(10/43)	831.4	1,145.6
Assets held for trading	(11/44)	4.3	4.2
Positive market values from derivative financial instruments (hedge accounting)	(12/45)	–	6.9
Financial investments	(13/46)	5,880.1	5,324.7
Property, plant and equipment	(15)	44.9	46.6
Intangible assets	(16)	5.4	5.6
Actual income tax assets	(26/47)	0.2	11.7
Deferred income tax assets	(26/47)	–	–
Non-current assets held for sale	(18/48)	–	117.0
Other assets	(17)	182.4	29.4
Total assets		**76,522.3**	**73,428.8**

For mathematical reasons rounding differences of ± one unit may arise in the tables.

Liabilities

In EUR m	Notes	31.12.2016	31.12.2015
Bank loans and overdrafts	(19/49)	14,510.0	15,787.2
Liabilities to customers	(19/50)	53,438.0	48,558.2
Securitised liabilities	(19/51)	4,459.0	4,098.9
Liabilities held for trading	(20/52)	53.4	55.4
Negative market values from derivative financial instruments (hedge accounting)	(21/53)	119.2	1,267.5
Provisions	(22/54)	143.3	121.3
Actual income tax liabilities	(26/55)	0.4	10.3
Deferred income tax liabilities	(26/55)	0.5	0.8
Other liabilities	(23/56)	372.6	263.9
Subordinate capital	(24/57)	406.8	319.6
Equity	(58)	3,019.1	2,945.7
Equity without non-controlling interests		3,019.1	2,945.7
Subscribed capital		339.3	339.3
Capital reserve		1,414.4	1,314.4
Retained earnings		1,024.0	970.1
Revaluation reserve		161.7	250.1
Consolidated profit		79.7	71.8
Non-controlling interests		–	–
Total liabilities		**76,522.3**	**73,428.8**

For mathematical reasons rounding differences of ± one unit may arise in the tables.

Consolidated statement of changes in equity

In EUR m	Subscribed capital	Hybrid capital	Capital reserve	Retained earnings	Revaluation reserve	Consolidated net profit/loss	Equity before non-controlling interests	Non-controlling interests	Total equity
As at 01.01.2015	**339.3**	**0.0**	**1,314.4**	**1,010.1**	**132.9**	**–32.4**	**2,764.3**	**0.0**	**2,764.3**
Changes in the revaluation reserve arising from AfS financial instruments					0.2		0.2		0.2
Changes in the revaluation reserve arising from non-current assets held for sale					117.0		117.0		117.0
Changes from the revaluation of defined benefit pension plans				1.5			1.5		1.5
Other comprehensive income	**0.0**	**0.0**	**0.0**	**1.5**	**117.2**	**0.0**	**118.7**	**0.0**	**118.7**
Consolidated net income						225.0	225.0		225.0
Total consolidated comprehensive income	**0.0**	**0.0**	**0.0**	**1.5**	**117.2**	**225.0**	**343.7**	**0.0**	**343.7**
Capital increases/capital reductions							0.0		0.0
Changes in the group of consolidated companies and other changes							0.0		0.0
Transfers into/removals from reserves				–41.5		41.5	0.0		0.0
Profit transferred						–162.3	–162.3		–162.3
Distribution							0.0		0.0
As at 31.12.2015	**339.3**	**0.0**	**1,314.4**	**970.1**	**250.1**	**71.8**	**2,945.7**	**0.0**	**2,945.7**
Changes in the revaluation reserve arising from AfS financial instruments					28.6		28.6		28.6
Changes in the revaluation reserve arising from non-current assets held for sale					–117.0		–117.0		–117.0
Changes from the revaluation of defined benefit pension plans				–8.2			–8.2		–8.2
Other comprehensive income	**0.0**	**0.0**	**0.0**	**–8.2**	**–88.4**	**0.0**	**–96.6**	**0.0**	**–96.6**
Consolidated net income						326.9	326.9		326.9
Total consolidated comprehensive income	**0.0**	**0.0**	**0.0**	**–8.2**	**–88.4**	**326.9**	**230.3**	**0.0**	**230.3**
Capital increases/capital reductions			100.0				100.0		100.0
Changes in the group of consolidated companies and other changes							0.0		0.0
Transfers into/removals from reserves				62.1		–62.1	0.0		0.0
Profit transferred						–256.9	–256.9		–256.9
Distribution							0.0		0.0
As at 31.12.2016	**339.3**	**0.0**	**1,414.4**	**1,024.0**	**161.7**	**79.7**	**3,019.1**	**0.0**	**3,019.1**

Consolidated cash flow statement

In EUR m	2016	2015
Consolidated annual result	**326.9**	**225.0**
Non-cash items included in the annual result and reconciliation to cash flow from operating activity		
Depreciation, allowances and attributions on/to receivables, property, plant and equipment and financial investments	136.8	137.9
Changes to provisions	23.3	36.1
Changes to other non-cash items	170.4	185.3
Result from the sale of financial investments and property, plant and equipment	–131.9	0.2
Other adjustments (on balance)	–792.6	–790.1
Subtotal	**–267.1**	**–205.6**
Change in assets and liabilities from operating activity after correction for non-cash components		
Loans and advances to banks	–509.2	696.7
Loans and advances to customers	–1,761.3	–2,123.0
Securities (insofar as these are not financial investments)	–480.1	–815.3
Other assets from operating activity	–86.8	20.9
Bank loans and overdrafts	–1,255.9	207.1
Liabilities to customers	4,875.7	1,245.4
Securitised liabilities	358.6	949.3
Other liabilities from operating activity	–1,088.6	–280.9
Interest and dividends received	2,078.5	2,222.6
Interest paid	–1,278.7	–1,398.1
Income tax payments	–2.5	–0.4
Cash flow from operating activity	**582.6**	**518.7**

In EUR m	2016	2015
Payments received from the sale of financial investments	105.5	16.0
Payments received from the sale of property, plant and equipment	0.1	0.6
Payments made for the acquisition of financial investments	–	–3.0
Payments made for the acquisition of property, plant and equipment	–5.0	–5.5
Effects from the change in the group of consolidated companies		
Payments received from the sale of subsidiaries and other business units	–	–
Payments made for the acquisition of subsidiaries and other business units	–	–
Change in cash from other investment activity (on balance)	–	–
Cash flow from investment activity	**100.6**	**8.1**
Payments received from contributions to equity	100.0	–
Payments made for reductions in equity	–	–
Payments made to shareholders and non-controlling interests	–159.6	–200.4
Change in cash from other capital (on balance)	85.1	–263.6
Cash flow from financing activity	**25.5**	**–464.0**
Cash and cash equivalents as at the end of the previous period	**719.9**	**657.1**
Cash flow from operating activity	582.6	518.7
Cash flow from investment activity	100.6	8.1
Cash flow from financing activity	25.5	–464.0
Effects of exchange rate changes, valuation changes and changes in the group of consolidated companies	–	–
Cash and cash equivalents as at the end of the period	**1,428.6**	**719,9**

Explanation of the cash flow statement:

The cash flow statement presents the development and composition of the cash and cash equivalents for the financial year, and is divided into the sections "Operating activity", "Investment activity" and "Financing activity".

The cash flow from operating activity is presented based on the consolidated net income prior to contractual profit transfer using the indirect method. Here payment flows from receivables and liabilities vis-à-vis banks and customers, securities held for trading, securitised liabilities and other assets and liabilities are shown. Interest and dividend payments resulting from operating activity are likewise included.

The cash flow from investment activity encompasses the payment processes for the investments and securities portfolio as well as property, plant and equipment

The cash flow from financing activity essentially shows the change in subordinate capital and payments to the shareholders.

The cash and cash equivalents disclosed correspond to the balance sheet item cash reserves and thus encompass the cash-in-hand and bank balances with central banks.

As at 21 June 2016, the shares in Visa Europe Limited were sold to Visa Inc. The cash part of the purchase price payment (EUR 105.4 million) resulting from the sale is disclosed as a payment received from the sale of financial investments in cash flow from investment activity.

Notes

Explanations regarding the consolidated financial statements

General accounting and measurement methods

Specific accounting and measurement methods

Notes on financial instruments

Notes on the risk situation

Other notes

Explanations regarding the consolidated financial statements

The consolidated financial statements of the Deutsche Kreditbank AG (DKB), headquartered in Berlin (District Court of Berlin-Charlottenburg, commercial register number: HRB 34165), were prepared in compliance with section 315a(1) German Commercial Code (Handelsgesetzblatt; HGB) and EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 as well as other ordinances on the adoption of specific international accounting standards on the basis of the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standard Board (IASB). Along with the standards designated as IFRS, the IFRS also encompass the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). These consolidated financial statements are based on the IFRS as applicable in the EU.

All mandatory standards and interpretations were taken into consideration, where relevant to the DKB Group.

The consolidated financial statements include the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes including segment reporting. The reporting currency is the euro. The consolidated management report is printed in a separate section of the annual report. Likewise, most of the risk reporting is presented as a component of the risk report in the consolidated management report. Further details on the risk situation according to IFRS 7 are provided in Note 64 "Risks from financial instruments".

All amounts are shown in millions of euro (EUR m) unless otherwise indicated. For mathematical reasons rounding differences may arise in the tables.

General accounting and measurement methods

(1) Principles of group accounting

The consolidated financial statements were prepared under the assumption that this is a going concern. Income and expenses are accrued and recognised through profit or loss for the period to which they relate.

Accounting in the DKB Group is performed according to standard Group accounting and measurement methods.

The consolidated financial statements contain values, which we have determined using estimates and assumptions, as permitted. The estimates and assumptions used are based on historical experience and other factors, such as expectations with respect to future events. The estimates and assessments themselves as well as the underlying assessment factors and estimate methods are regularly examined and compared against the actually occurring events. In our view, the parameters used are appropriate. Estimation uncertainties result, inter alia, during the determination of provisions, of risk provisions in the lending business, of deferred tax assets and during the fair value determination of financial instruments.

When determining provisions, estimation uncertainties exist with respect to the settlement amount and the likelihood of occurrence.

For financial instruments measured at amortised acquisition costs, the Group publishes the fair value. In principle, there is little to no trading activity for these financial instruments, which is why significant estimates by management are required to determine the fair value.

Financial assets, liabilities and derivative hedging instruments are classified and measured in accordance with the principles of IAS 32, IAS 39 and IFRS 13.

Assets are accounted for when it is probable that an economic benefit will flow to the company in the future and when the acquisition and manufacturing costs or another value can be reliably determined.

Liabilities are accounted for when it is probable that an outflow of resources embodying economic benefit will result from their settlement, and when the settlement amount can be reliably determined.

IFRS applied for the first time
In the financial year 2016, the following new or changed standards/interpretations were to be applied for the first time:

– With the changes to **IAS 1 "Notes"**, the stipulations that notes are only required if their content is not insignificant were clarified. This applies explicitly even where an IFRS demands a list of minimum notes. In addition, explanations on the aggregation and disaggregation of items in the balance sheet and in the statement of comprehensive income are included. Furthermore, it is clarified how shares in other income and expenses of at-equity companies are to be presented in the statement of comprehensive income. Finally, a sample structure for the notes is being removed to give greater consideration to issues of individual company relevance. The changes have little impact on the DKB Group.

– Changes to four standards were made as part of the annual improvements to the IFRS/IAS. The aim of the adjustments to formulations in the individual IFRS/IAS is to bring about clarity with regard to the existing regulations. The following standards are affected: IFRS 5, IFRS 7, IAS 19 and IAS 34. The changes have no impact on the DKB Group.

IFRS to be applied in the future
The following new standards have been adopted into European law by the EU Commission but will not be mandatory until future financial years; the DKB Group is not planning on applying them any earlier than required.

– **IFRS 9 "Financial Instruments":** In July 2014, the IASB completed its project to replace the existing standard IAS 39 "Financial Instruments: Recognition and Measurement" with the publication of the final version of IFRS 9 "Financial Instruments". The new standard was adopted into EU law in November 2016 and comes into effect for financial years starting on or after 1 January 2018.

IFRS 9 contains new provisions for the classification and measurement of financial instruments as well as new regulations for the recognition of impairments of financial assets and for the accounting of hedging relationships (hedge accounting). A reliable quantification of the impact of IFRS 9 is not possible, given the current implementation status in the systems of the Bank, the current continuing uncertainties and the different possibilities with respect to the interpretation of certain provisions as well as the as yet unknown future portfolio composition and the general economic environment.

The classification and measurement of financial assets is, according to IFRS 9, dependent, on the one hand, on the business model, in which the financial asset is held (business model criterion), and, on the other, on the properties of the contractual payment flows of the respective financial instrument (payment flow criterion). The business model is stipulated depending on the objective adopted by management as to how classes of financial assets are to be managed together. Within the framework of the analysis of the payment flow criterion, it must be examined whether the respective financial instrument only displays payment flows of a typical loan agreement. On first recognition, a financial asset is classified as either a "financial asset measured at fair value through profit or loss", a "financial asset measured at amortised cost" or a "financial asset measured at fair value through other comprehensive income". The classification of a financial asset serves as a measure of value for its subsequent measurement. On the basis of preliminary analyses, the DKB Group is assuming that the new regulations for classifying and measuring will have only minor consequences for the consolidated financial statements of DKB.

IFRS 9 furthermore provides for a new impairment model, which is based on the expected loan defaults. In addition to the financial assets not measured at fair value through profit or loss, the scope of application of the new impairment model also extends to certain credit commitments and financial guarantees. When applying impairment provisions, entities must apply either the general method, the simplified method or the method for financial assets that were already impaired on acquisition or when the loan was extended. According to the general method, an allowance is to be formed on every financial statement reporting day, either in the amount of the loan defaults whose occurrence is expected in the next twelve months, or in the amount of the loan defaults to be expected over the entire term. This depends on whether a significant increase in the credit risk has occurred since first recognition. The simplified method can be applied for trade accounts receivable, contract assets and receivables from leases. In these cases, the allowance is formed on the basis of the loan defaults expected over the entire term immediately as of the time the loan is extended. For financial assets, that are already impaired on acquisition or when extended, the accumulated changes in the loan defaults expected over the entire term are to be recognised. With the expanded consideration of the loan defaults expected over the entire term, the DKB Group is assuming greater consequences from the risk provision, which is to be determined in the future in accordance with the provisions of IFRS 9, on the results of operations.

IFRS 9 also contains new regulations with respect to hedge accounting. The aim here primarily is to create a closer interlinking between accounting and the risk management activities of a company. However, in the regulations of IFRS 9, the provisions on macro hedge accounting were excluded. For this reason, IFRS 9 contains options for the further use of the regulations, on the one hand, for the accounting of all hedging relationships according to IAS 39 and, on the other, for the presentation of portfolio fair value hedge strategies according to IAS 39. The DKB Group will use the option to continue to account for the hedging relationships in accordance with the regulations of IAS 39.

The new requirements of IFRS 9 will be analysed and implemented within the framework of a cross-divisional project within the DKB Group. A steering committee was implemented as the topmost decision-making body for the project. The members of the steering committee are the Chairman of the Board of Management, the Chief Financial Officer and the Chief Risk Officer of DKB AG as well as the heads of the Finance and Risk Office divisions. In addition, there is also one representative each from Internal Auditing (project-support) and BayernLB on the committee. Once the technical design phase was almost complete at the end of 2016, the implementation of the technical requirements in the operational banking processes and the implementation of new IT solutions began in January 2017. Over the further course of the year, the changed processes will be subjected to a comprehensive function, system and integration test, so that a timely implementation of the new IFRS 9 requirements is ensured.

– **IFRS 15 "Revenue from contracts with customers"** defines a comprehensive framework for determining whether, in what amount and at what time revenue is recognised. It replaces existing guidelines on the recognition of revenue, including IAS 18 „Revenue", IAS 11 "Construction contracts" and IFRIC 13 "Customer loyalty programs".

  IFRS 15 is to be applied for the first time in financial years starting on or after 1 January 2018. The DKB Group expects that the application of IFRS 15 will have no significant consequences for the consolidated financial statements.

The IASB has issued new and amended standards, which have yet to be adopted into European law. In this respect, the standards listed below could have a significant impact on the DKB Group. The impact for the DKB Group is currently being examined.

– **IFRS 16 "Leasing"** introduces a uniform accounting model, according to which leases are to be recognised in the balance sheet of the lessee. A lessee recognises a right-of-use asset, which represents its right to use the underlying asset, and a debt from the lease, which represents its obligation to make lease payments. There are exceptions for short-term leases and leases for low value assets. Accounting at the lessor is comparable with the current standard, i. e. the lessor continues to categorise leases as finance or operating leases.

IFRS 16 replaces the existing guidelines on leasing, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC–15 "Operating Leases – Incentives" and SIC–27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 is – subject to its adoption into EU law – not to be applied until business years that start on or after 1 January 2019. The DKB Group expects that the application of IFRS 16 will have no significant consequences for the consolidated financial statements.

The Group has opted not to voluntarily introduce the future applicable standard ahead of time; this is permitted.

Furthermore, a range of changes to other standards was decided on, which, however, are not expected to have any significant consequences for the DKB Group.

(2) Changes compared to the previous year

Interest which the DKB Group pays for the temporary provision of capital (negative interest income) or receives for the temporary acceptance of capital (positive interest expenses) is disclosed separately since the financial year, in the net interest income in the consolidated statement of comprehensive income.

(3) Consolidation principles

In the consolidated financial statements, the parent company DKB and the subsidiaries included in the group of consolidated companies are presented as one economic unit.

The subsidiaries also encompass structured units that are controlled by the DKB Group. Structured units are those units for which voting rights or similar rights are not the dominant factor when determining control. These also include companies whose relevant activities are predetermined by means of a narrow determination of aims in the articles of association or in other contractual agreements or for which a permanent restriction of the decision-making power of the management committee exists. The DKB Group includes the investment fund and the DKB foundation for corporate responsibility (DKB STIFTUNG) among the structured units. Structured units are included in the group of consolidated companies, when they are subsidiaries and are material to the presentation of the net assets and financial position and results of operations of the DKB Group. Details on the type of risks associated with non-consolidated structured units are disclosed in Note 81 "Non-consolidated structured companies".

A subsidiary is deemed to be controlled when the DKB Group is exposed to variable return flows from the commitment with this company or has rights to these and the ability to influence these return flows by means of its decision-making power over the company.

Variable return flows are all return flows that can vary depending on the performance capability of the company. Consequently, return flows from the commitment to another company can be both positive and negative. Variable return flows include dividends, fixed and variable interest, remunerations and fees, fluctuations in the value of the investment and economic advantages.

The assessment as to whether decision-making power exists takes place on the basis of the relevant activities of the company and the DKB Group's powers to exert influence. In this process, both voting rights and other contractual rights to control the relevant activities are taken into consideration, unless economic or other obstacles exist for the exercise of the existing rights. A subsidiary is also controlled by the DKB Group, if the decision-making power is exercised by a third party in the interests or on behalf of the DKB Group. Whether such a delegated decision-making power exists is determined on the basis of the existing powers to appoint people to boards and committees, the legal and constructive decision-making leeway and on the commercial incentive structure.

In individual cases, DKB directly or indirectly holds proportions of voting rights in excess of 50 % in companies, which due to contractual or legal restrictions does not bring with it the corresponding controlling influence. In such cases, no control is assumed for the purposes of defining the group of consolidated companies, despite a majority shareholding. Conversely, in individual cases, DKB holds a controlling influence due to contractual rights to influence legal relationships, despite holding fewer than 50 % of the voting rights.

Subsidiaries are included in the consolidated financial statements by means of full consolidation. At the time of acquisition, the acquisition costs of the subsidiary are offset against the Group share of the completely newly calculated equity, as part of capital consolidation. This equity is the balance between the assets valued at their respective fair values at the time of initial consolidation and the debts of the acquired company, taking into consideration the deferred taxes as well as discovered hidden reserves and hidden charges. If asset-side differences arise between the higher acquisition costs and the proportionate, newly calculated equity, these are disclosed in the balance sheet as goodwill under intangible assets. Any negative, remaining difference is accepted, recognised through profit or loss, at the time of acquisition.

Within the framework of debt and profit consolidation and the elimination of the interim results, all receivables and liabilities, income and expenses as well as interim results from Group-internal transactions are eliminated, unless they are of subordinate significance.

Shares in subsidiaries, which, due to their subordinate significance for the net assets and financial position and results of operations of the DKB Group, are not consolidated, are accounted for in accordance with the recognition and measurement provisions of IAS 39 as financial instruments of the category, Available for Sale (AfS).

Joint arrangements are based on contractual agreements, on the basis of which two or more partners can establish a commercial activity, which is subject to joint management. Joint management exists when the partners must work together to manage the relevant activities of the joint arrangement and when decisions require the unanimous agreement of the partners involved. Such a joint arrangement is a joint venture when the partners who exercise the joint management have rights and obligations with respect to the net assets of the arrangement. If, on the other hand, the partners have direct rights to assets attributable to the joint arrangement or obligations for their debts, the arrangement is deemed to be a joint operation.

Associates are companies over which DKB can exercise, directly or indirectly, a significant influence but not a controlling influence. A significant influence is deemed the ability to cooperate in the financial and operational policy decisions of another company, without however controlling it. Significant influence is deemed, in principle, to exist when DKB as an investor directly or indirectly holds 20 % or more of the voting rights. A company can also be deemed to be an associate if DKB directly or indirectly holds less than 20 % of the voting rights, but due to other factors, is able to cooperate in the financial and operational policy decisions of the company. This includes, in particular, the representation of the DKB Group in the decision-making body of the company as well as contractual rights to the management or exploitation of assets, including investment decisions.

In individual cases, DKB directly or indirectly holds a share of the voting rights of at least 20 % in companies, which due to contractual or legal restrictions does not bring with it the corresponding significant influence. In such cases, no significant influence exists for the purposes of defining the group of consolidated companies.

There are currently no material joint ventures or associates included in accordance with the equity method. Shares in joint ventures or associates, which, due to their subordinate significance for the net assets and financial position and results of operations of the DKB Group, are not included in the consolidated financial statements in accordance with the equity method, are accounted for in accordance with the recognition and measurement provisions of IAS 39 as financial instruments of the category, Available for Sale (AfS) and reported under financial investments. For equity instruments, for which no listed price exists on an active market and for which therefore the fair value cannot be reliably determined, measurement can take place in accordance with IAS 39.9 in conjunction with IAS 39.46(c) at the acquisition costs (if required, taking into consideration any impairments that have already taken place). For these shares, as well as for the shares in non-consolidated subsidiaries, measurement takes place at the acquisition cost.

(4) Group of consolidated companies

As in the previous year, six subsidiaries are included along with DKB in the consolidated financial statements as at 31 December 2016. DKB directly or indirectly holds a 100 % capital participation in the consolidated subsidiaries. As at the reporting date, there were no non-controlling interests. The group of fully consolidated companies was stipulated in accordance with materiality criteria. Companies measured according to the equity method are not included in the consolidated financial statements.

A complete overview of the subsidiaries included in the consolidated financial statements is provided in the shareholding list (see also Note 78 "Shareholding").

(5) Currency translation

On first recognition, all assets and debts in foreign currencies are translated into the functional currency at the spot rate valid on the relevant day of the transaction. In the following periods, a differentiation will be drawn between monetary and non-monetary items for currency translation. Monetary assets and debts denominated in foreign currencies are translated at the rate on the balance sheet reporting day. Non-monetary assets and debts in foreign currencies are not included in the consolidated financial statements. Profits and losses arising from the currency translation are recognised in profit and loss.

Specific accounting and measurement methods

(6) Financial instruments

Recognition and measurement

A financial instrument is a contract which simultaneously leads to the creation of a financial asset for one company and to the creation of a financial liability or an equity instrument for another. Financial instruments are recognised in the accounts as of the date from which the company drawing up the accounts becomes party to the contract and is entitled/obliged to perform/render the agreed services/considerations. In this process, purchases or sales of derivatives and other securities are recognised as at the trading day. The other financial instruments are accounted for as at the settlement date.

All financial instruments including derivative financial instruments in accordance with IAS 39 are recognised in the balance sheet and assigned to measurement categories. A financial asset or financial liability is first recognised in the initial measurement at fair value. Financial instruments, which are accounted for at amortised acquisition costs, are measured taking into consideration transaction costs directly attributable to the acquisition of the financial instrument. For financial instruments that are recognised at fair value in the subsequent measurement, there is an immediate recognition of the transaction costs through profit or loss.

The subsequent measurement of financial instruments is determined by their belonging to specific measurement categories that are differentiated as follows:

- **Financial assets and liabilities measured at fair value through profit or loss:** This category includes derivatives classed as financial instruments held for trading (HfT), that do not satisfy the hedge accounting requirements according to IAS 39, as well as financial instruments that are not held for trading for which the fair value option (FVO) is applied. The fair value option is applied in the DKB Group in order to reduce/eliminate accounting mismatches. The fair value option of financial instruments refers exclusively to bonds and debt instruments. These financial instruments are measured at fair value. The net measurement gains/losses and realised gains/losses are recognised in the gains/losses from the fair value measurement. Ongoing gains/losses are accounted for in the net interest income. The trading instruments are reported in the balance sheet items, assets held for trading or liabilities held for trading. The financial instruments for which the fair value option (FVO) is applied are presented in the item, financial investments.

- **Financial investments held to maturity** (HtM): This category encompasses non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank has the positive intention and ability to hold to maturity. As at the balance sheet reporting day, the DKB Group has not reported any assets in this category.

- **Loans and receivable** (LaR): This category encompasses non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised acquisition costs and reported under the balance sheet items, loans and advances to banks, loans and advances to customers and financial investments.

- **Financial assets available for sale** (AfS): This classification encompasses those non-derivative financial assets that are designated as available for sale or are not assigned to any of the aforementioned categories. They are measured at fair value. AfS financial instruments are contained in the items, financial investments, and loans and advances to customers. Within the framework of subsequent measurement, the value changes are to be recorded in a separate equity item (revaluation reserve) without an impact on profit or loss, taking into consideration the deferred taxes. The accumulated net measurement gain/loss recognised in the revaluation reserve is reversed on the sale of the financial instrument or occurrence of an impairment and, in principle, recognised through profit or loss in the gains/losses on financial investments. If the reasons for an impairment no longer apply, a value recovery must be performed through profit or loss up to the amortised acquisition costs for debt instruments. Any attributions beyond this are recognised without an impact on profit or loss. Impairments of equity instruments not measured at amortised acquisition costs may only be reversed without an impact on profit or loss against the revaluation reserve. Value changes that result for interest-bearing securities from the amortisation of premiums and discounts are incorporated through profit or loss in the net interest income. Equity securities not quoted in an active market are measured at acquisition costs if their fair value cannot be reliably determined.

- **Financial liabilities measured at amortised cost** (LaC): The financial liabilities include financial instruments that are not for trading and for which the fair value option is not applied. They are measured at amortised acquisition costs and reported under bank loans and overdrafts, liabilities to customers, securitised liabilities and subordinate capital. Premiums and discounts are amortised through profits in the net interest income.

The initial measurement for all financial instruments takes place at fair value:

- The fair value of an asset is, according to IFRS 13, the amount, at which this could be sold between knowledgeable, willing and mutually independent business partners. The fair value thus corresponds to a sales price.

- For liabilities, the fair value is defined as the price at which the debt could be transferred to a third party within the framework of a normal transaction. In addition, the Bank's own default risk must be taken into consideration when measuring debts.

The relevant market for determining the fair value is, in principle, the market with the highest level of activity to which the DKB Group has access (main market). If there is no main market, the most advantageous market is used. To determine the fair value, the quoted market price (taken over unchanged) for an identical instrument in an active market is used, where possible (Level 1). If no quoted prices are available, the fair value is determined using measurement methods, whose measurement parameters are directly (as prices) or indirectly (derived from prices) observable and do not fall under Level 1. This can include quoted prices in active markets for similar financial instruments, quoted prices in inactive markets, other observable input parameters (e.g. interest rates and exchange rates) as well as market-supported input factors. The objective here is to determine the price at which a normal transaction could take place among market participants at the measurement date under current market conditions.

To identify whether there is an active market, the DKB Group examines the extent to which tradable prices are present in the Bloomberg BondTrader trading system, so that it can be assumed that business transactions occur at a sufficient frequency and in sufficient volumes so as to enable the continuous availability of price information.

In the DKB Group, recognised measurement models are used, which are essentially based on observable market data. The measurement models encompass the discounted cash flow method and the option price models.

The discounted cash flow method is used for interest-bearing financial instruments, unless there is a price observable in the market for an identical or comparable financial instrument. In this process, measurement takes place on the basis of the cash flow structure, taking into consideration nominal values, residual maturities and agreed interest payment methods. For financial instruments with contractually fixed cash flows, the agreed cash flows are used to determine the cash flow structure. For variable interest-rate instruments or components of instruments, cash flow is determined using forward curves. Discounting takes place using yield curves with matching currencies and maturities and a risk-adequate spread. For publicly available spreads, the data observable on the market is used. This relates to OTC derivatives such as interest rate swaps and forward exchange transactions.

Interest options are measured using the option price models.

For OTC derivatives, the counterparty default risk, the Bank's own default risk and the liquidity costs are all taken into consideration.

The fair values of receivables acquired on the non-performing loan market and secured with real estate are determined via the discounting of the recovery value of the relevant collateral over the estimated use period with a risk-adjusted interest rate.

The collateral is measured, in principle, from capitalised earnings value perspectives, predominantly in combination with a review of the value against benchmark values. Observable market parameters (bid prices for other properties) are also used as benchmarks to determine the recovery values, as is information from previous transactions. The provisional recovery period is determined in accordance with the forecast period required to establish delivery capability (depending on the form of recovery, e. g. foreclosure), plus the period to be calculated for the sale following the assessment of the relevant market situation. In some cases, experience from past transactions is also factored into the assessment of the recovery time (for example, the period between foreclosure acceptance and the time the money is received). Discounting takes place using the risk-free yield curve and a risk-adequate spread.

The fair values of financial instruments measured in the balance sheet at amortised acquisition costs are likewise determined using the discounted cash flow method. For lending transactions, the cash flow is discounted using the risk-free yield curve, which has been adjusted by a transaction-specific spread. This spread includes, in addition to the margin to cover costs and the profit expectation, a credit standing part, which reflects the changes in the creditworthiness of the business partner and a premium, which the Bank pays for its own borrowing on the capital market. For deposit operations, the cash flow is discounted using the risk-free yield curve and a margin spread to cover costs and the profit expectation, as well as a liquidity spread which reflects the current creditworthiness.

The input parameters used in the measurement models determine the level to which the financial instrument is assigned in the fair value hierarchy.

The measurement models presented are used for the HfT financial instruments recognised in the balance sheet at fair value and affect the balance sheet items, assets held for trading, positive market values from derivative financial instruments (hedge accounting), liabilities held for trading and negative market values from derivative financial instruments (hedge accounting).

Furthermore, the fair values of the financial instruments recognised in the balance sheet at amortised acquisition costs are determined by means of measurement models. The loans and advances to banks and loans and advances to customers categorised as LaR as well as the bank loans and overdrafts, liabilities to customers and subordinate capital categorised as LaC are affected by this.

As at the balance sheet reporting day, the DKB Group holds financial instruments with embedded derivatives, which however are not to be classified as being subject to separation.

Hedge accounting
Derivative financial instruments in the form of fair value hedges are used to manage interest rate risks. In this process, a recognised asset can be protected against changes in the fair value that arise from the interest rate risk and could have consequences for the result for the period. A high level of effectiveness is required here, whereby changes in the fair value of a secured underlying transaction are compensated with respect to the secured risk and hedging derivative in a bandwidth of 80 % to 125 %. The DKB Group uses the portfolio hedge to secure the fixed interest rate position from the customer loans business.

Calendar time buckets are defined for the portfolio, to which the expected payment flows (interest and repayments) from the receivables are assigned. Thus, the corresponding (partial) cash flows of a portfolio of underlying transactions are assigned to each time bucket.

The hedging transactions are assigned to the time buckets in accordance with their due date. After the assignment of the underlying and hedging transactions, the proportion of each underlying transaction that it is to be included in the hedging relationship of the time bucket (hedge ratio) is stipulated. The hedge ratio is held constant until the end of the hedging period and is the basis for prospective and retrospective effectiveness tests. The effectiveness is measured monthly per time bucket.

The effectiveness measurement, designation and re-designation take place monthly within the framework of a dynamic hedging relationship. Re-designations and de-designations take place during the month, in line with the representation of the hedging relationships in risk management.

The hedge strategy is documented during designation of the hedging relationship.

Only interest-rate swaps are used as hedging instruments. Interest-rate swaps are measured at fair value; any resultant value changes are recognised through profit or loss in the result of the hedge transactions (hedge accounting).

The book values of the underlying transactions are adjusted through profit or loss by the measurement results which can be traced back to the hedged risk. The adjustment takes place in the balance sheet item, portfolio hedge adjustment attributable to assets. The measurement results are shown in the result of the hedge transactions (hedge accounting).

Derivative financial instruments in commercial hedge relationships that do not fulfil the prerequisites for hedge accounting according to IAS 39 are recognised in the assets or liabilities held for trading and measured at fair value. The current income and expenses are shown in the net interest income; the measurement result is shown in the result of the fair value measurement.

Derecognition
Financial assets are derecognised, when the contractual rights to cash flow from the relevant assets have expired or when the Group has substantially transferred all opportunities and risks. Financial liabilities are derecognised when the contractual obligations have been discharged, set aside or have expired.

Offsetting
Financial assets and financial liabilities are offset, if, at the current time, a legal enforceable right to offset the recognised amounts against one another exists and the intention is to settle on a net basis, or to realize an asset and settle the liability simultaneously.

(7) Cash reserve

The cash reserve encompasses the cash in hand as well as credit balances with central banks. These are recognised at the nominal value.

(8) Receivables

The loans and advances to banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and are not held for trading purposes. They are measured at amortised acquisition costs, unless classified as available for sale. Premiums and discounts are distributed over the term in accordance with the effective interest method and included through profit or loss in the net interest income. Receivables classified as available for sale are measured without an impact on profit and loss at the fair value. The measurement result is recognised in the revaluation reserve.

(9) Risk provision

Impairments due to changes in the creditworthiness of LaR receivables are recognised separately in the risk provision and deducted from assets in an independent assets position.

The risk provision encompasses specific loan loss allowances and portfolio allowances for on-balance-sheet transactions:

- the amount of the specific loan loss allowance is measured according to the difference between the book value of the receivable and the present value of all future, expected incoming payments, calculated according to the discounted cash flow method using the original effective interest rate, taking into consideration the collateral.

- For portfolios comprising homogeneous receivables, which individually are not substantial, generalised loan loss allowances are formed using collective risk measurement on the basis of the portfolio allowance system. They are reported likewise under the specific loan loss allowances.

- For LaR receivables, for which no allowance is required following an individual assessment, and for which no generalised loan loss allowance was formed, a portfolio allowance is determined.

To determine the risk provision, the customer relationships are analysed at regular intervals. Specific loan loss allowances are formed for individual, material loan commitments, when objective evidence of an impairment exists. Objective evidence includes, for example, when the originally agreed loan conditions are modified in order to restructure the commitment. For commercial or legal reasons, a deferment (of interest payments and payments on the principal) can be agreed with customers experiencing financial difficulties, in order to make the fulfilment of the contractual obligation easier for a limited period. Approval of this measure leads, in principle, to the recognition of the default reason „Restructuring/rescheduling“. Further company-specific default reasons include “Payment default/Overdrawn more than 90 days”, “Repayment unlikely”, “Termination/Called in for Repayment”, “Sale of receivables” as well as „(Application for) insolvency“. In the event of a default, existing claims and irrevocable credit commitments are reviewed with respect to necessary value corrections or provisions.

Depreciations are performed, when, based on the current information, the conviction exists that all possible commercially reasonable measures to limit the loss have been taken. This is done, in principle, by writing off formed risk provisions. If no sufficient risk provision was formed, this is done via direct depreciation.

The risk provision for contingent liabilities and other obligations is shown as a provision for risks from the lending business.

Expenses for adding to risk provisions, earnings from the reversal of risk provisions, as well as income on written-down receivables are reported in the positions of the same name in the statement of income.

(10) Portfolio hedge adjustment attributable to assets

In this balance sheet item, the book value adjustments for the underlying transactions designated in hedge accounting that are attributable to the hedged interest rate risk are recognised. The designated underlying transactions continue to be reported at amortised acquisition costs in the loans and advances to customers.

(11) Assets held for trading

Assets held for trading include only those derivative financial instruments with positive market values concluded for hedging purposes, which are not designated as hedging instruments within the framework of hedge accounting in accordance with IAS 39. They are measured at fair value.

(12) Positive market values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments (interest rate swaps) with positive market values that are included in hedge accounting within the meaning of IAS 39. The derivative instruments are measured at fair value. The fair value changes in the hedging instruments are reported together with the fair value changes in the underlying transactions that result from the interest rate risk, under gains/losses on hedging transactions (hedge accounting).

(13) Financial investments

The financial investments include AfS, LaR and FVO financial investments. Shares in non-consolidated subsidiaries are reported under the AfS financial investments, unless an intention to sell in accordance with IFRS 5 exists. Measurement is performed in accordance with the measurement categories.

On each balance sheet reporting day, it is determined whether objective, substantial evidence of an impairment exists. To this end, the criteria listed in IAS 39.59 are applied. For equity instruments, an impairment furthermore exists if the fair value of the financial instrument has been less than the acquisition cost for more than 12 months. A significant impairment is, in principle, deemed to exist as of 20 % below the acquisition cost. For participations that are measured using IAS 39.9 in conjunction with IAS 39.46(c) at the acquisition costs (if required, taking into consideration any already existing impairments), the determination as to the depreciation requirement is performed using a more detailed measurement method (earnings value or substantive value methods).

The AfS holdings are measured at their fair value in accordance with IAS 39. Value changes are recognised, without an impact on profit or loss, taking into consideration deferred taxes up to sale, in the revaluation reserve or, in the case of impairments, in the gains/losses on financial investments. Premiums and discounts are amortised through profit or loss in the net interest income.

For securities reclassified into the LaR category, amortisation, in compliance with the effective interest rate, of the value changes previously recognised without an impact on profit or loss in the revaluation reserve is performed in accordance with the attribution of the book values of financial assets, taking into consideration the acquisition cost principle and creditworthiness-determined impairments over their remaining term.

A portfolio allowance is formed, analogous to the formation of risk provisions in the lending business, for LaR financial investments. However, this is not posted under the item risk provision in the statement of income but under gains/losses on financial investments instead.

(14) Securities lending and repurchase transactions

Securities borrowed through securities lending transactions or purchased through repurchase transactions are not recognised in the accounts in accordance with the accounting practice view that the commercial ownership of the securities remains with the lender/repo seller. Loaned or sold securities are posted in the securities portfolio and measured in line with the assigned portfolio. Income and expenses resulting from securities lending transactions are taken into consideration in the statement of income under the net commission income.

As at the balance sheet reporting day, the DKB Group has not concluded any securities lending transactions.

(15) Property, plant and equipment

Property, plant and equipment encompasses owner-occupied land and buildings, as well as operating and business equipment.

It is measured at amortised acquisition or manufacturing costs, i. e. the acquisition and manufacturing costs are reduced, in the case of depreciable assets, by scheduled, linear depreciations in accordance with their useful life. In the case of buildings, the components are depreciated over their specific useful lives (component approach).

If an impairment arises, this is recognised as an impairment expense. If the reasons for the impairment no longer apply, attributions are made up to the amount of the amortised acquisition and manufacturing costs maximum.

Subsequently incurred acquisition or manufacturing costs are recognised as assets, if they increase the commercial benefit of the property, plant and equipment. Maintenance costs are recognised in the relevant financial year as an expense. Likewise, acquisitions of low-value items are immediately recognised as expenses.

Depreciation on property, plant and equipment is reported under administrative expenses. Attributions are shown in other income and expenses.

(16) Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance, which is used to provide services or for administrative purposes. These primarily include licenses and purchased software.

Acquired intangible assets are initially recognised at their acquisition cost.

Intangible assets are subject to linear depreciation over their useful life. Extraordinary depreciation is performed, where an impairment exists or where there is no longer an expectation of a future benefit. Depreciations and impairments are posted in administrative expenses.

(17) Other assets

Assets that cannot be assigned to any of the other asset items are posted under other assets. These include prepaid expenses and deferred income and real estate held as inventories.

(18) Non-current assets held for sale

This balance sheet item comprises non-current assets that are classified as held for sale.

The prerequisites for classification as held for sale are fulfilled, when the corresponding book value is realised predominantly by a sale transaction and not through amortised use, and the non-current asset in its present condition can be sold and the sale within the next 12 months is highly likely.

The non-current assets held for sale are recognised on the balance sheet reporting day at the lower of the book value or the fair value less sales costs, unless a measurement exception in accordance with IFRS 5 exists.

(19) Liabilities

Bank loans and overdrafts and liabilities to customers as well as securitised liabilities are accounted for at amortised acquisition costs. Premiums and discounts are distributed over the term in accordance with the effective interest method and included through profit or loss in the net interest income.

(20) Liabilities held for trading

Liabilities held for trading include only those derivative financial instruments with negative market values concluded for hedging purposes, which are not designated as hedging instruments within the framework of hedge accounting in accordance with IAS 39. They are measured at fair value.

(21) Negative market values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments (interest rate swaps) with negative market values that are included in hedge accounting within the meaning of IAS 39. The derivative instruments are measured at fair value. The fair value changes in the hedging instruments are reported together with the fair value changes in the underlying transactions that result from the interest rate risk, under gains/losses on hedging transactions (hedge accounting).

(22) Provisions

Provisions are formed for current legal or constructive obligations arising from an event in the past that will probably lead to an outflow of resources embodying economic benefits. It must be possible to make a reliable estimate of the amount of the outflow of resources. Provisions with a term of more than one year are discounted at a stipulated Group-standard interest rate that complies with the regulations of IAS 37.47.

Where the possibility of an outflow of resources on fulfilment is not unlikely (likelihood of occurrence between 25 % and 50 %), we refer to the notes on contingent liabilities (Note 75 “Contingent liabilities and other obligations”).

Provisions for pension obligations and long-term employee benefits

The defined-benefit obligations of the DKB Group essentially encompass final salary agreements and plans based on capital modules that guarantee the employees lifelong pensions or capital payments.

The pension scheme in the Group comprises the following pension plans:

Pension scheme I (employees with a start date prior to 2 April 1995) provides entitlements to lifelong pension payments for those employees who are no longer actively employed. For actively employed employees (with a start date prior to 2 April 1995), existing and future entitlements were transferred to the following plan in pension scheme II and thus into a capital payment plan.

Employees with a start date from 2 April 1995 and actively employed employees with a start date prior to 2 April 1995 receive an age-dependent modular plan as a capital commitment within the framework of pension scheme II. The sum total of the capital modules acquired in the individual calendar years yields the pension capital, which is converted into a capital payment when benefits become due.

Furthermore, final-salary-dependent commitments exist to provide lifelong pension payments for members of the Board of Management.

Furthermore, an employee-funded benefit plan exists for the employees of the DKB Group. This plan gives employees the opportunity to convert parts of their remuneration claims into pension capital. The pension benefit comprises a capital payment on reaching the defined retirement age or, if required, at an earlier point in time due to invalidity or death. Interest is paid on the pension capital at a rate of 3.5 % p. a.

Pension obligations and long-term employee benefits (partial retirement plan) are determined using an actuarial expert report issued by Mercer Deutschland GmbH (Mercer). The direct benefit-oriented pension obligations are measured, whereby the existing plan assets are compared with these obligations. The calculation is performed using the projected unit credit method.

The following assumptions underlie the calculation:

Actuarial interest rate	1.80 % (previous year: 2.40 %)
Career progression	1.00 % (previous year: 1.00 %)
Salary progression	2.25 % (previous year: 2.25 %)
Pension progression	2.00 % (previous year: 2.00 %)
Pension age	64th year (previous year: 64th year)
Fluctuation	2.00 % (previous year: 2.00 %)
Calculation base	"2005 G actuarial tables" of Prof. Klaus Heubeck

When defining the actuarial interest rate, the DKB Group uses the interest rate recommended by Mercer. Mercer uses its own approach, the Mercer Pension Discount Yield Curve Approach.

Effects from the revaluation of defined-benefit pension plans, such as actuarial profits and losses from the pension obligation and the plan assets, which occur due to the difference between the expected and actual values or due to changed assumptions, are recognised in the period in which they occur, without an impact on profit or loss, in other income and expenses and are reported as part of retained earnings in the balance sheet capital and analogously in the pension reserves. A past service cost resulting from a retroactive plan change is recognised in staff costs.

The DKB Group has not covered its pension obligations with plan assets. The financing status thus corresponds completely to the pension obligation value.

The risks associated with the defined-benefit obligations are the customary actuarial risks, particularly:

- Inflation risks: Possible inflation risks, which could lead to an increase in defined-benefit obligations, exist insofar as some of the plans are final-salary plans or the annual capital modules are directly tied to salaries.
- Interest change risks: The amount of the net obligation is materially influenced by the level of the discounting interest rates.

Provisions in the lending business

For contingent liabilities and other obligations, for which a default risk exists, provisions are formed in the lending business at the level of the individual transaction as well as at portfolio level.

Provisions for legal expenses

The provisions for legal expenses essentially include the provision for litigation risks that have arisen in the lending business in the Retail Customers segment from the development of jurisprudence in this area in recent years.

The formation of such provisions can itself be subject to the risk of incorrect estimations. This can relate both to the estimation of the prospects of success and to the amount of legal expenses incurred (risk of over- or underestimation), while the level of the respective risks in this method can generally be quite accurately assessed.

The provision is formed and amount determined, taking into consideration a qualified estimate, both in relation to the prospects of success as well as in relation to the provisional legal expenses and litigation risks, whereby the estimate is performed individually for each proceeding.

In order to minimise potential estimate risks, the estimates issued are regularly reviewed and adjusted based on already received information.

(23) Other liabilities

Other liabilities includes deferred income and accrued expenses and other obligations as well as deferred debts.

(24) Subordinate capital

Subordinate promissory note loans and other subordinate loans as well as the participation certificates issued by the DKB Group are reported under subordinate capital. The entire portfolio is assigned to the LaC category.

The subordinate capital is accounted for at amortised acquisition costs. Premiums and discounts are distributed over the term in accordance with the effective interest method and recognised through profit or loss in the net interest income.

(25) Leasing transactions

In accordance with IAS 17, leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Currently there are no operating or finance leasing contracts, for which the DKB Group acts as the lessor.

The lease payments that the DKB Group must pay as lessee within the framework of operating leases are recognised in administrative expenses. Currently there are no finance leasing contracts, for which the DKB Group acts as the lessee.

(26) Taxes

Actual (current) income tax assets and liabilities were calculated at the currently valid tax rates. Income tax receivables or liabilities are recognised to the extent that a remuneration or a payment is to be expected.

Deferred income tax assets and liabilities result from different, temporary valuations of a recognised asset or obligation and the actual tax value. Provisional income tax burden and relief effects will result from this in the future. These were measured for every company included in the consolidated financial statements at the respective applicable income tax rates, the validity of which is expected to remain for the period of the reversal of the temporary differences on the basis of tax laws already in force or which have already been adopted.

Deferred tax assets on existing tax loss carryforwards and deductible temporary differences are only recognised insofar as it is probable in the future that sufficient taxable profits will be generated to be able to use these tax benefits. Where, for Group companies that generated a tax loss in the current or previous financial year, the loss carryforwards and deductible temporary differences exceed the taxable temporary differences, the amount of recognised deferred tax assets was determined on the basis of a tax forecast for the respective company or – if a fiscal unit exists – for the respective controlling company.

There is no discounting of deferred taxes. Deferred income tax assets and liabilities are formed and amortised through profit and loss, if the underlying issue was handled through profit or loss, and are formed and amortised without an impact on profit or loss in the corresponding equity item, if the underlying issue was handled without an impact on profit or loss.

In the balance sheet, the actual and deferred income tax assets and liabilities are, in principle, reported in separate items.

Since financial year 2009, a profit transfer agreement has existed between BayernLB and DKB. The prerequisites for a fiscal unit for income tax purposes are fulfilled. For the companies in the sub-group of DKB, therefore, deferred tax assets and liabilities need not be recognised. The income tax expense or income attributable to the gains/losses on customary business activity is reported in the statement of income of the DKB Group in the item, income tax and relates to companies outside the fiscal unit or tax expenses from previous years. In 2013, a controlling agreement was concluded with BayernLB to obtain the status of fiscal unit for sales tax purposes.

Other taxes that are not dependent on earnings are reported in other income and expenses.

Segment reporting

(27) Segment reporting

Segment reporting is performed in accordance with the regulations of IFRS 8 and provides information on the different business areas of the DKB Group.

The DKB business model, together with the strategic alignment of the BayernLB Group, forms the basis for segment reporting. The segmentation therefore reflects the strategic business areas of the Bank, which are the basis for the internal control, organisational and reporting structures.

Geographically, the consolidated net income is practically entirely attributable to the German-speaking area. We have therefore opted not to include a regional differentiation.

Segment reporting is divided into six segments, which are explained below:

- The Retail Customers segment encompasses the business with the retail customers of DKB. The key products are the DKB-Cash account package (comprising current account and credit card with interest on credit balances), home loan financing and personal loans, investment products and the partner (co-branding) credit card business. Furthermore, the companies DKB Grund GmbH and FMP Forderungsmanagement Potsdam GmbH, who provide support for this customer group, are also assigned to the segment. Their business purpose is to broker financial services and real estate, and to service and realise receivables, predominantly from the retail customer business, respectively.

- The Infrastructure segment includes business with 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.

- The Corporate Customers segment represents the business with customers from the areas of environmental technology, food and agriculture, tourism and the freelance professions. Furthermore, there is a focus on the centre of competence for renewable energies. This segment also includes the lending and deposit banking business with the strategic Group subsidiaries. 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 addition, the subsidiaries, DKB Finance GmbH and MVC Unternehmensbeteiligungs GmbH are assigned to this segment; these are active, in a customer group support capacity, through commercial and venture capital participations as well as within the framework of the further development of commercial real estate via property participations.

- The Financial Markets segment comprises the Treasury division of DKB AG. Essentially, the refinancing business including interest-book management, the deposit business with institutional customers, the forwarding of customer deposits to BayernLB within the framework of intra-group funding and internal Group transactions with BayernLB within the framework of liquidity management all fall within the scope of this segment. Furthermore, the activities relating to the custody account-A business are also assigned to this segment. This relates, in particular, to the management of the securities portfolio required for the core business (including the regulatory liquidity portfolio) and the business with the DKB mutual funds. In addition, the gains/losses from DKB AG's hedging relationships are assigned to the Financial Markets segment.

- The Non-Core Business segment bundles all the business that no longer complies with our business strategy, which is being reduced as part of the superordinate restructuring concept of the BayernLB Group. This includes certain customer portfolios, securities portfolios and participations including DKB AG's lending and deposit business with these participations.

- The Other segment bundles cross-divisional transactions and earnings contributions that cannot be assigned to the segments according to source. These include, among others, the central administrative expenses, the earnings contributions of subsidiaries, bank levies, deposit protection and banking supervision fees for DKB AG and other special effects. The activities of DKB Service GmbH are likewise assigned to this segment. The latter's main fields of activity are the processing of back office tasks for the DKB Group, the processing of standardised bulk business for the DKB products and the provision of services for Group companies. As at the balance sheet reporting date of 31 December 2016, the gain from the disposal of Visa Europe Limited in the amount of EUR 131.8 million was assigned to this segment too, in the gains/losses from financial investments.

The segment information is based on the commercial, internal contribution margin accounting and on the data from external accounting.

In principle, all consolidation effects within the DKB Group are presented in the reconciliation column. For the result of the current year, these are in the net interest income, and include, in particular, consolidation entries from the offsetting of results between Group companies and the consolidation items between DKB AG and DKB Service GmbH. The consolidation of DKB Service GmbH has a significant impact, both in the Other segment and in consolidation, particularly on the administrative expenses, other income and expenses and net commission income items. Overall, these effects are of minor significance for the result of the Group. Consolidation entries in the item, gains/losses from restructuring are assigned to the Non-Core Business segment. In the result of the current reporting year, there are no further reconciliation items requiring explanation.

Intra-segment transactions are only contained in the net interest income item of the Non-Core Business and Corporate Customers segments, and involve the lending and deposit business of the relevant Group subsidiaries. This relates to segment assets totalling EUR 144.6 million, without significant intra-segment earnings. There are no dependencies on key customers per IFRS 8.34.

The net interest income of DKB AG is calculated for the internal management of the business fields on the basis of partial bank balances and reconciled using the market interest method for the purposes of customer group management. Interest income and expenses of the subsidiaries are represented in the relevant assigned segment. Special regulations of IFRS-compliant accounting are taken into consideration in the relevant segments, where a direct assignment is possible.

In compliance with IFRS accounting, the net commission income was distributed across the segments on the basis of the source of the business with data from internal reporting and external accounting.

The risk provision, the gains/losses on fair value measurement, on hedging transactions and from financial investments as well as the other income and expenses are determined in accordance with IFRS principles. The administrative expenses of the respective segments contain all directly attributable personnel and material expenses, allocated indirect administrative expenses (in particular central selling and IT costs) as well as apportionments of overheads. The gains/losses from restructuring contain expenses from phase-out measures as part of the implementation of the restructuring concept and expenses from loss assumptions for subsidiaries that are not in line with the Group strategy. Therefore, it is reported in the Non-Core Business segment.

The segment assets are, in principle, determined on based on the balance sheet values. Customer receivables are the exception here; these are reported at their nominal values. The difference of EUR 73.4 million (31 December 2015: EUR 63.7 million) and the risk provision holding on receivables of DKB AG of EUR –444.5 million (31 December 2015: EUR –424.9 million) are contained in the reconciliation column.

The average commercial equity is determined on the basis of the regulatory Tier 1 capital and is assigned in line with the average, allocated risk items in accordance with the regulatory reporting codes (risk assets and market risks as per the credit risk standard approach according to article 111 ff. of the Regulation (EU) No. 575/2013 (CRR) and operational risks).

The Return on Equity (ROE) is calculated as a quotient between the profit before taxes and the assigned average capital. The Cost Income Ratio (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). The KPIs are collated for all market-relevant business fields. These KPIs are not collated and noted for the Other segment due to their limited informative value.

Segment reporting 31.12.2016

In EUR m	Retail customers	Infrastructure	Corporate customers	Financial markets	Non-core business	Other	Reconciliation/ Consolidation	**Group**
Net interest income	384.1	256.0	175.1	–33.7	7.6	11.9	–5.9	**795.1**
Risk provisions	–47.6	–22.4	–37.1	-	–20.9	–0.7	-	**–128.7**
Net commission income	–31.2	0.9	28.3	–2.2	0.6	5.6	4.9	**6.9**
Gains/losses on fair value measurement	–	–	–	46.3	–0.1	–	–	**46.2**
Gains/losses on hedging transactions	–	–	–	–94.4	–	–	–	**–94.4**
Gains/losses on financial investments	–	–	0.1	24.4	4.5	131.8	–	**160.8**
Administrative expenses	–184.7	–87.5	–69.0	–4.8	–17.5	–184.6	131.1	**–417.0**
Expenses from bank levies, deposit protection and banking supervision	–	–	–	–	–	–29.8	–	**–29.8**
Other income and expenses	–1.1	–0.1	–1.5	–	0.7	135.1	–138.1	**–5.0**
Gains/losses from restructuring	–	–	–	–	–2.9	–	–	**–2.9**
Profit before taxes	**119.5**	**146.9**	**95.9**	**–64.4**	**–28.0**	**69.3**	**–8.0**	**331.2**
Segment assets	12,057.2	37,024.4	13,760.3	11,991.6	526.3	1,747.6	–585.1	**76,522.3**
Risk items	6,549.3	11,422.6	12,270.4	245.5	374.9	191.4	–	**31,054.1**
Average commercial equity	570.1	967.6	1,045.9	26.7	41.9	13.3	–	**2,665.5**
Return on equity (RoE)	21.0 %	15.2 %	9.2 %	<–100 %	–66.8 %			**12.4 %**
Cost/income ratio (CIR)	52.5 %	34.1 %	34.2 %	–8.1 %	>100 %			**45.8 %**

Segment reporting 31.12.2015

In EUR m	Retail customers	Infrastructure	Corporate customers	Financial markets	Non-core business	Other	Reconciliation/ Consolidation	**Group**
Net interest income	423.4	236.4	159.9	−33.5	3.2	17.2	−16.2	**790.4**
Risk provisions	−32.4	−13.4	−17.9	–	−75.6	−0.7	−3.8	**−143.8**
Net commission income	−35.1	1.1	23.4	−1.4	0.5	8.8	1.4	**−1.3**
Gains/losses on fair value measurement	–	–	–	14.2	−0.2	–	–	**14.0**
Gains/losses on hedging transactions	–	–	–	−36.2	–	–	–	**−36.2**
Gains/losses on financial investments	–	–	–	11.2	−0.0	–	–	**11.2**
Administrative expenses	−151.8	−87.7	−69.7	−4.0	−17.6	−167.3	121.3	**−376.8**
Expenses from bank levies, deposit protection and banking supervision	–	–	–	–	–	−23.7	–	**−23.7**
Other income and expenses	−5.6	−0.0	0.3	–	0.1	136.4	−123.8	**7.4**
Gains/losses from restructuring	–	–	–	–	−5.2	–	–	**−5.2**
Profit before taxes	**198.5**	**136.4**	**96.0**	**−49.7**	**−94.8**	**−29.3**	**−21.1**	**236.0**
Segment assets	12,605.8	35,888.7	12,722.9	11,225.1	744.4	883.1	−641.2	**73,428.8**
Risk items	6,450.6	10,976.4	11,426.7	259.7	625.9	140.9	–	**29,880.2**
Average commercial equity	547.5	892.8	912.7	31.5	65.0	11.3	–	**2,460.8**
Return on equity (RoE)	36.3 %	15.3 %	10.5 %	<−100 %	<−100 %			**9.6 %**
Cost/income ratio (CIR)	39.7 %	36.9 %	38,0 %	<0 %	>100 %			**48.0 %**

Notes on the consolidated statement of comprehensive income

(28) Net interest income

In EUR m	2016	2015
Interest income	**2,064.8**	**2,208.0** [1]
Interest income from lending and money market transactions	2,041.7	2,182.9 [1]
Interest income from bonds and other fixed-interest securities	19.5	21.0
Current income	3.6	4.1
Positive interest expenses	**0.6**	**0.2** [1]
Interest expenses	**–1,247.1**	**–1,416.0** [1]
Interest expenses for bank loans and overdrafts and liabilities to customers	–705.0	–821.3 [1]
Interest expenses for hedge accounting derivatives	–410.2	–498.9 [1]
Interest expenses for securitised liabilities	–41.2	–43.8
Interest expenses for subordinate capital	–18.4	–21.2
Interest expenses for derivatives in commercial hedge relationships	–44.1	–11.4
Other interest expenses	–28.2	–19.4
Negative interest income	**–23.2**	**–1.8** [1]
Total	**795.1**	**790.4**

[1] Adjustment of previous year's figures to account for negative interest

For financial assets and financial liabilities that are not measured at fair value through profit and loss, the entire interest income is EUR 2,065.2 million (previous year: EUR 2,206.2 million) and the entire interest expense is EUR 799.6 million (previous year: EUR 905.5 million).

The interest income from lending and money market transactions includes income from impaired receivables (unwinding effect) of EUR 10.3 million (previous year: EUR 12,7 million).

Current income includes income from shares in non-consolidated subsidiaries of EUR 0,1 million (previous year: EUR 0,3 million).

(29) Risk provision

In EUR m	2016	2015
Additions	**–190.9**	**–201.2**
Impairments on receivables	–184.5	–189.9
Provisions in the lending business	–6.4	–11.3
Reversals	**50.5**	**49.9**
Impairments on receivables	43.4	48.6
Provisions in the lending business	7.1	1.3
Income on written-down receivables	**11.7**	**7.5**
Total	**–128.7**	**–143.8**

The amounts refer both to the on- and off-balance-sheet lending business.

(30) Net commission income

In EUR m	2016	2015
Payment transactions	–56.6	–58.0
Credit card business	54.5	57.1
Other	9.0	–0.4
Total	**6.9**	**–1.3**

Net commission income comprises commission income of EUR 329.1 million (previous year: EUR 322.4 million) offset against commission expenses of EUR –322.3 million (previous year: EUR –323.7 million).

Commission income of EUR 316.9 million (previous year: EUR 309.9 million) and commission expenses of EUR –293.9 million (previous year: EUR –298.8 million) result from financial assets and liabilities, which were not measured at fair value through profit and loss in the reporting period.

The net commission income contains non-period remunerations from a company audit in the amount of EUR 14.4 million.

(31) Gains/losses on fair value measurement

In EUR m	2016	2015
Trading income	**46.3**	**14.2**
Interest-related transactions	45.0	11.8
Currency-related transactions	1.3	2.4
Fair value gains/losses from the fair value option	**–0.1**	**–0.2**
Total	**46.2**	**14.0**

Ongoing gains/losses from the FVO holdings and the derivatives in commercial hedging relationships are reported in the net interest income.

(32) Gains/losses on hedging transactions (hedge accounting)

In EUR m	2016	2015
Measurement gains/losses from fair value hedges (portfolio hedges)		
Measurement gains/losses of underlying transactions	176.0	60.3
Measurement gains/losses of hedging instruments	219.8	419.5
Amortisation of the portfolio hedge adjustment	–490.2	–516.0
Total	**–94.4**	**–36.2**

(33) Gains/losses on financial investments

In EUR m	2016	2015
Gains/losses on AfS financial investments	**28.9**	**11.2**
Gains/losses on disposal	28.9	11.2
Gains/losses on LaR financial investments	**0.1**	**0.0**
Gains/losses from other companies with which a participation relationship exists	**131.8**	**–**
Total	**160.8**	**11.2**

(34) Administrative expenses

In EUR m	2016	2015
Staff costs	**–213.9**	**–208.0**
Wages and salaries	–174.7	–166.5
Social security contributions	–28.9	–27.7
of which employer share for statutory pension insurance	–12.3	–13.0
Expenses for pension scheme and support	–10.3	–13.8
of which expenses for defined-benefit plans	–5.1	–5.0
Other administrative expenses	**–196.4**	**–162.6**
IT costs	–71.4	–56.0
Advertising	–33.6	–28.3
Contributions, legal and consultancy costs	–33.0	–24.0
Building costs (non-investment properties)	–20.3	–21.3
Communication and other selling costs	–18	–16.6
Miscellaneous administrative expenses	–20.1	–16.4
Depreciation and allowances on property, plant and equipment and intangible assets	**–6.7**	**–6.2**
Total	**–417.0**	**–376.8**

(35) Expenses from bank levies, deposit protection and banking supervision

In EUR m	2016	2015
Bank levies	17.6	12.4
Deposit protection	9.8	9.5
Banking supervision	2.4	1.8
Total	**29.8**	**23.7**

(36) Other income and expenses

In EUR m	2016	2015
Other income	**36.2**	**44.5**
Income from the reversal of provisions	1.3	4.0
Miscellaneous other income	34.9	40.5
Other expenses	**–41.2**	**–37.1**
Expenses from the formation of provisions	–0.3	–9.4
Miscellaneous other expenses	–40.9	–27.7
Other income and expenses, total	**–5.0**	**7.4**

(37) Gains/losses from restructuring

The ongoing restructuring expenses result from the implementation of the restructuring measures stipulated for the DKB Group as part of the BayernLB Group and the associated phase-out strategy at subsidiaries.

(38) Income tax

In EUR m	2016	2015
Actual income taxes	**–4.4**	**–11.0**
German and foreign corporation tax including solidarity surcharge	–0.9	–1.1
Trade tax/foreign local tax	–3.5	–9.9
Deferred income taxes	**0.1**	**0.0**
German and foreign corporation tax including solidarity surcharge	0.1	0.0
Trade tax/foreign local tax	0	0.0
Total	**–4.3**	**–11.0**

The actual income taxes result from ongoing tax payments by companies that do not belong to the fiscal unit for income tax purposes of BayernLB and the formation of provisions for possible trade tax arrears of EUR 2.7 million (previous year: EUR 8.7 million).

The effective tax expense in the financial year is EUR 101.5 million lower than the expected tax expense. This results from:

In EUR m	2016	2015
Profit before taxes	331.2	236.0
Group income tax rate in %	32.0	32.0
Anticipated income tax expense	**105.8**	**75.5**
Effects of taxes from previous years that were recognised in the financial year	2.6	8.8
Effects of fiscal unity with BayernLB		
from accounting differences	8.5	0.6
from transfers of the measurement basis	–123.7	–80.7
Effects of non-deductible operating expenses	5.9	4.1
Effects of permanent effects of an accounting nature	4.8	2.4
Other effects	0.4	0.3
Effective income tax expense	**4.3**	**11.0**
Effective income tax rate in %	**1.3**	**4.7**

The anticipated income tax expense was calculated using the interest rate applicable for BayernLB as controlling company, which is comprised of a corporation tax rate of 15.0 %, a solidarity surcharge of 5.5 % and a weighted trade tax rate of 16.1 %.

Notes on the consolidated balance sheet

(39) Cash reserve

In EUR m	2016	2015
Cash in hand	9.3	9.5
Credit balances with central banks	1,419.3	710.4
Total	**1,428.6**	**719.9**

Credit balances with central banks are maintained in euro with various main offices of the Deutsche Bundesbank.

(40) Loans and advances to banks

In EUR m	2016	2015
Loans and advances to German banks	5,355.2	4,854.3
Loans and advances to foreign banks	10.3	10.3
Total	**5,365.5**	**4,864.6**

Breakdown of loans and advances to banks by term

In EUR m	2016	2015
On demand	2,176.8	410.9
With agreed maturities		
Up to 3 months	1,251.8	311.4
From 3 months to 1 year	1,263.6	1,755.3
From 1 to 5 years	664.1	2,374.2
More than 5 years	9.2	12.8
Total	**5,365.5**	**4,864.6**

(41) Loans and advances to customers

In EUR m	2016	2015
Loans and advances to German customers	62,662.5	60,957.4
Loans and advances to foreign customers	565.8	624.7
Total	**63,228.3**	**61,582.1**

Breakdown of loans and advances to customers by term

In EUR m	2016	2015
With agreed maturities		
Up to 3 months	3,963.1	4,040.9
From 3 months to 1 year	3,816.2	4,136.7
From 1 to 5 years	16,447.6	15,248.9
More than 5 years	38,321.0	37,493.7
Indefinite maturities	680.4	661.9
Total	**63,228.3**	**61,582.1**

There are currently no receivables from finance leasing contracts.

(42) Risk provision

Specific loan loss allowances for loans and advances to customers

In EUR m	2016	2015
Balance as at 01.01.	**–369.7**	**–392.6**
Changes recognised through profit or loss	**–110.0**	**–112.5**
Additions	–163.6	–171.3
Reversals	43.3	46.1
Unwinding	10.3	12.7
Changes without an impact on profit or loss	**94.7**	**135.4**
Utilisation	94.7	135.4
Balance as at 31.12.	**–385.0**	**–369.7**

No specific loan loss allowances were formed for loans and advances to banks in the financial year.

Breakdown of specific loan loss allowances by industry

In EUR m	2016	2015
Retail customers	–168.8	–181.3
Real estate financing	–90.5	–84.5
Renewable energies	–42.8	–40.0
Manufacturing sector	–31.9	–36.6
Healthcare	–20.4	–7.9
Food industry	–21.0	–7.4
Other	–9.6	–12.0
Total	**–385.0**	**–369.7**

Portfolio allowances for loans and advances to customers

In EUR m	2016	2015
Balance as at 01.01.	**–59.8**	**–62.2**
Changes recognised through profit or loss	**–20.0**	**–15.4**
Additions	–20.1	–17.9
Reversals	0.1	2.5
Changes without an impact on profit or loss	**16.0**	**17.8**
Utilisation	16.0	17.8
Balance as at 31.12.	**–63.8**	**–59.8**

For loans and advances to banks, portfolio allowances of EUR 21 thousand (previous year: EUR 21 thousand) existed as at the balance sheet reporting day.

The total amount of non-accrual loans amounted to EUR 581.2 million (previous year: EUR 508.2 million) as at 31 December 2016.

In the financial year, loans and advances of EUR 16.0 million (previous year: EUR 17.8 million) were directly depreciated. Direct depreciations are represented as the utilisation of portfolio allowances.

The risk provision for contingent liabilities and other obligations is shown as a provision for risks from the lending business.

The risk provision for LaR securities holdings is reported under financial investments.

(43) Portfolio hedge adjustment attributable to assets

The hedge adjustment for receivables whose interest rates are hedged in the portfolio fair value hedge amount to EUR 831.4 million (previous year: EUR 1,145.6 million) as at 31 December 2016. This is balanced against the market values of hedging transactions on the liabilities side under the item negative market values from derivative financial instruments (hedge accounting) and on the assets side under the item positive market values from derivative financial instruments (hedge accounting).

(44) Assets held for trading

In EUR m	2016	2015
Positive market values from derivative financial instruments (no hedge accounting)	4.3	4.2
Total	**4.3**	**4.2**

The portfolio of positive market values from derivative financial instruments includes only German derivative financial instruments and is divided into interest-related transactions of EUR 4.2 million (previous year: EUR 4.1 million) and currency-related transactions of EUR 0.1 million (previous year: EUR 0.1 million) as at 31 December 2016.

Breakdown of assets held for trading by term

In EUR m	2016	2015
With agreed maturities		
Up to 3 months	0.2	0.1
From 3 months to 1 year	–	–
From 1 to 5 years	–	0.4
More than 5 years	4.1	3.7
Total	**4.3**	**4.2**

(45) Positive market values from derivative financial instruments (hedge accounting)

In EUR m	2016	2015
Positive market values from fair value hedges (portfolio hedges)	–	6.9
Total	**–**	**6.9**

Breakdown of positive market values from derivative financial instruments by term

In EUR m	2016	2015
With agreed maturities		
More than 5 years	–	6.9
Total	**–**	**6.9**

(46) Financial investments

in Mio. EUR	2016	2015
AfS financial investments	**5,865.1**	**5,254.3**
Bonds and other fixed-income securities	5,636.1	5,037.6
Shares and other variable-income securities	164.7	172.1
Other financial investments	64.3	44.6
FVO financial investments	**–**	**10.7**
Bonds and other fixed-income securities	–	10.7
LaR financial investments	**15.0**	**59.7**
Bonds and other fixed-income securities	15.0	59.7
Total	**5,880.1**	**5,324.7**

As in the previous year, financial investments include shares in non-consolidated subsidiaries of EUR 8.7 million.

Of the financial investments, the following are negotiable:

In EUR m	2016	2015
Bonds and other fixed-income securities	5,651.1	5,108.0
Shares and other variable-income securities	156.7	164.2
Total	**5,807.8**	**5,272.2**

The equities and other variable-income securities are comprised as follows:

In EUR m	2016	2015
Equities	–	9.9
Investment shares	164.7	162.2
Total	**164.7**	**172.1**

The debt instruments and other fixed-income securities include exclusively bonds and debt instruments. Of the debt instruments and other fixed-income securities, EUR 5,635.8 million (previous year: EUR 5,091.7 million) are acceptable as collateral by central banks. Of this EUR 306.8 million (previous year: EUR 616.9 million) are due in the subsequent year (including accrued interests).

A portfolio allowance of EUR 3 thousand (previous year: EUR 37 thousand) was made for the LaR portfolio of debt instruments and other fixed-income securities.

Breakdown of financial investments held for trading by term

In EUR m	2016	2015
With agreed maturities		
Up to 3 months	75.2	171.4
From 3 months to 1 year	231.6	445.4
From 1 to 5 years	3,184.7	2,540.5
More than 5 years	2,194.5	1,985.7
Indefinite maturities	194.1	181.7
Total	**5,880.1**	**5,324.7**

(47) Income tax assets

In EUR m	2016	2015
Actual income tax assets	0.2	11.7
Deferred income tax assets (after offsetting)	0.0	0.0
Total	**0.2**	**11.7**

The income tax assets arose exclusively in Germany.

Tax loss carryforwards

In EUR m	2016	2015
Loss carryforwards, corporation tax	122.2	122.2
Loss carryforwards, trade tax	90.4	90.4

No deferred tax assets were formed on the loss carryforwards prior to fiscal unity due to the fiscal unity with BayernLB; they are usable without a time restriction. The intrinsic value of loss carryforwards is evaluated on the basis of tax forecast calculations. Deferred tax assets were not formed on loss carryforwards for companies that are part of the fiscal unit for income tax purposes.

(48) Non-current assets held for sale

In EUR m	2016	2015
Financial investments	–	117.0
Total	**–**	**117.0**

As at 31 December 2015, the DKB Group recognised the share held by it of Visa Europe Limited, due to a takeover offer by Visa Inc., separately as a non-current asset held for sale. As at 21 June 2016, the expected takeover of Visa Europe Limited by Visa Inc. was completed and the share was sold to Visa Europe Limited.

(49) Bank loans and overdrafts

In EUR m	2016	2015
Bank loans and overdrafts, Germany	13,301.6	14,527.3
Bank loans and overdrafts, foreign	1,208.4	1,259.9
Total	**14,510.0**	**15,787.2**

Breakdown of bank loans and overdrafts by term

In EUR m	2016	2015
On demand	67.0	42.8
With agreed maturities		
Up to 3 months	345.9	645.6
From 3 months to 1 year	1,221.8	1,137.7
From 1 to 5 years	4,572.2	6,001.8
More than 5 years	8,303.1	7,959.3
Total	**14,510.0**	**15,787.2**

(50) Liabilities to customers

In EUR m	2016	2015
Savings deposits	**370.4**	**408.8**
With agreed termination period of 3 months	370.4	408.8
Other liabilities	**53,067.6**	**48,149.4**
On demand	39,998.3	33,914.0
With agreed term or notice period	13,069.3	14,235.4
Total	**53,438.0**	**48,558.2**

In EUR m	2016	2015
Liabilities to German customers	52,483.6	47,717.1
Liabilities to foreign customers	954.4	841.1
Total	**53,438.0**	**48,558.2**

Breakdown of liabilities to customers by term

In EUR m	2016	2015
On demand	39,998.3	33,914.0
With agreed maturities		
Up to 3 months	8,191.4	8,359,3
From 3 months to 1 year	318.4	991.0
From 1 to 5 years	1,512.6	1,642.5
More than 5 years	3,417.3	3,651.4
Total	**53,438.0**	**48,558.2**

(51) Securitised liabilities

In EUR m	2016	2015
Bonds issued		
Mortgage Pfandbriefs	2,416,3	2,606,8
Public sector Pfandbriefs	1,542.7	1,491.9
Other debt instruments	500.0	0.2
Total	**4,459.0**	**4,098.9**

In the financial year, public Pfandbriefs and mortgage Pfandbriefs of nominally EUR 560.0 million (previous year: nominally EUR 1,460.0 million) were issued and EUR 200.0 million (previous year: EUR 525.0 million) was paid back.

Breakdown of securitised liabilities by term

In EUR m	2016	2015
With agreed maturities		
Up to 3 months	46.6	125.1
From 3 months to 1 year	210.0	99.4
From 1 to 5 years	1,997.0	1,131.1
More than 5 years	2,205.4	2,743.3
Total	**4,459.0**	**4,098.9**

(52) Liabilities held for trading

In EUR m	2016	2015
Negative market values from derivative financial instruments (no hedge accounting)	53.4	55.4
Total	**53.4**	**55.4**

The liabilities held for trading include domestic transactions of EUR 30.0 million (previous year: EUR 51.0 million) and foreign transactions of EUR 23.4 million (previous year: EUR 4.4 million) and are divided between interest-related transactions of EUR 53.3 million (previous year: EUR 55.3 million) and currency-related transactions of EUR 0.1 million (previous year: EUR 0.1 million) as at 31 December 2016.

Breakdown of liabilities held for trading by term

In EUR m	2016	2015
With agreed maturities		
Up to 3 months	13.6	11.5
From 3 months to 1 year	36.5	40.9
From 1 to 5 years	-	0.0
More than 5 years	3.3	3.0
Total	**53.4**	**55.4**

(53) Negative market values from derivative financial instruments (hedge accounting)

In EUR m	2016	2015
Negative market values from fair value hedges (portfolio hedges)	119.2	1,267.5
Total	**119.2**	**1,267.5**

The hedging transactions refer entirely to loans and advances to customers.

Breakdown of negative market values from derivative financial instruments by term

In EUR m	2016	2015
With agreed maturities		
From 3 months to 1 year	59.5	27.9
From 1 to 5 years	57.6	787.9
More than 5 years	2.1	451.7
Total	**119.2**	**1,267.5**

(54) Provisions

In EUR m	2016	2015
Provisions for pensions and similar obligations	**78.1**	**68.7**
Other provisions	**65.2**	**52.6**
Provisions in the lending business	13.3	13.9
Miscellaneous provisions	51.9	38.7
Total	**143.3**	**121.3**

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations include the obligations to provide retirement benefits. The DKB Group uses the implementation method of direct commitment (unfunded plan). The defined benefit obligation was determined as the present value of all retirement benefits as at the balance sheet reporting day, already proportionately earned as at the reporting day.

Development of the book value (also corresponds to the present value) of the pension obligations

In EUR m	2016	2015
Balance as at 01.01.	**68.7**	**65.9**
Changes in the group of consolidated companies	–	–
Current service cost	3.8	3.9
Interest expense	1.6	1.4
Changes from the revaluation	8.2	–1.5
Employee contributions to the plan	0.1	0.2
Paid benefits	–1.2	–1.2
Past service cost	–3.1	–
Plan compensation	–	–
Balance as at 31.12.	**78.1**	**68.7**

The changes from the revaluation encompass the actuarial gains/losses from the change in the present value of the pension obligations. The changes from the revaluation are recognised without an impact on profit or loss in equity under the retained earnings.

Sensitivity of key measurement parameters

In EUR m	Increase by 0.5 percentage points	Decline by 0.5 percentage points
Discounting interest rate	–5.9	6.6
Salary developments and pension trends[1]	3.3	–3.0

[1] Salary developments and pension trends are considered together for the sensitivity calculations.

The extension of life expectancy (biometry) by one year would cause an effect of EUR 1.7 million.

Development of the fair value of the plan assets: The DKB Group is not reporting any plan assets in the reporting period.

Expense for pension obligations recorded through profit or loss

In EUR m	2016	2015
Current service cost (administrative expense)	3.8	3.9
Net interest cost from pension provisions (interest expense)	1.6	1.4
Past service cost (administrative expense)	–3.1	–
Income/expense from plan compensations (administrative expense)	–	–
Total	**2.3**	**5.3**

Other provisions

	Provisions in the lending business							
	Level of the individual transaction		Portfolio level		Miscellaneous provisions		Total	
In EUR m	2016	2015	2016	2015	2016	2015	2016	2015
Balance as at 01.01.	**11.2**	**4.6**	**2.7**	**2.4**	**38.7**	**31.9**	**52.6**	**38.9**
Changes in the group of consolidated companies	–	–	–	–	–	–	–	–
Utilisation	0.0	–3.1	–	–	–7.8	–11.8	–7.8	–14.9
Reversals	–6.4	–1.3	–0.7	0.0	–1.3	–4.0	–8.4	–5.3
Additions	5.6	11.0	0.8	0.3	22.8	24.5	29.2	35.8
Transfers	–	–	–	–	–0.5	–1.9	–0.5	–1.9
Balance as at 31.12.	**10.4**	**11.2**	**2.8**	**2.7**	**51.9**	**38.7**	**65.1**	**52.6**

The other provisions include the following items:

In EUR m	2016	2015
Provisions for legal expenses and legal risks	27.8	17.8
Provisions for the personnel area	14.5	10.2
Restructuring provisions	4.4	4.3
Provisions for archiving costs	3.5	3.4
Miscellaneous provisions	1.7	3.0
Total	**51.9**	**38.7**

Discounted provisions were compounded in the financial year by EUR 8 thousand (previous year: EUR 27 thousand). The change in the discounting rate lead to a provision increase of EUR 324 thousand (previous year: reduction of EUR 1 thousand).

Of the other provisions EUR 39.6 million (previous year: EUR 28.9 million) fall due after more than 12 months.

(55) Income tax liabilities

In EUR m	2016	2015
Actual income tax liabilities	0.4	10.3
Deferred income tax liabilities	0.5	0.8
Total	**0.9**	**11.1**

The income tax liabilities arose exclusively in Germany.

The deferred income tax liabilities are distributed among the following items:

In EUR m	2016	2015
Loans and advances to banks and customers	0.6	0.9
Risk provisions	1.1	0.8
Other assets including intangible assets	0.0	0.3
Deferred income tax liabilities (before offsetting)	**1.7**	**2.0**
Offsetting with deferred income tax assets	**–1.2**	**–1.2**
Total	**0.5**	**0.8**

The change in deferred income tax liabilities (before offsetting) was taken into consideration through profit and loss in the amount of EUR 1.0 million and without an impact on profit and loss in the amount of EUR 0.2 million.

The holding of deferred taxes posted without an impact on profit and loss against the revaluation reserve (revaluation reserve from AfS instruments) (before offsetting) is EUR 0.6 million (previous year: EUR 0.9 million) as at 31 December 2016.

(56) Other liabilities

In EUR m	2016	2015
Profit transfer to BayernLB	256.9	162.3
Deferred debts	67.9	58.9
Deferred income	12.6	11.8
Other obligations	35.2	30.9
Total	**372.6**	**263.9**

The deferred debts primarily include outstanding invoices of EUR 30.6 million (previous year: EUR 23.0 million), liabilities vis-à-vis the tax office (without income tax liabilities) of EUR 7.7 million (previous year: EUR 10.6 million) as well as short-term employee benefits of EUR 14.6 million (previous year: EUR 12.5 million) as at 31 December 2016

All liabilities are to be met in the short term.

(57) Subordinate capital

In EUR m	2016	2015
Subordinated liabilities	380.0	297.8
Participation rights capital	26.8	21.8
Total	**406.8**	**319.6**

The subordinated liabilities must be arranged contractually such that, in the event of insolvency or the liquidation of DKB, a reimbursement does not take place until all non-subordinate creditors are first satisfied. A premature repayment obligation at the creditor's request cannot arise. The prerequisites for attribution to the regulatory equity in accordance with Section 62 CRR are fulfilled at DKB for a portfolio of nominally EUR 368.3 million.

The subordinate liabilities include accrued interest of EUR 12.0 million (previous year: EUR 9.8 million). The interest expense for subordinate liabilities is EUR 16.3 million (previous year: EUR 19.6 million) in the financial year. The interest expense for participation rights capital is EUR 2.1 million (previous year: EUR 1.5 million) in the financial year.

Of the subordinate liabilities, EUR 29.3 million (previous year: EUR 44.3 million) falls due before 2 years have elapsed.

In the financial year, EUR 5.4 million in new participation rights was issued (previous year: none).

Breakdown of subordinate capital by term

In EUR m	2016	2015
With agreed maturities		
Up to 3 months	13.2	29.8
From 3 months to 1 year	23.0	–
From 1 to 5 years	143.8	125.1
More than 5 years	200.0	142.9
With indefinite maturity	26.8	21.8
Total	**406.8**	**319.6**

(58) Equity

in Mio. EUR	2016	2015
Subscribed capital	339.3	339.3
Statutory nominal capital	339.3	339.3
Capital reserve	1,414.4	1,314.4
Retained earnings	1,024.0	970.1
Statutory reserve	242.4	242.4
Reserve from the revaluation of defined benefit pension plans	–29.3	–21.1
Other retained earnings	810.9	748.8
Revaluation reserve	161.7	250.1
Consolidated profit	79.7	71.8
Total	**3,019.1**	**2,945.7**

Subscribed capital
The subscribed capital is divided into 130.5 million no-par value shares.

Capital reserve
The payments made by shareholders into equity are included in the capital reserve.

Retained earnings
The amounts that were assigned to the reserves from the profits of previous years and from the profit of the current year are reported under retained earnings. They are broken down into the statutory reserve and other retained earnings.

Reserve from the revaluation of defined benefit pension plans
This sub-item under retained earnings contains the measurement results, that do not impact on profit or loss, from the revaluation of defined-benefit pension plans. Deferred taxes incurred on this are reported separately.

In EUR m	2016	2015
Balance as at 01.01.	**–21.1**	**–22.6**
Measurement changes arising from the pension reserve that do not impact on profit or loss	–8.2	1.5
of which: from the pension obligation	–8.2	1.5
Change in deferred taxes formed without an impact on profit or loss	0.0	0.0
Balance as at 31.12.	**–29.3**	**–21.1**

Revaluation reserve
This item contains the measurement results, that do not impact on profit or loss, from AfS financial instruments as well as from non-current assets held for sale. Deferred taxes incurred on this are reported separately.

The revaluation reserve has developed as follows:

In EUR m	2016	2015
Balance as at 01.01.	**250.1**	**132.9**
AfS financial instruments		
Measurement changes that do not impact on profit or loss	45.3	9.3
Changes in deferred taxes formed without an impact on profit or loss	0.3	0.6
Measurement changes recognised through profit or loss	–17.0	–9.7
Non-current assets held for sale		
Measurement changes that do not impact on profit or loss	12.5	117.0
Measurement changes recognised through profit or loss	–129.5	–
Balance as at 31.12.	**161.7**	**250.1**

The measurement changes recognised through profit or loss of the AfS financial instruments include the amortisation of the securities portfolios reclassified into the category LaR, in the amount of EUR 0.3 million (previous year: EUR 0.5 million).

Consolidated profit
Both a profit transfer agreement and a controlling agreement exist with BayernLB.

As at the reporting date, there were no non-controlling interests.

Notes on financial instruments

With respect to the notes on the risks arising from financial instruments in accordance with IFRS 7, please also refer to the risk report in the management report of the DKB Group, in addition to the following statements.

(59) Fair value and measurement hierarchies of financial instruments

Fair value of financial instruments[1]

	Fair Value		Book value	
In EUR m	**2016**	**2015**	**2016**	**2015**
Assets	**80,271.2**	**77,173.6**	76,693.6	73,720.4
Cash reserves	1,428.6	719.9	1,428.6	719.9
Loans and advances to banks	5,372.5	4,882.9	5,365.5	4,864.6
Loans and advances to customers[2]	67,650.0	66,162.2	64,059.7	62,727.7
Assets held for trading	4.3	4.2	4.3	4.2
Positive market values from derivative financial instruments (hedge accounting)	–	6.9	–	6.9
Financial investments[3]	5,815.8	5,280.5	5,835.5	5,280.1
Non-current assets held for sale (share in VISA Europe Limited)	–	117.0	–	117.0
Liabilities	**75,450.6**	**72,295.7**	72,986.4	70,086.8
Bank loans and overdrafts	15,651.4	16,739.8	14,510.0	15,787.2
Liabilities to customers	54,526.6	49,687.1	53,438.0	48,558.2
Securitised liabilities	4,602.4	4,168.3	4,459.0	4,098.9
Liabilities held for trading	53.4	55.4	53.4	55.4
Negative market values from derivative financial instruments (hedge accounting)	119.2	1,267.5	119.2	1,267.5
Subordinate capital	497.6	377.6	406.8	319.6

[1] For current financial instruments, the book value regularly corresponds to the fair value.
[2] Including portfolio hedge adjustment attributable to assets.
[3] Excluding participations and shares in affiliated companies that are measured at cost.

The DKB Group is not planning to sell any of the financial instruments presented.

Hierarchy of fair values
In the fair value hierarchy, the measurement parameters used to measure the fair value of the financial instruments are divided into three levels:

Level 1: The measurement takes place on the basis of quoted prices on active markets (without adjustments), to which the DKB Group has access on the measurement reporting day.

These include equities, funds and debt instruments that are traded in very liquid markets.

Level 2: The fair values are determined using measurement methods, whose measurement parameters are directly (as prices) or indirectly (derived from prices) observable and do not fall under Level 1. This can include quoted prices in active markets for similar financial instruments, quoted prices in inactive markets, other observable input parameters (e.g. interest rates, exchange rates) as well as market-supported input factors.

These include OTC derivatives such as interest rate swaps and forward exchange transactions, as well as debt instruments not assigned to Level 1.

Level 3: The fair values are determined using measurement methods, whose measurement parameters are not based on observable market data. The financial instruments in this category feature at least one input parameter that is not observable on the market and has a significant influence on the fair value (such as e.g. internally calculated margins and credit rating spreads).

These include receivables acquired on the non-performing loan market and the shares in VISA Inc.

Financial instruments that are not measured at fair value are not managed on the basis of fair values. This applies, for example, to loans and deposits. For such instruments, the fair value is only determined for the purposes of the notes. Changes in the determined fair value influence neither the consolidated balance sheet nor the consolidated statement of comprehensive income.

If the fair value of a financial instrument is determined on the basis of several measurement parameters, the fair value is assigned in total in accordance with the measurement parameter with the lowest level that is material for the fair value determination.

Financial instruments measured at fair value

Over the course of the reporting period, transfers took place between the hierarchy levels for the financial instruments that were measured at fair value. The end of the reporting period is used as the time of transfer.

	Level 1		Level 2		Level 3		Total	
In EUR m	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Assets								
Loans and advances to customers	–	–	–	–	7.0	12.0	7.0	12.0
Assets held for trading	–	–	4.3	4.2	–	–	4.3	4.2
Positive market values from derivative financial instruments (hedge accounting)	–	–	–	6.9	–	–	–	6.9
Financial investments[1]	4,070.7	3,692.9	1,730.1	1,527.6	–	–	5,800.8	5,220.5
of which debt instruments	3,906.0	3,520.8	1,730.1	1,527.6	–	–	5,636.1	5,048.4
of which equity and equity-like instruments	164.7	172.1	–	–	–	–	164.7	172.1
Non-current assets held for sale (shares in Visa Europe Limited)	–	–	–	–	–	117.0	–	117.0
Total	**4,070.7**	**3,692.9**	**1,734.4**	**1,538.7**	**7.0**	**129.0**	**5,812.1**	**5,360.6**
Liabilities								
Liabilities held for trading	–	–	53.4	55.4	–	–	53.4	55.4
Negative market values from derivative financial instruments (hedge accounting)	–	–	119.2	1,267.5	–	–	119.2	1,267.5
Total	**–**	**–**	**172.6**	**1,322.9**	**–**	**–**	**172.6**	**1,322.9**

[1] Excluding participations and shares in affiliated companies.

Subsequent to the review of the Level 1 assignment as at 31 December 2016 with respect to the parameters that all have to be met (e.g. number of pricings), debt instruments in the amount of EUR 574.0 million were reassigned from Level 1 to Level 2 and debt instruments in the amount of EUR 601.8 million were reassigned from Level 2 to Level 1.

Development of fair values determined on the basis of market data that is not observable (Level 3)

In EUR m	Financial investments 2016	Financial investments 2015	Loans and advances to customers 2016	Loans and advances to customers 2015	Non-current assets held for sale (shares in Visa Europe Limited) 2016	Non-current assets held for sale (shares in Visa Europe Limited) 2015	Total 2016	Total 2015
Balance as at 01.01.	**–**	**–**	**12.0**	**18.0**	**117.0**	**–**	**129.0**	**18.0**
Effects recognised through profit or loss	2.3	–	–1.5	0.2	–	–	0.8	0.2
of which gains/losses on financial investments	2.3	–	–	–	–	–	2.3	–
of which other income and expenses	–	–	–1.5	0.2	–	–	–1.5	0.2
Change in the revaluation reserve	1.5	–	–1.0	–1.8	12.5	117.0	13.0	115.2
Purchases	18.3	–	0.4	0.0	–	–	18.7	0.0
Sales	–2.3	–	–1.5	–3.7	–129.5	–	–133.3	–3.7
Fulfilments	–	–	–1.4	–0.7	–	–	–1.4	–0.7
Balance as at 31.12.	**19.8**	**–**	**7.0**	**12.0**	**–**	**117.0**	**26.8**	**129.0**
Effects recognised through profit or loss for financial instruments in the portfolio on 31.12.	–	–	–1.5	–1.4	–	–	–1.5	–1.4
of which other income and expenses	–	–	–1.5	–1.4	–	–	–1.5	–1.4

Significant unobservable parameters (Level 3) and their sensitivities

Loans and advances to customers
(receivables acquired on the non-performing loan market and secured with real estate)

Significant unobservable parameters	Bandwidth (average)	Change in parameter	Change recognised through profit or loss	Change in equity
Recovery value	EUR 0 thousand to EUR 195 thousand (EUR 28 thousand)	+5.0% –5.0%	EUR +67 thousand EUR –72 thousand	EUR +238 thousand EUR –228 thousand
Recovery period	1 month to 34 months (10 months)	+ 6 months – 6 months	EUR 0 thousand EUR 0 thousand	EUR –4 thousand EUR +4 thousand
Interest rate	0.14% to 0.21% (0.20%)	+0.05% –0.05%	EUR 0 thousand EUR 0 thousand	EUR –3 thousand EUR +3 thousand

Financial investments (shares in VISA Inc.)

Significant unobservable parameters	Assumed subscription ratio	Change in parameter	Change recognised through profit or loss	Change in equity
Subscription ratio of the Visa Inc. shares	50%	+10% –10%	– –	EUR +1,977 thousand EUR –1,977 thousand

The measurement methods used are customary in the industry and adequate for the relevant asset to be measured.

Financial instruments measured at amortised acquisition costs

	Level 1		Level 2		Level 3		Total	
In EUR m	2016	2015	2016	2015	2016	2015	2016	2015
Assets								
Cash reserves	–	–	–	–	1,428.6	719.9	1,428.6	719.9
Loans and advances to banks	–	–	–	–	5,372.5	4,882.9	5,372.5	4,882.9
Loans and advances to customers	–	–	–	–	67,643.0	66,150.2	67,643.0	66,150.2
Financial investments	15.0	–	–	60.0	–	–	15.0	60.0
of which debt instruments	15.0	–	–	60.0	–	–	15.0	60.0
Total	**15.0**	**–**	**–**	**60.0**	**74,444.1**	**71,753.0**	**74,459.1**	**71,813.0**
Liabilities								
Bank loans and overdrafts	–	–	–	–	15,651.4	16,739.8	15,651.4	16,739.8
Liabilities to customers	–	–	–	–	54,526.6	49,687.1	54,526.6	49,687.1
Securitised liabilities	2,698.4	2,346.8	1,903.8	1,821.3	0.2	0.2	4,602.4	4,168.3
Subordinate capital	–	–	–	–	497.6	377.6	497.6	377.6
Total	**2,698.4**	**2,346.8**	**1,903.8**	**1,821.3**	**70,675.8**	**66,804.7**	**75,278.0**	**70,972.8**

(60) Measurement categories of financial instruments

In EUR m	2016	2015
Assets		
Financial assets measured at fair value through profit or loss	**4.3**	**14.9**
Financial investments (FVO)	–	10.7
Assets held for trading (HfT)	4.3	4.2
Loans, receivables and securities (LaR)	**68,601.8**	**66,494.4**
Loans and advances to banks	5,365.5	4,864.6
Loans and advances to customers	63,221.3	61,570.1
Financial investments	15.0	59.7
Financial assets available for sale (AfS)	**5,872.1**	**5,266.3**
Loans and advances to customers	7.0	12.0
Financial investments	5,865.1	5,254.3
Positive market values from derivative financial instruments (hedge accounting)	**–**	**6.9**
Liabilities		
Financial liabilities measured at fair value through profit or loss	**53.4**	**55.4**
Liabilities held for trading (HfT)	53.4	55.4
Financial liabilities measured at amortised acquisition costs (LaC)	**72,813.8**	**68,763.9**
Bank loans and overdrafts	14,510.0	15,787.2
Liabilities to customers	53,438.0	48,558.2
Securitised liabilities	4,459.0	4,098.9
Subordinate capital	406.8	319.6
Negative market values from derivative financial instruments (hedge accounting)	**119.2**	**1,267.5**

(61) Reallocation of financial assets

In accordance with the official statement from the IASB regarding the amendment of IAS 39 and IFRS 7 Reclassification of Financial Assets and EU Directive 1004/2008, the DKB Group reallocated selected securities within the financial investments from the category AfS to the category LaR as at 1 July 2008. The book value of the affected securities, as of the balance sheet reporting day, amounts to EUR 15,0 million (previous year: EUR 60,0 million). The reallocation impacted the consolidated net income in the financial year by EUR 0,0 million (previous year: EUR 0,0 million) in the financial year. No reallocations took place in the reporting period.

(62) Net profits or losses from financial instruments

In EUR m	2016	2015
Financial assets or financial liabilities measured at fair value through profit or loss	**1.1**	**3.0**
Fair value option (FVO)	0.1	0.3
Net interest income	0.2	0.5
Gains/losses on fair value measurement	–0.1	–0.2
Financial assets or financial liabilities held for trading (HfT)	1.0	2.7
Net interest income	–45.3	–11.4
Gains/losses on fair value measurement	46.3	14.1
Financial assets available for sale (AfS)	**160.7**	**11.2**
Gains/losses on financial investments	160.7	11.2
Loans, receivables and securities (LaR)	**–128.7**	**–133.1**
Risk provisions	–128.7	–133.1
Gains/losses on financial investments	0.0	0.0
Financial liabilities measured at amortised acquisition costs (LaC)	**–**	**–**

The gains/losses from the fair value measurement of the AfS financial instruments in the amount of EUR 161.7 million (previous year: EUR 250.1 million) are reported, without an impact on profit or loss, in the revaluation reserve within equity.

(63) Derivative transactions

The following tables present the as yet unsettled interest rate-related and foreign currency-related derivatives and the other forward transactions. The derivative transactions comprise predominantly interest rate swaps, which are used to manage the interest rate risk.

Presentation of volumes

	Nominal values		Positive market values	Negative market values
In EUR m	**2016**	**2015**	**2016**	**2016**
Interest rate risks	**11,950.0**	**13,320.0**	**4.8**	**1,007.3**
Interest rate swaps	11,925.0	13,295.0	4.8	1,006.3
Options on interest rate swaps	25.0	25.0	–	1.0
Currency risks	**35.0**	**69.5**	**0.0**	**0.1**
Forward exchange transactions	35.0	69.5	0.0	0.1
Total	**11,985.0**	**13,389.5**	**4.8**	**1,007.4**

EUR 9,245.0 million (previous year: EUR 12,095.0 million) of the nominal values of interest rate swaps relate to portfolio hedges. The remainder relates to hedging relationships that are no longer included in hedge accounting.

In accordance with the European Market Infrastructure Regulation (EMIR), derivatives with negative market values of EUR 834.7 million and those with positive market values of EUR 0.5 million that are subject to clearing were offset against cash collateral saved or received.

The derivatives are all from banks in the OECD.

Maturity breakdown

	Nominal values			
Residual maturities	**Interest rate risks**		**Currency risks**	
In EUR m	**2016**	**2015**	**2016**	**2015**
Up to 3 months	510.0	260.0	15.3	46.8
From 3 months to 1 year	4,150.0	1,510.0	19.7	22.7
From 1 to 5 years	4,550.0	7,490.0	–	–
More than 5 years	2,740.0	4,060.0	–	–
Total	**11,950.0**	**13,320.0**	**35.0**	**69.5**

Notes on the risk situation

(64) Risks from financial instruments

The information in the notes supplement the statements on the DKB Group's risk management and the qualitative economic information presented in the risk report. Their purpose is to provide a detailed insight into the structure of the risks into which the Group has entered.

Development of credit default risks
The following table shows the distribution of the maximum credit risk:

In EUR m	2016	2015
Cash reserves	1,428.6	719.9
Loans and advances to banks	5,365.5	4,864.6
Loans and advances to customers	62,779.5	61,152.6
Financial investments	5,651.1	5,108.0
Derivatives	4.3	11.1
Contingent liabilities	831.5	887.0
Irrevocable commitments	2,692.4	2,248.7
Total	**78,752.9**	**74,991.9**

As a result of the strategy-compliant growth in the customer business, the loans and advances to customers rose by EUR 1.6 billion. The expansion of the customer business is focussed on the Infrastructure and Corporate Customers segments.

The increase in financial investments by EUR 0.5 billion is attributable to the continued expansion of the securities portfolio of the liquidity reserve. In addition to public-sector bonds from Germany and from Eurozone countries with first class credit ratings, the focus also lay on bonds of supranational issuers and development institutes.

The distribution of the maximum credit risk of assets that are not overdue and not impaired to rating scores developed as follows:

In EUR m	2016	2015
Rating 1–9	**74,091.0**	**69,506.3**
Cash reserves	1,428.6	719.9
Loans and advances to banks	5,365.5	4,864.6
Loans and advances to customers	58,323.3	55,900.6
Financial investments	5,561.1	5,108.0
Derivatives	4.3	11.1
Contingent liabilities	788.6	819.9
Irrevocable commitments	2,529.6	2,082.2
Rating 10–12	**2,576.2**	**3,115.7**
Loans and advances to customers	2,434.5	2,922.9
Contingent liabilities	26.8	56.3
Irrevocable commitments	114.9	136.5
Rating 13–15	**903.7**	**1,084.8**
Loans and advances to customers	885.7	1,067.4
Contingent liabilities	7.1	3.6
Irrevocable commitments	10.9	13.8
Default classes (Rating 16–18)	**150.1**	**273.3**
Loans and advances to customers	121.1	259.5
Contingent liabilities	8.3	6.7
Irrevocable commitments	20.7	7.1
Total	**77,721.0**	**73,980.1**

In rating classes 1–9, the maximum credit risk rose by EUR 4.6 billion. This reflects predominantly the strategy-compliant new business and the expansion of the securities portfolio.

Overall, the trend towards an improvement in the rating structure continued. This is evident in the decline of the maximum credit risk in the other rating groups.

The DKB Group has financial assets that are overdue but none that are impaired:

	Maximum credit risk[1]		Eligible collateral[1]	
In EUR m	**2016**	**2015**	**2016**	**2015**
Loans and advances to customers	**647.0**	**623.1**	**440.6**	**336.3**
Up to 1 month	410.1	334.6	271.1	185.6
From 1 to 3 months	145.1	120.3	117.7	72.0
From 3 months to 1 year	62.7	97.3	49.6	53.2
More than 1 year	29.1	70.9	2.2	25.5
Loans and advances to banks	**–**	**–**	**–**	**–**
Financial investments	**–**	**–**	**–**	**–**
Derivatives	**–**	**–**	**–**	**–**
Contingent liabilities	**–**	**–**	**–**	**–**
Irrevocable commitments	**16.3**	**9.1**	**–**	**–**
Up to 1 month	16.1	9.1	–	–
From 1 to 3 months	0.2	–	–	–
Total	**663.3**	**632.2**	**440.6**	**336.3**

[1] The identification system of the affected commitments was advanced further compared to the previous year. There are therefore deviations in comparison to 2015.

The lion's share, i. e. 86 % of overdue assets, is in the up to 3 months maximum' category.

The DKB Group did not receive any assets in the reporting year as a result of the seizure of securities.

The maximum credit risk of impaired assets is on a par with the previous year:

	Maximum credit risk [1]		Eligible collateral [1]	
In EUR m	**2016**	**2015**	**2016**	**2015**
Loans and advances to customers	367.9	379.1	148.3	150.1
Loans and advances to banks	–	–	–	–
Financial investments	–	–	–	–
Derivatives	–	–	–	–
Contingent liabilities	0.7	0.5	–	–
Irrevocable commitments	–	–	–	–
Total	**368.6**	**379.6**	**148.3**	**150.1**

[1] The identification system of the affected commitments was advanced further compared to the previous year. There are therefore deviations in comparison to 2015.

The loss allowances – comprising the specific loan loss allowances and provisions – increased by EUR 10.0 million to EUR 390.9 million.

For receivables that have not been impaired, portfolio allowances of EUR 63.8 million were formed. Furthermore, provisions in the amount of EUR 2.8 million were formed at portfolio level for off-balance sheet business.

Forborne exposure

Forbearance measures are generally defined as concessions to a debtor against the background of financial difficulties. The aim of such concessions is to enable the borrower to meet his obligations under the loan agreement.

Concessions can be made either through modifying existing conditions to benefit the debtor or by granting partial or complete refinancing measures. Forbearance measures are deemed to include modifications to the term, interest rate and repayments as well as waivers and capitalisation of arrears.

The forborne exposure has developed as follows:

In EUR m	**2016**	**2015 [1]**
Loans and advances to customers	531.0	549.3
Contingent liabilities	10.6	15.7
Irrevocable commitments	19.5	15.3
Total	**561.1**	**580.3**

[1] The identification system of the affected commitments was advanced further compared to the previous year. There are therefore deviations in comparison to 2015.

Presentation of market price risks

In early 2016, market price risk measurement was changed to a correlated consideration of custody account-A and the banking book. At the same time, the institute-specific holding period concept was abandoned and scaling to a uniform holding period of 250 days took place. The total market price risk determined is factored into the risk-bearing capacity statement and is limited. The market price risks of the banking book (without custody account-A) are no longer reported separately and limited.

The market price risks by risk factors for the Bank as a whole are represented as follows:

	6-month comparison 2016			12-month comparison 2015 [1]		
In EUR m	**31.12.2016**	**Maximum**	**Minimum**	**31.12.2015**	**Maximum**	**Minimum**
Interest	181	462	123	–	–	–
Share	86	112	73	–	–	–
Credit spread	17	26	16	–	–	–
Foreign currency	6	8	0	–	–	–
Volatility	0	0	0	–	–	–
Correlated overall risk	**219**	**482**	**187**	**395**	**528**	**265**

[1] Benchmark values for 2015 were determined cumulatively (custody account-A + banking book).
No risk factors were reported for the Bank as a whole, prior to the change in method.

The risk capital requirement for all the market price risks declined significantly in 2016 by EUR 176 million to EUR 219 million, whereby the highest value of EUR 482 million was achieved in January 2016 and the lowest value of EUR 187 million was achieved in December 2016. The decline in risk capital results largely from the change in the option price model from a log-normal to a normally distributed, negative interest rate compatible model.

Due to the takeover of Visa Europe Limited by Visa Inc., currency risks arose as at 31 December 2016 in the amount of EUR 6 million, which are measured and limited within the framework of the daily risk calculation. There was an associated adjustment of the foreign currency limit from EUR 3 million to EUR 12 million in June 2016.

The securities portfolio has the following structure as at 31 December 2016:

	Banks		Non-banks		Public issuers		Total	
Market value in EUR m	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Bonds	1,605.0	1,362.4	303.3	440.3	3,742.8	3,304.3	5,651.1	5,107.0
Funds	–	–	164.7	162.2	–	–	164.7	162.2
Equities	–	–	–	9.9	–	–	–	9.9
Total	**1,605.0**	**1,362.4**	**468.0**	**612.4**	**3,742.8**	**3,304.3**	**5,815.8**	**5,279.1**

The securities portfolio increased by EUR 0,5 billion following the expansion of the liquidity portfolio. The securities comprise primarily German government federal bonds, bonds issued by the German federal states and those issued by development institutes. There are also government bonds from Eurozone countries with first-class credit ratings and bonds of supranational issuers.

The regional distribution of the securities portfolio by market value developed as follows:

	31.12.2016		31.12.2015	
	EUR m	%	EUR m	%
Germany	4,092.0	70	3,723.5	70
Europe/EU	1,456.2	25	1,410.6	27
Europe/Non-EU	136.3	2	95.6	2
USA	34.8	1	14.8	0
Other	96.5	2	34.6	1
Total	**5,815.8**	**100**	**5,279.1**	**100**

Presentation of liquidity risks
The liabilities of the DKB Group increased in 2016 by EUR 3.5 billion. The change is due to the growth in liabilities to customers by EUR 4.9 billion as well as the decline in bank loans and overdrafts by EUR 1.3 billion. The distribution of the liabilities of the DKB Group by contractual maturities was structured as follows as at 31 December 2016:

In EUR m	2016	2015
On demand	**40,065.3**	**33,956.8**
Bank loans and overdrafts	67.0	42.8
Liabilities to customers	39,998.3	33,914.0
Up to 3 months	**8,610.7**	**9,171.3**
Bank loans and overdrafts	345.9	645.6
Liabilities to customers	8,191.4	8,359.3
Securitised liabilities	46.6	125.1
Derivatives	13.6	11.5
Subordinate capital	13.2	29.8
From 3 months to 1 year	**1,869.2**	**2,296.9**
Bank loans and overdrafts	1,221.8	1,137.7
Liabilities to customers	318.4	991.0
Securitised liabilities	210.0	99.4
Derivatives	96.0	68.8
Subordinate capital	23.0	–
From 1 to 5 years	**8,283.2**	**9,688.4**
Bank loans and overdrafts	4,572.2	6,001.8
Liabilities to customers	1,512.6	1,642.5
Securitised liabilities	1,997.0	1,131.1
Derivatives	57.6	787.9
Subordinate capital	143.8	125.1
More than 5 years	**14,131.2**	**14,951.6**
Bank loans and overdrafts	8,303.1	7,959.3
Liabilities to customers	3,417.3	3,651.4
Securitised liabilities	2,205.4	2,743.3
Derivatives	5.4	454.7

In EUR m	2016	2015
Subordinate capital	200.0	142.9
Indefinite maturity	**4,067.5**	**3,553.8**
Subordinate capital	26.8	21.8
Provisions	143.3	121.3
Other liabilities	373.5	275.0
Contingent liabilities	831.5	887.0
Irrevocable commitments	2,692.4	2,248.7
Total	**77,027.1**	**73,618.8**

Other notes

(65) Subordinate assets

The subordinate assets in the amount of EUR 60.8 million (previous year: EUR 52.1 million) are included in full in the loans and advances to customers.

(66) Pfandbriefs in circulation

Public sector Pfandbriefs

	Nominal value		Present value		Risk present value [1]	
In EUR m	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Total amount of the cover pool [2]	8,994.8	8,283.8	10,020.2	9,205.7	8,809.3	8,123.2
Total amount of Pfandbriefs in circulation	4,158.9	4,705.9	4,674.0	5,215.3	4,183.4	4,625.2
	4,835.9	**3,577.9**	**5,346.2**	**3,990.4**	**4,625.9**	**3,497.9**
Surplus cover	**116.3 %**	**76.0 %**	**114.4 %**	**76.5 %**	**110.6 %**	**75.6 %**

[1] Static approach (+250 BP).
[2] Including further cover assets in accordance with sections 19(1) and 20(2) of the German Covered Bond Act (PfandBG).

As at 31 December 2016, there were public Pfandbriefs with a nominal amount of EUR 70.0 million in DKB Group's own holdings. These were offset against the securitised liabilities.

	Public sector Pfandbriefs		Cover pool[1]	
In EUR m	**2016**	**2015**	**2016**	**2015**
Residual maturities and fixed interest periods				
Up to 6 months	366.0	2.0	448.8	485.4
From 6 to 12 months	261.9	260.0	411.1	391.1
From 12 to 18 months	627.5	356.0	417.2	364.4
From 18 months to 2 years	142.0	261.9	518.7	361.3
From 2 to 3 years	421.0	769.5	1,134.4	849.6
From 3 to 4 years	75.5	601.0	962.1	1,018.7
From 4 to 5 years	72.0	75.5	794.1	850.6
From 5 to 10 years	1,820.0	1,721.5	2,718.0	2,603.5
More than 10 years	373.0	658.5	1,590.4	1,359.2
Total	**4,158.9**	**4,705.9**	**8,994.8**	**8,283.8**

[1] Including further cover assets in accordance with sections 19(1) and 20(2) of the German Covered Bond Act (PfandBG).

Mortgage Pfandbriefs

	Nominal value		Present value		Risk present value[1]	
In EUR m	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Total amount of the cover pool[2]	8,492.4	8,179.7	9,727.6	9,359.2	8,701.5	9,591.0
Total amount of Pfandbriefs in circulation	4,902.4	5,077.4	5,620.3	5,703.2	4,741.3	6,130.0
	3,590.0	**3,102.3**	**4,107.3**	**3,656.0**	**3,960.2**	**3,461.0**
Surplus cover	**73.2 %**	**61.1 %**	**73.1 %**	**64.1 %**	**83.5 %**	**56.5 %**

[1] Static approach (+250 BP).
[2] Including further cover assets in accordance with sections 19(1) and 20(2) of the German Covered Bond Act (PfandBG).

As at 31 December 2016, there were no mortgage Pfandbriefs in the DKB Group's own holdings.

In EUR m	Mortgage Pfandbriefs 2016	Mortgage Pfandbriefs 2015	Cover pool[1] 2016	Cover pool[1] 2015
Residual maturities and fixed interest periods				
Up to 6 months	51.0	100.0	594.8	550.4
From 6 to 12 months	85.3	100.0	516.1	383.9
From 12 to 18 months	65.0	51.0	463.2	490.0
From 18 months to 2 years	145.5	85.3	415.5	555.8
From 2 to 3 years	211.3	210.5	885.8	955.1
From 3 to 4 years	155.8	211.3	782.1	929.5
From 4 to 5 years	771.0	155.8	1,008.2	767.2
From 5 to 10 years	2,187.5	2,828.5	2,889.0	2,908.7
More than 10 years	1,230.0	1,335.0	937.7	639.2
Total	**4,902.4**	**5,077.4**	**8,492.4**	**8,179.7**

[1] Including further cover assets in accordance with sections 19(1) and 20(2) of the German Covered Bond Act (PfandBG).

(67) Cover pool for Pfandbriefs in circulation

In EUR m	2016	2015
Public Pfandbriefs and mortgage Pfandbriefs	9,061.3	9,783.3
Cover assets included in:		
Loans and advances to banks	0.0	0.0
Loans and advances to customers	16,827.2	15,803.5
Bonds and other fixed-income securities	660.0	660.0
Over Collateralization	**8,425.9**	**6,680.2**

Summary of further cover

Mortgage Pfandbriefs (section 28(1), nos. 4, 5, 6, 8 PfandBG)

In EUR m	Cover assets according to section 19(1), no. 1 PfandBG		Cover assets according to section 19(1), no. 2 PfandBG[1]		Cover assets according to section 19(1), no. 3 PfandBG		Total	
Country	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Federal Republic of Germany	0.0	0.0	0.0	0.0	360.0	360.0	360.0	360.0
Total	**0.0**	**0.0**	**0.0**	**0.0**	**360.0**	**360.0**	**360.0**	**360.0**
of which represents a limit being exceeded, section 19(1) PfandBG			**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

[1] Receivables within the meaning of section 129 Directive (EU) No. 575/2013 are not included in either.

Public Pfandbriefs (section 28(1), nos. 4, 5, 8 PfandBG)

In EUR m	Cover assets according to section 20(2), no. 1 PfandBG		Cover assets according to section 20(2), no. 2 PfandBG[1]		Total	
Country	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
The Netherlands	0.0	0.0	0.0	0.0	0.0	0.0
USA	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
of which represents a limit being exceeded, section 20(2) PfandBG			**0.0**	**0.0**	**0.0**	**0.0**

[1] Receivables within the meaning of section 129 Directive (EU) No. 575/2013 are not included in either.

Receivables used to cover public Pfandbriefs by the type of debtor or the guaranteeing body and their location

In EUR m	Cover assets 2016	Cover assets 2015
Federal Republic of Germany	**8,994.8**	**8,283.8**
Country	55.0	58.2
Regional authorities	981.0	975.1
Local authorities	6,046.6	5,505.9
Other debtors	1,912.3	1,744.7
Further cover	**–**	**–**
Total	**8,994.8**	**8,283.8**

Receivables used to cover mortgage Pfandbriefs by size classes

In EUR m	Cover assets 2016	Cover assets 2015
Up to EUR 300,000	3,303.9	3,349.8
From EUR 300,000 to EUR 1 million	634.3	689.8
From EUR 1 million to EUR 10 million	2,916.5	2,872.1
More than EUR 10 million	1,277.7	908.0
Further cover	360.0	360.0
Total	**8,492.4**	**8,179.7**

Receivables used to cover mortgage Pfandbriefs by country in which the real estate collateral is located, and by usage type

In EUR m	Cover assets 2016	Cover assets 2015
Federal Republic of Germany		
Apartments	952.6	988.0
Single-family houses	2,139.1	2,139.6
Multi-family houses	4,732.8	4,303.4
Buildings under construction not yet commercially viable	1.0	5.7
Building sites	0.3	1.3
Residential in total	**7,825.7**	**7,438.0**
Office buildings	55.4	80.7
Commercial premises	32.5	41.1
Industrial buildings	0.0	2.9
Other commercially used buildings	218.7	257.0
Commercial in total	**306.6**	**381.7**
Further cover	**360.0**	**360.0**
Total	**8,492.4**	**8,179.7**

(68) Further information according to the Pfandbrief Act (Pfandbriefgesetz; PfandBG)

KPIs

KPIs			2016	2015
Section 28(1), no. 7 PfandBG	Total amount of receivables, which exceed the limits of section 13(1) PfandBG		0.0	0.0
	Share of fixed-income cover funds	Mortgage	91.3 %	91.1 %
		Public	89.3 %	89.7 %
Section 28(1), no. 9 PfandBG	Share of fixed-income securities in circulation	Mortgage	97.2 %	97.3 %
		Public	89.5 %	78.0 %
Section 28(1), no. 11 PfandBG	Volume-weighted average age of mortgage receivables in years		8.0	7.9
Section 28(2), no. 3 PfandBG	Average weighted loan-to-value ratio of the mortgage used for cover purposes in accordance with section 14		**53.3 %**	**52.7 %**

The cover assets of the DKB Group did not contain any payments in arrears (> 90 days) for public and mortgage Pfandbriefs on the reporting day in accordance with section 28(2) no. 2 PfandBG and section 28(3) no. 2 PfandBG.

The cover assets of the DKB Group for public and mortgage Pfandbriefs contained only euro-denominated receivables, so there is no currency stress. For the same reason, a presentation per currency according to section 28(1), no. 10 PfandBG has not been included.

The cover assets of the DKB Group contain no derivatives for public and mortgage Pfandbriefs (section 28(1), no. 3 PfandBG).

There are no receivables in the cover assets that have been in arrears for 90 days or longer. There are no pending foreclosure and receivership proceedings. There are no interest arrears. In the financial year, no foreclosures were implemented and no properties were repossessed to avoid losses (section 28(2), no. 4 PfandBG).

(69) Assets and liabilities in foreign currency

In EUR m	2016	2015
Foreign currency assets	**260.6**	**260.2**
USD	209.5	183.7
CHF	35.7	63.6
Other currencies	15.4	12.9
Foreign currency liabilities	**193.5**	**185.4**
USD	189.9	184.8
Other currencies	3.6	0.6

(70) Financial assets transferred to third parties as collateral as well as other transferred financial assets without derecognition

The collateral for liabilities or contingent liabilities was provided within the framework of open market transactions with the European System of Central Banks, through refinancing loans from investment and development banks, through Pfandbrief issues as well as through securities repurchase transactions. In principle, all the opportunities and risks associated with ownership of the transferred assets remain with the DKB Group.

The book values of the assets transferred as collateral to third parties that cannot be re-sold/re-pledged, break down as follows:

In EUR m	2016	2015
Loans and advances to customers	27,272.4	26,867.4
Financial investments	5,244.6	4,037.7
Total	**31,517.0**	**30,905.1**

These transactions are performed at customary market conditions.

The transferred financial assets are counterbalanced by liabilities in the amount of EUR 10,408.8 million (previous year: EUR 12,221.8 million).

(71) Collateral received which can be re-sold or re-pledged

In the DKB Group, no assets are held as collateral, which may be re-sold or re-pledged even if the party furnishing the collateral does not default.

(72) Offsetting of financial assets and liabilities

The DKB Group concludes framework agreements with its business partners as part of its activities in specific types of business. Netting arrangements for mutual claims and liabilities can be part of these framework agreements. Examples of such framework agreements include the German framework agreement for futures contracts and the German framework agreement for securities repurchase transactions. The clearing conditions of Eurex Clearing AG, the LCH, are also agreements with netting arrangements.

Furthermore, there is a netting arrangement with BayernLB, which under certain conditions, provides for the offsetting of all balance-sheet receivables and liabilities including the market values from derivative transactions.

In the following, we present the reconciliation of the gross amounts before offsetting to the net amounts after offsetting and the amounts for existing offsetting rights which do not satisfy the accounting offsetting criteria, separately for all recognised financial assets and liabilities, which are subject to an enforceable bilateral netting arrangement. These agreements provide for an offsetting right, if predefined conditions occur (e.g. contract is ended due to insolvency).

In this case, the amounts offset in accordance with IAS 32.42 are reported in the column "Offsetting amount". Amounts in relation to financial instruments which are the subject of a netting arrangement but are not offset in the accounts due to criteria of IAS 32.42 not being complied with are provided in the column "Amounts that are subject to other netting arrangements", under "Liabilities/assets that can be netted". Under "Collateral", the fair value of financial collateral received or pledged is shown.

Offset financial assets and financial assets with underlying netting or similar arrangements

	Book value before offsetting		Offset amount		Recognised net book value after offsetting	
In EUR m	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Offsetting of current accounts in accordance with section 10 RechKredV LaR)	**61.5**	**32.4**	**54.7**	**19.5**	**6.8**	**12.9**
Derivative transactions (HfT)	**4.8**	**11.1**	**0.5**	**–**	**4.3**	**11.1**
Assets held for trading/positive market values from derivative financial instruments (hedge accounting)	4.8	11.1	0.5	–	4.3	11.1
Other financial instruments (LaR)	**3,019.9**	**4,671.6**	**–**	**–**	**3,019.9**	**4,671.6**
Loans and advances to banks	3,019.9	4,671.6	–	–	3,019.9	4,671.6
Total	**3,086.2**	**4,715.1**	**55.2**	**19.5**	**3,031.0**	**4,695.6**

In EUR m	Recognised net book value after offsetting		Amounts that are subject to other netting arrangements: Liabilities that can be netted		Amounts that are subject to other netting arrangements: Collateral		Net amount after balancing as well as after consideration of other netting arrangements and collateral	
	2016	2015	2016	2015	2016	2015	2016	2015
Offsetting of current accounts in accordance with section 10 RechKredV (LaR)	**6.8**	**12.9**	**–**	**–**	**–**	**–**	**6.8**	**12.9**
Derivative transactions (HfT)	**4.3**	**11.1**	**1.4**	**11.1**	**–**	**–**	**2.9**	**0.0**
Assets held for trading/positive market values from derivative financial instruments (hedge accounting)	4.3	11.1	1.4	11.1	–	–	2.9	0.0
Other financial instruments (LaR)	**3,019.9**	**4,671.6**	**688.7**	**1,992.5**	**–**	**–**	**2,331.2**	**2,679.1**
Loans and advances to banks	3,019.9	4,671.6	688.7	1,992.5	–	–	2,331.2	2,679.1
Total	**3,031.0**	**4,695.6**	**690.1**	**2,003.6**	**–**	**–**	**2,340.9**	**2,692.0**

Offset financial liabilities and financial liabilities with underlying netting or similar arrangements

In EUR m	Book value before offsetting		Offset amount		Recognised net book value after offsetting	
	2016	2015	2016	2015	2016	2015
Offsetting of current accounts in accordance with section 10 RechKredV (LaR)	**107.6**	**57.5**	**54.7**	**19.5**	**52.9**	**38.0**
Derivative transactions (HfT)	**1,007.4**	**1,322.9**	**834.7**	**–**	**172.7**	**1,322.9**
Liabilities held for trading/negative market values from derivative financial instruments (hedge accounting)	1,007.4	1,322.9	834.7	–	172.7	1,322.9
Other financial instruments (LaR)	**688.7**	**1,041.8**	**–**	**–**	**688.7**	**1,041.8**
Bank loans and overdrafts	688.7	1,041.8	–	–	688.7	1,041.8
Total	**1,803.7**	**2,422.2**	**889.4**	**19.5**	**914.3**	**2,402.7**

In EUR m	Recognised net book value after offsetting		Amounts that are subject to other netting arrangements: Assets that can be netted		Collateral		Net amount after balancing as well as after consideration of other netting arrangements and collateral	
	2016	2015	2016	2015	2016	2015	2016	2015
Offsetting of current accounts in accordance with section 10 RechKredV	**52.9**	**38.0**	**–**	**–**	**–**	**–**	**52.9**	**38.0**
Derivative transactions (LaR)	**172.7**	**1,322.9**	**1.4**	**961.8**	**–**	**–**	**171.3**	**361.1**
Liabilities held for trading/negative market values from derivative financial instruments (hedge accounting)	172.7	1,322.9	1.4	961.8	–	–	171.3	361.1
Other financial instruments (LaR)	**688.7**	**1,041.8**	**688.7**	**1,041.8**	**–**	**–**	**0.0**	**0.0**
Bank loans and overdrafts	688.7	1,041.8	688.7	1,041.8	–	–	0.0	0.0
Total	**914.3**	**2,402.7**	**690.1**	**2,003.6**	**–**	**–**	**224.2**	**399.1**

(73) Leasing transactions

Finance leasing
As at 31 December 2016, the DKB Group had no finance leases.

Operating leasing
The DKB Group is a lessee in the context of operating lease arrangements. The obligations arising from operating lease arrangements existing in the DKB Group refer in particular to leasing agreements for office buildings and vehicles.

The future minimum lease payments due to operating lease arrangements break down as follows:

In EUR m	2016	2015
Residual maturities		
Up to 1 year	15.1	13.2
From 1 to 5 years	49.7	41.5
More than 5 years	19.5	16.1
Total	**84.3**	**70.8**

In the financial year, minimum lease payments in the amount of EUR 15.4 million (previous year: EUR 16.5 million) were recognised as an expense.

(74) Fiduciary transactions

Fiduciary transactions break down as follows:

In EUR m	2016	2015
Trust assets	**11.0**	**11.1**
Loans and advances to customers	11.0	11.1
Trust liabilities	**11.0**	**11.1**
Bank loans and overdrafts	11.0	11.1

(75) Contingent liabilities and other obligations

In EUR m	2016	2015
Contingent liabilities	**833.3**	**894.7**
Liabilities resulting from sureties and warranty agreements	831.5	887.0
Contingent liabilities from legal disputes	1.8	7.7
Other obligations	**2,692.4**	**2,248.7**
Irrevocable credit commitments	2,692.4	2,248.7
Total	**3,525.7**	**3,143.4**

(76) Other financial obligations

In the DKB Group, there are obligations arising from maintenance contracts, which relate particularly to the areas of IT operations and facility management.

Furthermore, other financial obligations arise in the DKB Group from the joint liability for loans of EUR 6.1 million (previous year: EUR 9.6 million), of which EUR 6.1 million (previous year: EUR 9.6 million) was with respect to affiliated, non-consolidated companies.

DKB Finance GmbH is a limited partner in TEGES Grundstücksvermietungsgesellschaft mbH & Co. Objekt Berlin KG. The capital contribution is outstanding in the amount of EUR 2.2 million (previous year: EUR 2.2 million) and must be paid in cash at the request of TEGES GmbH. The outstanding capital contribution was not demanded in 2016.

Furthermore, there are other financial obligations in the form of hedged payment claims from the collection of contributions for the bank levy of EUR 8.4 million (previous year: EUR 5.3 million) and from the collection of contributions for the deposit guarantee fund of the Association of German Public-Law Banks (VÖB) in the amount of EUR 3.9 million (previous year: EUR 0).

(77) Other guarantees and other commitments

The DKB Group has, in accordance with section 10(5) of the articles of association of the deposit guarantee fund of the Association of German Public-Law Banks, Berlin, undertaken to provide additional contributions in the event of default, if required. The additional contribution obligation is limited, for every member, and for the entire duration of the fund as well as for all cases of default, in total to the share attributable to the member of the total volume of the fund stipulated in section 8(1) of the articles of association, reduced by all the contributions already made by it.

(78) Shareholdings

Notes re sections 285 no. 11 and 313 HGB or in accordance with IFRS 12.2 (b), 12.4 in conjunction with IFRS 12.B4 and B6 and 12.10 (a) in conjunction with 12.12 for the consolidated financial statements

As at 31 December 2016, the DKB has the following associated companies:

Subsidiaries included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity in EUR m	Gains/losses in EUR m
DKB Finance GmbH, Berlin [1, 2]	100.0	16.6	0.5
DKB Grund GmbH, Berlin [1, 2]	100.0	–0.1	0.0
DKB Service GmbH, Potsdam [1, 2]	100.0	3.3	0.8
FMP Forderungsmanagement Potsdam GmbH, Potsdam [1, 4]	100.0	9.5	3.7
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin [1]	100.0	2.3	0.0
PROGES EINS GmbH, Berlin [1, 5]	100.0	0.5	0.0

[1] Preliminary annual financial statements 31.12.2016.
[2] Profit transfer agreement and controlling agreement.
[4] Controlling agreement.
[5] Profit transfer agreement.

Subsidiaries not included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity in EUR m	Gains/losses in EUR m
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich [1, 2, 3, 4]	94.5	−10.1	0.0
DKB Immobilien Beteiligungs GmbH, Potsdam [2, 4]	100.0	2.1	0.1
DKB Wohnen GmbH, Berlin [2, 4]	94.5	0.0	0.0
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin [1, 2, 4]	100.0	2.5	0.0
GbR Olympisches Dorf, Potsdam [2, 4]	99.7	0.3	0.3
Melhoria Immobiliengesellschaft mbH, Potsdam [1, 2, 4]	100.0	3.1	0.0
Oberhachinger Bauland GmbH Wohnbau- und Erschließungsgesellschaft, Munich [2, 4]	91.0	−2.4	0.0
Potsdamer Immobiliengesellschaft mbH, Potsdam [2, 4]	100.0	0.0	0.0
PROGES DREI GmbH, Berlin [2, 4]	100.0	0.7	0.2
PROGES ENERGY GmbH, Berlin [2, 4]	100.0	0.5	0.2
PROGES Sparingberg GmbH, Berlin [2, 4]	100.0	0.6	0.0
PROGES VIER GmbH, Berlin [2, 4]	100.0	0.2	0.1
PROGES ZWEI GmbH, Berlin [2, 4]	100.0	1.2	0.3
DKB Stiftung Liebenberg gGmbH, Löwenberger Land OT Liebenberg [2, 4, 5]	–	0.1	−0.5
DKB Stiftung Schorssow UG, Schorssow [2, 4, 5]	–	0.0	0.0
DKB Stiftung – Vermögensverwaltungsgesellschaft mbH, Fürth [2, 4, 5]	–	0.0	0.0

1 Profit transfer agreement and controlling agreement.
2 Annual financial statements 31.12.2015
3 No actual negative assets are present.
4 Financial statements according to the HGB.
5 Control exercised by structured company of the Group.

Other joint ventures

Name and registered headquarters	DKB shareholding in %	Equity in EUR m	Gains/losses in EUR m
German Biofuels GmbH, Pritzwalk [1, 2]	19.9	−8.9	−4.9
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin [1, 2]	50.0	0.0	0.0
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin [1, 2]	47.0	−7.0	0.2

1 Annual financial statements 31.12.2015.
2 Financial statements according to the HGB.

Other shareholdings

Name and registered headquarters	DKB shareholding in %	Equity in EUR m	Gains/losses in EUR m
AQUILA Technische Entwicklungen GmbH, Schönhagen	16.1	n/a	n/a
Bau-Partner GmbH, Halle (Saale) [2, 11]	49.7	0.2	–0.6
Deutsche Life Science GmbH, Berlin [7, 11]	10.2	–18.1	0.7
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam [1, 11]	5.1	36.7	1.5
FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, München [11]	14.0	5.0	0.3
Film und Video Untertitelung Gerhard Lehmann AG, Potsdam [3, 11]	33.3	–2.0	–0.5
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena [4, 11]	43.1	–0.4	0.0
JFA Verwaltung GmbH, Leipzig [1, 11]	10.7	–13.0	0.1
LEG Kiefernsiedlung Grundstücksgesellschaft b.R., Berlin [1, 11]	6.4	–3.7	0.3
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b.R., Berlin [1, 11]	7.5	–6.4	0.6
LEG Wohnpark Heroldplatz Grundstücksgesellschaft b.R., Berlin [1, 11]	7.7	–1.6	0.0
Mediport Venture Fonds Zwei GmbH, Berlin [5, 11]	53.8	–0.9	–1.1
Neue Novel Ferm Verwaltungs GmbH, Berlin [6, 11]	49.0	0.0	0.0
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin [6, 11]	49.0	4.0	n/a
Revotar Biopharmaceutical AG, Hennigsdorf [8, 11]	10.2	1.7	–2.3
SIAG Industrie GmbH, Leipzig [1, 11]	19.9	–4.6	0.0
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Potsdam [1, 11]	5.2	8.6	–1.2
Visa Inc., USA [9, 10]	<1.0	32,912.0	5,991.0

[1] Annual financial statements 31.12.2015.
[2] Prepared annual financial statements 31.12.2010.
[3] Annual financial statements 31.12.2009.
[4] No actual negative assets are present.
[5] Annual financial statements 31.12.2012.
[6] Prepared annual financial statements 31.12.2009.
[7] Prepared annual financial statements 31.12.2014.
[8] Annual financial statements 31.12.2011.
[9] Annual financial statements 30.09.2016.
[10] In USD, according to US GAAP.
[11] Financial statements according to the HGB.

Structured companies not included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity/fund assets in EUR m	Gains/losses in EUR m
DKB Asien Fonds TNL, Luxemburg [1, 2]	86.1	20.5	0.0
DKB Europa Fonds TNL, Luxemburg [1, 2]	85.7	40.5	0.4
DKB Nordamerika Fonds TNL, Luxemburg [1, 2]	86.4	22.3	0.1
DKB Pharma Fonds TNL, Luxemburg [1, 2]	77.4	35.3	–0.3
DKB Teletech Fonds AL, Luxemburg [1, 2]	94.9	9.7	0.0
DKB Teletech Fonds TNL, Luxemburg [1, 2]	93.4	20.5	–0.2
DKB Zukunftsfonds TNL, Luxemburg [1, 2]	87.4	33.6	–0.2
DKB Stiftung für gesellschaftliches Engagement, Löwenberger Land OT Liebenberg [3]	–	14.5	0.2

[1] Financial statements in accordance with the international standards on auditing accepted for Luxembourg by the Commission de Surveillance du Secteur Financier.
[2] Fund assets reporting day 31.12.2016.
[3] Financial statements according to the HGB.

Remarks:
The voting share of DKB corresponds to the capital share, unless otherwise specified. Unless otherwise specified, third parties hold the remaining voting share.

The capital share of the subsidiaries included in the consolidated financial statements in the DKB Group corresponds to the previous year's value.

(79) DKB bodies

Supervisory Board

Dr. Johannes-Jörg Riegler
Chairman of the Supervisory Board
Chairman of the Board of Management of the Bayerischen Landesbank

Bernd Fröhlich
Chairman of the Board of Management of the Sparkasse Mainfranken Würzburg

Michael Huber
Chairman of the Board of Management of the Sparkasse Karlsruhe Ettlingen

Marcus Kramer
Member of the Board of Management of the Bayerischen Landesbank

Walter Pache
Chairman of the Board of Management of the Sparkasse Günzburg-Krumbach
Independent financial expert

Michael Schneider
Chairman of the Board of Management of the LfA Förderbank Bayern a. D.

Dr. Markus Wiegelmann
Member of the Board of Management of the Bayerischen Landesbank
Independent financial expert

Dr. Edgar Zoller
Deputy chairman of the Board of Management of the Bayerischen Landesbank

Honorary members:
Günther Troppmann
Former Chairman of the Board of Management of the Deutsche Kreditbank AG

Employee representatives:

Bianca Häsen
Deputy chairperson of the Supervisory Board
Deutsche Kreditbank AG

Michaela Bergholz
Union Representative
Deutscher Bankangestellten Verband [German association of bank employees]

Christine Enz
Union Representative
Deutscher Bankangestellten Verband [German association of bank employees]

Jörg Feyerabend
Employee
DKB Service GmbH

Jens Hübler
Executive employee
Deutsche Kreditbank AG

Wolfhard Möller
(until 31 January 2016)
Employee
Deutsche Kreditbank AG

Frank Radtke
Employee
Deutsche Kreditbank AG

Frank Siegfried
(from 1 February 2016)
Employee
Deutsche Kreditbank AG

Gunter Wolf
Employee
Deutsche Kreditbank AG

Board of Management

Stefan Unterlandstättner
Chairman of the Board of Management

Rolf Mähliß
Member of the Board of Management

Dr. Patrick Wilden
Member of the Board of Management

Tilo Hacke
Member of the Board of Management

Thomas Jebsen
Member of the Board of Management

(80) Relationships with related companies and persons

The companies and persons related to the DKB Group in accordance with IAS 24 include the following groups:

- Sole shareholder (BayernLB)
- Non-consolidated subsidiaries
- Joint ventures
- Associates
- Other related parties – this includes the subsidiaries, joint ventures and associates of the BayernLB Group, the Free State of Bavaria and companies controlled by the Free State of Bavaria or which the latter jointly manages or over which it has significant influence as well as the Sparkassenverband Bayern and companies controlled by the Sparkassenverband Bayern or which the latter jointly manages.
- Members of the Board of Management and the Supervisory Board of DKB as well as of the Board of Management and the Supervisory Board of BayernLB, and their close family members.

The DKB Group maintains numerous business relationships with related companies and persons. Essentially, these relationships include typical bank services, for example, in the deposit, lending and money market business.

Furthermore, there are operating lease arrangements with related companies in which the DKB Group is the lessee.

Business dealings with related companies and persons are concluded within the framework of normal business activities and are subject to fair market conditions, terms and collateralisation.

The scope of the transactions with the related companies is presented below:

In EUR m	2016	2015
Loans and advances to banks	**3,019.9**	**4,671.6**
Parent company	3,019.9	4,671.6
Loans and advances to customers	**194.7**	**209.6**
Non-consolidated subsidiaries	154.8	168.5
Joint ventures	35.0	36.1
Other related companies	4.9	5.0
Risk provisions	**25.8**	**8.2**
Non-consolidated subsidiaries	2.9	2.8
Joint ventures	22.9	5.4
Assets held for trading	**4.3**	**4.2**
Parent company	4.3	4.2
Positive market values from derivative financial instruments (hedge accounting)	**–**	**6.9**
Parent company	–	6.9
Financial investments	**30.3**	**33.2**
Non-consolidated subsidiaries	–	3.0
Other related companies	30.3	30.2
Other assets	**121.9**	**1.5**
Parent company	120.9	–
Non-consolidated subsidiaries	1.0	1.4
Other related companies	0.0	0.1
Bank loans and overdrafts	**933.1**	**1,227.8**
Parent company	688.7	1,041.8
Other related companies	244.4	186.0
Liabilities to customers	**66.6**	**40.0**
Non-consolidated subsidiaries	35.7	11.1
Joint ventures	1.0	0.7
Other related companies	29.9	28.2

In EUR m	2016	2015
Securitised liabilities	**25.6**	**52.2**
Parent company	0.5	27.1
Other related companies	25.1	25.1
Liabilities held for trading	**1.2**	**23.9**
Parent company	1.2	23.9
Negative market values from derivative financial instruments (hedge accounting)	**0.1**	**937.9**
Parent company	0.1	937.9
Provisions	**0.0**	**0.0**
Non-consolidated subsidiaries	0.0	0.0
Other related companies	0.0	0.0
Other liabilities	**10.2**	**4.0**
Parent company	0.5	0.2
Non-consolidated subsidiaries	3.1	0.9
Joint ventures	0.2	0.2
Other related companies	6.4	2.7
Subordinate capital	**258.9**	**156.0**
Parent company	258.9	156.0
Contingent liabilities	**0.9**	**0.8**
Non-consolidated subsidiaries	0.9	0.8
Other related companies	0.0	0.0
Other obligations	**3.7**	**3.7**
Non-consolidated subsidiaries	0.5	0.6
Other related companies	3.2	3.1

Other obligations include only irrevocable credit commitments.

Loans, advances and contributions
Transactions with related persons include loans, advances and contributions to the members of the Board of Management and the Supervisory Board of DKB as well as to the members of the Board of Management and the Supervisory Board of BayernLB. Loans are granted at fair market terms and conditions.

In EUR m	2016	2015
Loans and advances [1]		
Members of the Board of Management of DKB [2]	2.7	2.2
Members of the Supervisory Board of DKB [2]	1.0	0.9
Members of the Board of Management of BayernLB [2]	0.1	0.1
Members of the Supervisory Board of BayernLB	–	0.0

[1] Multiple entries are possible.
[2] The loans and advances are completely collateralised.

In EUR m	2016	2015
Contributions [1]		
Members of the Board of Management of DKB	1.8	2.1
Members of the Supervisory Board of DKB	1.7	2.1
Members of the Board of Management of BayernLB	1.9	1.7
Members of the Supervisory Board of BayernLB	1.6	0.6

[1] Multiple entries are possible.

Salaries of the members of the Board of Management and the Supervisory Board of the DKB Group

In EUR m	2016	2015
Members of the Board of Management of DKB	**2.7**	**2.6**
Current employee benefits	2.1	2.0
Other non-current employee benefits	0.6	0.6
Benefits after the working relationship has ended	–	–
Members of the Supervisory Board of DKB	**0.5**	**0.4**
Current employee benefits	0.5	0.4
Former members of the Board of Management of DKB and their surviving dependants	**0.8**	**0.8**
Pension reserves formed for members of the Board of Management of DKB	**21.7**	**16.3**
Pension reserves formed for former members of the Board of Management of DKB and their surviving dependants	**16.6**	**15.9**

At the time the annual financial statements were being prepared, the variable remuneration of EUR 0.7 million taken into consideration for the members of the Board of Management for the financial year was subject to the approval of the Supervisory Board.

A regular salary was furthermore due to the employee representatives in the Supervisory Board within the framework of their employment contract. This is based on the collective agreement or results from an individual agreement and corresponds to a remuneration that is commensurate with the respective role or activity in the company.

Close family members of the Board of Management and of the Supervisory Board have no influence on the business decisions of the DKB Group.

(81) Non-consolidated structured companies

The DKB Group maintains business relationships with structured companies. These involve contractual and non-contractual business relationships with companies that are arranged such that these are not controlled by voting rights or similar rights; instead the voting rights only relate to administrative tasks. The actual relevant activities of the structured companies are controlled by contractual agreements.

Investment funds

The DKB Group invests in funds that are launched by capital investment companies. The purpose of the funds is essentially to participate in the development of equity markets. Investment funds are financed by the issue of share certificates, by way of credit financing or by issuing debt and equity instruments. The financing is generally collateralised by the underlying assets. The scope of the investment funds, with which the DKB Group maintains business relationships, is determined by their fund assets, which amounted to EUR 182.5 million as at the reporting day.

Other financing

The DKB Group provides financing funds for a structured company, which maintains a number of different assets. This structured company was established as a foundation. The purpose of the foundation is to promote the preservation of historical monuments, art and culture and to support education projects. Financing is collateralised by the assets held. The weighted average term of financing is 8.0 years. The scope of the structured company in the form of other financing is determined as the sum total of its assets, which amounted to EUR 25.0 million as at 31 December 2015.

Assets and liabilities recorded in the balance sheet from shares in non-consolidated structured companies

	Investment funds	Other financing	Total
In EUR m	**2016**	**2016**	**2016**
Assets			
Loans and advances to customers	–	10.3	**10.3**
Financial investments	156.7	–	**156.7**
Total	**156.7**	**10.3**	**167.0**
Liabilities			
Liabilities to customers	–	0.3	**0.3**
Other liabilities	–	2.0	**2.0**
Total	**–**	**2.3**	**2.3**

The maximum default risk, to which the DKB Group is exposed through its business activities with structured companies, is determined for financial investments from their balance sheet book value. For receivables from the lending business, the maximum possible loss is represented by the gross book value, taking into consideration repayments and amortisation. No collateral was taken into consideration for the specified maximum possible losses.

(82) Seats held on statutory supervisory bodies of major corporations or financial institutions

As at the balance sheet reporting day, 31 December 2016, the following seats were held by members of the Board of Management of and by employees of DKB on statutory supervisory bodies of major corporations or financial institutions:

Stefan Unterlandstättner
Bayern Card-Services GmbH, Munich

Dr. Patrick Wilden
VÖB Service GmbH, Bonn

(83) Auditor's fee

The auditor's fee recognised in the financial year as an expense is comprised as follows:

In EUR m	2016[1]	2015[1]
Audit services for the financial statements	2.3[2]	2.0
Other auditing services	0.3	0.3
Tax consultancy services	0.2	0.1
Other services	0.8	0.1
Total	**3.6**	**2.5**

[1] Excluding VAT (net).
[2] Of which EUR 0.2 million for the previous year.

(84) Employees

Average employee capacities during the financial year:

	2016	2015
Full-time staff (excluding apprentices)	**2,355**	**2,301**
Female	1,162	1,150
Male	1,193	1,151
Part-time staff (excluding apprentices)	**625**	**589**
Female	536	506
Male	89	83
Apprentices	**12**	**10**
Female	5	5
Male	7	5
Total	**2,992**	**2,900**

The working hours of the part-time staff were converted to those of full-time staff.

(85) Shareholders

The DKB is a wholly owned subsidiary of BayernLB with its headquarters in Munich. BayernLB is an institution established under public law. It is owned (indirectly via BayernLB Holding AG) by the Free State of Bavaria and the Association of Bavarian Savings Banks. The BayernLB notification was issued to DKB in accordance with section 20(4) AktG.

The DKB Group is included in the consolidated financial statements of BayernLB. The consolidated financial statements of BayernLB will be published, as will the consolidated financial statements of DKB, in the electronic Federal Gazette.

Time of release for publication

The Board of Management of Deutsche Kreditbank AG prepared the consolidated financial statements on 20 February 2017 and released them for submission to the Supervisory Board. The Supervisory Board has the task of auditing the consolidated financial statements and of declaring whether it approves of the consolidated financial statements.

Berlin, 20 February 2017

Deutsche Kreditbank AG
The Board of Management

Stefan Unterlandstättner **Rolf Mähliß** **Dr. Patrick Wilden**

Tilo Hacke **Thomas Jebsen**

Additional Information

Statement of the legal representatives

We declare that, to the best of our knowledge and in accordance with the applicable accounting principles, these consolidated financial statements provide a true representation of the Group's net assets, financial position and performance, and that, in the Group management report, the business result including the gains/losses and the position of the Group are represented such as to provide a true picture of the actual situation, and that the material opportunities and risks of the expected development of the Group are described.

Berlin, 20 February 2017

Deutsche Kreditbank AG
The Board of Management

Stefan Unterlandstättner **Rolf Mähliß** **Dr. Patrick Wilden**

Tilo Hacke **Thomas Jebsen**

Auditor's report

We have audited the consolidated annual financial statements – comprising the consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements – and the Group management report prepared by Deutsche Kreditbank AG, Berlin, for the financial year from 1 January to 31 December 2016. The preparation of the consolidated annual financial statements and Group management report in accordance with IFRS as applicable in the EU, and the supplementary commercial law provisions pursuant to Section 315a (1) HGB is the responsibility of the company's Board of Management. It is our responsibility to express an opinion on the consolidated financial statements and the group management report, based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with Section 317 HGB, and the German generally accepted accounting standards laid down by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated annual financial statements in accordance with the applicable accounting principles and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control systems and the evidence supporting the disclosures in the consolidated annual financial statements and Group management report are examined primarily on a test basis within the framework of the audit. The audit comprised assessing the annual financial statements of the companies included in the consolidated annual financial statements, the delimitation of the scope of consolidation, the accounting and consolidation principles used and the significant estimates made by the management as well as assessing the overall view of the consolidated annual financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the result of our audit, the consolidated annual financial statements are in compliance with IFRS as applicable in the EU and the supplementary provisions under commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated annual financial statements and provides on the whole a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, 20 February 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bergmann	**Thiel**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Multi-year overview

Key income figures

In EUR m	2016	2015	2014	2013	2012
Net interest income	795.1	790.4	670.2	621.1	614.5
Risk provisions	128.7	143.8	134.4	133.5	132.1
Net commission income	6.9	–1.3	–4.2	–20.4	–14.0
Administrative expenses	417	376.8	368.6	338.6	331.9
Profit before taxes	331.2	236.0	150.5	156.8	223.4
Cost/income ratio (CIR) in %	45.8	48.0	54.9	52.7	46.8
Return on equity (ROE) in %	12.4	9.6	6.1	6.4	9.6

Key balance sheet figures

In EUR m	2016	2015	2014	2013	2012
Total assets	76,522.3	73,428.8	71,587.2	68,722.2	67,799.3
Equity	3,019.1	2,945.7	2,764.3	2,717.9	2,728.0
Core capital ratio in %	8.9	8.2	8.7	8.2	8.2
Lending to customers	63,228.3	61,582.1	59,609.5	57,759.2	55,552.2
Share of Loans and Advances to Customers as a % of total assets	82.6	83.9	83.3	84.0	81.9
Customer deposits	53,438.0	48,558.2	47,319.0	44,082.1	39,725.6

Key customer figures

	2016	2015	2014	2013	2012
Number of customers	3,518,055	3,250,968	3,071,434	2,849,933	2,589,729
Number of retail current accounts (DKB-Cash)	2,501,689	2,214,771	2,003,377	1,749,978	1,564,179

Key employee figures

	2016	2015	2014	2013	2012
ø Employees in full-time equivalent | Head count	3,032 | 3,316	2,937 | 3,220	2,832 | 3,104	1,748 | 1,896	1,713 | 1,854
ø Age in years	42.8	42.5	42.1	42.5	–
ø Length of service in years	8.2	7.9	7.4	8.9	–
Gender distribution m | f in %	41.7 | 58.3	40.5 | 59.5	40.9 | 59.1	42.8 | 57.2	–
Gender distribution in management positions m | f in %	61.1 | 38.9	62.5 | 37,5	65.1 | 34.9	68.7 | 31.3	–
Employee health rate in %	95	95.3	96.2	96.5	–
Training days/employee	3.4	2.4	2.4	3.7	–

2014: First time consolidation DKB Service GmbH.

Contacts and imprint

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Further information
Further information on our company can be found at www.dkb.de.

Please note
This Annual Report published by Deutsche Kreditbank AG contains forward-looking statements. These statements reflect the current views of the company's management and are thus based on estimates and expectations. They are therefore not to be regarded as guarantees that these expectations will also be met. The information provided in the Annual Report was carefully selected and originates from credible sources without our having reviewed this information for its veracity.

Legal notice
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Disclaimer:
Please note that this document is based upon the German Annual Report 2016 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 2016 of DKB AG can be downloaded from our website www.dkb.de

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