Annual Report 2017

We open up new perspectives for local authorities, companies and people

DKB
Deutsche Kreditbank AG

Deutsche Kreditbank AG

Company profile

Inclusion and diversity are of great importance to us. The statements that follow therefore apply to all people, irrespective of their identity. For ease of reading, we use gender-neutral language in the text.

Deutsche Kreditbank AG (DKB), with approximately 3,400 employees and total assets of EUR 77.3 billion, is one of Germany's top 20 banks. Our products are leaders in the market and distinguished by fair terms. We serve more than 3.7 million clients. They are able to conduct their banking transactions comfortably and securely online using the latest technology. Our industry experts assist our business clients in person at their offices.

Entrepreneurial and sustainable actions are of great importance to us: this is why we use approx. 83 % of our net assets for loans, such as for the construction of apartments suitable for the elderly and families, energy-efficient real estate, outpatient and inpatient health facilities, and for construction projects in schools and day care centres in Germany. We ensure that the local agricultural sector remains competitive by investing in factors of production and bioenergy. We have also financed a number of renewable energy projects in wind, sun and water since 1996.

We foster a culture of appreciation and togetherness – both among ourselves as well as with our clients 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 clients' competencies. Our social commitment through our foundation, the DKB STIFTUNG, is proactive and comprehensive.






FINREACH

DKB
DKB
DKB
BMW xDrive

Opening up perspectives

DKB
Das kann Bank

We believe that, as a bank, we should provide more than just loans. For this reason, we connect with like-minded people, build networks and provide new impetus. This creates technological innovations and meaningful new offerings, which we use to assist our clients in realising their ideas beyond the usual level provided by banks.

Deutsche Kreditbank AG

"New solutions are good if they provide clients with added value."

Henriette Lüderitz
Transformation Lab employee

Digital innovation

Digital transformation is fundamentally changing the economy. For us as a bank, the question is not how, but where we want to play a role. Our answer is: at the forefront. We therefore invest continuously in our own infrastructure and combine our strengths with the strengths of those who offer innovative and, at the same time, sustainable technologies.

“Successful dialogue opens many doors.”

Silke Baack
Structural engineer at DKB

Vibrant network

Successful cooperation requires a common understanding – of the issue and of the goals. It is also important to be able to make the right connections at the right time. We do not want to leave this to chance. That is why we focus on continuous dialogue with the best, even across industry boundaries. We network with the health, housing, energy and agriculture associations, and with the future key players of our economy.

"Finding solutions together with a view to tomorrow".

Martin Vorpahl
Civic participations employee

Sustainable commitment

We are committed to sustainability and know that this is a complex task that we must tackle in all areas. We do this by financing future markets and keeping the environment in mind in everyday life. We accept our responsibility as an employer and take on tasks in the interests of society. To ensure that we are not paying mere lip service, we have our performance measured in each of these areas.

"Freedom and discussion are the best breeding ground for new ideas."

Rainer Johannsen
Hamburg Branch Manager

Effective knowledge transfer

Innovation cannot be forced. But by creating the right conditions, we can contribute to the development of good ideas and progress. Our interactions with academia help us in this respect. We cooperate closely with universities and gain additional expertise through internal event series. We use the knowledge gained in this way to further optimise our products and processes.

“We rely on team spirit because together we can achieve more.”

Thomas Pönisch
Division Head Risk Office,
European fencing champion (40+)

Sporting achievements

Many of our employees are active in sports themselves. But also as a company, we are committed to sports in areas where targeted support can make a real difference: we have sponsored top German athletes in their clubs and associations for many years. Together with the athletes, we are regularly delighted by top placings in major competitions. At our locations, we partner with regional sports clubs. We support the teams locally, making a tangible contribution to the quality of life in our immediate environment.


uhlmann

"We do not aim to win prizes, but they confirm we are on the right path."

Bettina Stark
Division Head Retail Clients

Fair service

Our demands on our services are high: we want to be the primary bank for each and every one of our clients – their primary bank and a trustworthy partner for all financial matters. This is the foundation on which we develop client-oriented solutions that are recognised as leaders in our market: in terms of service, usability and fairness.

Performance indicators

EUR millions	2017	2016
Net interest income	935.2	795.1
Risk provisions	127.3	128.7
Net commission income	–39.2	6.9
Administrative expenses	446.3	417.0
Profit/loss before taxes	264.7	331.2
Cost/income ratio (CIR) in %	50.8 %	45.8 %
Return on equity (RoE) in %	9.6 %	12.4 %

Balance sheet figures

EUR millions	2017	2016
Total assets	77,322.9	76,522.3
Equity	3,255.5	3,019.1
Core capital ratio in %	8.8 %	8.9 %
Client receivables	64,552.2	63,228.3
Client deposits	53,931.0	53,438.0

Customer figures

	2017	2016
Number of customers	3,761,498	3,518,055
Number of retail current accounts (DKB-Cash)	2,746,526	2,501,689

Employee figures

	2017	2016
FTE | headcount as at 31 Dec.	3,084 | 3,379	3,032 | 3,316
Average age in years	43.1	42.8
Average length of service in years	8.5	8.2
Gender breakdown m | f in %	43.3 | 56.7	41.7 | 58.3
Gender breakdown by management position m | f in %	60.5 | 39.5	61.1 | 38.9
Workforce availability in %	95.1	95.0
Training days | employee	3.4	3.4

Contents

DKB's Board of Management (from left to right): Alexander von Dobschütz, Tilo Hacke, Stefan Unterlandstättner (Chair), Rolf Mähliß, Thomas Jebsen

Letter from the Board of Management

Dear Sir or Madam,

DKB continued its successful track record in 2017. The ambitious targets we set ourselves at the beginning of the year were achieved and in some cases even exceeded. However, the general conditions remained challenging. As expected, the European Central Bank maintained its low interest rate. Competition continued at a high level in all our business segments.

This significantly increased the development pressure for our company in 2017 – not only with regard to our offerings, but above all our productivity.

The fact that the pressure is rising rather than falling is not unexpected. We introduced numerous measures at an early stage to further develop our services and further increase efficiency. We were already able to complete part of this in 2017. In the past year, too, we developed solutions which we used to expand or improve our offerings. New offerings include white label credit products and the revised DKB-TAN2go app, which provides users with particularly secure online banking with more convenience. We made progress in productivity by consistently pushing ahead with digitalisation, implementing intelligent process structures, and creating modern, efficient interfaces in the company.

Economic performance developed better than expected in 2017: with earnings before taxes of EUR 265 million, we again achieved an excellent result in an extremely difficult market. Adjusted for the one-off effect from the sale of the Visa Europe shares in 2016, it was above the level of the previous year. A major factor here was that net interest income increased significantly by EUR 140 million despite the difficult interest rate situation and high pressure on margins. As in previous years, part of our profits was used to top up our equity.

In the retail clients business, we gained 373,000 new clients last year. This exceeded our expectations and shows that we are meeting the needs of the market with our anchor product, DKB-Cash. Just like with our strategy of not attracting new clients with premiums and special conditions, but offering better services in the long term. Our aim is not short-term success; we want to convince with sustainability and fairness and be a long-term partner for our clients. We believe this will also pay off in terms of earnings in the long term.

In the area of corporate clients, we expanded our local presence to 24 branches as planned and aligned ourselves with our target markets there. At the same time, we moved physically closer to our clients in order to be able to offer them the best personal support. Because here, too, satisfied clients are our driving force.

Our employees are the basis for our success. We value Germany as a place to work and attach great importance to modern working conditions. With our in-house Working 4.0 project, for example, we are shaping the future of our work. We create the conditions for mobile and free work by digitising processes, making our work structures more flexible and using modern work equipment. This not only strengthens the motivation and performance of our employees, but, at the same time, also increases our attractiveness as an employer.

"Our aim is not short-term success; we want to convince with sustainability and fairness."

The environment will remain very challenging for the current year 2018 and beyond. We are therefore continuing to pursue our strategy with vigour. The core topics include, in particular: improvement of cost structures, expansion of our banking solutions and their marketing, further increase in our sustainability performance and the further digitalisation of our bank. We aspire to provide a smart and secure banking experience based on strong technologies and innovations, and we will continue to consistently tackle and master the challenges while achieving our goal.

During times of change, trust is a particularly valuable asset. With this in mind, we would like to thank you, our clients and business partners, for your loyalty to DKB. As the Board of Management, we are convinced: the course has been set correctly and future results will confirm your well-placed trust.

We would like to thank our employees for their performance, fair play and team spirit. This sporting spirit is what makes our bank and drives it forwards. We look forward to continuing to shape the path of DKB together with you in 2018.

The Board of Management
March 2018

Stefan Unterlandstättner **Rolf Mählíß** **Tilo Hacke**

Thomas Jebsen **Alexander von Dobschütz**

Executive bodies

Board of Management

Stefan Unterlandstättner
Chair of the Board of Management

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

Rolf Mähliß (until 31.03.2018)
Member of the Board of Management

Finance
Compliance
Processes
Mid Office
IT
Data protection and security

Tilo Hacke
Member of the Board of Management

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

Central and South-East sales region

Thomas Jebsen
Member of the Board of Management

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

Individual clients

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

Alexander von Dobschütz
Member of the Board of Management

Risk controlling
Back office
Workout

Jan Walther (from 1 April 2018)
Member of the Board of Management

Takes over the area of responsibility
of Rolf Mähliß

Supervisory Board

Shareholders' representatives:

Dr Johannes-Jörg Riegler
Chair of the Supervisory Board
Chair of the Board of Management of Bayerische Landesbank (CEO)

Bernd Fröhlich
Chair of the Board of Management of Sparkasse Mainfranken Würzburg

Stefan Höck
(from 1 April 2017)
Deputy Head of the Department of State Investments and Real Estate Management, Bavarian State Ministry of Finance, Regional Development and Regional Identity

Michael Huber
Chair of the Board of Management of Sparkasse Karlsruhe Ettlingen

Marcus Kramer
Member of the Board of Management of Bayerische Landesbank

Walter Pache
Chair of the Board of Management of Sparkasse Günzburg-Krumbach
Independent financial expert

Michael Schneider
(until 31 March 2017)
Chair of the Board of Management of LfA Förderbank Bayern (retired)

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

Dr Edgar Zoller
Deputy Chair of the Board of Management of Bayerische Landesbank (Deputy CEO)

Honorary member:

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

Employee representatives:

Bianca Häsen
Deputy Chair of the Supervisory Board
Employee
Deutsche Kreditbank AG

Michaela Bergholz
DBV representative
Deutscher Bankangestellten Verband; German association of bank employees

Christine Enz
DBV representative
Deutscher Bankangestellten Verband; German association of bank employees

Jörg Feyerabend
Employee
DKB Service GmbH

Jens Hübler
Executive employee
Deutsche Kreditbank AG

Frank Radtke
Employee
Deutsche Kreditbank AG

Frank Siegfried
Employee
Deutsche Kreditbank AG

Gunter Wolf
Employee
Deutsche Kreditbank AG

Authorised representatives

Bettina Stark

Jan Walther
(until 31 March 2018)

Directors

Thomas Abrokat
Mario Bauschke
Christof Becker
Harald Bergmann
Sabine Breitschwerdt
Mark Buhl
Matthias Burger
Dominik Butz
Gerhard Falkenstein
Dr Amir Fattah
Peter Forch
Mark Hauel
Steffen Haumann
Frank Heß
Henrik Hundertmark
Jens Hübler
Axel Kasterich
Andreas Kaunath
Christoph Klein
Herbert Klein
Jana Kröselberg
Carsten Kümmerlin
Dörte Lange
Lars Lindemann
Wolfgang Lohfink
Jörg Naumann
Frauke Plaß
Claudia Polaschewski
Thomas Pönisch
Roland Pozniak
Wolfgang Reinert
Johann Scheiblhuber
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

Josef Baiz
(until 31 January 2018)

Dr Christian Marburger
(from 1 February 2018)

Report of the Supervisory Board

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 2017. The Supervisory Board supported DKB's Board of Management throughout a successful financial year with a good financial result and operational progress.

The past year, too, was extraordinarily demanding: while changes in the industry environment placed intensive demands on DKB on the market side, the company had to deal with further increases in documentation and reporting requirements on the administrative side. In addition, the interest rate environment remained extremely challenging for DKB as a traditional credit institution. Despite this, DKB closed financial year 2017 very successfully. This shows the Supervisory Board that the company is already fundamentally well positioned, irrespective of further developments.

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 2017 on a continuous basis and counsel them closely with the management 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 2017, the Supervisory Board held four meetings at regular intervals. The priorities in all the meetings focused on strategy and planning, business development, significant strategic and regulatory projects, and monitoring of the risk situation. In addition, the Supervisory Board discussed market developments on a regular basis in its consultations.

The meeting held on **9 March 2017** focused on DKB's annual financial statements and consolidated financial statements for 2016. The Supervisory Board approved these after thorough review and consultation as well as taking the auditor's audit reports into account. The executive body also dealt intensively with DKB's risk strategy and an evaluation of its multi-year planning. Other topics included the annual reports on securities and MaRisk compliance, the prevention of money laundering, terrorist financing and white-collar crime, and the annual report of the auditors.

At the meeting on **21 June 2017**, the Supervisory Board dealt with the implementation of the sales structure and the no-cash strategy. It also dealt with the HR report. Within the framework of the discussion of Board of Management matters, the appointment of two new members of the Board of Management and the extension of three Board of Management members' contracts were among the resolutions passed.

At the meeting held on **13 September 2017**, the Supervisory Board discussed in particular the topics of the General Data Protection Regulation (GDPR), digitalisation and the strategy for the area of individual clients. Another key area was a portfolio report focusing on the energy sector. In addition, the committee dealt with the change of auditor as well as regulatory issues.

At the meeting on **7 December 2017**, the Supervisory Board dealt with the multi-year planning as well as risk capital and capital planning. It obtained information about the status of major projects at DKB, such as BCBS 239, and the implementation status of the current corporate concept. Furthermore, the topics of further development of IT and digitalisation of the lending process were discussed. Other items on the agenda related to the fields of sales cooperation and new regulations on the company's remuneration policy.

The Chair of the Supervisory Board was also in regular, intensive contact with DKB's Board of Management in between meetings. The Supervisory Board was also 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 five 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 convene in the past year, all the committees met regularly in 2017. They prepared topics that were discussed and decided by the Supervisory Board. In addition, they took decisions in the scope of their decision-making authority.

The five-member Risk Committee held four meetings in 2017. Among other matters, 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 five members and met five times in the past financial year. It supported the work of the Supervisory Board in monitoring the accounting process, the annual audit as well as the effectiveness of the risk management system, in particular the internal control system and internal audit. Moreover, it dealt with the issue of compliance, the preparation of the change of auditor and the engagement of the auditor with permissible non-audit services.

The Nomination Committee, which consists of four members, met twice. It dealt with the identification of applicants for appointments to the Board of Management positions and with the preparation of election proposals for the election of the members of the Supervisory Board, as well as with the efficiency review of the activities of the Board of Management and Supervisory Board in accordance with Section 25 (11) Nos. 3 and 4 of the German Banking Act (Kreditwesengesetz: KWG). In addition, the Nomination Committee is developing an objective for the promotion of women in management positions.

The Compensation Committee, also consisting of four members, held four meetings. In these meetings, it monitored the appropriateness of the remuneration systems and assisted in the preparation of relevant documentation.

Dr Patrick Wilden resigned from the Board of Management with effect from 31 December 2017. No other staffing changes took place on the Board of Management during the reporting period. Alexander von Dobschütz was appointed to the Board of Management to replace Dr Patrick Wilden. He assumed his duties on 1 January 2018.

Michael Schneider resigned from the Supervisory Board as of 31 March 2017. Stefan Höck was appointed as a new Supervisory Board member on 1 April 2017.

Annual audit

The consolidated financial statements and the combined management report, as well as the accounting records these documents are based on for 2017, 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 2017 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 as well as all the employees of DKB for their hard work and achievements during the financial year.

Berlin, 14 March 2018
On behalf of the Supervisory Board

Dr Johannes-Jörg Riegler
Chair

Highlights

January:

“We have a stream”

In order to make the Handball World Championship games freely accessible to fans in Germany, we take a completely new approach by acquiring the exclusive live broadcasting rights and streaming 46 games. With the eighth final of the German team we reached more than one million spectators. In the end we can be proud of 4,860 streaming minutes with a total of 6,152,492 streamers. In December, we receive a total of three awards, including the HORIZONT Sport Business Award 2017 as “Sponsor of the Year”. The 32-member jury unanimously declares DKB the winner and finds that, with the live stream of the Handball World Championship, we created an extraordinary case that is unique in Germany to date.

February:
EUR 250 million for investments in renewable energies

We enter into an agreement with the European Investment Bank (EIB) on a framework loan of EUR 250 million for the implementation of renewable energy projects. We pass the low-interest funds on to our clients in the form of individual loans.

March:
"Share Day" – buy DAX shares or ETFs free of charges

On 16 March, we participate in "Share Day" for the first time, enabling our broker clients to buy DAX shares and DAX ETFs from an order volume of EUR 1,000 free of charges and without third-party fees on the Frankfurt Stock Exchange.

March:
Digital Transformation Lab founded

The Lab coordinates and orchestrates the digital transformation – it is, so to speak, the digital heart of DKB. By digitising processes and procedures and creating digital client experiences, we are moving our business model into the digital age and thus ensuring the bank's future viability.

April:
Improved ratings

The rating agency Moody's Investor Service upgrades several of DKB's ratings: the long-term rating for deposits by one level to A1, the issuer rating for unsecured bonds by one level to A2 and the Baseline Credit Assessment (BCA) to baa2, the latter in particular due to the continued good asset quality of the credit portfolio and a further improved liquidity profile.

June:
DKB on the BFW Digitalisation Advisory Board

We join the BFW Digitalisation Advisory Board right from the start, as digitalisation also covers every area of the real estate industry. The aim of the newly established board is to pool know-how across all sectors. Partners from industry and business evaluate trends and new technologies. They highlight the opportunities and risks of digital transformation along the entire real estate value chain: an important step towards the successful digitalisation of the housing industry.

July:
Financing platform for corporate clients

We test the digitalisation of commercial financing in a pilot project. Cross-product financing enquiries for the commercial sector are transmitted digitally to DKB from an online platform. An algorithm only activates those projects that are in line with our target sectors. This new approach has already enabled a property development project worth tens of millions of euros to be realised in Hamburg.

August:
Individual finance status

Our clients can now configure the financial overview in Internet banking according to their individual wishes: by product group or account holder or manually according to their own sorting or grouping. This allows them to keep track of multiple products – such as personal current accounts, joint household accounts, children's accounts, credit cards and real estate financing.

August:
New on the market: credit-rating-dependent SKG instalment loan

SKG BANK, our second brand, now also offers a credit-rating-dependent SKG instalment loan. The interest rate not only depends on the term, but primarily on the client's creditworthiness. The product starts with a one-year test phase.

→ **www.skgbank.de**

September:
Second green bond issued

The plants refinanced via our first green bond are able to supply a city of 250,000 inhabitants with the amount of electricity they generate and save around 227,000 tonnes of CO_2 per year. Following this success, we add to our portfolio and issue our second green bond. The volume of the bond in the senior unsecured format is again EUR 500 million. The term is seven years. Around 170 investors decide to transact, which means that it is more than twice oversubscribed.

→ **www.dkb.de/greenbond**

September:
New work – strategies for tomorrow's working world

DKB MANAGEMENT SCHOOL's 5th DKB Future Forum brings together experts from science and industry to discuss the working world of the future. The participants deal with future scenarios, strategies and lessons for a digital and networked way of working. They discuss how the interaction between people and technology can be shaped in the age of digitalisation and rapid technological progress.

October:
First BA students start

New school leavers can now also complete a dual course of study with us in the fields of banking and business information systems. In cooperation with the Berlin School of Economics and Law, we secure our junior staff at an early stage with this new entry opportunity and can also benefit from the course's high practical relevance.

→ **www.dkb.de/karriere**

October:
Our 100th civic participation project

We complete our 100th civic participation project – the extension of a school campus in Chemnitz. We have been pooling our know-how in a competence centre with experts in civic participation since 2012. As varied as our clients' plans may be, they all have something in common: they increase local acceptance of the project and regional value creation, they strengthen community and they set an example for environmental protection.

December:
Large-volume hospital financing in Lower Saxony

DKB concludes large-volume financing totalling more than EUR 180 million with a total of four hospital providers run by municipalities or churches. A special financing programme from the State of Lower Saxony to secure hospital care is intended to reduce the backlog in the implementation of investments and promote structural change in the hospital sector.

December:
Insurance management via Robo-Advisor

Our new cooperation with the digital insurance manager Clark gives our clients direct access to InsurTech's digital services via their Internet banking. With Clark, insurance policies can be managed easily and conveniently in the smartphone app or on the website using a computer.

December:
DKB administrator platform: 40,000 users

At the end of the year, we are delighted to have more than 40,000 users, almost 30,000 of whom use the landlord package as retail clients, and more than 10,000 commercial clients who use the DKB administrator platform to manage their rents, deposits, maintenance reserves and homeowners' association fees for their own and third-party property portfolios.

December:
Christmas charity campaign

Our employees submit more than 80 projects and associations for our Christmas campaign, #DKB Herzenswunsch. A jury selects six projects and a 33,000-strong public vote on herzenswunsch.dkb.de decides on the amount of the share of a total budget of EUR 100,000. Förderverein Rostock Griffins e. V. receives the most votes with 31% and wins EUR 31,000.

December:
AKG ImmoPlus GmbH starts operations

AKG ImmoPlus GmbH – the joint venture of Bad Homburger Service GmbH (BHS) and DKB subsidiary FMP Forderungsmanagement Potsdam GmbH – commences operations with the purchase of an ibF savings bank portfolio amounting to EUR 1.2 million. The aim of the new company is to purchase non-performing real estate loans and/or to process these loans as a service provider for the savings banks.

Awards

Focus Money – fairest online bank 2017

We were recognised as the "Fairest Online Bank" for the sixth time in succession. Customers from 14 online banks rated how fair they think their bank is based on their own experience.
In the test by Focus Money, we were awarded a mark of "very good".

Digital Transformer of the Year 2017

At the premiere of this award, we were the first to win in the "Financial Services" category. This new award from the Digital Transformer of the Year initiative recognises companies that set an example in digital transformation in Germany and are thus a beacon in their industry.

oekom research – industry leader in sustainability

For the second year in a row, oekom research awarded DKB the highest sustainability rating of all commercial and public banks, making it the "Industry Leader" once again. More than 5,500 companies were assessed on the sustainability of their products and services.

DIE WELT – service champions in the customer service experience

DKB garnered first place in the customer ranking of 15 banks offering construction financing. This makes us the industry winner among mortgage banks from a customer perspective in Germany's largest service ranking, issued by ServiceValue GmbH, Goethe University Frankfurt am Main and DIE WELT.

Focus Money – most sustainable company

Of the 120 financial companies surveyed for sustainability, we are the best. Focus Money interviews 30,000 participants on various social, ecological and economic aspects. According to the study, we are a "very good" choice and thus the most sustainable company.

Absolventa – award-winning trainee programme

The term "trainee programme" is not protected; any company can use it freely. Absolventa's trainee award confirms that our trainee programmes are high-quality, fair and career-enhancing.

Focus Money – DKB-Cash is the best online current account in 2017

Winner in a nationwide comparison: our DKB-Cash is once again the strongest and most cost-effective online account in the Focus Money comparison in 2017.

€uro am Sonntag/DKI – test winner of no-credit-check online loans

Thirteen banks are tested jointly by €uro am Sonntag and the German Customer Institute (DKI). DKB is distinguished as the test winner in the category of loans with no credit check. We particularly score points for our terms and convince with our offering.

Handelsblatt/FMH – best salary account

Our DKB-Cash account is recognised as the best current account. In their test for Handelsblatt, financial advisers FMH-Finanzberatung compare the salary accounts of 48 banks nationwide. We come out tops with our 33 offers, including a credit card.

€uro am Sonntag – online banks brokerage

We take first place in the online broker test conducted by €uro am Sonntag. Our offer stands out among ten providers surveyed and secures us victory in the "Investors" category.

Magazine "pressesprecher" – German Prize for Online Communication 2017

The innovative broadcast of the Handball World Championship 2017 via live stream is a resounding success: with "We have a stream", DKB holds its own among around 800 competitors and wins the German Prize for Online Communication 2017 in the "Disruptive Campaign" category.

Professional Association for Sponsoring Agencies and Service Providers – International Sponsorship Award 2017

DKB wins this distinguished prize, which is awarded annually by the Professional Association for Sponsoring Agencies and Service Providers (FASPO), in the category "Sports Sponsorships". With this award, the six-strong jury of experts recognises our live stream for the Handball World Championship 2017 as a particularly innovative project.

Combined management report of the DKB Group and DKB AG

Please note: 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.

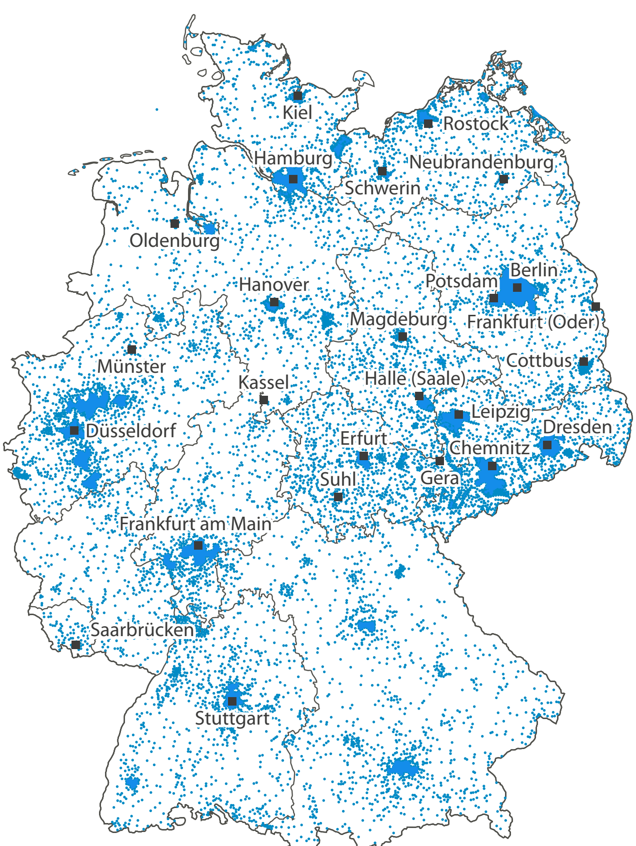
Basic principles of the Group

Structure and business model

A major bank in Germany

Deutsche Kreditbank AG (DKB) is headquartered in Berlin and, with more than 3,400 employees and net assets of approx. EUR 77.3 billion, is a major bank in Germany. 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. Here we are present at 25 locations and serve the market via eight sales regions.



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 2017 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 below, the mention of DKB means that both the DKB Group as well as DKB AG are affected.

As of the end of 2017, the DKB Group employed 3,084 staff members on a capacity basis (previous year: 3,032 employees).

As at the balance sheet date, the DKB Group posted clients receivables in the amount of EUR 64.6 billion (previous year: EUR 63.2 billion) as well as client deposits in the amount of EUR 53.9 billion (previous year: EUR 53.4 billion). The net interest income realised in the financial year amounted to EUR 935.2 million (previous year: EUR 795.1 million). Pre-tax profit amounted to EUR 264.7 million (previous year: EUR 331.2 million). Profit after taxes amounted to EUR 263.2 million (previous year: EUR 326.9 million).

DKB passes approximately 83% of its net assets on to companies, local authorities and retail clients in Germany in the form of loans. Our company is neither an investment bank nor do we provide asset management services.

Two-pillar model

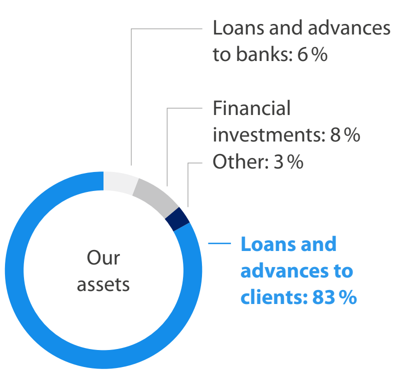
DKB's business is based on two pillars: online banking and corporate clients. As an online bank, we help 3.7 million retail clients across Germany over the Internet, offering them simple and intuitive products at competitive terms. As a bank for commercial and corporate clients, we focus on companies and local authorities via branches with financing and investment solutions. In doing so, we concentrate on selected industries in Germany: among others, we finance the construction and operation of wind farms, hydro power plants, bioenergy and photovoltaic plants, 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 regional economic and power supply stability by means of this business activity.

Focus on sustainability

We aim to build long-term and valuable business relationships and are guided by the principles of sustainable action in doing so. This means that we ensure compliance with environmental and social standards when granting loans. In addition, we endeavour to conserve resources in-house and take our responsibility as an employer seriously. We also meet our obligations to society through the independent DKB foundation for corporate responsibility (the DKB STIFTUNG).

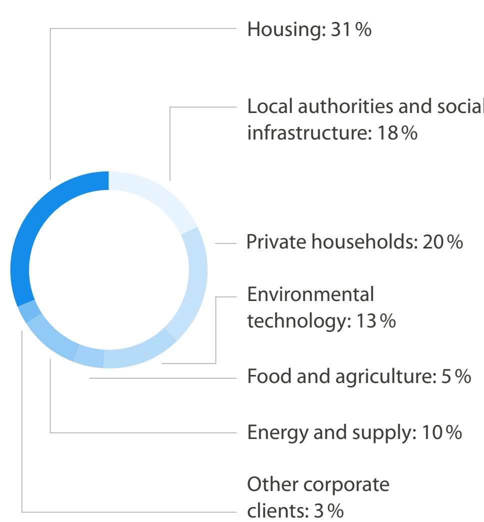
We rely on the technology available to modern banking processes, innovation and targeted cooperation partnerships that offer our clients added value. When supporting our business clients, we draw on our many years of regional and industry knowledge and utilise a network of specialists.

DKB contributes to regional economic and power supply stability in Germany



As at 31 Dec. 2017

Breakdown of loans by client group
(EUR 64.6 billion, i.e. 83 %)



Green energy for almost 5 million households

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

It provides green energy for almost 5 million households.

Market cultivation via three segments

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

In the **retail clients** segment, we support Internet-savvy private clients as well as healthcare and liberal professions with the financial services provided by a modern online bank. Here we rely on transparent services at competitive terms. The product range essentially comprises the DKB-Cash and DKB-Business account packages, construction finance and retail loans, medical practice and law firm finance, real estate finance, investment products, and the partner (co-branding) credit card business. In addition to DKB AG's retail clients and private clients business, the companies FMP Forderungsmanagement Potsdam GmbH and DKB Grund GmbH are also assigned to the retail client segment.

In the **infrastructure segment**, we offer customised financing and investment products to clients in the fields of local authorities, social infrastructure, housing, administrators, energy and utilities as well as civic participation. Products include local bank and development 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 client solutions.

In the **corporate clients** segment, we focus on clients from the areas of environmental technology, food and agriculture, and tourism. The products and services on offer correspond largely to those in the infrastructure segment. The activities of DKB Finance GmbH and MVC Unternehmensbeteiligungsgesellschaft mbH are also assigned to this segment.

The three segments – retail clients, infrastructure and corporate clients – are in line with our strategic core business, on which we concentrate particularly in our role as a retail and business client bank. In the retail clients segment, we want to be a trustworthy partner for all financial matters as our clients' primary bank. To achieve this, we offer our clients market-leading products and solutions, and develop innovations that are accessible and easy to understand. We support our business clients with distinct industry know-how and professional expertise, thereby further developing our market position in the above-mentioned target industries.

The **financial markets** segment includes DKB's treasury activities. It is also responsible for interest book management and regulatory liquidity security. Via the Treasury, we operate in the capital market as an issuer of debt instruments. Two significant instruments are 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 intra-Group 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 and which is earmarked for gradual phasing out. This includes investments not in line with our strategy (including the associated refinancing funding provided by DKB) and certain securities portfolios and client loans portfolios. The corresponding reduction of business is part of the overarching restructuring concept of the BayernLB Group.

The **other segment** contains cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source. These include the central administrative expenses of DKB AG and the earnings contribution of DKB Service GmbH.

Management and supervision

Continuity in the executive body appointments

The DKB AG Board of Management comprised five members in the past financial year: the Chair Stefan Unterlandstättner and the other members Rolf Mähliß, Dr Patrick Wilden, Tilo Hacke and Thomas Jebsen. The Board member responsible for risk management, Dr Patrick Wilden, left the Board of Management after 15 years in this position as of 31 December 2017 to enter retirement. Alexander von Dobschütz was appointed to the Board of Management to replace Dr Patrick Wilden.

The Board of Management runs the company independently 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 its tasks, areas of responsibility are assigned to the Board members, who then take charge of the associated operations. Important 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 topics that were the focus of the Supervisory Board's work in financial year 2017 are set out in the Supervisory Board's report. At the end of 2017, the Supervisory Board comprised 16 members with equal numbers of shareholder and employee representatives.

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

There were no conflicts of interest in connection with the performance of duties or functions in other companies or organisations for any of the members of the two bodies in the past financial year.

Corporate governance principles as a foundation

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

In performing their duties, the Board of Management and Supervisory Board are guided by DKB's corporate governance principles. These are derived from the provisions of the German Corporate Governance Code and are regularly reviewed for their effectiveness and regulatory compliance. In the event that the legal requirements or the shareholder's regulations change, or new experience suggests a revision, the principles shall be adapted. The corporate governance principles apply to both DKB AG as well as the other companies of DKB.

In the view of the Board of Management, good corporate governance particularly strengthens the trust that clients, business partners, investors, employees and the public have in DKB AG. It increases corporate transparency and supports the credibility of our company.

From the perspective of the company's management, good corporate governance also means a strict understanding 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 monitoring as a key management task and expressly commits itself to lawful, socially minded and ethical conduct.

DKB's demanding understanding of management and conduct is also reflected in its 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 reporting level, DKB AG complies with corporate governance requirements, such as via 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

Management is integrated in the strategy

The organisation of the management and control processes in our company is based on comprehensive strategic planning. This is accompanied by a regular assessment of opportunities and risks. Our comprehensive risk management secures the stability of our Group.

Our planning is carried out with different time horizons: the starting point is the multi-year planning, from which we derive our short- and medium-term goals. These objectives are incorporated into the operational planning of the organisational units and are linked with corresponding measures at the operational level.

Financial key performance indicators to provide information on earnings and performance

Our commercial management focuses on achieving a net assets and financial position that is stable and structured in the long term, as well as a positive earnings situation. To this end, we use key financial figures relating to earnings, profitability and value.

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

- Cost/income ratio (CIR): This KPI measures the relationship between costs and income, and provides information on our economic efficiency. The CIR represents the ratio of the administrative expenses to the sum total of income items of 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 and 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 hard 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 and does not take the tax expense into account.

- 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), we consider net profit before profit transfer as a control parameter.

To assess the achievement of our growth targets, the following performance indicators are also considered at the segment level:

- volume of receivables (nominal),

- deposit volume and

- number of clients in the retail clients segment.

Non-financial data provide information on qualitative further development

Parallel to the financial performance indicators, we regularly collect information and data that provide insights into the development of non-financial success factors. They relate to employee, client, market and product-related aspects. We use the results and findings of the surveys to further improve our operating performance.

The "Non-financial performance indicators" section explains the measures we take as we generally seek to achieve the various non-financial objectives. Our non-financial objectives relate to aspects in the following areas:

- Employees: composition, satisfaction, level of education, health

- Clients: client satisfaction, client growth, market share

- Performance: product and service quality

We pursue all our financial and non-financial corporate goals with a fundamental focus on sustainable corporate development.

Report on the economic position

Economic environment

Development of the macroeconomic environment

Economy continues to improve

After a slow start, the global economy picked up speed in the course of 2017 and grew by 3.7 % (2016: 3.2 %) driven by good sentiment in the advanced economies. In the USA, the political risks associated with the change of government faded somewhat into the background, allowing the US economy to grow. The eurozone economy continued on its positive course, while Japan also recorded a significant increase in economic growth. In parallel with the advanced economies, developments in the emerging markets also picked up once again.

In addition to general monetary policy in the leading economic and monetary areas, the main topics of 2017 were the decisions on US economic policy and, in the eurozone, the UK's withdrawal negotiations from the European Union.

German economy at a high level

The German economy had a lively start to the last year and was able to maintain its high level in the months to follow. According to preliminary calculations by the Federal Statistical Office, gross domestic product rose by 2.2 % over the year. Production capacity utilisation continued to increase, pushing many companies to their capacity limits. Both consumption and exports contributed to economic development. The labour market continued to benefit from the positive overall environment. The unemployment rate was 5.5 % in November 2017. This represents a year-on-year decline of 0.5 percentage points.

Measured in terms of the consumer price index, the inflation rate for Germany was 1.8 % in 2017. Thus, the consumer price trend remained clearly upward, so that the value is now close to the ECB's inflation target of 2 % for the eurozone.

Development of the industry environment

Financial markets remain resilient, USA and Europe continue with their interest rate policy

The global financial system remained robust in 2017. Despite numerous new uncertainties in the global environment, the expectations of financial market players were determined by the favourable economic outlook and positive expectations regarding monetary policy.

In 2017, the US Fed continued its interest rate policy, which began at the end of 2015, and raised its key interest rate by 0.25 percentage points to the level of 1.25 % and 1.50 % respectively in March, June and December. Despite the continuing path of interest rate hikes on the other side of the Atlantic, the ECB maintained its low interest rate phase. The deposit facility remained at -0.4 % throughout the year, which continued to impact the earnings situation in the banking sector.

At its October meeting, the Governing Council of the ECB set a first signal for a change of course: it decided to continue purchases under the Expanded Asset Purchase Programme (APP) until the end of 2017 with the previous monthly volume of EUR 60 billion and then reduce the monthly volume for net purchases to EUR 30 billion from January 2018.

Equity markets trending upwards

On the international stock markets, the favourable economic outlook led to higher earnings expectations, with most prices rising and reaching new highs in both Germany and the USA. The Dow Jones rose by 25 % over the course of the year, while the DAX increased by 12.5 %. The MSCI World Index, which includes the world's largest equities, increased its performance by around 19 % over the year.

In the currency markets, the euro was buoyed by the good economic data for the eurozone. On average, the euro exchange rate rose by around 2 % against the currencies of 19 major trading partners. The yield on ten-year German federal bonds reached more than 0.6 % in July 2017, ending the year at 0.4 %.

Banking environment remains under strong competitive pressure

The low interest rate environment continues to challenge banks' profitability. In a difficult market environment, banks are called upon to develop new products and tap sources of income in the face of high cost burdens due to increasing regulatory requirements. The emergence of new competitors from the tech industries is further intensifying competition.

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 clients, infrastructure and corporate clients).

Business performance

Overall performance of DKB

Business developed well in 2017

DKB continued the positive development of previous years in 2017. The targets set at the beginning of the year were achieved and in some cases clearly exceeded:

- At EUR 263.2 million, consolidated net income in accordance with IFRS was significantly higher than the previous year's result (EUR 195.1 million), adjusted for the special effect from the sale of the shares in Visa Europe Limited (EUR 131.8 million).

- To strengthen regulatory capital, DKB AG allocated EUR 252.0 million (previous year: EUR 100.0 million) to the fund for general banking risks during the financial year. The net income of EUR 252.0 million for the year in accordance with the German Commercial Code (HGB), adjusted for this allocation, is higher than the result of the previous year (EUR 225.1 million), adjusted for the aforementioned special effect and the allocation to the fund for general banking risks.

The forecast/actual comparison is as follows for DKB's performance indicators:

DKB Group	Forecast 2017	Actual 2017
Net interest income	Slightly above 2016 (Previous year: EUR 795.1 million)	**Forecast significantly exceeded** Net interest income increased significantly by EUR 140.1 million.
Risk provisions	At the level of 2016 (Previous year: EUR 128.7 million)	**Forecast achieved** At EUR 127.3 million, risk provisions were slightly below the previous year's level.
Profit/loss before taxes	2016 level adjusted for special effects (Previous year: EUR 199.4 million)	**Forecast exceeded** At EUR 264.7 million, earnings before taxes were up on the previous year's level adjusted for the special effect.
Total assets	Slight increase compared to 2016 (Previous year: EUR 76.5 billion)	**Forecast achieved** Net assets rose slightly by EUR 0.8 billion to EUR 77.3 billion.
RoE	2016 level adjusted for special effects (Previous year: 12.4 %, adjusted 7.5 %)	**Forecast exceeded** At 9.6 %, the return on equity was above the planning corridor of 7.5 % to 8.5 %.
CIR	2016 level adjusted for special effects (Previous year: 45.8 %, adjusted 53.6 %)	**Forecast exceeded** At 50.8 %, the cost/income ratio was better than planned.

DKB AG	Forecast 2017	Actual 2017
Net profit before profit transfer	2016 level adjusted for special effects (Previous year: EUR 225.1 million)	**Forecast exceeded** Adjusted for allocations to the fund for general banking risks and the special effect from the sale of Visa Europe Limited in the previous year, the result of EUR 252.0 million exceeded our expectations.

On the operational side, we continued to work successfully on the further development of our services for clients in 2017. In addition, we improved our offerings and increased their ease of use. Other key internal focal points were cost management, innovation, digitalisation and networking.

To provide more personal support to our business clients, we adapted our structures in the past year and divided this business area, which covers the whole of Germany, into eight sales regions. To this end, we opened new branches in Hanover, Kassel, Kiel, Münster, Oldenburg and Stuttgart, which are embedded in the respective regions. This brings the number of DKB branches where we serve our business clients to 24. Being anchored in the respective regions allows us to be closer to our clients, enabling us to adapt even better to their specific needs.

Overall performance of the segments

Reclassification

In 2017, we reclassified commitments between the segments, in particular from the corporate clients and infrastructure segments to the retail clients segment. The previous year's figures were adjusted accordingly.

Forecast/actual comparison of key performance indicators

Segments	Forecast 2017	Actual 2017
Retail clients		**Forecast achieved overall**
	250,000 new clients (Previous year: approx. 400,000)	New clients: approx. 373,000
	Receivables volume: at the previous year's level (Previous year: EUR 13.4 billion)	Receivables volume: EUR -0.5 billion
	Deposit volume: Slightly above 2016 (Previous year: EUR 29.2 million)	Deposit volume: EUR +2.3 billion
Infrastructure	Receivables volume: Slightly above 2016 (Previous year: EUR 36.6 billion)	**Forecast partially achieved** Receivables volume: EUR +1.4 billion
	Deposit volume: at the level of 2016 (Previous year: EUR 17.1 billion)	Deposit volume: EUR -1.6 billion
Corporate clients	Receivables volume: Slightly above 2016 (Previous year: EUR 12.7 billion)	**Forecast achieved** Receivables volume: EUR +0.6 billion
	Deposit volume: At the level of 2016 (Previous year: EUR 2.5 billion)	Deposit volume: EUR +0.1 billion
Non-core business	Continue to implement the ongoing reduction of portfolios and securities portfolios not in line with our strategy.	**Forecast achieved** Reduction continued

Retail clients segment

Market environment remains highly dynamic

The framework conditions for the retail clients business remained challenging in 2017. Fuelled by the ECB's continuing low interest rate policy, competitive pressure among banks remained high. Concurrently, market standards also continued to evolve. Tools initiated by FinTechs such as photo transfers, video identification and digitally simplified account switching services are becoming increasingly established.

Intense competition and increasing transparency mean that clients are tending to select their accounts according to the scope of services offered. The digital performance of financial institutions is playing an ever more important role when it comes to clients choosing their banks. Banks are responding to this and investing extensively in new, mobile market presences. They are also launching mobile-only offers on the market.

The high level of incentives offered for the acquisition of new clients in recent years continued in the past year. Account management fees have become standard again for almost all branch banks. Fee-based services are also increasing at Internet banks.

Further clients growth and increase in deposit volume

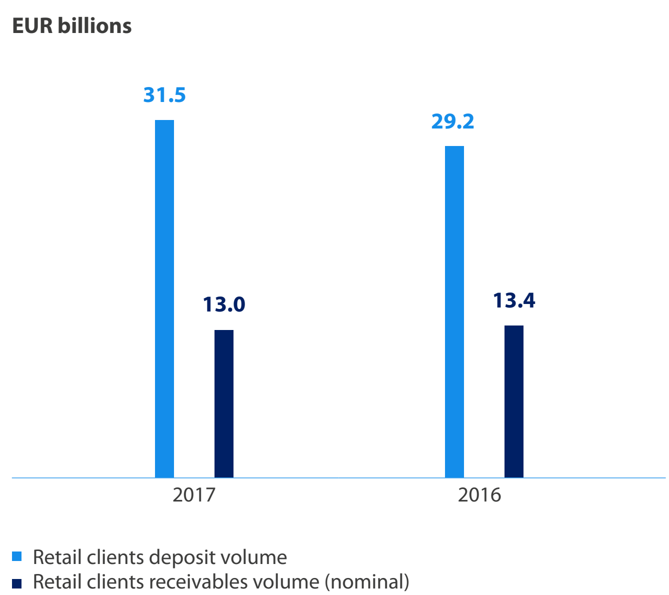
In 2017, the retail clients segment increased its client base by around 373,000 clients (previous year: around 400,000), exceeding expectations by far. New client business was driven by the free DKB-Cash offer. In a banking environment that has increasingly reintroduced account management fees, this offer became even more attractive. DKB's account switching service continued to be well received by clients.

DKB had a total of 3.7 million clients in the retail clients segment at the end of 2017 (previous year: 3.4 million). This figure makes DKB the second largest online bank in Germany. The number of DKB-Cash accounts rose to 2.7 million (previous year: 2.5 million). Measured by the number of current accounts, DKB remains the market leader among online banks.

The lending business is shaped by the current interest rate environment. Clients with current building loan agreements are increasingly taking advantage of the low interest rate level for repayments. The receivables volume (nominal) decreased slightly to EUR 13.0 billion.

The deposit volume increased to EUR 31.5 billion in 2017 (previous year: EUR 29.2 billion). The main reason for this is the continued high level of new clients acquisitions.

Retail clients deposit and receivables volume



Intensive client care and new services

In view of the increasing willingness to switch, the cultivation of clients relationships in the retail clients business is of growing strategic importance. One of our key focal points is to position ourselves as a close partner for our clients in everyday life.

In the interests of our clients, we continued to work on optimising the cost situation without neglecting the exploitation of available earnings potentials, particularly in the payments area. As a free current account including free credit card, the DKB-Cash account remained the anchor product for the retail clients business and thus also the success driver.

In the lending business, the focus continued to be on the market-oriented expansion of the consumer lending business. We continued implementing our two-brand strategy DKB and SKG BANK, which we have been pursuing for the past two years. In addition to the traditional instalment loan, which is priced independently of creditworthiness, we offer our retail clients further loan variants via SKG BANK.

Another key focal point was the expansion of new business in real estate financing. Initiated by process improvements and the new partnership with S-Servicepartner GmbH, our clients receive their loan offers in a shorter time. It is also easier for us to service the increased demand.

We have likewise increased ease of use in Internet banking: clients can now adapt and structure their banking services according to their individual needs. In addition, it is now possible to create a TAN on a smartphone or tablet easily and securely at any time using the optimised "TAN2go" app.

DKB-Cash: active client status introduced

In order to adapt to market conditions, we have introduced a differentiation for our anchor product DKB-Cash. With the free current account with credit card, we now differentiate between "active clients" and "non-active clients" with corresponding product and service offerings. The service continues to be provided free of charge for all clients.

Active clients receive additional benefits: these include, for example, reimbursement of the international service fee when using a credit card outside the eurozone, benefits in terms of credit and debit interest or free participation in sporting events as part of the DKB live programme.

In addition, active clients have the option of accessing a free emergency card and emergency cash in the event of theft. Fully comprehensive cover for the card protects clients from losses that may occur in the time between card loss and card blocking.

The status "active client" is linked to monthly cash inflows of at least EUR 700. The aim of this differentiation is to increase client loyalty and intensify relationships with active client. The development in recent months shows that this concept is proving its worth: more and more clients want to use the product advantages as active clients, which increases the share of this client group.

Personal loans: product offering expanded and volume of receivables increased

In February 2017, we adjusted the effective annual interest rate for DKB personal loans by 0.4 percentage points downwards to between 3.29 % and 3.49 %. With this offering, both special repayments and early repayment remain possible at any time free of charge. We also expanded our loan offering in 2017 to include SKG instalment loans. This product has a credit-rating-dependent interest rate.

Demand for personal loans remained high in the past year. Thanks to increased sales activities, we were able to take advantage of this even more than in the past, with the volume of receivables rising to EUR 1.8 billion (previous year: EUR 1.3 billion).

DKB-Broker: number of custody accounts expanded and high demand for ETFs

In 2017, we once again significantly expanded the basis of our securities business. The number of retail client custody accounts rose by 29 % to more than 187,000 (previous year: 145,000 custody accounts). The utilisation rate of the broker offering was also high: more than one million securities orders were executed in 2017. The savings-plan-based ETFs (Exchange Traded Funds) introduced in cooperation with iShares in the previous year met with increasing demand. iShares is the ETF division of the globally active asset manager BlackRock.

Co-branding portfolio: still stable

In cooperation with strategic partners, we offer credit card services in our co-branding portfolio. The partners include Lufthansa, Porsche, Hilton, BMW and MINI. The number of co-branded cards issued amounted to 653,000 in 2017 (previous year: 654,000).

Individual client division

In line with the plans of our corporate concept, the "liberal professions" client group (legal and tax advisory professions as well as business advisory, technical and scientific professions), healthcare professions (academic healthcare professions such as doctors, dentists and pharmacists) and wealthy retail clients were combined in the individual clients division in 2017. The division was reorganised to increase market penetration and to achieve more efficient customer service by bundling tasks. Individual clients were served according to a holistic approach geared to the commercial and private spheres of these clients.

With the formation of this division, receivables with a nominal value of EUR 1.4 billion and deposits of EUR 2.3 billion were reallocated from the corporate clients and infrastructure segments. The division provides support to around 13,600 doctors, dentists and pharmacists nationwide as well as 29,000 clients in the liberal professions.

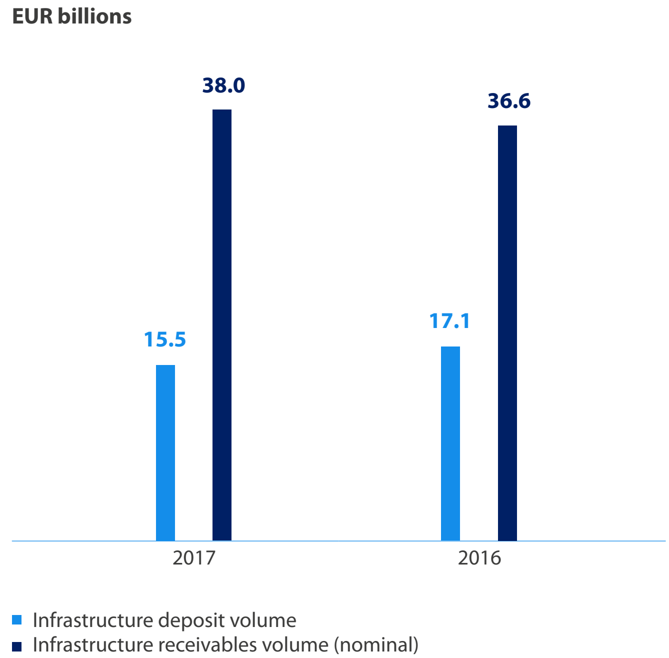
Despite the intense competition in these client groups, stable clients growth was achieved in the past year. The number of clients increased by approx. 3,500 to 64,900. Assets exhibited a rather stable development. At the end of 2017, the receivables volume (nominal) was EUR 1.8 billion (previous year: EUR 1.9 billion). New business was primarily dominated by real estate finance as well as law firm and medical practice finance. The deposit volume amounted to EUR 3.5 billion (previous year: EUR 3.4 billion).

Infrastructure segment

Positive overall performance

The framework conditions for the infrastructure segment were generally positive in 2017. However, the price war in the market remained fierce. Nevertheless, new business developed slightly positively to EUR 4.8 billion (2016: EUR 4.6 billion). The receivables volume (nominal) improved by some EUR 1.4 billion and amounted to EUR 38.0 billion as of the balance sheet date. The deposit business reached EUR 15.5 billion, representing a decline compared to the previous year (EUR 17.1 billion) due to management factors. The main reason for this was a reduction in the interest rate in the area of institutional investments.

Infrastructure deposit and receivables volume



Local authorities and social infrastructure: further growth

The "Local authorities, education, research" business area was expanded in the reporting period as planned and is now called "Local authorities and social infrastructure". With this expansion, clients from the sectors of hospitals and inpatient care facilities, which were previously assigned to the now defunct client group of health and care, have been added.

The framework conditions for the new client group were positive. The need for investment in local authorities and social infrastructure remains very high. Local authorities face the challenge of reducing their investment backlog and modernising their administrations. In the education sector, the number of pupils is rising again for the first time despite demographic change, which strengthens the importance of independent schools. In the area of professional nursing care for the elderly, there was a positive dynamic, particularly among providers of outpatient care services.

The volume of receivables (nominal) in the local authorities and social infrastructure client group was EUR 11.9 billion as at the reporting date and was thus above the previous year's figure of EUR 10.8 billion. The deposit volume decreased to EUR 7.8 billion (previous year: EUR 9.2 billion) due to management-related issues. The client base decreased throughout the year to 10,260 clients (previous year: 11,570 clients).

Administrators: volumes increased

In order to be able to provide the administrators with more specific support, we wound up the administration-related business from the housing client group in the course of the first half of 2017. It is now managed by regional teams and reported separately within the infrastructure segment.

Assets managed on administrator accounts increased by EUR 0.7 billion to EUR 3.3 billion in the reporting period. As of the reporting date, 9,050 commercial real estate administrators (2016: 7,200) with over 48,600 residential property associations managed their portfolios at DKB (previous year: 44,200).

Housing: slight active growth with declining deposits

The market situation in the housing client group remained challenging in 2017. Although investment demand for real estate loans remained high in view of the ECB's continued low interest rate policy, many housing companies continued to pursue a debt reduction strategy. The receivables volume (nominal) increased by EUR 0.4 billion to EUR 20.0 billion, thus slightly above that of the previous year. However, the deposit business fell to EUR 2.6 billion (previous year: EUR 3.0 billion).

Housing companies' market penetration remained high and almost unchanged at 81 % in the past year (previous year: 82 %). The calculation is based on the percentage of companies in the target clients segment with which DKB has a business relationship.

Energy and supply: slight declines in volume

Investment needs in the target sector remain high. However, the same also applies to clients' repayment willingness. Accordingly, competition remained intense in this business segment, too, in the past year. The new loans business showed a generally restrained development. The focus was on loans for replacement investments in the infrastructure of energy, water/waste water and transport companies.

At EUR 6.1 billion, the receivables volume (nominal) was roughly on a par with the previous year (EUR 6.2 billion). The volume of deposits fell to EUR 1.7 billion (previous year: EUR 2.2 billion). The reason for the decline was interest rate adjustments given the current market environment.

Civic participation: services expanded

In the area of civic participations, we provide funding support for regional investments in renewable energies and infrastructure projects in which local clients and citizens are involved. Here we finance specific projects. At the same time, there is the option for interested citizens to sign up for a special DKB civic savings product, DKB-Bürgersparen, which facilitates a non-material form of participation in the project.

Last year, we expanded our product portfolio for citizen participation solutions with DKB initial capital. These concern investment funds that we provide as risk capital to citizens in the development phase of a wind project.

In total, we completed 13 new civic participation projects in the reporting period. The number of successfully agreed DKB civic participation projects rose to 103 in 2017.

Corporate clients segment

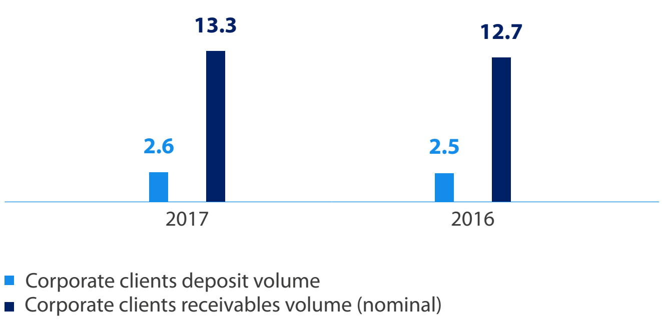
Positive development overall

In a continuingly challenging competitive environment, the corporate clients segment developed positively in line with expectations. Growth was driven by good business development, particularly in the environmental technology client group. The receivables volume (nominal) amounted to EUR 13.3 billion as of the reporting date and was thus slightly above the previous year (2016: EUR 12.7 billion).

The volume of deposits amounted to EUR 2.6 billion (previous year: EUR 2.5 billion) at the end of the year.

Corporate clients deposit and receivables volume

EUR billions



Operationally, the establishment and staffing of new locations in Germany formed the focus, with the aim of improving regional customer service (see p. 41).

Environmental technology: receivables rose again

With the entry into force of the amendment to the Renewable Energy Sources Act (EEG) in 2017, new wind power and biomass plants have been subject to a tendering obligation for the competitive determination of the subsidy amount. As a result of the amendment, competition for the transitional systems, which still receive the feed-in tariff stipulated by law, intensified. In the associated tendering procedures, it quickly became apparent that citizen-owned energy companies would tend to win the tenders. DKB's offers were well received by the market even in the changed situation. We were able to maintain our business in the photovoltaics sector at a stable level. In addition to plants subject to tender, we increasingly financed smaller plants with an output of less than 750 kW that were not subject to tender.

Overall, growth in the environmental technology client group was in line with the changed market environment. The receivables volume (nominal) increased to EUR 8.5 billion (2016: EUR 7.8 billion). At EUR 1.1 billion, the volume of deposits remained at the previous year's level (2016: EUR 1.1 billion).

Food and agriculture: volume of receivables increased

After a phase of weaker prices, an increase in price levels last year enabled farms to produce profitably again. In the meantime, the income generated also permits liquidity reserves to be created again. Nevertheless, German farmers are still reluctant to invest. Investments in livestock facilities mainly related to measures to improve animal welfare. The lending business also focused on the financing of land purchases and the acquisition of agricultural companies.

The volume of receivables fell by 0.9 % to EUR 3.4 billion as a result of management measures. The deposit volume increased slightly by 1.6 % to EUR 1.1 billion.

As of the reporting date, DKB had around 8,600 agricultural clients and thus a stable customer base when compared with the previous year (previous year: around 8,600).

Tourism: at the previous year's level

Against the background of increasing numbers of overnight stays, the general conditions in the German tourism business were fundamentally favourable in the past financial year. This was also reflected in brisk transaction activity in the industry: many portfolio holders disposed of their projects during the course of the year. As a result, we recorded disposals in the business segment, which were largely offset by new business.

At EUR 1.1 billion, the receivables volume (nominal) remained stable on a par with the previous year (2016: EUR 1.1 billion). The deposit business continued to have subordinate importance.

Financial markets segment

Liquidity increased further

In order to increase our regulatory liquidity buffer, we increased our portfolio of highly liquid securities, according to the definitions of the capital adequacy regulation, by EUR 0.2 billion (net nominal) to EUR 5.8 billion at the end of 2017.

Refinancing: second green bond issued

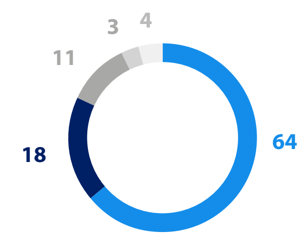
DKB's main pillars of refinancing are deposits from its clients, its development business as well as its bond issues.

Client deposits remained almost unchanged at EUR 53.9 billion (previous year: EUR 53.4 billion). Following the issue last year, DKB successfully placed its second green bond in September 2017. As with the first "green bond", this also had a volume of EUR 500 million and was issued in the senior unsecured format. The loan pool underpinning the programme consists solely of wind power and solar power financing in Germany (onshore).

Only a small number of Pfandbriefs were issued in the year under review due to the continuing good liquidity situation. The volume of issues amounted to EUR 125 million (previous year: EUR 90 million).

Our refinancing sources

in %



- Client deposits
- Development business
- Pfandbriefs
- Other liabilities
- Equity

Moody's continued to give our mortgage and public Pfandbriefs the best rating "Aaa". Moody's raised its issuer rating for unsecured bonds from A3 to A2. In addition to the upgrade for DKB's parent company, BayernLB, the bank's further improved liquidity profile also played a role here.

DKB's ratings

	Public-sector Pfandbriefs	Mortgage Pfandbriefs	Company and/or issuer rating (unsecured bonds)
Moody's rating	Aaa	Aaa	A2
oekom rating	–	–	B- (Prime Status)
imug rating	very positive (A)	positive (BB)	neutral (CCC)

In 2017, the total volume of new business in programme loans with development banks decreased by EUR 1.1 billion year-on-year and thus amounted to EUR 1.7 billion. The main reason for the decline was the conversion of the refinancing of renewable energy projects. Due to the liquidity situation, loans were granted preferably from DKB AG's existing liabilities. The portfolio volume from programme loans and global loans of the development banks amounted to EUR 13.5 billion as at the end of 2017 (year-end 2016: EUR 13.2 billion).

Non-core business segment

Reduction activities continued

The reduction of non-core business continued as planned in 2017. It consisted of the repayment of loans and repayments in connection with liquidation. The volume of receivables (nominal) in the segment was EUR 0.3 billion as at the reporting date (previous year: EUR 0.5 billion). Due to maturities, securities are no longer held in the reduction portfolio.

Other segment

In the "other" segment, we deal with cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source. These include the central administrative expenses of DKB AG and the earnings contribution of DKB Service GmbH. DKB Service GmbH also rendered the majority of services for DKB AG in 2017.

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

Results of operations

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Net interest income	935.2	795.1	140.1	17.6
Risk provisions	–127.3	–128.7	1.4	1.1
Net interest income after risk provisions	**807.9**	**666.4**	**141.5**	**21.2**
Net commission income	–39.2	6.9	–46.1	>–100.0
Gains or losses on fair value measurement	89.7	46.2	43.5	94.2
Gains or losses on hedging transactions	–124.2	–94.4	–29.8	–31.6
Gains or losses on financial investments	20.8	160.8	–140.0	–87.1
Administrative expenses	–446.3	–417.0	–29.3	–7.0
Expenses from bank levies, deposit protection and banking supervision	–37.4	–29.8	–7.6	–25.5
Other income and expenses	–3.2	–5.0	1.8	36.0
Gains or losses on restructuring	–3.4	–2.9	–0.5	–17.2
Profit/loss before taxes	**264.7**	**331.2**	**–66.5**	**–20.0**
Income taxes	–1.5	–4.3	2.8	65.1
Consolidated profit/loss	**263.2**	**326.9**	**–63.7**	**–19.5**
of which special effect from the sale of Visa Europe Limited shares	0.0	131.8	–131.8	–100.0
Adjusted consolidated profit/loss	**263.2**	**195.1**	**68.1**	**34.9**

Adjusted for the one-time special effect from the sale of the shares in Visa Europe Limited in the previous year, the DKB Group was able to significantly increase its **Group result**.

This was primarily due to the positive development of **net interest income**, where the DKB Group was largely able to compensate for the decline in interest income due to the continued low level of interest rates with the generally good business performance of its market areas and adjustments in interest rates. Net interest income was also significantly influenced by lower interest expenses from interest rate hedges.

The lower **net commission income** resulted primarily from higher expenses in the credit card business.

Net income from financial investments in the previous year was impacted by the sale of shares in Visa Europe Limited.

The increase in **administrative expenses** is primarily a result of higher expenses due to internal projects for the implementation of regulatory requirements with high external consulting costs as well as high IT and personnel expenses.

Net interest income

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Interest income and positive interest expenses	1,878.3	2,065.4	–187.1	–9.1
Interest expenses and negative interest income	–943.1	–1,270.3	327.2	25.8
Net interest income	**935.2**	**795.1**	**140.1**	**17.6**

Net interest income is allocated to the segments as follows:

	2017 EUR millions	2016[1] EUR millions	Change EUR millions	Change in %
Retail clients	394.3	422.5	–28.2	–6.7
Infrastructure	316.9	244.8	72.1	29.5
Corporate clients	160.5	147.9	12.6	8.5
Financial markets	41.8	–33.7	75.5	> 100
Non-core business	6.1	7.6	–1.5	–19.7
Other	20.8	11.9	8.9	74.8
Reconciliation/Consolidation	–5.2	–5.9	0.7	11.9
Net interest income	**935.2**	**795.1**	**140.1**	**17.6**

[1] Assignments to the segments have changed compared with the previous year's report. The corresponding comparative figures from the previous year were adjusted.

Risk provisions

The risk provision is allocated to the segments as follows:

	2017 EUR millions	2016[1] EUR millions	Change EUR millions	Change in %
Retail clients	–43.9	–61.7	17.8	28.8
Infrastructure	–22.8	–7.9	–14.9	>–100.0
Corporate clients	–51.4	–37.5	–13.9	–37.1
Financial markets	0.0	0.0	0.0	0.0
Non-core business	–8.5	–20.9	12.4	59.3
Other	–0.7	–0.7	0.0	0.0
Reconciliation/Consolidation	0.0	0.0	0.0	0.0
Risk provisions	**–127.3**	**–128.7**	**1.4**	**1.1**

[1] Assignments to the segments have changed compared with the previous year's report. The corresponding comparative figures from the previous year were adjusted.

Net commission income

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Credit card business	8.6	54.5	–45.9	–84.2
Payments	–55.5	–56.6	1.1	1.9
Other net commission income	7.7	9.0	–1.3	–14.4
Net commission income	**–39.2**	**6.9**	**–46.1**	**>–100.0**

Net commission income is allocated to the segments as follows:

	2017 EUR millions	2016[1] EUR millions	Change EUR millions	Change in %
Retail clients	–76.0	–32.0	–44.0	>–100.0
Infrastructure	3.6	1.4	2.2	>100.0
Corporate clients	25.2	28.6	–3.4	–11.9
Financial markets	–2.6	–2.2	–0.4	–18.2
Non-core business	0.2	0.6	–0.4	–66.7
Other	2.1	5.6	–3.5	–62.5
Reconciliation/Consolidation	8.3	4.9	3.4	69.4
Net commission income	**–39.2**	**6.9**	**–46.1**	**>–100.0**

[1] Assignments to the segments have changed compared with the previous year's report. The corresponding comparative figures from the previous year were adjusted.

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

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

Gains or losses on financial investments

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

Administrative expenses

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Staff costs	–228.0	–213.9	–14.1	–6.6
Other administrative expenses	–210.6	–196.4	–14.2	–7.2
Depreciation and impairments on property, plant and equipment and intangible assets	–7.7	–6.7	–1.0	–14.9
Administrative expenses	**–446.3**	**–417.0**	**–29.3**	**–7.0**

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

Other administrative expenses rose in particular due to higher costs for internal projects with high external consulting costs for implementing regulatory requirements and higher IT expenses.

Administrative expenses are allocated to the segments as follows:

Breakdown by segment	2017 EUR millions	2016[1] EUR millions	Change EUR millions	Change in %
Retail clients	–206.9	–206.0	–0.9	–0.4
Infrastructure	–88.4	–79.0	–9.4	–11.9
Corporate clients	–65.1	–56.2	–8.9	–15.8
Financial markets	–6.6	–4.8	–1.8	–37.5
Non-core business	–16.9	–17.5	0.6	3.4
Other	–201.0	–184.6	–16.4	–8.9
Reconciliation/Consolidation	138.6	131.1	7.5	5.7
Administrative expenses	**–446.3**	**–417.0**	**–29.3**	**–7.0**

[1] Assignments to the segments have changed compared with the previous year's report. The corresponding comparative figures from the previous year were adjusted.

Expenses from the bank levy, deposit guarantee scheme and banking supervision

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Bank levies and banking supervision	–22.5	–20.0	–2.5	–12.5
Deposit guarantee scheme	–14.9	–9.8	–5.1	–52.0
Expenses from the bank levy, deposit guarantee scheme and banking supervision	**–37.4**	**–29.8**	**–7.6**	**–25.5**

Other income and expenses

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Other income	42.0	36.2	5.8	16.0
Other expenses	–45.2	–41.2	–4.0	–9.7
Other income and expenses	**–3.2**	**–5.0**	**1.8**	**36.0**

Gains or losses on restructuring

Gains or losses on restructuring results from the implementation of the restructuring measures defined for DKB 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)

The return on investment in the financial year was 0.34 % (previous year: 0.43 %, excluding the special effect from the sale of Visa Europe Limited: 0.26 %).

Net assets

Assets

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Cash reserves	1,742.8	1,428.6	314.2	22.0
Loans and advances to banks	4,601.6	5,365.5	–763.9	–14.2
Loans and advances to clients	64,552.2	63,228.3	1,323.9	2.1
Risk provisions	–356.9	–448.8	91.9	20.5
Portfolio hedge adjustment	455.4	831.4	–376.0	–45.2
Assets held for trading	3.6	4.3	–0.7	–16.3
Financial investments	6,027.9	5,880.1	147.8	2.5
Other assets	296.3	232.9	63.4	27.2
Total assets	**77,322.9**	**76,522.3**	**800.6**	**1.0**

The changes in the **cash reserve** and in **loans and advances to banks** result from the DKB Group's operational liquidity management.

The increase in **loans and advances to clients** is mainly attributable to the infrastructure segment (EUR +1,361.4 million) and corporate clients (EUR +556.9 million). In the retail clients segment, however, client receivables fell by EUR 487.8 million.

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

EUR millions	As at 1 Jan.	Additions	Reversals[1]	Utilisation	As at 31 Dec.
Specific loan loss provisions	–385.0	–150.7	60.9	217.2	–257.6
Portfolio provisions	–63.8	–35.5	0.0	0.0	–99.3
Risk provisions	**–448.8**	**–186.2**	**60.9**	**217.2**	**–356.9**

[1] Including unwinding

The **portfolio hedging transactions** is determined from the fair value hedges on interest rate risks formed at the portfolio level. The development of the portfolio hedge adjustment corresponds to the development of the market values from derivative financial instruments (hedge accounting).

Trading assets result from the positive fair values of interest rate derivatives entered into for hedging purposes, which are not subject to hedge accounting in accordance with IAS 39.

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.

Liabilities

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Liabilities to banks	14,381.1	14,510.0	–128.9	–0.9
Liabilities to clients	53,931.0	53,438.0	493.0	0.9
Securitised liabilities	4,725.1	4,459.0	266.1	6.0
Trading liabilities	22.3	53.4	–31.1	–58.2
Negative fair values from derivative financial instruments	17.7	119.2	–101.5	–85.2
Provisions	164.4	143.3	21.1	14.7
Other liabilities	141.1	373.5	–232.4	–62.2
Subordinated capital	684.7	406.8	277.9	68.3
Equity	3,255.5	3,019.1	236.4	7.8
Total assets	**77,322.9**	**76,522.3**	**800.6**	**1.0**

The changes in **loans and advances to banks** result from the DKB Group's operational liquidity management.

The increase in **loans and advances to clients** is mainly attributable to the retail clients segment (+EUR 2,348.9 million). By contrast, client deposits in the infrastructure segment fell by EUR 1,649.8 million. In the corporate clients segment, client deposits increased by EUR 120.8 million.

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.

Trading assets result from the negative fair values of interest rate derivatives entered into for hedging purposes, which are not subject to hedge accounting in accordance with IAS 39.

Negative market values from derivative financial instruments (hedging transactions) are determined from the fair value hedges on interest rate risks formed at the portfolio level. The performance of negative market values from derivative financial instruments corresponds to the portfolio hedge adjustment on the assets side.

DKB's derivatives were subject to the clearing obligation imposed by the European Market Infrastructure Regulation (EMIR). 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. The decline in **other liabilities** is mainly due to the retention of DKB AG's profit and the associated absence of liabilities from the transfer of profits to BayernLB (previous year: EUR 256.9 million).

Reported **equity** consists of the following:

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Subscribed capital	339.3	339.3	0.0	0.0
Capital surplus	1,414.4	1,414.4	0.0	0.0
Retained earnings	1,093.4	1,024.0	69.4	6.8
Revaluation surplus	133.5	161.7	–28.2	–17.4
Consolidated net retained profits/net accumulated losses	274.9	79.7	195.2	>100
Equity	**3,255.5**	**3,019.1**	**236.4**	**7.8**

The higher **retained earnings** are due to contributions to retained earnings of EUR 68.0 million and changes from the revaluation of defined benefit pension plans of EUR +1.3 million.

The decline in the **revaluation reserve** is due to changes in the revaluation reserve from AfS financial instruments.

The change in the **consolidated profit** results from the consolidated net income less allocations to retained earnings.

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

Results of operations

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Net interest income and income from investments	935.0	787.5	147.5	18.7
Net commission income	–87.8	–22.4	–65.4	>–100.0
Administrative expenses and amortisation of intangible assets	–431.1	–391.1	–40.0	–10.2
Other operating profit	–46.0	–43.8	–2.2	–5.0
Operating profit before risk provisions and net measurement gain	**370.1**	**330.2**	**39.9**	**12.1**
Risk provisions and net measurement gain	–114.8	29.5	–144.3	>–100.0
Extraordinary profit/loss	–3.3	–2.8	–0.5	–17.9
Profit before taxes, allocation according to Section 340g HGB and profit transfer	**252.0**	**356.9**	**–104.9**	**–29.4**
Addition pursuant to Section 340g HGB	–252.0	–100.0	–152.0	>–100.0
Taxes	0.0	0.0	0.0	0.0
Profit before profit transfer	**0.0**	**256.9**	**–256.9**	**–100.0**
Profits transferred	0.0	–256.9	256.9	–100.0
Net profit for the year	**0.0**	**0.0**	**0.0**	**0.0**

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

The lower **net commission income** resulted primarily from higher expenses in the credit card business.

The increase in **administrative expenses** is primarily a result of higher expenses due to internal projects for the implementation of regulatory requirements with high external consulting costs as well as high IT and personnel expenses.

The significantly lower **risk provisioning and net measurement gain** is due to the positive special effect of EUR 131.8 million from the sale of the shares in Visa Europe Limited, which only occurred in the previous year.

In the financial year, DKB AG's result was fully allocated to the **reserve in accordance with Section 340g HGB** in order to strengthen regulatory capital.

Net interest income and income from investments

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Interest income	1,854.5	2,054.2	–199.7	–9.7
Interest expenses	–928.3	–1,273.4	345.1	27.1
Current income from shares and other variable-yield companies, participating interests and shares in affiliated companies	3.8	2.6	1.2	46.2
Income from profit pools, profit transfer and partial profit transfer agreements	5.0	4.1	0.9	22.0
Net interest income and income from investments	**935.0**	**787.5**	**147.5**	**18.7**

At EUR 1,780.3 million (previous year: EUR 1,933.7 million), **interest income** arises from loans and advances to clients. The decrease is due to the continuing low interest rate level despite an expansion of the relevant loan volume.

The lower **interest expenses** of EUR 276.1 million relate mainly to loans and advances to clients (previous year: EUR 424.1 million). The decrease is due to changes in terms due to the continuing low interest rate level. Other interest expenses mainly include interest expenses from interest rate hedges in the amount of EUR 334.7 million (previous year: EUR 480.9 million).

Net commission income

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Commission income	316.3	320.4	–4.1	–1.3
Commission expenses	–404.1	–342.8	–61.3	–17.9
Net commission income	**–87.8**	**–22.4**	**–65.4**	**>–100.0**

Commission income includes commissions and fees from the card business amounting to EUR 242.2 million (previous year: EUR 252.4 million).

Commission expenses primarily originate from the card business at EUR 236.9 million (previous year: EUR 198.0 million) and from payment transactions at EUR 58.7 million (previous year: EUR 56.6 million).

Administrative expenses and amortisation of intangible assets

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Staff costs	–152.3	–138.4	–13.9	–10.0
Other administrative expenses	–278.4	–252.7	–25.7	–10.2
Amortisation of intangible assets	–0.4	0.0	–0.4	>–100.0
Administrative expenses and amortisation of intangible assets	**–431.1**	–391.1	–40.0	**–10.2**

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

Other administrative expenses rose in particular due to higher costs for internal projects with high external consulting costs for implementing regulatory requirements and higher IT expenses.

Other operating profit

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Other operating income	11.9	7.1	4.8	67.6
Other operating expenses	–57.9	–50.9	–7.0	–13.8
Other income and expenses	**–46.0**	**–43.8**	**–2.2**	**–5.0**

Other operating income relates primarily to income from cost reimbursements and the reversal of provisions.

Other operating expenses mainly include losses from misuse in the credit card business and legal risks as well as the contribution to the restructuring fund for banks (bank levy).

Risk provisions and net measurement gain

Risk provisions and net measurement gain is composed as follows:

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Risk provisions in the lending business	–122.5	–123.1	0.6	0.5
Net measurement gain on securities and investments	7.7	152.6	–144.9	–95.0
Expenses from loss assumptions	0.0	0.0	0.0	0.0
Risk provisions and net measurement gain	**–114.8**	**29.5**	**–144.3**	**>–100.0**

In addition to capital gains from the sale of securities, the **net measurement gain on securities and investments** in the previous year mainly resulted from a one-time special effect in the amount of EUR 131.8 million from the sale of shares in Visa Europe Limited.

Extraordinary profit/loss

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Extraordinary income	0.0	0.0	0.0	0.0
Extraordinary expenses	–3.3	–2.8	–0.5	–17.9
Extraordinary profit/loss	**–3.3**	**–2.8**	**–0.5**	**–17.9**

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

Addition pursuant to Section 340g HGB

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

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 result before profit transfer and allocation according to 340g HGB, the return on investment in the financial year was 0.33 % (previous year: 0.47 %, excluding the special effect from the sale of Visa Europe Limited: 0.29 %).

Net assets

Assets

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Cash reserves	1,742.8	1,428.6	314.2	22.0
Loans and advances to banks	4,602.0	5,366.0	–764.0	–14.2
Loans and advances to clients	64,139.7	62,746.2	1,393.5	2.2
Bonds and other fixed-income securities	5,825.9	5,619.2	206.7	3.7
Other assets	948.5	1,235.9	–287.4	–23.3
Total assets	**77,258.9**	**76,395.9**	**863.0**	**1.1**

Liabilities

	2017 EUR millions	2016 EUR millions	Change EUR millions	Change in %
Liabilities to banks	14,516.3	14,749.9	–233.6	–1.6
Liabilities to clients	53,928.3	53,434.4	493.9	0.9
Securitised liabilities	4,797.0	4,527.1	269.9	6.0
Provisions	208.2	170.8	37.4	21.9
Other equity and liabilities	106.4	340.8	–234.4	–68.8
Subordinated capital, profit participation rights and additional regulatory core capital	684.8	407.0	277.8	68.3
Reserve pursuant to Section 340g HGB	582.0	330.0	252.0	76.4
Equity	2,435.9	2,435.9	0.0	0.0
Total assets	**77,258.9**	**76,395.9**	**863.0**	**1.1**

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 consist primarily of cash collateral for derivatives subject to clearing requirements (EUR 666.3 million, previous year: EUR 955.1 million).

In the financial year, DKB AG's result was fully allocated to the **reserve in accordance with Section 340g HGB** in order to strengthen regulatory capital.

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).

A **control and profit transfer agreement** is in place with BayernLB. Due to the complete transfer of DKB AG's net profit for the year to the reserve in accordance with Section 340g HGB, no profit was transferred to BayernLB (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 to the statements made in the risk report and to the cash flow statement of the DKB Group.

Non-financial performance indicators

We also use non-financial performance indicators for our company controlling. In order to achieve our targets in this respect, our focus is not on quantitative KPIs but 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.

– **Clients**: Our key benchmark here is client satisfaction with respect to products, quality and innovations.

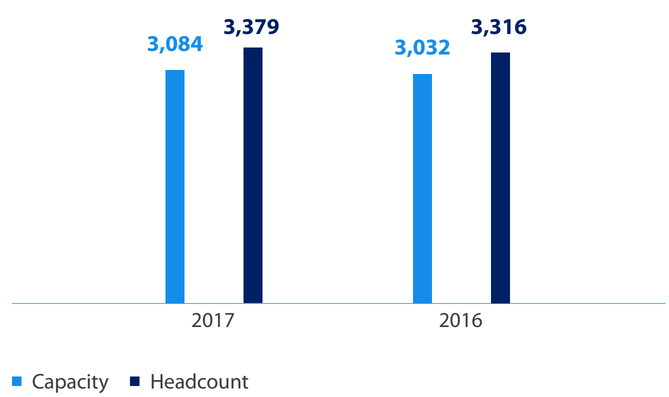
– **Sustainability:** As an organisation, we want to meaningfully combine our interplay of economic, ecological and social targets.

Employees

Number of employees rose further

As of the reporting date, the DKB Group employed 3,084 staff members on a capacity basis, 1.7 % more than in the previous year (3,032 employees). Of these, DKB AG employed 1,716 people (previous year: 1,586).

Number of Group employees as at 31.12.2017



The average age in the DKB Group was 43.1 years (previous year: 42.8 years); the proportion of employees under 30 years was 11.5 % (previous year: 11.6 %). The average length of service was 8.5 years (previous year: 8.2 years).

Our personnel policy provides that vacancies are preferably filled by qualified personnel from our company. In the event that this is not possible or that special expertise is required for certain task profiles which is not available in-house, we recruit suitable external staff. We followed this principle again in 2017.

Active work developing junior staff

We want to introduce young people to our company at an early stage as part of our work developing junior staff. To this end, we regularly offer students and interns the opportunity to gain practical experience with us within the framework of fixed-term employment contracts.

We also pay special attention to university graduates: in addition to direct entry, we also offer them entry via a trainee programme with the aim of then entering into an open-ended employment relationship with us. In 2017, we took on eight trainees for an indefinite period of time.

Our most recent recruitment approach begins at the beginning of studies: last year, five secondary school leavers took up a dual course of study with us for the first time in the fields of banking and business informatics.

Numerous projects on "Work 4.0"

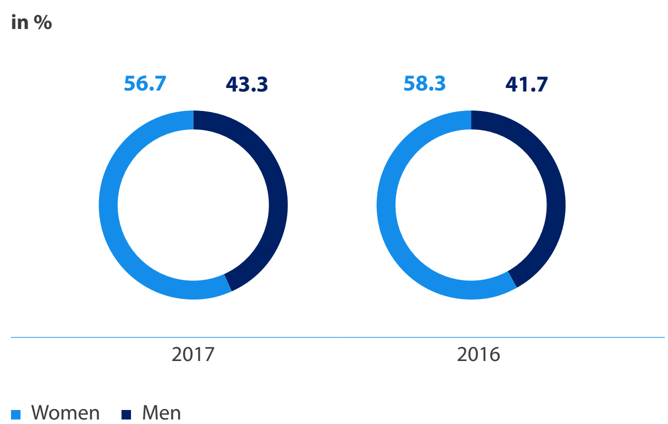
Last year, we dealt in detail with the topic of future working environments at DKB through various project groups. In numerous workshops, teams developed specific approaches that they tested in practice via pilot projects. Some of the projects have already made it to the roll-out phase: these include JIRA and Confluence, a digital collaboration tool and software for operational project management.

One focus topic was digitalisation and what it means for the future working world. Here the project participants developed approaches for the technical transformation of workplaces and provided impetus for structural changes with which cooperation in a digitalised world can be arranged better. This gave rise to ideas for various types of communication areas that promote open discussion and cross-departmental collaboration in project teams.

Promotion of equal opportunity

DKB places great importance on equal opportunities. The proportion of women amounted to 56.7 % at the year's end (previous year: 58.3 %). At the first and second management levels, the proportion of women was 34.0 % (previous year: 33.2 %).

Gender distribution in the DKB Group



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

Targets at the management levels

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 aimed to increase that share to 25 % by 30 June 2017. This share was not reached on the reporting date. The Supervisory Board is aiming to increase the proportion of women to 25 % by 30 June 2022.

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 five members. The current proportion of women on the Board of Management is 0 %. DKB has not set a different target figure. At DKB Service GmbH, two out of three management positions are occupied by women, therefore a proportion of women amounting to 67 % has already been reached. The aim is not to allow this to fall below a target of 30 %.

The proportion of women at the first management level is currently 16.7 % at DKB AG. This is to be increased to 20 % by 30 June 2022.

DKB Service GmbH has a proportion of women of 14.3 % at the first management level. It should be at least 30 %. The proportion of women at the second management level is currently 35.5 % at DKB AG and 47.8 % at DKB Service GmbH. At both companies, this share should amount to at least 30 %.

Special measures to promote equal opportunities

DKB AG is implementing various measures to facilitate the implementation of equal opportunities in everyday working life. This also includes the concept of flexible working time models: Since 2015, the first and second management levels of DKB AG have been working under the model of working hours based on trust. By making working hours more flexible, we further advance "work/life balance", thereby supporting employees who assume responsibility in the family.

In order to further improve the underlying conditions for promoting women in the company, we offer female managers a special mentoring programme.

In cooperation with BayernLB, we continued our job rotation initiative last year. Temporary job rotation promotes mutual understanding, cross-divisional thinking and cooperation within the Group.

Social benefits for employees

In order to increase 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.

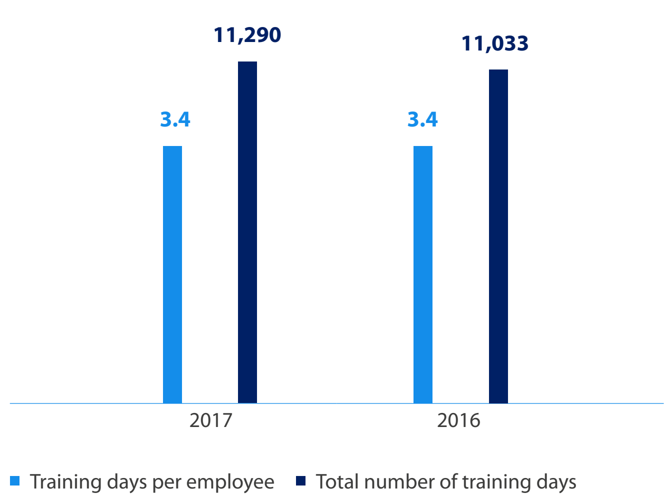
In the event that employees have questions about childcare or the care of relatives, external staff counselling is available to help them choose the form of care, provide childcare solutions and provide rapid assistance in the event of care shortages. In addition, they are also contact persons for other private issues or questions relating to the employee's career.

We offer economic incentives: 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

Our employees have ample opportunity to develop further at DKB. The various offers are available through the in-house further training academy, DKB MANAGEMENT SCHOOL. DKB MANAGEMENT SCHOOL offers our employees numerous internal and external seminars, further training and workshops in which they can develop their personal and professional skills. In 2017, 417 seminars were held via DKB MANAGEMENT SCHOOL (previous year: 356 seminars). On average, each employee received 3.4 days of further training last year (previous year: 3.4 days).

DKB MANAGEMENT SCHOOL



Changing framework conditions, such as increased project work, process changes, market expansion and cultural change, make more targeted and modified further training necessary. In 2017, we focused in particular on developing and promoting the digital skills of our employees. They were trained in various media skills, including, for example, training more than 450 Group employees in the new JIRA/Confluence software and, with the development of a location-independent learning management system, we prepared for the introduction of a new DKB career platform using SAP SuccessFactors for 2018.

We used our "DKB Future Forum" and "DKB meets Campus" series of events to discuss current developments and future trends from the world of work with our business clients and partners from science and industry across all sectors.

Health rate remains high

The focus of our health management is the implementation of measures and the creation of preventive structures to maintain the health of our employees. We also involve the friends and family members of our employees in these measures. They can use the health-focused workshops as well as exercise offers by themselves or together with our staff. As in previous years, medical health checks were offered and carried out on a voluntary basis.

The health rate in the DKB Group remained at a very high level of 95.1 % in 2017 (previous year: 95 %). This figure is calculated from the ratio of days missed due to illness compared to total working days.

Corporate volunteering commitment

We give our employees the opportunity to get involved outside the company by voluntarily supporting selected projects as part of a corporate volunteering programme. They can take leave of absence for up to two working days a year and contribute to the "My Finance Coach" initiative, refugee aid or the DKB FOUNDATION, for example. Our corporate volunteering offers not only aim to assume social responsibility as a company, but also meet the growing demand of our employees for personal social commitment in addition to their professional activities and facilitate their implementation.

Clients

Objective: client benefit and client experience

In view of an increasing number of market participants, competition for clients is increasing sharply. FinTechs are entering the market with innovative products, and even the traditional competitors from the banking sector are regularly offering their clients new products. In this environment, we want to maintain our market position and expand our lead. To this end, we continued to expand our products and services in 2017. Our most important goal is to continuously improve client benefits and client experience.

For our retail clients, we are focusing on expanding digital services that are characterised by intuitive use. Wherever possible, we enter into long-term cooperation on both the technology and product sides.

As a commercial bank for local authorities and medium-sized companies, we strive to advise our clients at a very high level. For this purpose, we employ specialists at our bank who know these fields inside out, also on a professional level, for example agricultural and civil engineers as well as process and environmental engineers. These specialists work hand-in-hand with the bank's advisers. Since 2017, we have also been supporting our clients in the regions throughout Germany.

In order to advise our retail and business clients as well as possible, we also work closely with numerous professional associations, development banks and scientific institutions.

Supporting the Handball World Championship

A special event in terms of the client experience last year was the broadcast of the Handball World Championship from 11 to 29 January 2017 in France. As one of the main sponsors of the German national handball team, we quickly acquired the exclusive live broadcasting rights for Germany from the rights owner after no agreement was reached between the bidders during the award negotiations for the broadcasting rights. Without this step, there would have been the risk that German fans would not have been able to see a live transmission of the Handball World Championship. The matches were available on handball.dkb.de and broadcast live and free for all sports fans in Germany. The stream on DKB's online portal was implemented with YouTube as technical partner. The exclusive streaming of a major sports event by a sponsor was unique in Germany in this form.

Innovations and service improvements

Since March 2017, DKB clients have benefited from further improvements in the use of their apps. In particular, the DKB pushTAN app was revised, the user interface modernised and the design reworked. The app is now called DKB-TAN2go. Updating the app is a further step towards optimising the DKB-TAN processes.

In order to make the use of our offers even easier to understand for our clients, we have published numerous explanatory videos on our website. The video tutorials explain in a simple way how our photo transfer and our Internet banking work, for example, and how to activate the TAN2go procedure.

In the past year, we revised the financial status view of the Internet banking platform. Since August, DKB clients have had the option of designing their financial overview according to their individual preferences. In addition to the usual view according to product group or account holder, they can now also group and sort their accounts individually.

In the past year, DKB introduced a whole series of additional functions. DKB-Cash clients were able to take full advantage of these benefits for a one-year transition phase until the end of November 2017. Since December, we only allow our active clients to use these functions, with monthly cash inflows starting at EUR 700. One of the most important advantages is that there is no longer an international fee (AEE) for payments by credit card abroad.

Another feature for active clients is that they have the option of accessing a free emergency card and emergency cash in the event of theft. Fully comprehensive cover for the card protects clients from losses that may occur in the time between card loss and card blocking.

We started issuing our newly designed DKB VISA Card in November. The new look and feel of the card conveys DKB's brand essence as an empathetic challenger. The card was designed with lines that can be felt and visually distinguishes itself clearly from competitors' cards.

Through the new cooperation with the start-up company Clark, we have been offering our clients easy and direct access to InsurTech's digital offering for personal insurance management since December. An additional feature is the new Clark pension cockpit, which gives users a comprehensive overview of their own pension situation.

In the area of instalment loans, our subsidiary SKG BANK modified SKG's "WohnKredit" (home loan) product for municipal utilities. The offer is a white-label-plus solution with which municipal utilities can strengthen client loyalty and increase sales by offering particularly good terms. In the case of smaller construction financing, for example, payment is also made without the land register entry being shown, and from a loan amount of EUR 10,000 there is the possibility of agreeing a very long repayment term (up to 180 months).

Since late summer 2017, we have been piloting our business relationship with an online platform for commercial financing. The platform transmits digital cross-product financing enquiries for the commercial segments to DKB. An algorithm ensures that projects in selected DKB target sectors are identified for us. The internal Savings Banks and Cooperation division pre-selects the projects and forwards interesting projects to the relevant customer support unit.

For our clients in the housing industry, we expanded the DKB@win product package, a SAP-based comprehensive solution for the industry, and added new, modern features in 2017. Now mobile devices can be used even more efficiently, such as directly on the tenant's premises. In addition, a powerful document management system and a modern electronic invoice workflow are now included.

Sustainability

Sustainable business as the foundation of our enterprise value

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 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 stakeholders regarding sustainability topics.

oekom industry leader

As a signal to the sustainability-oriented capital market, we regularly undergo relevant rating processes. Thus, the sustainability rating 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 as for special measures designed to suit the business activity of our company.

In 2017, DKB reaffirmed its position as the industry leader in oekom research's sustainability rating. For the third time in a row, we received a "B-" and thus again the highest rating of all rated commercial, state and regional banks. DKB's corporate rating continues to mean that it holds "prime status" and is currently the only one of these institutions in the "good" category.

Substantial for the repeatedly very good perfomance of the ratings are the bank's low risk level in relation to controversies and ESG risks (environmental, social and corporate governance), its achievements as an employer and in the corporate governance sector. oekom particularly appreciates our consistent focus on sustainability in lending. We have been financing wind farms and solar installations since 1996 and have one of the largest loan portfolios (approx. EUR 10.4 billion) in renewable energies in Germany.

The sustainability rating 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.

Sustainable key figures

	2017	2016	2010
Loan volume in the renewables sector (in EUR billions)	10.4	9.7	3.9
Number of RE projects financed (wind, solar, biogas and hydro power)	4,370	4,100	2,200
Civic participation projects (number)	103	90	–
Green bond volume (in EUR billion)	1.0	0.5	–
Donation projects/donations to the common good (in EUR million)	1.6	1.1	0.7
Working hours for corporate volunteering (number)	480	1,370	–

Second green bond issued

In September 2017, our bank issued a second green bond in the form of an unsecured bank bond. This "green bond" also has a volume of EUR 500 million and its purpose is exclusively to refinance wind energy and solar projects in Germany.

In the past financial year, we published the first report on our green bond issued in 2016. The report considers the loan pool defined for the bond under the aspects of application of funds, project selection and evaluation, fund management and impact analysis. In addition to the financial indicators of the refinanced plants, the green bond report also provides information on energy and ecological effects such as the amount of electricity generated or the amount of CO_2 saved. The savings in relation to the loan pool on which the green bond is based amounted to 283,791 t of CO_2.

Diverse sustainability orientation

With DKB Zukunftfonds, DKB offers an equity fund that has a very high ESG score and ranks at the top of its peer group (99th percentile). It has no investments that violate the UN Global Compact. The portfolio's carbon footprint is almost 50 % better than the MSCI World AC footprint.

In 2017, DKB again implemented numerous individual measures as part of its environmental management with a view to further reducing our consumption. These include the increased use of LED light sources at the branches, the switch to sustainably produced office materials and the use of hybrid and electric vehicles for business trips, as well as offering mobility alternatives such as video conferences.

DKB supports social and beneficial projects primarily through corporate volunteering and the DKB STIFTUNG for social commitment. These include in particular the activities of the DKB STIFTUNG as an integration company in the areas of monument preservation, education and promotion of art and culture, as well as environmental protection and nature conservation. In 2017, DKB also donated EUR 100,000 to six social projects in Germany with the Christmas campaign #DKBHerzenswunsch. By means of a public vote, the total amount was distributed proportionately among the six initiatives.

Non-financial statement

DKB AG makes use of the exemption provision of Section 315b (2) sentence 2 HGB to add a non-financial Group statement to the Group management report. As the parent company within the meaning of this provision, Bayerische Landesbank (BayernLB) prepares a separate non-financial consolidated report in accordance with Section 315b (3) HGB. It is published together with the consolidated financial statements and the Group management report of BayernLB in accordance with Section 325 HGB in the electronic Federal Gazette and is also published on BayernLB's website (www.bayernlb.de) no later than four months after the closing date.

Report on opportunities and risks

Risk report

Unless explicitly indicated otherwise, the risk report relates to the DKB Group in accordance with the internal risk management. DKB AG, the parent company, has a dominant share of the DKB Group. The consolidated figures are therefore essentially from DKB AG.

Risks are understood as potential future developments or events that may result in negative deviations from forecasts or targets for the bank. For opportunities, we refer to the statements in the opportunities report.

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 61 "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 period under review, the DKB Group met both the regulatory requirements with regard to capital adequacy and liquidity, as well as the requirements for economic capital adequacy as part of the calculation of risk-bearing capacity. The DKB Group takes adequate account of all the known risks through precautionary measures and has implemented suitable instruments for detecting risks early on.

In the reporting period, the following methodical refinements with a significant impact on the risk profile were implemented.

– As part of the process of refining methods for estimating counterparty default risk, an additional level for the credit portfolio model with appropriate methodological adjustments was put into operation.

– The procedure for estimating operational risks was switched over to the value-at-risk method for both the liquidation approach and the going-concern perspective. In addition, the results of the OpRisk scenario analysis for financial year 2017 were taken into account when estimating the risk capital amount.

– A value-at-risk approach is used to quantify the business risk. To date, this figure has been calculated on the basis of an aggregated analysis of net interest income, net commission income and administrative expenses. In the period under review, the procedure was adjusted so that net commission income was excluded from this analysis and a separate value was determined for this.

– The procedures for quantifying market price risks were further developed by integrating the periodic interest rate risk into risk management and including margin components from client transactions in market price risk measurement.

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

In the liquidation approach, the utilisation of the limit for risk capital was 52 % as at 31 December 2017 and thus continues to be at a comfortable level. The risk-bearing capacity was assured at all times in the entire reporting period.

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

There are currently no risks that could jeopardise the continued existence of the company.

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 AG can be found in the following table:

Regulatory capital adequacy

EUR millions	31.12.2017	31.12.2016
Counterparty risks	30,892	30,009
Operational risks	1,192	1,045
Credit valuation adjustment (CVA)	0	1
Total positions subject to mandatory inclusion	32,084	31,055
Equity	3,359	3,097
of which core capital	2,810	2,766
Equity ratio	10.47 %	9.97 %
Core capital ratio (T1)	8.76 %	8.91 %

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.

For the first time, additional core capital of EUR 50.0 million was reported at the end of the year under review with the raising of AT1 capital, which led to a strengthening of the core capital ratio (T1). The acquisition of intangible assets from the subsidiary DKB Service GmbH as at 30 June 2017 resulted in a deduction from core capital for the first time. As risk positions increased at the same time due to the expansion of the business volume, the core capital ratio fell slightly compared to the previous year.

DKB will take any necessary measures to ensure that all capital components can be offset in the long term.

The proportional reduction of subordinate liabilities and their maturities was countered with new assumptions of EUR 250.0 million. This led to an increase in eligible supplementary capital of EUR 217.4 million to EUR 521.7 million. The portfolio of participation rights liabilities remained unchanged.

The impacts in both capital components resulted not only in changes in the risk positions but also in an increase of 0.50 % in the equity ratio to 10.47 %.

The regulatory minimum capital backing requirement of 8.00 % 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 as well as 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 and the Data Privacy and Security unit form the basis for the risk management and monitoring system and are assigned to the Chief Risk Officer or 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 specialised divisions within DKB AG. Besides continuously monitoring the risk situation, risk-bearing capacity and risk limits, the Risk Office also compiles risk reports.

The Mid Office division is responsible for ensuring that the internal and external requirements for the management of collateral are met, as well as ensuring 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 Board of Management 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 forms part of the written rules of procedure.

The risk strategy consists of several sub-risk strategies and comprises the principles for the individual major risk types. The specific elements of the risk management system (methods, instruments and processes) are described in detail in other documents of the written regulations.

The content of the risk strategy is based on DKB AG's business strategy and takes into account the corresponding requirements of the BayernLB Group's risk strategy. 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 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.

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 established strategy process. Together with the business strategy and the risk-bearing capacity concept, the risk strategy includes 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 is in line with the risk capital requirement limit and 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. Entering new business fields or adding new products generally 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 risk strategy (including 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. 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 assessment of materiality is based, for instance, on the forecast risk capital amount.

Counterparty default 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 default risks comprise the risk that a contractual partner (borrower, issuer or counterparty) cannot, or cannot completely, meet their contractual obligations, and the risk of loss and changes in value arising from collateral provided. Counterparty default risks also include the country risk resulting from country specifics (such as in the form of political or economic crises or currency restrictions). The DKB Group is exposed to counterparty default risks in the traditional client business (credit 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. 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.

Investment risks comprise counterparty default risks from investment positions. These relate to potential losses in value due to the provision of equity or equity-type financing (such as silent partnerships) from liability risks, as well as losses in value from payment obligations or profit transfer agreements. Loans to participating interests form an element of the counterparty default 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 of the 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. Net interest income risk (NIIR) is also a market price risk. It is defined as the risk of a reduction in net interest income in the banking book under various interest rate scenarios and on the basis of fixed business developments over the observation period of the next twelve months.

Rise in liquidity cost 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 liquidity risk. In the context of risk-bearing capacity, rise in liquidity cost risks are considered together with reputation risks.

Reputation risk refers to the risk of a financial loss or profits foregone due to an (imminent) loss or deterioration in the bank's reputation among its clients, employees, business partners, institutions/shareholders or the (broader) public due to relevant reports in the public media including social media (Facebook, Twitter, etc.), for example 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 client 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. Material operational risks in the DKB Group include information security, legal and compliance, fraud, outsourcing, model and organisational risks.

Business risks comprise the risk of economic losses induced by unexpected changes in the economic, legal, regulatory, political, technological, social or ecological business environment 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. An annual investment inventory is carried out to determine the risk potential 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. There is sufficient risk-bearing capacity if 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. This is supplemented by a going-concern perspective.

The utilisation of the risk capital requirement limit in total and for each risk type is reviewed by the Risk Office and reported to the Board of Management in the monthly risk report. If the limits are exceeded, the measures set out in the escalation model are initiated. In addition, DKB AG 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 calculation of the risk coverage capital is based on a profit and loss/balance-sheet-oriented approach. Qualitatively, the risk coverage capital is suitable for absorbing any losses that arise and, in accordance with the liquidation approach, is calculated by adding equity and subordinate capital plus the net profit for the year. In the event of the bank's liquidation, items not available (such as intangible assets) are deducted from the risk coverage capital.

Risk capital requirement

Under ICAAP, the risk capital requirements for counterparty default, market price, investment, operational, increase in liquidity cost and business risks are determined and compared with the respective limits. The DKB Group uses regulatory procedures for participation risks. The supervisory provisions of Article 155 CRR are applied. The procedures for quantifying the other types of risk are based on a value-at-risk approach or, in determining the increase in liquidity cost risk, on a scenario-based approach. When using the value-at-risk approach, a confidence level of 99.95 % and a holding period of one year are assumed.

The individual risk capital requirements for the risk types are aggregated to the overall risk capital requirement 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:

EUR millions	31.12.2017	31.12.2016
Counterparty default risks	375	415
of which clients receivables	350	361
of which internal Group receivables from BayernLB	25	54
Market price risks	320	219
Investment risks	7	6
Operational risks	109	84
Rise in the cost of liquidity risks	98	–
Business risks	9	–
Total risk capital requirement	**918**	**724**
Available cover funds	**3,846**	**3,539**
of which allocated as limits	1,755	1,965

Compared to the previous year, the overall risk capital requirement increased by EUR 194 million to EUR 918 million.

This rise was due mainly to a modified method of taking into account the increase in liquidity cost risks in the risk-bearing capacity calculation and the further development of the procedure for quantifying the market price risk.

Up to 31 December 2016, the risk capital requirement for the increase in liquidity cost risks (EUR 102 million) and business risks (EUR 0 million) were already deducted when calculating the available coverage funds. Since January 2017, these two types of risk have been factored into the calculation of the overall risk capital requirement and limited accordingly. A deduction when calculating the available coverage funds is thus no longer necessary.

The risk capital requirement for market price risks increased by EUR 101 million year-on-year. This increase is mainly methodologically justified and results from the additional inclusion of margin components from client transactions in the calculation of risk capital requirements.

In addition, the increase in risk capital requirements for operational risks is more than offset by the decline in risk capital requirements for counterparty default risks. The EUR 25 million increase in the risk capital requirement for operational risks is mainly attributable to the switch to a value-at-risk-based method. The EUR 40 million reduction in risk capital required for counterparty default risk results mainly from the reduction in intra-Group receivables in respect of BayernLB.

The available coverage capital amounted to EUR 3,846 million as of the reporting date. The increase of approx. EUR 307 million compared with 31 December 2016 reflects the raising of subordinated loans of EUR 250 million and additional core capital of EUR 50 million.

Of the available coverage capital, EUR 1,755 million are allocated as limits to cover business operations. The remainder is available to cover the standard "severe economic downturn" scenario. As of the reporting date, 52 % of the limit (31 December 2016: 37 %) was utilised. Utilisation continues to be at a comfortable level. The risk-bearing capacity was assured at all times in the reporting period.

The considerations in the liquidation approach are supplemented with a going-concern perspective. In the going-concern perspective, the capital available in the short term must be sufficient to cover the risk capital requirement, so that business operations can be continued in compliance with the regulatory minimum capital requirements.

The risk capital taken into account is based on free hard core capital after consideration of additional capital requirements, including the capital maintenance buffer. Hard core capital that is not tied up in compliance with regulatory ratios is regarded as freely available. Furthermore, an earnings component is included, which results from the sustainably achievable result or the already proportionately generated net income for the year.

In January 2017, the method for determining the risk capital amount in the going-concern perspective was switched from an approach based on the expected shortfall to one based on value-at-risk at a confidence level of 95 %. This change in methodology did not lead to any substantial increase in risk.

In a comparison of reporting dates, the utilisation of going-concern capital increased to 55 % as at 31 December 2017 (31 December 2016: 33 %). The increase in capacity utilisation results on the one hand from the increase in tied-up core capital due to the increase in RWA and the associated reduction in free hard core capital. In addition, the further development of procedures for quantifying market price and operational risk, as well as from a liquidation perspective, increased the risk capital requirements.

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 "severe economic downturn" is based on a liquidation perspective and affects all types of risk. It examines whether the risk-bearing capacity also exists in the event of a severe recession. The resulting risk capital requirements are compared with the available coverage capital. In the financial year, the standard scenario was developed from an estimate based on historical time series towards a stronger reference to macroeconomic parameters. The scenario is now based on a uniform set of stressed macroeconomic indicators across the BayernLB Group. As of 31 December 2017, the stress scenario resulted in an additional risk capital requirement in excess of the ICAAP risk capital amount in the liquidation perspective (EUR 918 million) of EUR 1,164 million. The total risk capital amount of EUR 2,082 million is fully covered by the available risk coverage capital.

In addition to the scenario of a severe economic downturn, the DKB Group has installed bank-specific stress tests for specific risk types. The bank-specific scenarios include, for example, losses of market share in important business segments, unique sector crises caused by changes in general conditions due to exogenous shocks, effects from the regulatory interest rate shock on the loan portfolio, changes in interest rates or credit spreads and negative developments in the investment portfolio.

Furthermore, sensitivity analyses supplement these 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 commentary lies with the Risk Office. The results of the stress tests 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 in the event of acute market disturbances, for example, 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.

In addition, the DKB Group initiated inverse stress tests in accordance with MaRisk. In a deviation from 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 take place at least once per year.

Counterparty default risks

Risk management and monitoring

Strategies and policies

The credit risk strategy is determined taking into account the risk profile and risk appetite. It contains the planning and distribution of risk capital and requirements for new business consistent with the business strategy. The requirements for limiting credit risks are derived on this basis.

The lending business is governed by the lending policy, which sets out the general philosophy for the credit 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.

Management of the counterparty default 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 client group and the rating category.

The respective team manuals or lending guidelines contain matrices per client group that set out the underlying conditions for new client 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 clients.

At the issuer level, the DKB Group uses a loan authorisation and credit approval process similar to the counterparty default 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.

The DKB Group reports on the development of the counterparty default 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. If limits are exceeded, recommendations for action and measures in accordance with the approved escalation model are implemented. Utilisation of the limits is reported to the Board of Management and the Supervisory Board of DKB AG in the monthly risk report. In addition, the limits are presented in detail in the credit risk limit report on a monthly basis. Unless otherwise agreed, all limits, including any limit transfers that may be required, require a resolution by DKB's Board of Management.

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, specific portfolio guidelines are set that are also subject to monitoring.

The DKB Group also sets client group limits for the respective client groups in the areas of infrastructure, corporate clients, retail clients, treasury and non-core business. 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 the 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 round tables and is therefore granted sub-limits. The utilisation of the sub-limits granted is monitored on a daily 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 clients pursuant to Art. 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 client limit for groups of related clients 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 Board of Management approves the commitment. The Risk Office reports on groups of related clients that exceed the cluster ceiling to the Board on a quarterly basis.

Project financing for the "environmental technology" client group is excluded from the internal cluster management. These groups of related clients have a commitment ceiling in the amount of EUR 350 million based on the gross client limit. In justified exceptional cases, credit approvals above this limit may only be granted with the approval of the Board of Management and 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 clients 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.

All rating procedures are subject to ongoing validation, which ensures their adequacy for the correct determination of default probabilities in the respective client or financing segments. Validation includes both quantitative and qualitative analyses. The rating factors, including the selectivity and calibration of the methods, the data quality and the design of the models are checked using statistical and qualitative analyses as well as user experience from ongoing use.

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.

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.

Risk measurement

Unexpected loss at the portfolio level is determined using a simulative credit portfolio model that quantifies default risks at a confidence level of 99.95 % over a one-year period. Dependencies between the borrowers in the portfolio are quantified using a country and industry-specific sector model. Finally, the effects of rating migrations and uncertainties are also taken into account when calculating loss ratios. The risk contributions of the individual business partners to the unexpected loss of the overall portfolio are determined for the purposes of risk analysis.

Besides the probability of default, the counterparty default risk is mainly influenced by the loan amount outstanding at the time of default as well as the forecast loss ratio. 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 and the rating-independent early risk identification process. Loan exposures whose deteriorated creditworthiness and/or liquidity require special monitoring are divided into exposures for intensive support (rating 10–12) and problem loan support (rating 13–18) or transferred to these forms of support by exercising a drawing right. The customer service units receive a monthly summary of the relevant commitments from the Credit Risk Support division (CR), 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 approvals (KuV)[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 Intensive Support and Approval division (KuV) then generally provides the second approval required in accordance with MaRisk (back office). Irrespective of the rating grade, the KuV division is granted a drawing right (drawing right for intensive support), with the exercise of which the competences of the market shift to the competences of credit rating category 10–12, and the market has to agree individual measures, reporting and deadlines with the KuV division.

According to MaRisk, the Credit Risk Support (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). The Credit Risk Support division is granted a drawing right (problem loan support drawing right), irrespective of the rating grade.

In principle, the CR division is the authorised division for non-core business.

DKB has a specific loan loss provision 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 exposures in rating categories 16 to 17 (classification: "doubtful") or 18 (classification: "loss") with a gross exposure in excess of EUR 0.75 million, the DKB Group recognises impairment losses on an individual case-by-case or at least half-yearly basis. By contrast, exposures with smaller volumes are subject to lump-sum specific loan loss provisions.

Collateral management

Another key instrument to minimise risk is the acceptance and continuous valuation of generally accepted collateral. In line with its client structure, the DKB Group's collateral portfolio consists primarily of material collateral provided by retail clients, 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" client 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 valuations 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.

Early warning

The principles of risk management practised in the DKB Group and the principles of the risk early warning procedure for identifying borrowers or exposures with (emerging) increased risks are laid down in the risk early warning strategy. The aim is to be able to provide risk-adequate support and initiate measures to minimise risks at an early stage.

This strategy complements the lending policy, the risk strategy, the specific lending loss provision policy and the principles of the DKB Group's lending business. It is supplemented by regulations on risk classification procedures and early risk identification and risk monitoring.

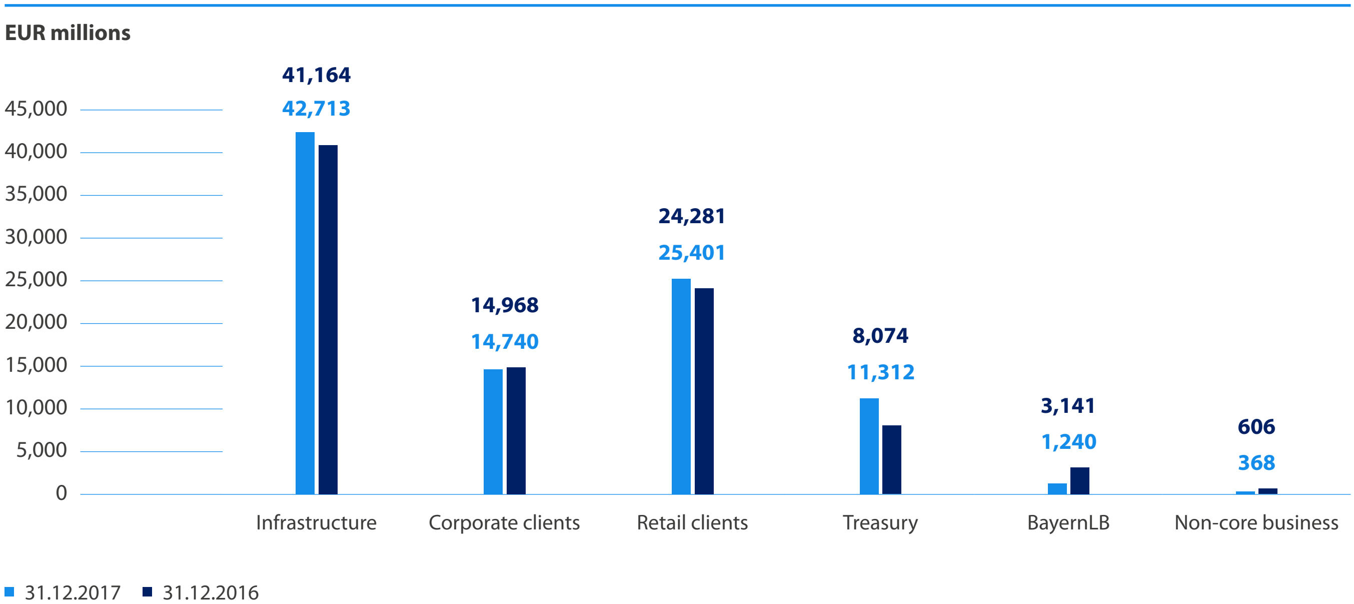
The scope of this strategy extends to loans within the meaning of Section 19 (1) KWG. In this respect, it is limited to those aspects that are relevant with regard to the management of credit risks.

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 form part of the financial markets segment.

The gross exposure increased slightly by 4 % to EUR 95.8 billion in the reporting year. Broken down by the DKB Group's business fields, the following picture emerges:

Gross exposure



Due to the reclassification of client groups between the business segments in the course of the year, the previous year's figures were adjusted accordingly.

The gross exposure is offset by collateral of EUR 37.1 billion (31 December 2016: EUR 35.9 billion), resulting in a net exposure of EUR 58.7 million (31 December 2016: EUR 56.3 billion).

The increase in the gross exposure is primarily a result of the consistent growth strategy in our business segments of retail clients 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 in the infrastructure business segment rose to EUR 42.7 billion in the reporting year (31 December 2016: EUR 41.2 billion). The volume growth is mainly attributable to business with municipal clients and the "housing" client group.

At EUR 14.7 billion, gross exposure in the corporate clients business segment was slightly below the previous year's level (31 December 2016: EUR 15 billion). The slight decline in the agriculture and food client group was offset by an increase in volume in the environmental technology client group.

In the retail clients business, gross exposure increased by EUR 1.1 billion to EUR 25.4 billion compared to the previous year. The increase is due to further growth in DKB-Cash and private loans. In residential construction financing, repayments continue to exceed new business.

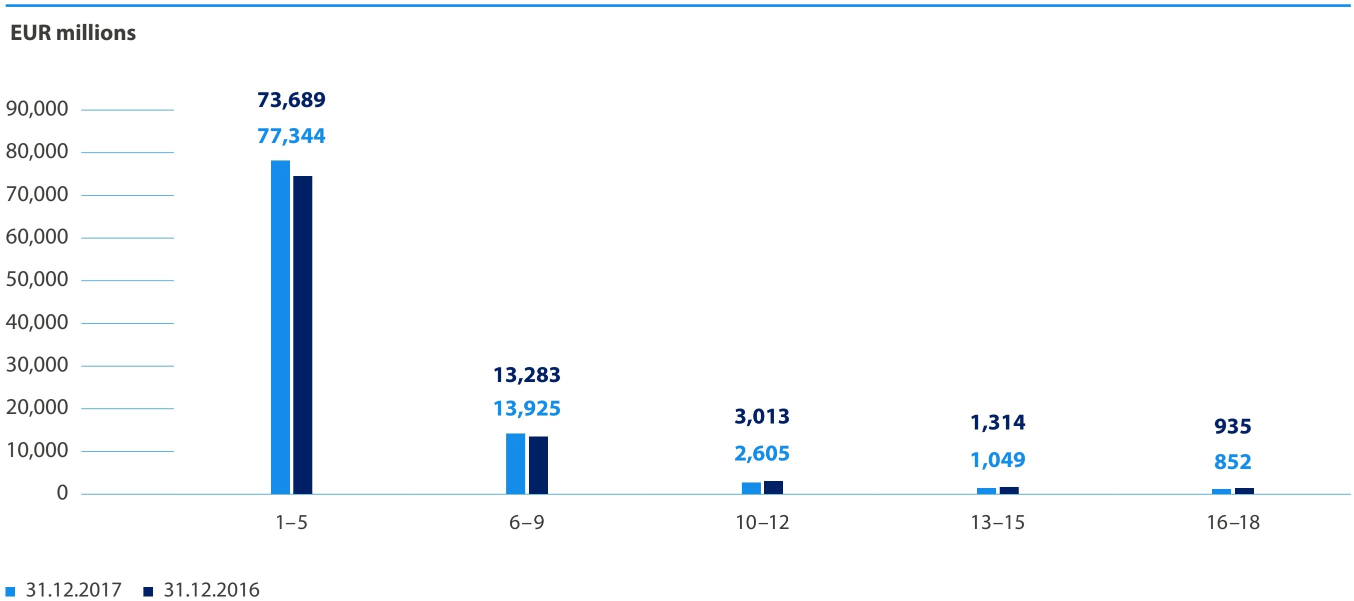
The Group's internal gross exposure decreased in the year under review due to the repayment of promissory note loans. As at 31 December 2017, receivables from BayernLB totalled EUR 1.2 billion (31 December 2016: EUR 3.1 billion).

The Treasury division mainly comprises DKB AG's securities portfolio and business with institutional clients. The increase in gross exposure reflects in particular the expansion of the liquidity portfolio. In addition to bonds issued by domestic and eurozone governments with first-class credit ratings, the securities portfolio primarily comprises bonds issued by supranational issuers and development banks.

Open securities positions in the peripheral countries of the eurozone have been significantly reduced since 2008 and, as of 31 December 2017, still amounted to a nominal EUR 90 million. These positions exclusively comprise Italian government bonds. The share in relation to the overall holdings continues to be low.

The changes in the portfolio by rating category were as follows:

Gross exposure by rating class



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 further to 81 % (31 December 2016: 80 %).

The average probability of default in the portfolio reduced to 0.55 % (31 December 2016: 0.65 %). This figure corresponds to rating class 6. The share of defaulted commitments (rating classes 16–18) decreased slightly and, as of 31 December 2017, amounted to 0.9 % (31 December 2016: 1.0 %).

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 2017, 34 groups of related clients pursuant to Article 4 (1) no. 39 CRR were identified as cluster commitments.

Investment risks

In order to supplement and round off the products and services for the client 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, expanding the product and service areas of DKB AG, developing existing sources of revenue and capturing new sources of revenue. The investment strategy governs the principles for entering into equity risks and risks from equity-like financing.

Here, DKB AG aims to generate appropriate and sustainable 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 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 or the Risk Office division.

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

In its strategic participations, DKB AG strives to set the strategic direction in line with the current business strategy and multi-year planning as well as the risk strategy of the DKB Group. This takes place by acquiring majority shareholdings. Furthermore, the business and risk policies of participation companies may be influenced by relevant measures (articles of association, rules of procedure, 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 in place ensure that DKB AG is continuously informed of the financial performance and strategic alignment of the participation companies.

Market price risks

Risk management and monitoring

At the DKB Group, market price risks arise exclusively from the investment book. The market price risk comprises the following sub-risks: interest rate risks, credit spread risks and share and foreign currency risks. Due to the takeover of Visa Europe by Visa Inc., DKB AG holds an interest in US dollars. In principle, however, the rule applies that no open foreign currency positions are held and that foreign currency risks entered into in client business are concluded by means of counter-trade transactions. Implicit options from termination rights and interest limitation agreements are also taken into account when measuring the interest rate risk of 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 clients (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. 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, whereby the risk positions can be concluded at financially less favourable conditions than expected. 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.

In addition, the interest rate risk (NIIR = Net Interest Income Risk) has been calculated since this financial year. This corresponds to the risk of a change in net interest income over the observation horizon of the next twelve months. The NIIR is calculated under various interest rate scenarios and on the basis of fixed business developments.

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 AG. 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 the DKB Group.

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

The VaR for trading transactions, performance and compliance with all applicable limits are reported daily to the trading and risk management officers.

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.

Change in market price risks at the banking book level

The interest rate risk with an interest rate shift of +200 BP amounted to EUR 294 million as of the reporting date. In relation to the equity in accordance with CRR, this is equivalent to a share of 8.8 % (31 December 2016: 8.6 %). Compared to the previous year, the interest rate risk remained on a par. The lowest cash value loss was EUR 207 million in May and the highest EUR 403 million in July. 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 client deposits. The risk capital requirement for all the market price risks declined significantly in 2017 by EUR 100 million to EUR 319 million, with the highest value of EUR 351 million being achieved in December 2017 and the lowest value of EUR 103 million in December 2017. The increase in risk capital results primarily from the December integration of margins from the client business into the risk assessment.

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, DKB AG invests in shares via the purchase of fund products. In 2017, the number of fund products was reduced further due to merging.

The DKB Group's nominal bond portfolio (excluding own issues) rose to EUR 5.7 billion in financial year 2017 (31 December 2016: EUR 5.5 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 2016, the risk capital requirement for custody account-A decreased from EUR 276 million to EUR 242 million as of 31 December 2017.

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. 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.

To ensure uniform management throughout the Group, BayernLB has provided the DKB Group with a factual and organisational framework for dealing with liquidity risks in the form of Group Risk Guidelines. These Group Risk Guidelines in relation to controlling the liquidity risk have been incorporated into the bank's regulations via the sub-risk strategy for liquidity risks, as well as via the Liquidity Policy, the Liquidity Contingency Plan and the Funding Policy. Here, the sub-risk strategy governs the factual and organisational framework for handling the existing liquidity risks. These framework conditions are then specified and described in detail in the Liquidity Policy. The organisational framework for the event of a liquidity crisis or liquidity contingency is set out in the liquidity contingency plan. 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, reporting and liquidity management within the DKB Group. In addition to presenting the risk management system, the Liquidity Policy defines the term "contingency". The liquidity contingency is described in more detail in the Liquidity Contingency Plan, in which, for instance, the composition of the emergency committee, including function and competencies, as well as the procedure and communication channels in an emergency, are defined and possible courses of action are prepared.

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 intraday liquidity on a daily basis and the refinancing status at the close of trading.

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 the 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. In addition, intraday liquidity is monitored in accordance with the BCBS-248 key figures.

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 free 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 the DKB Group's risk profile into account.

The management case represents a scenario in a normal market and client environment and considers a period of five years. In addition, the expected new business is derived from the most recent data history and included for the observation period of the next three months. The planning case is based on the management case. Here, the cash flows of the management case are extended to include new business from medium-term planning with a planning horizon of five years. 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 four 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 client stress and the retail client stress. In both cases, fund outflows are assumed for these client groups. In the context of combined stress scenarios, the simultaneous occurrence of bank-specific and market-related events are analysed.

MaRisk specifies the time horizons for a week and a month for which liquidatable assets are to be held. Accordingly, the liquidity coverage potential is determined, which can be liquidated within one week (LDP0) or one month (LDP1). To determine the escalation level, the minimum liquidity leeway is determined for both time horizons on the basis of LDP0 or LDP1. 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, for example if a changed market environment justifies this in the view of the member.

To manage the quantitative requirements of the liquidity coverage ratio (LCR), the DKB Group has a limit system with escalation levels, to which recommendations for action and responsibilities are linked depending on the forecast of liquidity development for the next reporting date and the defined limit values for liquidity availability, and which is reported 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).

Refinancing

The framework conditions for refinancing are set out in the DKB Funding Policy and the DKB Refinancing Strategy, which are in line with the corresponding guidelines of the BayernLB Group. Based on the DKB Group's multi-year planning, Treasury prepares an annual funding plan in which the refinancing components of the money and capital markets are planned in detail.

The DKB Group refinances itself primarily from client deposits, the development banking business and the issue of capital market products. Client deposits represent more than half of the refinancing base and, due to the high number of clients, in particular in the Retail and Infrastructure areas, are very granular. Following strong growth in previous years, deposits increased by a further EUR 0.5 billion in 2017. The total volume of client deposits now amounts to EUR 53.9 billion (31 December 2016: EUR 53.4 billion). This allowed DKB's fundamental strategy, of refinancing the net new business in the area of client loans largely with client deposits, to be successfully implemented once more. The high proportion of deposit business makes the DKB Group significantly less sensitive to disruptions on the money and capital markets.

In addition to client deposits, subsidies represent another important pillar of refinancing. In 2017 new programme loans with a volume of EUR 1.7 billion (31 December 2016: EUR 2.8 billion) were agreed. Total transit and global loans amounted to approximately EUR 13.5 billion at the end of 2017 (31 December 2016: EUR 13.2 billion).

DKB AG issues public Pfandbriefs and mortgage Pfandbriefs in benchmark and private placement formats to strengthen its medium- and long-term refinancing funds. In the year under review, Pfandbriefs with a volume of EUR 125 million were placed. In addition, DKB AG's second unsecured bond in the form of a green bond with a volume of EUR 500 million was placed very successfully on the market. 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 rating agency Moody's continued to rate our public sector and mortgage Pfandbriefs at "Aaa". DKB AG's unsecured bonds were rated "A2" in the year under review following a rating upgrade.

If necessary, the interbank money market is used for short-term refinancing and liquidity management. However, due to DKB AG's refinancing structure, the proportion of interbank refinancing is small, in line with our strategy.

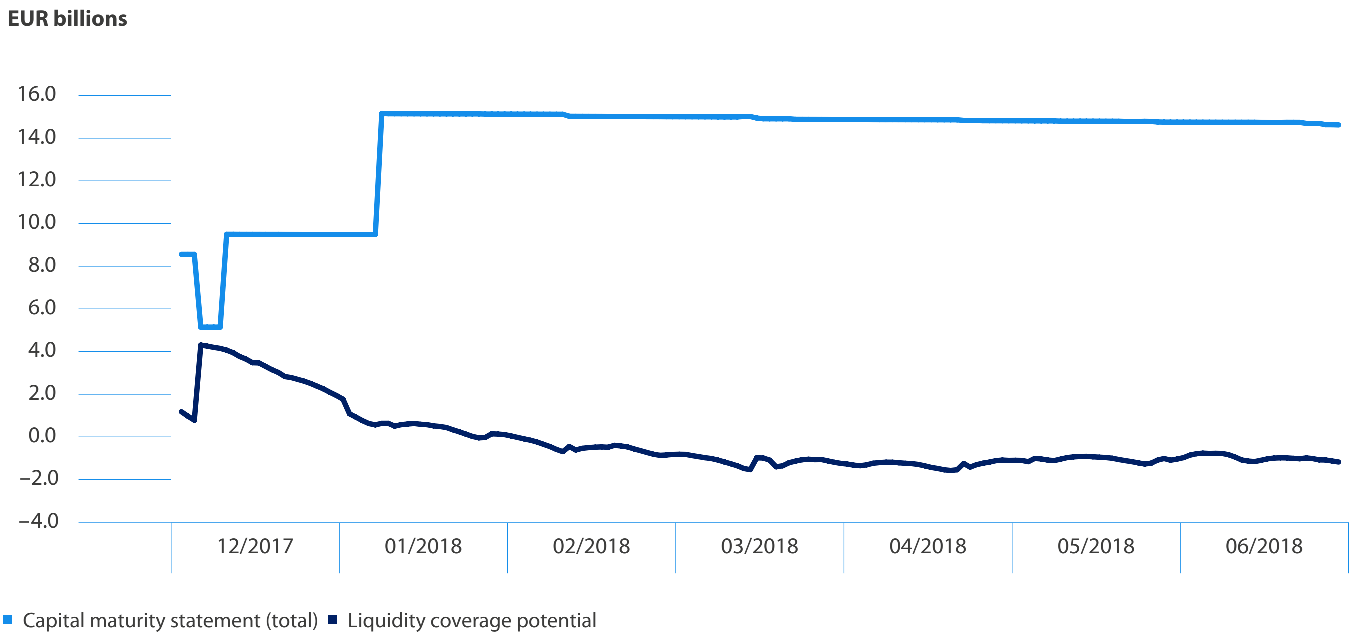
The liquidity holdings of securities increased from EUR 5.5 billion to EUR 5.7 billion over the course of the year. As a component of the counter-balancing capacity, it contributes to increasing the risk resistance in unexpected stress situations.

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 client deposits. In addition, there is the risk of having to cover existing future liquidity bottlenecks at higher refinancing costs.

DKB AG's liquidity overview as at 31 December 2017 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 within the next 180 days was EUR 8.7 billion as at the reporting date. DKB AG 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 client and infrastructure segments, as well as combinations of stress events, are considered in other scenarios. The minimum liquidity surplus for the next 180 days is EUR 7.2 billion in the worst-case scenario (combination of market and retail client stress).

The regulatory key figures in accordance with LiqV and LCR were complied with throughout 2017. The ratio in accordance with LiqV was 3.241 as of 31 December 2017 (31 December 2016: 3.31). As of 31 December 2017, the LCR was 168 % (31 December 2016: 167 %), well above the regulatory requirement of 80 %.

Operational risks

Risk management and monitoring

Operational risk is managed and monitored both centrally in the Risk Office and decentrally in the individual client service units and central units. The Risk Office is in principle responsible for the monitoring of operational risks. In assuming this responsibility, it is supported by the other central units.

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. Similarly, passive legal disputes with a probability of success ≥ 50 % and lost passive legal disputes 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 AG 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.

During the annual OpRisk Self-Assessment (OSA), 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 significant risks identified in the OpRisk Self-Assessment are used to select the scenarios to be determined and the subsidiaries to be included. Within the scenario analysis, significant risks are analysed in more detail than in the OSA in order to specify and assess risk drivers, internal and external factors influencing the probability of occurrence, the extent of damage and thus the overall loss distribution. This enables more precise control (for example, by implementing further measures and/or controls). In addition, the quantitative assessment of these risks is carried out much more intensively as part of a scenario analysis, as these risks (in addition to losses) form the basis for the OpVaR model in Pillar II.

In addition to the collection of loss data and the OSA, critical risk indicators (key risk indicators) enable early statements to be made on trends and accumulations in risk development and allow weaknesses in business processes to be identified at an early stage and measures to be adopted without delay. The key risk indicators defined in the DKB Group relate to the topic areas of Internet fraud, for example by phishing, 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 competent 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. Identified legal risks are limited and reduced by legal or procedural measures or taken into account by means of provisions.

DKB's units take comprehensive preventive measures to guarantee the security of information and applications as well as to maintain ongoing operations. The bank has implemented an Information Security Risk Management (ISRM) process to identify and manage information security risks. The information security objectives and strategic approaches are operationalised by means of specific and measurable methods. The success of the measures implemented is reviewed by means of key performance indicators (KPIs). 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 time-sensitive activities and processes of 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, Information Technology and two Managing Directors of DKB Service GmbH. The Board of Management bears overall responsibility for DKB's BCM, in compliance with Group-wide requirements.

The results of this method are fed into the calculation of the amount of risk capital for operational risks. The calculation was previously based on the requirements stipulated in the CRR for the standardised approach. In the 2017 reporting period, the method in the liquidation approach and the going-concern perspective was switched to a value-at-risk approach. 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 clients 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 have recently been strongly influenced by decisions of the Federal Court of Justice for retail and corporate clients, which leads to increased legal risks, for instance.

The losses incurred in 2017 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 39.2 million (31 December 2016: EUR 24.9 million). The increase compared to the previous year is essentially due to the fact that the Federal Court of Justice ruled in July 2017 that a clause in a form which banks had used in loan agreements under German law with entrepreneurs to request a processing fee was null and void. The borrower can therefore demand from the bank that it repays the processing fee paid plus interest. To protect against possible repayments, a suitable provision was created.

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. While 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 and 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. The Audit Committee is also responsible for monitoring the accounting process and 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 tasks autonomously and independently of the activities, processes and functions to be audited, taking into account the relevant applicable legal and regulatory requirements (such as 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 as 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, consolidated financial statements, 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

DKB integrates the topic of developing opportunities directly into the strategic corporate plan. As part of its forward-looking management, the Board of Management and the business units directly assigned to it regularly analyse short-, medium- and long-term market developments. They identify trends and develop possible development scenarios based on facts.

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

We continually adapt our assessment of the opportunities by continuously observing the markets and trends, as well as through established feedback processes. The high degree of timeliness in our evaluations allows us to react quickly to short-term events and developments.

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 clients segment, rising consumer trust could result in increased demand for consumer credit and an increase in the achievable margins in the retail clients segment. A broad-based upturn would stimulate companies' investment activities and create a corresponding demand for loans in the infrastructure and corporate clients 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 initiated withdrawal 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.

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

Expectations of **rising interest rates** could lead to an increase in demand for financing on the part of companies in the short term and thus generate increased demand for credit in the infrastructure and corporate clients segments. This could result in an increase in income from the credit business. We consider the probability of realising this opportunity to be moderate.

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 clients in the retail clients segment could develop particularly favourably. We consider the likelihood of this to be low, but are prepared for a possible increase in new client applications.

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 two green bonds, the demand for DKB's services could grow to a greater extent than expected. In addition, there are numerous European and international initiatives for the political and regulatory promotion of sustainable business models. Examples include the EU Commission's High Level Expert Group on Sustainable Finance (HLEG), which intends to publish its catalogue of recommendations at the beginning of 2018, and the Task Force on Climate-related Financial Disclosures (TCFD), which has provided extensive suggestions for the further development of transparency regulations within the framework of the Financial Stability Board. Should these proposals lead to concrete political or regulatory measures to support sustainable lending business, this could be advantageous for DKB. The probability of this scenario occurring is considered to be rather low. However, should the opportunities arise, DKB will be in a position to take advantage of them.

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 moderating effect on DKB's administrative expense. We believe that there is little chance of efficiency gains occurring at an earlier stage.

In addition, there could be an unexpected short-term **boost from the regulatory environment:** pending regulatory changes could result in lower equity than planned and result in more financial leeway for DKB. At present, we consider the probability of this scenario to be very low.

Report on expected developments

Expected developments in the business environment

Economy continues its upturn

In 2018, the upward momentum in the global markets will pick up again somewhat and global economic growth will increase by 0.1 percentage points to 3.8 %. For Germany, the Bundesbank's economists expect GDP growth of 2.5 % in 2018, which is significantly higher than previously projected, with production capacities increasingly reaching their limits.

Due to the European Central Bank's continued highly expansive monetary policy, the financing environment will remain extremely stimulating and drive the economy beyond the coming year. This should lead to a further strengthening of exports and investments.

Private and public consumption will also increase significantly. The persistently good situation on the labour market is considered to be the main reason for the high consumption in the private sector, which should continue to have a positive effect on income levels due to increasing labour shortages. According to forecasts by the Bundesbank, the unemployment rate in 2018 will drop to 5.3 %. The number of employees is expected to increase by 1.1 %.

Price increase weakens temporarily and interest rates remain low

The monetary environment will not change fundamentally in 2018. The European Central Bank has announced that it will continue its reduced asset purchases after September 2018 until a sustained correction in inflation is apparent. With regard to key interest rates, the ECB Council expects these to remain at their current level for a longer period and well beyond the time horizon of the current purchasing programme.

After inflation, at 1.8 % in 2017, clearly moved towards the ECB target of 2 %, the central bank estimates that it will temporarily weaken slightly to 1.6 % in the current year. The rate will fluctuate due to base effects in the areas of energy, food, travel and clothing. In the medium term, the ECB expects price increases to stabilise.

As in previous years, there are numerous factors that make it difficult to assess further economic development. 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 growth within the Group

DKB anticipates stable economic development for the Group in 2018. The expected sustained positive economic situation will continue to be offset by the challenges arising primarily from the general interest rate situation and the further rise in costs as a result of increasing regulatory requirements.

DKB Group	Actual 2017	Forecast 2018
Net interest income	EUR 935.2 million	**At the level of 2017** We expect compensating effects in net interest income. The fundamentally positive development due to slight growth in the market segments is offset by burdens from the ongoing low-interest phase.
Risk provisions	EUR 127.3 million	**At the level of 2017** Against the background of stable economic conditions, we expect loan loss provisions to be at the previous year's level. The application of IFRS 9 may lead to higher volatility of earnings.
Profit/loss before taxes	EUR 264.7 million	**Slightly below 2017** We anticipate stable business development. Due to expenses for internal projects to digitise processes and implement regulatory requirements, profit before taxes is expected to be slightly lower than in the previous year.
Total assets	EUR 77.3 billion	**At the level of 2017** For 2018, we are planning a slight increase in business volume in the market segments and a slight reduction in receivables from credit institutions, which will more or less offset each other.
RoE	9.6 %	**Slightly below 2017** Due to the strengthening of the capital base and a slightly lower result, we expect a slight decline in RoE to between 8.0 % and 9.0 %.
CIR	50.8 %	**At the level of 2017** We expect a CIR between 50 % and 55 %.

DKB AG	Actual 2017	Forecast 2018
Net profit before profit transfer	EUR 252.0 million (before allocation to the fund for general banking risks)	**Slightly below 2017** We also anticipate a slight decline in earnings at DKB AG.

DKB also aims to strengthen its regulatory capital in 2018. In addition to the allocations to the fund for general banking risks from the result for 2017, this is to take place in 2018 through the further raising of subordinated loans, in part as core capital.

Expected developments in the segments

Segments	Actual 2017	Forecast 2018
	New clients: approx. 373,000	New clients: more than 250,000
Retail clients	Receivables volume: EUR 13.0 billion	Receivables volume: at the level of 2017
Infrastructure	Receivables volume: EUR 38.0 billion	Receivables volume: slightly above 2017
Corporate clients	Receivables volume: EUR 13.3 billion	Receivables volume: slightly above 2017
Deposit volumes in the client segments	EUR 49.6 billion	Deposit volume: at the level of 2017 Depending on the development of the asset volume, deposits are acquired in the various client groups of the segments and their volumes are managed centrally.

Retail clients segment: focus on active clients

In the retail clients segment, we intend to maintain or slightly increase the earnings level of the past year. The volume of receivables is expected to remain at the previous year's level. We expect client deposits to increase in line with the market and interest rate environment. Operationally, we will continue to focus on intensifying our business relationships.

We aim to acquire at least 250,000 new clients in the current financial year. Growth is to be achieved primarily through our anchor product DKB-Cash. A particular focus of our business activities will be on intensifying business relations with our active clients. This will be achieved, for example, by implementing new client added value concerning the credit card.

We intend to strategically expand the new construction financing business while taking advantage of the favourable market situation. In the securities business, too, we intend to build on the positive development of recent years and further increase the number of securities accounts under management.

In view of the good macroeconomic conditions, we are striving for growth in both lending and deposit-taking business with our individual clients.

Infrastructure segment: business shaped by repayments

In the infrastructure segment, the underlying conditions remain favourable overall. We expect high financing requirements in all target sectors in 2018 as well. Competition will remain intense. The increasing repayment portions represent a challenge for growth in lending across all client groups. The development of the deposit business will be significantly influenced by the market's handling of negative interest rates.

For the local authorities and social infrastructure client group, we expect moderate growth in a positive market environment. Despite the pressure to consolidate, the local authorities will be able to invest in public infrastructure and contribute to reducing the investment backlog thanks to the investment programmes and relief measures launched by the federal states. The demographic development (ageing of the population) and reforms in nursing care insurance (the German Long-Term Care Strengthening Acts) will in particular increase the demand for outpatient nursing care for the elderly and for alternative pre-admission forms of housing and care (assisted living).

In the housing and administrator client groups, we expect the high demand for real estate to continue in view of the ongoing low interest rate environment. In connection with this, the housing and real estate market as a whole will continue to develop very dynamically. The high demand for new construction in the urban areas will continue, with developers increasingly switching to B and C locations due to the lack of available properties in A locations. In view of the intense competition with other banks and insurance companies, the conditions for granting loans remain under high market pressure.

In the energy and utilities client group, the investment required to ensure supply and disposal stability remains high. Nevertheless, due to the currently high repayment volumes, a decrease in the volume of receivables cannot be ruled out for this client segment in 2018.

In the area of civic participation, we expect a decline in demand for civic participation projects in the wind energy sector in the 2018 financial year. The demand for support for photovoltaic or heating projects is, however, expected to increase.

Corporate clients segment: demand remains stable

The environment in the corporate clients segment remains fundamentally favourable, although the conditions in the environmental technology client group are challenging. We expect continued high financing requirements in the target industries and thus anticipate growth in our economic planning for 2018.

Developments in the environmental technology client group will continue to be influenced by the conversion of the EEG funding system in 2018. In the current financial year, we expect that transitional systems whose remuneration has not yet been determined in a tendering procedure will dominate the business segment. New investment projects are not expected to be ready for financing until 2019. Accordingly, we expect a temporary decline in demand. In photovoltaics, we expect a stable to slightly positive development in 2018 and beyond. We see growth potential in the area of financing solutions for system services within the framework of network management.

In the food and agriculture client group, the positive price development will further promote the propensity to invest in livestock housing projects. In addition, we expect stable demand for land financing to secure the production base. Overall, we envisage that we will be able to expand our client base and business volume here.

In view of the continuing growth of tourism in German holiday and metropolitan regions, the framework conditions for the tourism client group in 2018 will be positive. Due to increasing supply capacities and a changing sales landscape, they are under pressure to keep their accommodation offers competitive. This will keep the demand for hotel financing stable.

Financial markets segment: refinancing strategy to be continued

We are continuing to pursue our refinancing strategy in the current financial year. To expand our liquidity reserve, we are concentrating on a portfolio of highly liquid bonds from issuers with strong credit ratings. Wherever possible, we also make use of investments in sustainable bonds. The universe of bonds that are eligible for investment will include both green bonds and sustainability bonds from various corporate sectors. The investment process for the new portfolio focuses on compliance with the green bond principles and a comprehensive analysis of the creditworthiness and sustainable performance of issuers.

Non-core business: largely reduced

In accordance with our overarching reduction strategy, we will continue to reduce activities that are no longer in line with our strategy in an orderly manner. For reasons of materiality, non-core business will be presented in the "other" segment from 2018.

Non-financial performance indicators

In the 2018 financial year, we will continue to devote a great deal of attention to maintaining and improving the quality of non-financial performance indicators. We want to further improve our products and services for the benefit of our clients. With regard to our employees, we plan to further advance the factors of employee satisfaction, training and health. Our aim is to achieve a high level of client satisfaction as well as 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 2018.

Conclusion

Overall, we expect good business development in the three market segments of retail clients, infrastructure and corporate clients, which will enable us to keep our earnings stable despite the persistently low interest rates.

Against the background of expenses for internal projects to digitise processes and implement regulatory requirements, we expect a slightly lower profit before tax in the DKB Group for 2018 and a slightly lower net profit before DKB AG's profit transfer.

Consolidated financial statements

Consolidated statement of comprehensive income

for the period from 1 January 2017 to 30 June 2017

Income statement

EUR millions	Notes	01.01. – 31.12.2017	01.01. – 31.12.2016
Interest income		1,876.1	2,064.8
Positive interest expenses		2.2	0.6
Interest expenses		–897.7	–1,247.1
Negative interest income		–45.4	–23.2
Net interest income	(27)	935.2	795.1
Risk provisions	(28)	–127.3	–128.7
Net interest income after risk provisions		807.9	666.4
Commission income		329.7	329.1
Commission expenses		–368.9	–322.3
Net commission income	(29)	–39.2	6.9
Gains or losses on fair value measurement	(30)	89.7	46.2
Gains or losses on hedging transactions	(31)	–124.2	–94.4
Gains or losses on financial investments	(32)	20.8	160.8
Administrative expenses	(33)	–446.3	–417.0
Expenses from the bank levies, deposit protection and banking supervision	(34)	–37.4	–29.8
Other income and expenses	(35)	–3.2	–5.0
Gains or losses on restructuring	(36)	–3.4	–2.9
Profit/loss before taxes		**264.7**	**331.2**
Income taxes	(37)	–1.5	–4.3
Consolidated profit/loss		**263.2**	**326.9**
attributable to DKB AG owners		263.2	326.9
Profit transferred to controlling shareholders		–	–256.9
Profit brought forward		12.2	10.2
Transfer to retained earnings		–0.5	–0.5
Consolidated net retained profits/net accumulated losses		**274.9**	**79.7**

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

Reconciliation of comprehensive income for the period

EUR millions	01.01.–31.12.2017	01.01.–31.12.2016
Consolidated profit/loss	**263.2**	**326.9**
Temporary components of other comprehensive income that are not recognised in profit or loss		
Changes in the revaluation surplus from AfS financial instruments	**–28.2**	**28.6**
Change in measurement	–6.9	45.3
Change in portfolio due to realisation of profit or loss	–21.5	–17.0
Change in deferred taxes	0.2	0.3
Changes in the revaluation reserve arising from non-current assets held for sale	**–**	**–117.0**
Change in measurement	–	12.5
Reclassification adjustment due to realised gains and losses	–	–129.5
Components of other comprehensive income permanently not recognised in profit or loss		
Changes from the revaluation of defined benefit pension plans	**1.4**	**–8.2**
Change in measurement	1.4	–8.2
Change in deferred taxes	0.0	0.0
Other comprehensive income	**–26.8**	**–96.6**
Total comprehensive income	**236.4**	**230.3**
attributable to DKB AG owners	236.4	230.3

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

Consolidated balance sheet

As of 31 December 2017

Assets

EUR millions	Notes	31.12.2017	31.12.2016
Cash reserves	(7/38)	1,742.8	1,428.6
Loans and advances to banks	(8/39)	4,601.6	5,365.5
Loans and advances to clients	(8/40)	64,552.2	63,228.3
Risk provisions	(9/41)	–356.9	–448.8
Portfolio hedge adjustment assets	(10/42)	455.4	831.4
Assets held for trading	(11/43)	3.6	4.3
Financial investments	(13/44)	6,027.9	5,880.1
Property, plant and equipment	(15)	46.5	44.9
Intangible assets	(16)	9.2	5.4
Current income tax assets	(25/45)	0.0	0.2
Deferred income tax assets	(25/45)	0.3	–
Other assets	(17)	240.3	182.4
Total assets		**77,322.9**	**76,522.3**

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

Liabilities

EUR millions	Notes	31.12.2017	31.12.2016
Liabilities to banks	(18/46)	14,381.1	14,510.0
Liabilities to clients	(18/47)	53,931.0	53,438.0
Securitised liabilities	(18/48)	4,725.1	4,459.0
Trading liabilities	(19/49)	22.3	53.4
Negative fair values from derivative financial instruments (Hedge accounting)	(20/50)	17.7	119.2
Provisions	(21/51)	164.4	143.3
Current income tax liabilities	(25/52)	1.2	0.4
Deferred income tax liabilities	(25/52)	0.0	0.5
Other liabilities	(22/53)	139.9	372.6
Subordinated capital	(23/54)	684.7	406.8
Equity	(55)	3,255.5	3,019.1
Equity excluding non-controlling interests		3,255.5	3,019.1
Subscribed capital		339.3	339.3
Capital surplus		1,414.4	1,414.4
Retained earnings		1,093.4	1,024.0
Revaluation surplus		133.5	161.7
Consolidated net retained profits/net accumulated losses		274.9	79.7
Total liabilities		**77,322.9**	**76,522.3**

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

Consolidated statement of changes in equity

EUR millions	Subscribed capital	Hybrid capital	Capital surplus	Retained earnings	Revaluation reserve	Consolidated net retained profits/net accumulated losses	Equity before non-controlling interests	Non-controlling interests	Total equity
As at 01.01.2016	**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 surplus from AfS financial instruments					28.6		28.6		28.6
Changes in the revaluation surplus 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 profit/loss						326.9	326.9		326.9
Total consolidated profit/loss	**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 scope of consolidation and other changes							0.0		0.0
Transfers to/withdrawals from reserves				62.1		–62.1	0.0		0.0
Transferred profit						–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**
Changes in the revaluation surplus from AfS financial instruments					–28.2		–28.2		–28.2
Changes in the revaluation surplus from non-current assets held for sale							0.0		0.0
Changes from the revaluation of defined benefit pension plans				1.4			1.4		1.4
Other comprehensive income	**0.0**	**0.0**	**0.0**	**1.4**	**–28.2**	**0.0**	**–26.8**	**0.0**	**–26.8**
Consolidated profit/loss						263.2	263.2		263.2
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**1.4**	**–28.2**	**263.2**	**236.4**	**0.0**	**236.4**
Capital increases/capital reductions							0.0		0.0
Changes in the scope of consolidation and other changes							0.0		0.0
Transfers to/withdrawals from reserves				68		–68.0	0.0		0.0
Transferred profit							0.0		0.0
Distribution							0.0		0.0
As at 31.12.2017	**339.3**	**0.0**	**1,414.4**	**1,093.4**	**133.5**	**274.9**	**3,255.5**	**0.0**	**3,255.5**

Consolidated cash flow statement

EUR millions	2017	2016
Consolidated annual result	**263.2**	**326.9**
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	133.0	136.8
Changes to provisions	43.0	23.3
Changes to other non-cash items	269.6	170.4
Result from the sale of financial investments and property, plant and equipment	0.2	–131.9
Other adjustments (on balance)	–934.1	–792.6
Subtotal	**–225.1**	**–267.1**
Change in assets and liabilities from operating activity after correction for non-cash components		
Loans and advances to banks	762.3	–509.2
Loans and advances to clients	–1,487.2	–1,761.3
Securities (insofar as these are not financial investments)	–165.8	–480.1
Other assets from operating activity	42.7	–86.8
Liabilities to banks	–117.2	–1,255.9
Liabilities to clients	508.5	4,875.7
Securitised liabilities	266.2	358.6
Other liabilities from operating activity	–163.2	–1,088.6
Interest and dividends received	1,821.1	2,078.5
Interest paid	–949.5	–1,278.7
Income tax payments	–1.1	–2.5
Cash flow from operating activities	**291.7**	**582.6**

EUR millions	2017	2016
Payments received from the sale of financial investments	16.1	105.5
Payments received from the sale of property, plant and equipment	0.1	0.1
Payments made for the acquisition of financial investments	–0.3	–
Payments made for the acquisition of property, plant and equipment	–13.4	–5.0
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 investing activities	**2.5**	**100.6**
Payments received from contributions to equity	–	100.0
Payments made for reductions in equity	–	–
Payments made to shareholders and non-controlling interests	–255.8	–159.6
Change in cash from other capital (on balance)	275.8	85.1
Cash flow from financing activities	**20.0**	**25.5**
Cash and cash equivalents as at the end of the previous period	**1,428.6**	**719.9**
Cash flow from operating activities	291.7	582.6
Cash flow from investing activities	2.5	100.6
Cash flow from financing activities	20.0	25.5
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	**1,742.8**	**1,428.6**

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 clients, 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 shows the cash change in subordinate capital and payments to shareholders. The non-cash change in subordinated capital of EUR 2.1 million relates to discounts and accrued interest.

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.

Notes

Explanations regarding the consolidated financial statements

Segment reporting

Notes to the consolidated statement of comprehensive income

Notes to the consolidated balance sheet

Explanations regarding the consolidated financial statements

The consolidated financial statements of Deutsche Kreditbank AG (DKB), with its registered office in Berlin (Berlin-Charlottenburg Local Court, commercial register number: HRB 34165), were prepared in compliance with section 315a(1) 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 Standards 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 61 “Risks from financial instruments”.

All amounts are shown in millions of euros (EUR millions) unless otherwise indicated. Due to the calculation methods applied, rounding differences may arise in the tables.

General accounting and measurement methods

(1) Fundamentals of consolidated financial reporting

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 uniform 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 financial year 2017, the following new or changed standards/interpretations were to be applied for the first time:

- The aim of the disclosure initiative amendments to IAS 7 is to improve the information about the change in the entity's debts. Under the amendments, an entity is required to disclose changes in financial liabilities whose cash inflows and outflows are included in cash flows from financing activities in the cash flow statement. Associated financial assets must also be included in the disclosures (such as assets from hedging transactions). Cash changes, changes from the acquisition or sale of companies, changes due to exchange rate fluctuations, changes in fair values and other changes must be disclosed. The changes have no significant impact on the DKB Group.

- The amendments to IAS 12 relating to the recognition of deferred tax assets from unrealised losses clarify the accounting of deferred tax assets for unrealised losses related to debt instruments measured at fair value. The changes have no impact on the DKB Group.

- Changes to three standards were made as part of the annual improvements to the IFRS/IAS. IFRS 12 specified that the disclosures pursuant to IFRS 12 also apply to investments in subsidiaries, joint ventures or associates that are classified as held for sale within the definition of IFRS 5. An exception to this are disclosures made pursuant to IFRS 12.B10-B16. IAS 28 stipulates that the option to measure an equity interest in an associate or joint venture that is held by a venture capital organisation or other qualifying entity can be exercised differently for each equity interest. In addition, the short-term exemptions in IFRS 1, Appendix E (IFRS 1.E3-E7) for first-time IFRS users were deleted. 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. Exceptions regarding the date of entry into force exist for companies that agree contracts within the scope of IFRS 4. These exceptions are not applicable to the DKB Group.

  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).

  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 "Financial Assets measured at Amortised Cost" (AAC), as "Financial Assets measured at Fair Value through Profit or Loss" (FVPL) or as "Financial Assets measured at Fair Value through Other Comprehensive Income" (FVOCI). The classification of a financial asset is used as a measure of value for its subsequent measurement. For the lending business, the DKB Group has essentially defined the "Hold" business model and for the securities business the "Hold and Sell" business model. The analysis of contractual cash flows led to the conclusion that the DKB Group has a majority of agreements that contain cash flows from a typical credit agreement. Against this background, the DKB Group's loan receivables will in future largely belong to the AAC category and the DKB Group's securities to the FVOCI and FVPL categories.

The classification and measurement of financial liabilities remains largely unchanged compared to the regulations under IAS 39. In future, however, changes in the value of financial liabilities designated at fair value through profit or loss resulting from the bank's own default risk will no longer be recognised in profit or loss but directly in other comprehensive income, unless this would lead to or exacerbate a recognition or measurement mismatch. In this case, all changes in value including changes in value resulting from the own default risk would have to be shown in the income statement. There are currently no such accounting or valuation mismatches in the DKB Group.

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. In the 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 default 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. Due to the extended consideration of loan defaults expected over the entire term, the DKB Group expects its earnings situation to be more volatile in the future.

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 of IAS 39, on the one hand, for the accounting of all hedging relationships and, on the other, for the presentation of portfolio fair value hedge strategies. The DKB Group uses the option of continuing to account for all hedging relationships in accordance with IAS 39. Irrespective of this, however, extended disclosures on hedge accounting in accordance with IFRS 7 will be made in future.

The new requirements of IFRS 9 were analysed and implemented within the framework of a cross-divisional project within the DKB Group. The technical design phase was completed at the start of 2017; the implementation of the technical requirements in the operational banking processes and the implementation of new IT solutions began in January 2017. The project results were handed over to the responsible line units at the beginning of 2018. For the first-time application of the new requirements of IFRS 9 as of 1 January 2018, the DKB Group expects an effect (without consideration of deferred taxes) on equity of EUR –95 million to EUR –105 million. This is mainly due to the additional formation of value adjustments due to the new impairment regulations. Further effects on DKB's consolidated financial statements are a result of the extended disclosure requirements of IFRS 7.

- **IFRS 15 "Revenue from contracts with clients"** defines a comprehensive framework for determining whether, in what amount and at what time revenue is recognised. It replaces existing guidance on revenue recognition, including IAS 18 "Revenue", IAS 11 "Construction contracts" and IFRIC 13 "client loyalty programmes".

  DKB is required to apply IFRS 15 as of 1 January 2018. The Group has largely completed its implementation project for accounting for revenue from contracts with clients. We do not expect any changes in comparison to the previous practice under IAS 18 affecting net income.

- **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 effective from 1 January 2019. The DKB Group has begun assessing the potential impact of the application of IFRS 16 on its consolidated financial statements. We do not expect that the application of IFRS 16 will have significant consequences for the consolidated financial statements.

In addition, a number of amendments to other standards were adopted, which, however, are not expected to have a significant impact on the DKB Group.

(2) Changes on the previous year

Since the reporting year, direct writedowns have been reported as utilisations of specific loan loss provisions. In the previous year, they were still reported under portfolio loan loss provisions.

(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 STIFTUNG for corporate responsibility 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 78 "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) Scope of consolidation

As in the previous year, six subsidiaries are included along with DKB in the consolidated financial statements as at 31 December 2017. 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 determined in accordance with materiality criteria. Companies measured in accordance with 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 75 "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), which 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 receivables (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 clients 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 clients. 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 clients, 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 (such as interest rates and exchange rates) or 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, such 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, such as 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. In the case of deposit transactions, cash flows are discounted using the risk-free yield curve and a margin spread to cover costs as well as profit expectations, and a liquidity spread that 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 clients categorised as LaR, as well as the bank loans and overdrafts, liabilities to clients 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 client 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 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.

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 and 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 clients 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 client 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 clients 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 provisions for contingent liabilities and other commitments are shown as provisions 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 clients.

(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 fair 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 twelve 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.

Initial recognition is at cost.

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 licences and purchased software.

Acquired intangible assets are initially recognised at their acquisition cost.

Intangible assets are subject to straight-line depreciation over their useful lives. Non-scheduled depreciation is carried out if there is an impairment or if an inflow of future economic benefits is no longer expected. Write-ups are made if the reasons for impairment no longer apply, up to a maximum of amortised cost.

Depreciations and impairments are posted in administrative expenses. Attributions are shown in other income and 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) Liabilities

Bank loans and overdrafts and liabilities to clients 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.

(19) 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.

(20) Negative fair 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).

(21) 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 72 "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.

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.

Moreover, 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 consists of a capital payment upon reaching the age limit or, if applicable, at an earlier date due to disability 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	1.9 % (previous year: 1.80 %)
Career progression	1.9 % (previous year: 1.00 %)
Salary progression	2.25 % (previous year: 2.25 %)
Pension progression	2.0 % (previous year: 2.00 %)
Retirement age	63 years of age (previous year: 63 years of age)
Staff turnover	2.0 % (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 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 credit 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 and at the 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 clients 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/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.

(22) Other liabilities

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

(23) Subordinate and participation rights 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.

(24) 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.

(25) 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.

Segment reporting

(26) 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.

Segment reporting is based on DKB's business model in conjunction with the BayernLB Group's strategic focus. The segmentation therefore reflects the bank's strategic segments, which are the basis of the internal control, organisational and reporting structures.

Consolidated profit is attributable almost entirely to German-speaking countries. The Group has therefore not opted to undertake any regional differentiation.

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

- DKB's business involving retail clients and individual clients is combined in the retail clients segment. The key products are the DKB-Cash account package and DKB-Business (consisting of a current account and credit card with interest paid on credit balances), construction finance and retail loans, investment products, co-branding credit card business and the DKB broker business. The companies DKB Grund GmbH and FMP Forderungsmanagement Potsdam GmbH, which support the client groups, are also assigned to the segment. Their business purpose is brokering financial services and real estate and servicing and collecting loans and advances, predominantly from the retail clients business.

- The infrastructure segment contains business with clients in the local authorities and social infrastructure, energy and utilities, housing and administrators sectors. The key products are loans, pass-through loans, term loans and current account overdrafts, guarantees, deposit business and the management of business accounts including payment services.

- The corporate clients segment handles the business with clients from the areas of environmental technology, food and agriculture, and tourism. The segment also focuses on the Centre of Competence for Renewable Energies. In addition, it includes lending and deposit business involving the Group's strategic subsidiaries, and leasing and syndicated business. The key products are loans, pass-through loans, term loans and current account overdrafts, guarantees, deposit business and the management of business accounts including payment services. The subsidiaries DKB Finance GmbH and MVC Unternehmensbeteiligungs GmbH, which support client groups through corporate and venture capital investments and via property investments as part of the development of commercial real estate, are also assigned to this segment.

- The financial markets segment comprises the Treasury division of DKB. Essentially, this includes funding including managing interest rate risk, deposit business with institutional clients, passing on client deposits to BayernLB as part of the intra-Group funding system as well as internal transactions with BayernLB to manage liquidity. The activities within 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. The gains or losses on DKB AG's hedging transactions are also 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 selected client portfolios, securities portfolios and investments, including DKB AG's lending and deposit business with these investments.

- The "other" segment contains cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source. These include central administrative expenses, investment income from subsidiaries, the bank levy, deposit guarantee scheme and supervisory fees for DKB AG as well as other special effects. The activities of DKB Service GmbH are also presented in this segment. Its key areas of activity are processing back office tasks for the DKB Group, handling standardised bulk business for DKB products and supplying services for Group companies. In the previous-year period's figure, the profit on the sale of Visa Europe Limited of EUR 131.8 million was allocated to this segment in gains or losses on financial investments.

The segment information is based on the internal contribution margin accounting system used for business administration purposes and data from the external accounting system.

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 administrative expenses, other income and expenses and net commission income items were significantly affected by the consolidation of DKB Service GmbH, both in the "other" segment and in the consolidation. Overall, these effects are of minor significance for the Group's earnings. Consolidation entries in the gains/losses from restructuring item are instead 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 reported under the net interest income item in the non-core business and corporate clients segments and relate to the lending and deposit business of the respective Group subsidiaries. This relates to segment assets totalling EUR 83.6 million, without significant intra-segment earnings. There are no dependencies on major clients as defined in IFRS 8.34.

The net interest income of DKB AG is collated on the basis of partial bank balance sheets for the internal management of the business areas and reconciled to the market interest method for the purposes of client group management. The subsidiaries' interest income and expenses are shown in the segment to which they have been allocated in each case. Particular features of IFRS financial reporting are taken into account in the respective segments – if direct allocation is possible.

In compliance with IFRS financial reporting, net commission income was allocated to the segments on the basis of the origin of the transaction using data from internal reporting and the external accounting system.

Risk provisions, gains or losses on fair value measurement, hedging transactions and financial investments, as well as other income and expenses, are determined in accordance with IFRS principles. The administrative expenses of the respective segments include all directly assignable staff costs and other administrative expenses, allocated indirect administrative expenses (in particular central sales and IT costs) as well as allocations of overhead costs. Gains or losses on restructuring includes expenses from run-down measures as part of implementing the restructuring plan as well as expenses from the absorption of losses for non-strategic Group subsidiaries. It is therefore shown in the non-core business segment.

Segment assets are determined on the basis of balance sheet figures. Clients receivables, which are shown at nominal value, are an exception. The difference of EUR 98.1 million (31 December 2016: EUR 73.2 million) as well as risk provisions on loans and advances of DKB AG of EUR –351.9 million (31 December 2016: EUR –444.5 million) are included 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 determined as the ratio between profit/loss before taxes and the allocated average equity. The cost/income ratio (CIR) represents the ratio of administrative expenses to aggregate the income items of 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, and other comprehensive income. The KPIs are collated for all market-relevant business areas. These KPIs are not collated and disclosed for the "other" segment due to their limited informative value.

Assignments to the segments have changed compared with the previous year's report. The corresponding comparative figures from the previous year were adjusted.

Segment reporting 31.12.2017

EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Non-core business	Other	Transition/ Consolidation	**Group**
Net interest income	394.3	316.9	160.5	41.8	6.1	20.8	–5.2	**935.2**
Risk provisions	–43.9	–22.8	–51.4	–0.0	–8.5	–0.7	–	**–127.3**
Net commission income	–76.0	3.6	25.2	–2.6	0.2	2.1	8.3	**–39.2**
Gains or losses on fair value measurement	–	–	–	89.7	–	–	–	**89.7**
Gains or losses on hedging transactions	–	–	–	–124.2	–	–	–	**–124.2**
Gains or losses on financial investments	–	–	0.0	20.8	–	–	–	**20.8**
Administrative expenses	–206.9	–88.4	–65.1	–6.6	–16.9	–201.0	138.6	**–446.3**
Expenses from the bank levies, deposit protection and banking supervision	–	–	–	–	–	–37.4	–	**–37.4**
Other income and expenses	6.1	–2.1	–9.3	–	1.9	144.6	–144.4	**–3.2**
Gains or losses on restructuring	–	–	–	–	–3.4	–	–	**–3.4**
Profit/loss before taxes	**73.6**	**207.2**	**59.9**	**18.9**	**–20.6**	**–71.6**	**–2.7**	**264.7**
Segment assets	12,976.2	37,982.0	13,314.6	11,023.7	320.2	2,133.4	–427.2	**77,322.9**
Risk positions	7,453.7	11,798.0	12,176.7	242.8	229.1	183.6	–	**32,083.9**
Average commercial equity	641.5	995.6	1,060.3	22.3	25.2	19.1	–	**2,764.0**
Return on equity (RoE)	11.5 %	20.8 %	5.6 %	84.8 %	–81.7 %			**9.6 %**
Cost/income ratio (CIR)	63.8 %	27.8 %	36.9 %	25.9 %	>100 %			**50.8 %**

Segment reporting 31.12.2016

EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Non-core business	Other	Reconciliation/Consolidation	**Group**
Net interest income	422.5	244.8	147.9	–33.7	7.6	11.9	–5.9	**795.1**
Risk provisions	–61.7	–7.9	–37.5	–	–20.9	–0.7	–	**–128.7**
Net commission income	–32.0	1.4	28.6	–2.2	0.6	5.6	4.9	**6.9**
Gains or losses on fair value measurement	–	–	–	46.3	–0.1	–	–	**46.2**
Gains or losses on hedging transactions	–	–	–	–94.4	–	–	–	**–94.4**
Gains or losses on financial investments	–	–	0.1	24.4	4.5	131.8	–	**160.8**
Administrative expenses	–206.0	–79.0	–56.2	–4.8	–17.5	–184.6	131.1	**–417.0**
Expenses from the 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 or losses on restructuring	–	–	–	–	–2.9	–	–	**–2.9**
Profit/loss before taxes	**121.7**	**159.2**	**81.4**	**–64.4**	**–28.0**	**69.3**	**–8.0**	**331.2**
Segment assets	13,464.2	36,620.4	12,757.3	11,991.6	526.3	1,747.6	–585.1	**76,522.3**
Risk positions	7,344.6	11,282.4	11,615.3	245.5	374.9	191.4	–	**31,054.1**
Average commercial equity	638.3	955.6	989.7	26.7	41.9	13.3	–	**2,665.5**
Return on equity (RoE)	19.1 %	16.7 %	8.2 %	<–100 %	–66.8 %			**12.4 %**
Cost/income ratio (CIR)	52.9 %	32.1 %	32.1 %	–8.1 %	>100 %			**45.8 %**

Notes to the consolidated statement of comprehensive income

(27) Net interest income

EUR millions	2017	2016
Interest income	**1,876.1**	**2,064.8**
Interest income from lending and money market transactions	1,853.7	2,041.7
Interest income from bonds and other fixed-income securities	17.7	19.5
Current income	4.7	3.6
Positive interest expenses	**2.2**	**0.6**
Interest expenses	**–897.7**	**–1,247.1**
Interest expenses for liabilities to banks and clients	–505.5	–705.0
Interest expenses for derivatives (hedging transactions)	–218.3	–410.2
Interest expenses for securitised liabilities	–42.1	–41.2
Interest expenses for subordinated capital	–20.9	–18.4
Interest expenses for derivatives in economic hedging relationships	–90.1	–44.1
Other interest expenses	–20.8	–28.2
Negative interest income	**–45.4**	**–23.2**
Total	**935.2**	**795.1**

For financial assets and financial liabilities that are not measured at fair value through profit and loss, the entire interest income is EUR 1,878.3 million (previous year: EUR 2,065.2 million) and the entire interest expense is EUR 608.4 million (previous year: EUR 799.6 million).

The interest income from lending and money market transactions includes income from impaired receivables (unwinding effect) of EUR 7.1 million (previous year: EUR 10.3 million).

Current income includes income from shares in non-consolidated subsidiaries of EUR 0.2 million (previous year: EUR 0.1 million).

(28) Risk provisions

EUR millions	2017	2016
Additions	**–194.0**	**–190.9**
Impairment losses on loans and advances	–186.9	–184.5
Provisions in the credit business	–7.1	–6.4
Releases	**54.4**	**50.5**
Impairment losses on loans and advances	53.7	43.4
Provisions in the credit business	0.7	7.1
Recoveries on written-down receivables	**12.3**	**11.7**
Total	**–127.3**	**–128.7**

The amounts relate to both balance sheet lending and off-balance-sheet lending.

(29) Net commission income

EUR millions	2017	2016
Payments	–55.5	–56.6
Credit card business	8.6	54.5
Other	7.7	9.0
Total	**–39.2**	**6.9**

Net commission income comprises commission income of EUR 329.7 million (previous year: EUR 329.1 million) netted against commission expenses of EUR -368.9 million (previous year: EUR -322.3 million).

Commission income of EUR 318.4 million (previous year: EUR 316.9 million) and commission expenses of EUR -340.2 million (previous year: EUR -293.9 million) are the result of financial assets and financial liabilities that were not measured at fair value through profit or loss in the reporting period.

(30) Gains/losses on fair value measurement

EUR millions	2017	2016
Net trading income	**89.7**	**46.3**
Interest-related transactions	89.3	45.0
Currency-related transactions	0.4	1.3
Fair value gains/losses from the fair value option	**–**	**–0.1**
Total	**89.7**	**46.2**

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

(31) Gains or losses on hedge accounting

EUR millions	2017	2016
Measurement gains/losses from fair value hedges (portfolio hedges)		
Measurement of underlying transactions	–51.7	176.0
Measurement of hedging instruments	251.9	219.8
Amortisation of the portfolio hedge adjustment	–324.4	–490.2
Total	**–124.2**	**–94.4**

(32) Gains or losses on financial investments

EUR millions	2017	2016
Gains/losses on AfS financial investments	**20.8**	**28.9**
Gains/losses on disposal	20.8	28.9
Gains/losses on LaR financial investments	**0.0**	**0.1**
Gains/losses from other companies with which a participation relationship exists	**0.0**	**131.8**
Total	**20.8**	**160.8**

(33) Administrative expenses

EUR millions	2017	2016
Staff costs	**–228.0**	**–213.9**
Wages and salaries	–183.8	–174.7
Social security contributions	–30.2	–28.9
of which employer share for statutory pension insurance	–13.2	–12.3
Expenses for pension scheme and support	–14.0	–10.3
of which expenses for defined benefit plans	–6.7	–5.1
Other administrative expenses	**–210.6**	**–196.4**
IT costs	–73.5	–71.4
Contributions, legal and consultancy costs	–45.5	–33.0
Advertising	–27.8	–33.6
Building costs (non-investment properties)	–21.9	–20.3
Communication and other selling costs	–19.3	–18.0
Miscellaneous administrative expenses	–22.6	–20.1
Depreciation and impairments on property, plant and equipment and intangible assets	**–7.7**	**–6.7**
Total	**–446.3**	**–417.0**

(34) Expenses from the bank levy, deposit guarantee scheme and banking supervision

EUR millions	2017	2016
Bank levy	–19.6	–17.6
Deposit guarantee scheme	–14.9	–9.8
Banking supervision	–2.9	–2.4
Total	**–37.4**	**–29.8**

(35) Other income and expenses

EUR millions	2017	2016
Other income	**42.0**	**36.2**
Income from the reversal of provisions	7.7	1.3
Miscellaneous other income	34.3	34.9
Other expenses	**–45.2**	**–41.2**
Expenses from the formation of provisions	–0.3	–0.3
Miscellaneous other expenses	–44.9	–40.9
Total	**–3.2**	**–5.0**

(36) 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.

(37) Income taxes

EUR millions	2017	2016
Current income taxes	**–2.0**	**–4.4**
German and foreign corporation tax including solidarity surcharge	–1.0	–0.9
Trade tax/foreign local tax	–1.0	–3.5
Deferred income taxes	**0.5**	**0.1**
German and foreign corporation tax including solidarity surcharge	0.5	0.1
Trade tax/foreign local tax	0.0	0.0
Total	**–1.5**	**–4.3**

Current income taxes result from current tax payments by companies that are not part of BayernLB's taxable entity.

The effective tax expense in the financial year is EUR 83.2 million lower than the expected tax expense. This results from:

EUR millions	2017	2016
Profit/loss before taxes	264.7	331.2
Group income tax rate in %	32.0	32.0
Anticipated income tax expense	**84.7**	**105.8**
Effects of taxes from previous years that were recognised in the financial year	0.2	2.6
Effects of fiscal unity with BayernLB		
from accounting differences	5.6	8.5
from transfers of the measurement basis	–96.4	–123.7
Effects of non-deductible operating expenses	7.2	5.9
Effects of permanent effects of an accounting nature	–0.2	4.8
Other effects	0.4	0.4
Effective income tax expense	**1.5**	**4.3**
Effective income tax rate in %	**0.6**	**1.3**

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 to the consolidated balance sheet

(38) Cash reserve

EUR millions	2017	2016
Cash in hand	9.8	9.3
Credit balances with central banks	1,733.0	1,419.3
Total	**1,742.8**	**1,428.6**

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

(39) Loans and advances to banks

EUR millions	2017	2016
Loans and advances to domestic banks	4,601.6	5,355.2
Loans and advances to foreign banks	–	10.3
Total	**4,601.6**	**5,365.5**

Breakdown of loans and advances to banks by term

EUR millions	2017	2016
On demand	3,520.9	2,176.8
With agreed maturities		
Up to 3 months	451.5	1,251.8
More than 3 months up to 1 year	603.7	1,263.6
More than 1 year up to 5 years	14.2	664.1
More than 5 years	11.3	9.2
Total	**4,601.6**	**5,365.5**

(40) Loans and advances to clients

EUR millions	2017	2016
Loans and advances to domestic clients	63,985.1	62,662.5
Loans and advances to foreign clients	567.1	565.8
Total	**64,552.2**	**63,228.3**

Breakdown of loans and advances to clients by term

EUR millions	2017	2016
With agreed maturities		
Up to 3 months	4,076.8	3,963.1
More than 3 months up to 1 year	4,060.4	3,816.2
More than 1 year up to 5 years	17,016.2	16,447.6
More than 5 years	38,695.9	38,321.0
Indefinite maturities	702.9	680.4
Total	**64,552.2**	**63,228.3**

There are currently no receivables from finance leasing contracts.

(41) Risk provisions

Specific loan loss provisions for loans and advances to clients

EUR millions	2017	2016
As at 1 Jan	**–385.0**	**–369.7**
Changes recognised through profit or loss	**–89.8**	**–110.0**
Additions	–150.7	–163.6
Releases	53.7	43.3
Unwinding	7.2	10.3
Changes not recognised through profit or loss	**217.2**	**94.7**
Utilisation	217.2	94.7
Balance as at 31.12.	**–257.6**	**–385.0**

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

EUR millions	2017	2016
Retail clients	–103.7	–168.8
Real estate financing	–59.8	–90.5
Renewable energies	–50.7	–42.8
Manufacturing sector	–	–31.9
Healthcare	–17.1	–20.4
Food industry	–15.2	–21.0
Other	–11.1	–9.6
Total	**–257.6**	**–385.0**

Portfolio loan loss provisions for loans and advances to clients

EUR millions	2017	2016
As at 1 Jan	**–63.8**	**–59.8**
Changes recognised through profit or loss	**–35.5**	**–20.0**
Additions	–35.5	–20.1
Releases	0.0	0.1
Changes not recognised through profit or loss	**–**	**16.0**
Utilisation	–	16.0
Balance as at 31.12.	**–99.3**	**–63.8**

There were portfolio loan loss provisions of EUR 18 thousand (previous year: EUR 21 thousand) for loans and advances to banks as at the reporting date.

The total amount of non-accrual loans amounted to EUR 416.1 million (previous year: EUR 581.2 million) as of 31 December 2017.

Loans and advances of EUR 21.1 million were written down directly in the reporting period. Since the reporting year, direct writedowns have been reported as utilisations of specific loan loss provisions. In the previous year (full year 2016: EUR 16.0 million), they were still reported under portfolio loan loss provisions.

The risk provisions for contingent liabilities and other commitments are shown as provisions for risks from the lending business.

The risk provision for LaR securities holdings is reported under financial investments.

(42) Portfolio hedge adjustment attributable to assets

The hedge adjustment of interest-rate-hedged loans and advances in the fair value hedge portfolio amounted to EUR 455.4 million (previous year: EUR 831.4 million). It was offset by the fair values of hedging transactions, on the liabilities side under the negative fair values from derivative financial instruments (hedge accounting) and on the assets side under the positive fair values from derivative financial instruments (hedge accounting).

(43) Assets held for trading

EUR millions	2017	2016
Positive fair values from derivative financial instruments (no hedge accounting)	3.6	4.3
Total	**3.6**	**4.3**

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 3.4 million (previous year: EUR 4.2 million) and currency-related transactions of EUR 0.2 million (previous year: EUR 0.1 million).

Breakdown of assets held for trading by term

EUR millions	2017	2016
With agreed maturities		
Up to 3 months	0.2	0.2
More than 3 months up to 1 year	–	–
More than 1 year up to 5 years	–	–
More than 5 years	3.4	4.1
Total	**3.6**	**4.3**

(44) Financial investments

EUR millions	2017	2016
AfS financial investments	**6,027.9**	**5,865.1**
Bonds and other fixed-income securities	5,832.2	5,636.1
Equities and other non-fixed-income securities	141.5	164.7
Other financial investments	54.2	64.3
LaR financial investments	**–**	**15.0**
Bonds and other fixed-income securities	–	15.0
Total	**6,027.9**	**5,880.1**

Financial assets include shares in non-consolidated subsidiaries of EUR 7.7 million (previous year: EUR 8.7 million).

Of the financial investments, the following are negotiable:

EUR millions	2017	2016
Bonds and other fixed-income securities	5,832.2	5,651.1
Equities and other non-fixed-income securities	133.9	156.7
Total	**5,966.1**	**5,807.80**

The equities and other variable-income securities are composed as follows:

EUR millions	2017	2016
Equities	–	–
Investment shares	141.5	164.7
Total	**141.5**	**164.7**

The debt instruments and other fixed-income securities exclusively include bonds and debt instruments.
Of the bonds, notes and other fixed-interest securities, EUR 5,832.2 million (previous year: EUR 5,635.8 million) can be lent at central banks. Of this amount, EUR 398.5 million (previous year: EUR 306.8 million) is due in the following year (including pro-rata interest).

Breakdown of financial investments by term

EUR millions	2017	2016
With agreed maturities		
Up to 3 months	15.5	75.2
More than 3 months up to 1 year	383.1	231.6
More than 1 year up to 5 years	3,509.6	3,184.7
More than 5 years	1,944.0	2,194.5
Indefinite maturities	175.7	194.1
Total	**6,027.9**	**5,880.1**

(45) Income tax assets

EUR millions	2017	2016
Current income tax assets	0.0	0.2
Deferred income tax assets (after offsetting)	0.3	0.0
Total	**0.3**	**0.2**

The income tax assets arose exclusively in Germany.

Tax loss carryforwards

EUR millions	2017	2016
Loss carryforwards, corporation tax	122.8	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.

(46) Liabilities to banks

EUR millions	2017	2016
Liabilities to domestic banks	13,250.7	13,301.6
Liabilities to foreign banks	1,130.4	1,208.4
Total	**14,381.1**	**14,510.0**

Breakdown of bank loans and overdrafts by term

EUR millions	2017	2016
On demand	251.6	67.0
With agreed maturities		
Up to 3 months	377.0	345.9
More than 3 months up to 1 year	1,009.3	1,221.8
More than 1 year up to 5 years	4,402.9	4,572.2
More than 5 years	8,340.3	8,303.1
Total	**14,381.1**	**14,510.0**

(47) Liabilities to clients

EUR millions	2017	2016
Savings deposits	**353.5**	**370.4**
With agreed notice period of 3 months	353.5	370.4
Other liabilities	**53,577.5**	**53,067.6**
On demand	43,945.3	39,998.3
With agreed term or notice period	9,632.2	13,069.3
Total	**53,931.0**	**53,438.0**

EUR millions	2017	2016
Liabilities to domestic clients	52,942.9	52,483.6
Liabilities to foreign clients	988.1	954.4
Total	**53,931.0**	**53,438.0**

Breakdown of liabilities to clients by term

EUR millions	2017	2016
On demand	43,945.3	39,998.3
With agreed maturities		
Up to 3 months	4,276.0	8,191.4
More than 3 months up to 1 year	396.5	318.4
More than 1 year up to 5 years	2,417.6	1,512.6
More than 5 years	2,895.6	3,417.3
Total	**53,931.0**	**53,438.0**

(48) Securitised liabilities

EUR millions	2017	2016
Bonds and notes issued		
Mortgage Pfandbriefs	2,304.5	2,416.3
Public-sector Pfandbriefs	1,423.5	1,542.7
Other bonds and notes	997.1	500.0
Total	**4,725.1**	**4,459.0**

In the financial year, bearer bonds with a nominal value of EUR 500.0 million (previous year: EUR 500.0 million) and no public Pfandbriefs and mortgage Pfandbriefs (previous year: EUR 60.0 million) were issued. Public Pfandbriefs and mortgage Pfandbriefs were repaid in the nominal amount of EUR 230.0 million (previous year: EUR 200.0 million).

Breakdown of securitised liabilities by term

EUR millions	2017	2016
With agreed maturities		
Up to 3 months	526.4	46.6
More than 3 months up to 1 year	92.5	210.0
More than 1 year up to 5 years	1,464.2	1,997.0
More than 5 years	2,642.0	2,205.4
Total	**4,725.1**	**4,459.0**

(49) Liabilities held for trading

EUR millions	2017	2016
Negative fair values from derivative financial instruments (no hedge accounting)	22.3	53.4
Total	**22.3**	**53.4**

Liabilities held for trading include only domestic transactions (previous year: EUR 30.0 million domestic and EUR 23.4 million foreign transactions) and are divided into interest-related transactions of EUR 22.2 million (previous year: EUR 53.3 million) and currency-related transactions of EUR 0.1 million (previous year: EUR 0.1 million).

Breakdown of liabilities held for trading by term

EUR millions	2017	2016
With agreed maturities		
Up to 3 months	19.5	13.6
More than 3 months up to 1 year	0.1	36.5
More than 1 year up to 5 years	–	–
More than 5 years	2.7	3.3
Total	**22.3**	**53.4**

(50) Negative fair values from derivative financial instruments (hedge accounting)

EUR millions	2017	2016
Negative fair values from fair value hedges (portfolio hedges)	17.7	119.2
Total	**17.7**	**119.2**

The hedging transactions relate to loans and advances to clients in their entirety.

Breakdown of negative market values from derivative financial instruments by term

EUR millions	2017	2016
With agreed maturities		
Up to 3 months	0.0	–
More than 3 months up to 1 year	0.0	59.5
More than 1 year up to 5 years	14.2	57.6
More than 5 years	3.5	2.1
Total	**17.7**	**119.2**

(51) Provisions

EUR millions	2017	2016
Provisions for pensions and similar obligations	**80.7**	**78.1**
Other provisions	**83.7**	**65.2**
Provisions in the credit business	15.2	13.3
Miscellaneous provisions	68.5	51.9
Total	**164.4**	**143.3**

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 (DBO) 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

EUR millions	2017	2016
As at 1 Jan	**78.1**	**68.7**
Changes in the group of consolidated companies	–	–
Current service cost	3.8	3.8
Interest expense	1.4	1.6
Changes from the revaluation	–1.4	8.2
Employee contributions to the plan	0.1	0.1
Paid benefits	–1.4	–1.2
Past service cost	–	–3.1
Plan compensation	–	–
Balance as at 31.12.	**80.6**	**78.1**

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

EUR millions	Increase by 0.5 percentage points	Decline by 0.5 percentage points
Discounting interest rate	–5.8	6.5
Salary developments and pension trends[1]	3.4	–3.1

[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

EUR millions	2017	2016
Current service cost (administrative expense)	3.8	3.8
Net interest cost from pension provisions (interest expense)	1.4	1.6
Past service cost (administrative expense)	–	–3.1
Income/expense from plan compensations (administrative expense)	–	–
Total	**5.2**	**2.3**

Other provisions

	Provisions in the credit business							
	At the individual transaction level		Portfolio level		Miscellaneous provisions		Total	
EUR millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
As at 1 Jan	**10.4**	**11.2**	**2.8**	**2.7**	**51.9**	**38.7**	**65.1**	**52.6**
Utilisation	0.0	0.0	–	–	–17.9	–7.8	–17.9	–7.8
Releases	–0.6	–6.4	0.0	–0.7	–7.7	–1.3	–8.3	–8.4
Additions	6.7	5.6	0.4	0.8	38.9	22.8	46.0	29.2
Transfers	–4.5	–	–	–	3.3	–0.5	–1.2	–0.5
Balance as at 31.12.	**12.0**	**10.4**	**3.2**	**2.8**	**68.5**	**51.9**	**83.7**	**65.1**

The other provisions include the following items:

EUR millions	2017	2016
Provisions for legal expenses and legal risks	35.2	27.8
Provisions for the personnel area	14.6	14.5
Restructuring provisions	4.3	4.4
Provisions for archiving costs	3.5	3.5
Miscellaneous provisions	10.9	1.7
Total	**68.5**	**51.9**

Discounted provisions were compounded in the financial year by EUR 62 thousand (previous year: EUR 8 thousand). The change in the discounting rate led to a provision reduction of EUR 0 thousand (previous year: increase of EUR 324 thousand).

Of the other provisions, EUR 39.5 million (previous year: EUR 39.6 million) are due after more than twelve months.

(52) Income tax liabilities

EUR millions	2017	2016
Current income tax liabilities	1.2	0.4
Deferred income tax liabilities	0.0	0.5
Total	**1.2**	**0.9**

The income tax liabilities arose exclusively in Germany.

The deferred income tax liabilities are distributed among the following items:

EUR millions	2017	2016
Loans and advances to banks and clients	0.4	0.6
Risk provisions	1.3	1.1
Other assets including intangible assets	0.2	0.0
Deferred income tax liabilities (before offsetting)	**1.9**	**1.7**
Offsetting with deferred income tax assets	**–1.9**	**–1.2**
Total	**0.0**	**0.5**

The change in deferred income tax liabilities (before offsetting) was taken into consideration through profit and loss in the amount of EUR 1.5 million and without an impact on profit and loss in the amount of EUR 0.4 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 0.4 million (previous year: EUR 0.6 million).

(53) Other liabilities

EUR millions	2017	2016
Profit transfer to BayernLB	–	256.9
Accruals	78.6	67.9
Deferred income	27.5	12.6
Other obligations	33.8	35.2
Total	**139.9**	**372.6**

Deferred liabilities mainly include outstanding invoices of EUR 38.2 million (previous year: EUR 30.6 million), liabilities to the tax authorities (excluding income tax liabilities) of EUR 8.9 million (previous year: EUR 7.7 million) and short-term employee benefits of EUR 13.6 million (previous year: EUR 14.6 million).

All liabilities are to be met in the short term.

(54) Subordinate capital

EUR millions	2017	2016
Subordinated liabilities	607.9	380.0
Additional regulatory core capital	50.0	–
Profit participation certificates	26.8	26.8
Total	**684.7**	**406.8**

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 Art. 62 CRR are fulfilled at DKB for a portfolio of nominally EUR 594.0 million.

The subordinate liabilities include accrued interest of EUR 14.1 million (previous year: EUR 12.0 million). The interest expense for subordinate liabilities is EUR 19.8 million (previous year: EUR 16.3 million). The interest expense for participation rights capital is EUR 1.1 million in the year under review (previous year: EUR 2.1 million).

Of the subordinate liabilities, EUR 11 million (previous year: EUR 29.3 million) is due before the expiry of two years.

An unsecured subordinated registered bond in the amount of EUR 50 million was issued for the first time during the financial year. The instrument qualifies as additional core capital under Article 52 CRR.

Profit participation capital is also eligible for inclusion in regulatory capital in accordance with Article 62 CRR. No profit participation rights were issued in the financial year (previous year: EUR 5.4 million).

Breakdown of subordinate capital by term

EUR millions	2017	2016
With agreed maturities		
Up to 3 months	16.1	13.2
More than 3 months up to 1 year	3.0	23.0
More than 1 year up to 5 years	138.8	143.8
More than 5 years	450.0	200.0
With indefinite maturity	76.8	26.8
Total	**684.7**	**406.8**

(55) Equity

EUR millions	2017	2016
Subscribed capital	339.3	339.3
Statutory nominal capital	339.3	339.3
Capital surplus	1,414.4	1,414.4
Retained earnings	1,093.4	1,024.0
Statutory reserve	242.4	242.4
Reserve from the revaluation of defined benefit pension plans	–27.9	–29.3
Other retained earnings	878.9	810.9
Revaluation surplus	133.5	161.7
Consolidated net retained profits/net accumulated losses	274.9	79.7
Total	**3,255.5**	**3,019.1**

Subscribed capital
The subscribed capital is divided into 130.5 million no-par value shares.

Capital surplus
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, which do not impact on profit or loss, from the revaluation of defined-benefit pension plans. Deferred taxes incurred on this are reported separately.

EUR millions	2017	2016
As at 1 Jan	**–29.3**	**–21.1**
Measurement changes arising from the pension reserve that do not impact on profit or loss	1.4	–8.2
of which: from the pension obligation	1.4	–8.2
Change in deferred taxes formed without an impact on profit or loss	0.0	0.0
Balance as at 31.12.	**–27.9**	**–29.3**

Revaluation surplus

This item contains the measurement results, which do not impact on profit or loss, from AfS financial instruments and from non-current assets held for sale that do not affect income. The related deferred taxes are shown separately.

The revaluation reserve has developed as follows:

EUR millions	2017	2016
As at 1 Jan	**161.7**	**250.1**
AfS financial instruments		
Measurement changes that do not impact on profit or loss	–6.9	45.3
Changes in deferred taxes formed without an impact on profit or loss	0.2	0.3
Measurement changes recognised through profit or loss	–21.5	–17.0
Non-current assets held for sale		
Measurement changes that do not impact on profit or loss	–	12.5
Measurement changes recognised through profit or loss	–	–129.5
Balance as at 31.12.	**133.5**	**161.7**

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 14 thousand (previous year: EUR 0.3 million).

Consolidated net retained profits/net accumulated losses

Both a profit transfer agreement and a controlling agreement exist with BayernLB.

As at the reporting date, there were no non-controlling interests.

Disclosures relating to 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.

(56) Fair value and measurement hierarchies of financial instruments

Fair value of financial instruments[1]

	Fair value		Carrying amount	
EUR millions	**2017**	**2016**	**2017**	**2016**
Assets	**80,506.5**	**80,271.2**	**77,354.6**	**76,693.6**
Cash reserves	1,742.8	1,428.6	1,742.8	1,428.6
Loans and advances to banks	4,606.9	5,372.5	4,601.6	5,365.5
Loans and advances to clients[2]	68,154.1	67,650.0	65,007.5	64,059.7
Assets held for trading	3.6	4.3	3.6	4.3
Financial investments[3]	5,999.1	5,815.8	5,999.1	5,835.5
Liabilities	**75,704.6**	**75,450.6**	**73,761.9**	**72,986.4**
Liabilities to banks	15,242.3	15,651.4	14,381.1	14,510.0
Liabilities to clients	54,789.3	54,526.6	53,931.0	53,438.0
Securitised liabilities	4,828.3	4,602.4	4,725.1	4,459.0
Trading liabilities	22.3	53.4	22.3	53.4
Negative fair values from derivative financial instruments (hedge accounting)	17.7	119.2	17.7	119.2
Subordinated capital	804.7	497.6	684.7	406.8

[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 reported.

Hierarchy of fair values
In the hierarchy of fair values, the measurement parameters used to assess the fair value of financial instruments are split into the following three levels:

Level 1: Instruments are measured using prices quoted on active markets (without any adjustments), to which the DKB Group has access on the measurement date.

These include equities, funds and bonds which are traded in highly liquid markets.

Level 2: The fair values are determined by means of measurement methods, where the measurement parameters are observable directly (as prices) or indirectly (derived from prices), and do not come under Level 1. These may be listed prices on active markets for similar financial instruments, listed prices on inactive markets, other observable input parameters (such as interest rates, exchange rates) and market-based input factors.

These include off-market derivatives, such as interest-rate swaps and forward exchange transactions as well as bonds, which are not allocated to Level 1.

Level 3: The fair values are determined by means of valuation methods, where the measurement parameters are not based on observable market data. The financial instruments in this category have at least one input parameter which is not observable on the market and has a material influence on their fair values (such as internally calculated margins and creditworthiness spreads).

These include loans and advances acquired on the non-performing loan market and the stake in Visa Inc.

Financial instruments which are not measured at fair value are not managed on the basis of their fair value. This is the case for loans and deposits, for example. The fair value is only calculated for such instruments for the purposes of disclosure in the notes. Changes to the calculated fair values have no impact on either the consolidated balance sheet or the consolidated statement of comprehensive income.

If the fair value of the financial instrument is determined on the basis of several measurement parameters, the overall fair value is allocated in accordance with the measurement parameter with the lowest level material to the fair value calculation.

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 transfer date.

	Level 1		Level 2		Level 3		Total	
EUR millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Assets								
Loans and advances to clients	–	–	–	–	3.9	7.0	**3.9**	**7.0**
Assets held for trading	–	–	3.4	4.3	–	–	**3.4**	**4.3**
Financial investments[1]	3,770.5	4,070.7	2,203.2	1,730.1	–	–	**5,973.7**	**5,800.8**
of which debt instruments	3,629.0	3,906.0	2,203.2	1,730.1	–	–	**5,832.2**	**5,636.1**
of which equity and equity-like instruments	141.5	164.7	–	–	–	–	**141.5**	**164.7**
Total	**3,770.5**	**4,070.7**	**2,206.6**	**1,734.4**	**3.9**	**7.0**	**5,981.0**	**5,812.1**
Liabilities								
Trading liabilities	–	–	22.3	53.4	–	–	**22.3**	**53.4**
Negative fair values from derivative financial instruments (hedge accounting)	–	–	17.7	119.2	–	–	**17.7**	**119.2**
Total	**–**	**–**	**40.0**	**172.6**	**–**	**–**	**40.0**	**172.6**

[1] Excluding participations and shares in affiliated companies.

On the basis of the review of whether bonds complied with the parameters to be met cumulatively for allocation to Level 1 (such as number of prices) as at 31 December 2017, bonds and notes worth EUR 721.9 million were reclassified from Level 1 to Level 2 and bonds worth EUR 336.3 million were reclassified from Level 2 to Level 1.

Changes in fair values determined on the basis of non-observable market data (Level 3)

EUR millions	Financial investments		Loans and advances to clients		Non-current assets held for sale (shares in Visa Europe Limited)		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
As at 1 Jan	**19.8**	**–**	**7.0**	**12.0**	**–**	**117.0**	**26.8**	**129.0**
Effects recognised through profit or loss	–	2.3	–1.3	–1.5	–	–	**–1.3**	**0.8**
of which gains/losses on financial investments	–	2.3	–	–	–	–	**–**	**2.3**
of which other income and expenses	–	–	–1.3	–1.5			**–1.3**	**–1.5**
Change in the revaluation surplus	5.6	1.5	–0.7	–1.0	–	12.5	**4.9**	**13.0**
Purchases	–	18.3	0.0	0.4	–	–	**0.0**	**18.7**
Sales	–	–2.3	–	–1.5	–	–129.5	**–**	**–133.3**
Settlements	–	–	–1.1	–1.4	–	–	**–1.1**	**–1.4**
Balance as at 31.12.	**25.4**	**19.8**	**3.9**	**7.0**	**–**	**–**	**29.3**	**26.8**
Effects recognised through profit or loss for financial instruments in the portfolio on 31.12.	–	–	–1.3	–1.5	–	–	**–1.3**	**–1.5**
of which other income and expenses	–	–	–1.3	–1.5	–	–	**–1.3**	**–1.5**

Significant non-observable parameters (Level 3) and their sensitivities

Loans and advances to clients (receivables acquired on the non-performing loan market and secured with real estate)

Significant non-observable parameters	Bandwidth (average)	Change in parameters	Change affecting net income	Change in equity
Realisation value	EUR 0 thousand to EUR 159 thousand (EUR 20 thousand)	+5.0 % –5.0 %	EUR +43 thousand EUR –45 thousand	EUR +178 thousand EUR –177 thousand
Realisation period	1 month up to 35 months (12 months)	+6 months –6 months	EUR 1 thousand EUR 1 thousand	EUR –12 thousand EUR +8 thousand
Interest rate	0.54 % up to 0.80 % (0.56 %)	+0.05 % –0.05 %	EUR 0 thousand EUR 0 thousand	EUR –2 thousand EUR +2 thousand

Financial investments (shares in Visa Inc.)

Significant non-observable parameters	Assumed subscription ratio	Change in parameters	Change recognised through profit or loss	Change in equity
Subscription ratio of the Visa Inc. shares	49.8 %	+10 % –10 %	– –	EUR +2,539 thousand EUR –2,539 thousand

The measurement methods used are customary and appropriate for the asset to be measured in each case.

Financial instruments measured at amortised acquisition costs

	Level 1		Level 2		Level 3		Total	
EUR millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Assets								
Cash reserves	–	–	–	–	1,742.8	1,428.6	**1,742.8**	**1,428.6**
Loans and advances to banks	–	–	–	–	4,606.9	5,372.5	**4,606.9**	**5,372.5**
Loans and advances to clients	–	–	–	–	68,150.2	67,643.0	**68,150.2**	**67,643.0**
Financial investments	–	15.0	–	–	–	–	**–**	**15.0**
of which debt instruments	–	15.0	–	–	–	–	**–**	**15.0**
Total	**–**	**15.0**	**–**	**–**	**74,499.9**	**74,444.1**	**74,499.9**	**74,459.1**
Liabilities								
Liabilities to banks	–	–	–	–	15,242.3	15,651.4	**15,242.3**	**15,651.4**
Liabilities to clients	–	–	–	–	54,789.3	54,526.6	**54,789.3**	**54,526.6**
Securitised liabilities	1,264.3	2,698.4	3,563.8	1,903.8	0.2	0.2	**4,828.3**	**4,602.4**
Subordinated capital	–	–	–	–	804.7	497.6	**804.7**	**497.6**
Total	**1,264.3**	**2,698.4**	**3,563.8**	**1,903.8**	**70,836.5**	**70,675.8**	**75,664.6**	**75,278.0**

(57) Financial instrument measurement categories

EUR millions	2017	2016
Assets		
Financial assets measured at fair value through profit or loss	**3.6**	**4.3**
Assets held for trading (HfT)	3.6	4.3
Loans, advances and securities (LaR)	**69,149.9**	**68,601.8**
Loans and advances to banks	4,601.6	5,365.5
Loans and advances to clients	64,548.3	63,221.3
Financial investments	–	15.0
Financial assets available for sale (AfS)	**6,031.8**	**5,872.1**
Loans and advances to clients	3.9	7.0
Financial investments	6,027.9	5,865.1
Liabilities		
Financial liabilities measured at fair value through profit or loss	**22.3**	**53.4**
Liabilities held for trading (HfT)	22.3	53.4
Financial liabilities measured at amortised cost (LaC)	**73,721.9**	**72,813.8**
Liabilities to banks	14,381.1	14,510.0
Liabilities to clients	53,931.0	53,438.0
Securitised liabilities	4,725.1	4,459.0
Subordinated capital	684.7	406.8
Negative fair values from derivative financial instruments (hedge accounting)	**17.7**	**119.2**

(58) Reallocation of financial assets

In line with the announcement by the IASB on the amendment to IAS 39 and IFRS 7 Reclassification of Financial Assets and EU regulation 1004/2008, the DKB Group reclassified selected securities in financial investments from the AfS category to the LaR category on 1 July 2008. The last securities concerned matured in 2017 (previous year's balance: EUR 15.0 million). The reallocation did not impact the consolidated net income in the financial year.

(59) Net profits or losses from financial instruments

EUR millions	2017	2016
Financial assets measured at fair value through profit or loss or financial liabilities	**–5.6**	**1.1**
Fair value option (FVO)	–	0.1
Net interest income	–	0.2
Gains or losses on fair value measurement	–	–0.1
Financial assets held for trading or financial liabilities held for trading (HfT)	–5.6	1.0
Net interest income	–95.3	–45.3
Gains or losses on fair value measurement	89.7	46.3
Financial assets available for sale (AfS)	**20.9**	**160.7**
Gains or losses on financial investments	20.9	160.7
Loans, advances and securities (LaR)	**–120.1**	**–128.7**
Risk provisions	–120.1	–128.7
Gains or losses on financial investments	0.0	0.0
Financial liabilities measured at amortised cost (LaC)	**–**	**–**

The gains/losses from the fair value measurement of the AfS financial instruments in the amount of EUR 133.5 million (previous year: EUR 161.7 million) are reported, without an impact on profit or loss, in the revaluation reserve within equity.

(60) Derivatives 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.

Volumes

	Nominal value		Positive fair value	Negative fair value
EUR millions	**2017**	**2016**	**2017**	**2017**
Interest rate risks	**8,590.0**	**11,950.0**	**13.3**	**570.1**
Interest-rate swaps	8,570.0	11,925.0	13.3	569.4
Options on interest-rate swaps	20.0	25.0	–	0.7
Currency risks	**22.8**	**35.0**	**0.1**	**0.1**
Forward exchange transactions	22.8	35.0	0.1	0.1
Total	**8,612.8**	**11,985.0**	**13.4**	**570.2**

EUR 8,125.0 million (previous year: EUR 9,245.0 million) of the nominal values of interest-rate swaps relate to portfolio hedges. The rest relates to hedging relationships, which are no longer included in hedge accounting.

In accordance with the European Market Infrastructure Regulation (EMIR), derivatives with negative market values of EUR 530.2 million and those with positive market values of EUR 9.9 million that are subject to clearing were offset against cash collateral saved or received.

The derivatives are attributable in their entirety to banks in the OECD.

Maturity breakdown

	Nominal value			
EUR millions	**Interest rate risks**		**Currency risks**	
Residual maturities	**2017**	**2016**	**2017**	**2016**
Up to 3 months	920.0	510.0	6.1	15.3
More than 3 months up to 1 year	400.0	4,150.0	16.7	19.7
More than 1 year up to 5 years	3,650.0	4,550.0	–	–
More than 5 years	3,620.0	2,740.0	–	–
Total	**8,590.0**	**11,950.0**	**22.8**	**35.0**

Disclosures relating to the risk situation

(61) Risks from financial instruments

The disclosures in the notes supplement the notes on the DKB Group's risk management and the qualitative economic disclosures, which are presented in the risk report. Their aim is to help provide a more detailed insight into the structure of the risks incurred.

Development of counterparty default risks
The maximum credit risk breaks down as follows:

EUR millions	2017	2016
Cash reserves	1,742.8	1,428.6
Loans and advances to banks	4,601.6	5,365.5
Loans and advances to clients	64,195.3	62,779.5
Financial investments	5,832.2	5,651.1
Derivatives	3.6	4.3
Contingent liabilities	749.2	831.5
Irrevocable commitments	3,250.6	2,692.4
Total	**80,375.3**	**78,752.9**

As a result of the strategy-compliant growth in the client business, the loans and advances to clients rose by EUR 1.4 billion. The expansion of the client business is concentrated in the infrastructure and corporate clients segments.

The increase in the cash reserve by EUR 314.2 million and the decrease in loans and advances to banks of EUR 763.9 million result from the DKB Group's operational liquidity management.

The change in the breakdown to rating scores of the maximum credit risk of assets that are not overdue and not impaired is as follows:

EUR millions	2017	2016
Rating 1–9	**76,419.7**	**74,091.0**
Cash reserves	1,742.8	1,428.6
Loans and advances to banks	4,601.6	5,365.5
Loans and advances to clients	60,390.9	58,323.3
Financial investments	5,832.2	5,561.1
Derivatives	3.6	4.3
Contingent liabilities	717.7	788.6
Irrevocable commitments	3,130.9	2,529.6
Rating 10–12	**2,280.1**	**2,576.2**
Loans and advances to clients	2,185.3	2,434.5
Contingent liabilities	21.5	26.8
Irrevocable commitments	73.3	114.9
Rating 13–15	**796.5**	**903.7**
Loans and advances to clients	758.3	885.7
Contingent liabilities	2.8	7.1
Irrevocable commitments	35.4	10.9
Default categories (rating 16–18)	**144.9**	**150.1**
Loans and advances to clients	128.4	121.1
Contingent liabilities	7.1	8.3
Irrevocable commitments	9.4	20.7
Total	**79,641.2**	**77,721.0**

In rating classes 1–9, the maximum credit risk rose by EUR 2.3 billion. This predominantly reflects 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		Eligible collateral	
EUR millions	**2017**	**2016**	**2017**	**2016**
Loans and advances to clients	**315.4**	**647.0**	**135.8**	**440.6**
Up to 1 month	110.4	410.1	21.0	271.1
More than 1 month up to 3 months	117.7	145.1	72.3	117.7
More than 3 months up to 1 year	55.2	62.7	33.7	49.6
More than 1 year	32.1	29.1	8.8	2.2
Loans and advances to banks	**–**	**–**	**–**	**–**
Financial investments	**–**	**–**	**–**	**–**
Derivatives	**–**	**–**	**–**	**–**
Contingent liabilities	**–**	**–**	**–**	**–**
Irrevocable commitments	**1.6**	**16.3**	**–**	**–**
Up to 1 month	1.1	16.1	–	–
More than 1 month up to 3 months	0.5	0.2	–	–
More than 3 months up to 1 year	0.0	–	–	–
Total	**317.0**	**663.3**	**135.8**	**440.6**

The largest share, i. e. 72 % 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 slightly above that of the previous year:

	Maximum credit risk		Eligible collateral	
EUR millions	**2017**	**2016**	**2017**	**2016**
Loans and advances to clients	417.0	367.9	100.9	148.3
Loans and advances to banks	–	–	–	–
Financial investments	–	–	–	–
Derivatives	–	–	–	–
Contingent liabilities	0.1	0.7	–	–
Irrevocable commitments	–	–	–	–
Total	**417.1**	**368.6**	**100.9**	**148.3**

The loss allowances – comprising the specific loan loss allowances and provisions – decreased by EUR 121.2 million to EUR 269.7 million on account of consumption.

Portfolio valuation allowances of EUR 99.3 million (previous year: EUR 63.8 million) were recognised for receivables not impaired. In addition, provisions of EUR 3.2 million (previous year: EUR 2.8 million) were created at the 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 put the borrower in a position where they can meet their 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. Among others, modifications to the term, interest rate and repayment schedule count as forbearance measures, as do debt waivers or the capitalisation of arrears.

The forborne exposure has developed as follows:

EUR millions	**2017**	**2016**
Loans and advances to clients	827.7	531.0
Contingent liabilities	12.5	10.6
Irrevocable commitments	15.0	19.5
Total	**855.2**	**561.1**

Presentation of market price risks

The correlated total market price risk is based on a holding period of 250 days, is factored into the risk-bearing capacity statement and is limited. The market price risks of the banking book (without custody account-A) are not reported separately and limited.

The market price risks by risk factors for the bank as a whole are represented as follows:

	Compared to 2017			Compared to 2016		
EUR millions	**31.12.2017**	**Maximum**	**Minimum**	**31.12.2016**	**Maximum**	**Minimum**
Interest	297.9	330.2	98.1	181.1	461.6	122.6
Equities	34.5	87.2	33.9	86.1	111.5	73.1
Credit spread	17.3	23.3	14.7	16.8	25.6	16.1
Foreign currency	6.7	7.4	5.8	6.4	8.4	0.1
Volatility	0.0	0.0	0.0	0.0	0.0	0.0
Correlated total risk	**319.5**	**350.9**	**102.8**	**218.8**	**481.6**	**186.6**

The increase in risk capital requirements for all market price risks is primarily attributable to the change in the interest rate risk calculation from internal to external interest rates in December 2017. The risk capital requirement for the interest rate factor was also influenced by this change, resulting in an increase of EUR 116.8 million compared to the previous year.

The decline in risk capital requirements for the share factor results from the absence of several strong market data movements from the 250-day market data history and is additionally supported by the sale of all shares in DKB North America Fund TNL.

The securities portfolio has the following structure as at 31 December 2017:

Market value	Banks		Non-banks		Public sector issuers		Total	
EUR millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Bonds	1,768.4	1,605.0	321.4	303.3	3,742.4	3,742.8	**5,832.2**	**5,651.1**
Funds	–	–	141.5	164.7	–	–	**141.5**	**164.7**
Equities	–	–	–	–	–	–	**–**	**–**
Total	**1,768.4**	**1,605.0**	**462.9**	**468.0**	**3,742.4**	**3,742.8**	**5,973.7**	**5,815.8**

The securities portfolio increased by EUR 0.2 billion to strengthen the regulatory liquidity portfolio in accordance with Basel III / CRD IV. The securities primarily comprise 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 breakdown of the securities portfolio by market value changed as follows:

	2017		2016	
	EUR millions	%	EUR millions	%
Germany	4,145.3	69.4	4,092.0	70.4
Europe/EU	1,543.7	25.9	1,456.2	25.0
Europe/Non-EU	162.8	2.7	136.3	2.3
USA	25.4	0.4	34.8	0.6
Other	96.5	1.6	96.5	1.7
Total	**5,973.7**	**100.0**	**5,815.8**	**100.0**

Presentation of liquidity risks
The liabilities of the DKB Group increased in 2017 by EUR 1.0 billion. The change results in particular from the increase in liabilities to clients by EUR 0.5 billion and securitised liabilities by EUR 0.3 billion. The distribution of the liabilities of the DKB Group by contractual maturities was structured as follows as at 31 December 2017:

EUR millions	2017	2016
On demand	**44,196.9**	**40,065.3**
Bank loans and overdrafts	251.6	67.0
Liabilities to clients	43,945.3	39,998.3
Up to 3 months	**5,215.1**	**8,610.7**
Bank loans and overdrafts	377.0	345.9
Liabilities to clients	4,276.0	8,191.4
Securitised liabilities	526.4	46.6
Derivatives	19.6	13.6
Subordinated capital	16.1	13.2

EUR millions	2017	2016
More than 3 months up to 1 year	**1,501.4**	**1,869.2**
Bank loans and overdrafts	1,009.3	1,221.8
Liabilities to clients	396.5	318.4
Securitised liabilities	92.5	210.0
Derivatives	0.1	96.0
Subordinated capital	3.0	23.0
From 1 to 5 years	**8,437.7**	**8,283.2**
Bank loans and overdrafts	4,402.9	4,572.2
Liabilities to clients	2,417.7	1,512.6
Securitised liabilities	1,464.2	1,997.0
Derivatives	14.1	57.6
Subordinated capital	138.8	143.8
More than 5 years	**14,334.0**	**14,131.2**
Bank loans and overdrafts	8,340.3	8,303.1
Liabilities to clients	2,895.6	3,417.3
Securitised liabilities	2,642.0	2,205.4
Derivatives	6.1	5.4
Subordinated capital	450.0	200.0
Indefinite maturity	**4,382.0**	**4,067.5**
Subordinated capital	76.7	26.8
Provisions	164.3	143.3
Other liabilities	141.1	373.5
Contingent liabilities	749.3	831.5
Irrevocable commitments	3,250.6	2,692.4
Total	**78,067.1**	**77,027.1**

Other disclosures

(62) Subordinate assets

The subordinate assets in the amount of EUR 46.2 million (previous year: EUR 60.8 million) are included in full in the loans and advances to clients.

(63) Pfandbriefs (covered bonds) in circulation

Public-sector Pfandbriefs

	Nominal value		Present value		Risk-adjusted present value[1]	
EUR millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Total amount of the cover pools[2]	9,057.7	8,994.8	9,882.9	10,020.2	**8,681.5**	**8,809.3**
Total amount of Pfandbriefs in circulation	3,586.0	4,158.9	3,973.0	4,674.0	**3,551.7**	**4,183.4**
	5,471.7	**4,835.9**	**5,909.9**	**5,346.2**	**5,129.8**	**4,625.9**
Surplus cover	**152.6 %**	**116.3 %**	**148.8 %**	**114.4 %**	**144.4 %**	**110.6 %**

[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 2017, 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.

EUR millions	Public-sector Pfandbriefs 2017	Public-sector Pfandbriefs 2016	Cover funds[1] 2017	Cover funds[1] 2016
Residual maturities and fixed interest periods				
Up to 6 months	627.5	366.0	489.2	448.8
From 6 to 12 months	142.0	261.9	540.4	411.1
From 12 months to 18 months	381.0	627.5	585.3	417.2
From 18 months to 2 years	40.0	142.0	452.5	518.7
From 2 to 3 years	75.5	421.0	982.0	1,134.4
From 3 years up to 4 years	72.0	75.5	854.5	962.1
From 4 to 5 years	520.0	72.0	809.6	794.1
From 5 years up to 10 years	1,350.0	1,820.0	2,707.7	2,718.0
More than 10 years	378.0	373.0	1,636.5	1,590.4
Total	**3,586.0**	**4,158.9**	**9,057.7**	**8,994.8**

[1] Including further cover assets in accordance with Sections 19 (1) and 20 (2) of the German Covered Bond Act (PfandBG).

Mortgage Pfandbriefs

EUR millions	Nominal value 2017	Nominal value 2016	Present value 2017	Present value 2016	Risk-adjusted present value[1] 2017	Risk-adjusted present value[1] 2016
Total amount of the cover pools[2]	8,336.9	8,492.4	9,360.3	9,727.6	8,329.4	8,701.5
Total amount of Pfandbriefs in circulation	4,841.1	4,902.4	5,424.0	5,620.3	4,634.9	4,741.3
	3,495.8	**3,590.0**	**3,936.3**	**4,107.3**	**3,694.5**	**3,960.2**
Surplus cover	**72.2 %**	**73.2 %**	**72.6 %**	**73.1 %**	**79.7 %**	**83.5 %**

[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 2017, there were no mortgage Pfandbriefs in the DKB Group's own holdings.

	Mortgage Pfandbriefs		Cover funds[1]	
EUR millions	2017	2016	2017	2016
Residual maturities and fixed interest periods				
Up to 6 months	65.0	51.0	580.2	594.8
From 6 to 12 months	145.5	85.3	365.3	516.1
From 12 months to 18 months	41.0	65.0	432.6	463.2
From 18 months to 2 years	170.3	145.5	423.0	415.5
From 2 to 3 years	155.8	211.3	778.0	885.8
From 3 years up to 4 years	771.0	155.8	1,056.2	782.1
From 4 to 5 years	165.0	771.0	859.3	1,008.2
From 5 years up to 10 years	2,597.5	2,187.5	2,776.4	2,889.0
More than 10 years	730.0	1,230.0	1,066.0	937.7
Total	**4,841.1**	**4,902.4**	**8,337.0**	**8,492.4**

[1] Including further cover assets in accordance with Sections 19 (1) and 20 (2) of the German Covered Bond Act (PfandBG).

(64) Cover for Pfandbriefs in circulation

EUR millions	2017	2016
Public sector Pfandbriefs and mortgage Pfandbriefs	8,427.1	9,061.3
Cover assets included in:		
Loans and advances to banks	0.0	0.0
Loans and advances to clients	16,764.6	16,827.2
Bonds and other fixed-income securities	630.0	660.0
Surplus cover	**8,967.5**	**8,425.9**

Summary of further cover

Mortgage Pfandbriefs (Section 28 (1), Nos. 4, 5, 6, 8 PfandBG)

EUR millions	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	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Federal Republic of Germany	0.0	0.0	0.0	0.0	330.0	360.0	330.0	360.0
Total	**0.0**	**0.0**	**0.0**	**0.0**	**330.0**	**360.0**	**330.0**	**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 as defined in Art. 129 of Regulation (EU) No. 575/2013 are not included in each case.

Public Pfandbriefs (Section 28 (1), Nos. 4, 5, 8 PfandBG)

EUR millions	Cover assets according to Section 20 (2), No. 1 PfandBG		Cover assets according to Section 20 (2), No. 2 PfandBG[1]		Total	
Country	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
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 as defined in Art. 129 of Regulation (EU) No. 575/2013 are not included in each case.

Receivables used to cover public Pfandbriefs by the type of debtor or the guaranteeing body and their location

EUR millions	Cover assets 2017	Cover assets 2016
Federal Republic of Germany	**9,057.7**	**8,994.8**
Country	52.9	55.0
Regional authorities	1,023.3	981.0
Local authorities	7,930.5	6,046.6
Other debtors	51.0	1,912.3
Further cover	–	–
Total	**9,057.7**	**8,994.8**

Receivables used to cover mortgage Pfandbriefs by size class

EUR millions	Cover assets 2017	Cover assets 2016
Up to EUR 300,000	3,133.2	3,303.9
From EUR 300,000 to EUR 1 million	614.2	634.3
From EUR 1 million to EUR 10 million	3,098.9	2,916.5
More than EUR 10 million	1,160.6	1,277.7
Further cover	330.0	360.0
Total	**8,336.9**	**8,492.4**

Receivables used to cover mortgage Pfandbriefs by country in which the real estate collateral is located, and by usage type

EUR millions	Cover assets 2017	Cover assets 2016
Federal Republic of Germany		
Apartments	871.9	952.6
Single-family houses	2,050.9	2,139.1
Multi-family houses	4,773.6	4,732.8
Buildings under construction not yet commercially viable	0.0	1.0
Building sites	5.6	0.3
Residential in total	**7,702.0**	**7,825.7**
Office buildings	55.1	55.4
Commercial premises	20.4	32.5
Industrial buildings	0.0	0.0
Other commercially used buildings	229.4	218.7
Commercial in total	**304.9**	**306.6**
Further cover	**330.0**	**360.0**
Total	**8,336.9**	**8,492.4**

(65) Further disclosures according to PfandBG

KPIs

EUR millions	KPIs		2017	2016
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 Pfandbriefs	91.8 %	91.3 %
		Public-sector Pfandbriefs	90.5 %	89.3 %
	Share of fixed-income securities in circulation	Mortgage Pfandbriefs	98.2 %	97.2 %
Section 28 (1), No. 9 PfandBG		Public-sector Pfandbriefs	88.9 %	89.5 %
Section 28 (1), No. 11 PfandBG	Volume-weighted average age of mortgage receivables in years		8.0	8.0
Section 28 (2), No. 3 PfandBG	Average weighted loan-to-value ratio of the mortgage used for cover purposes in accordance with Section 14		52.8 %	53.3 %

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; hence 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 foreclosures or receivership proceedings. There are no interest arrears. No foreclosures were conducted in the financial year and no land was taken over to prevent losses (Section 28 (2), No. 4 PfandBG).

(66) Assets and liabilities in foreign currency

EUR millions	2017	2016
Foreign currency assets	**232.1**	**260.6**
USD	190.0	209.5
CHF	28.6	35.7
Other currencies	13.5	15.4
Foreign currency liabilities	**173.3**	**193.5**
USD	172.6	189.9
Other currencies	0.7	3.6

(67) 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:

EUR millions	2017	2016
Loans and advances to clients	28,100.7	27,272.4
Financial investments	5,466.8	5,244.6
Total	**33,567.5**	**31,517.0**

These transactions are performed at customary market conditions.

The transferred financial assets are counterbalanced by liabilities in the amount of EUR 9,596.0 million (previous year: EUR 10,408.8 million).

(68) 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.

(69) 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.

The following table shows the reconciliation of gross amounts before netting to net amounts after netting and the amounts for existing netting rights that do not meet the balance sheet netting criteria separately for all financial assets and liabilities recognised that are subject to an enforceable bilateral netting agreement. These agreements provide for an offsetting right, if predefined conditions occur (for example, 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 the 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	
EUR millions	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Offsetting of current accounts in accordance with Section 10 RechKredV (LaR)	**81.5**	**61.5**	**78.5**	**54.7**	**3.0**	**6.8**
Derivative transactions (HfT)	**13.4**	**4.8**	**9.9**	**0.5**	**3.5**	**4.3**
Assets held for trading/positive market values from derivative financial instruments (hedge accounting)	13.4	4.8	9.9	0.5	3.5	4.3
Other financial instruments (LaR)	**1,071.4**	**3,019.9**	**–**	**–**	**1,071.4**	**3,019.9**
Loans and advances to banks	1,071.4	3,019.9	–	–	1,071.4	3,019.9
Total	**1,166.3**	**3,086.2**	**88.4**	**55.2**	**1,077.9**	**3,031.0**

EUR millions	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	
	2017	2016	2017	2016	2017	2016	2017	2016
Offsetting of current accounts in accordance with Section 10 RechKredV (LaR)	**3.0**	**6.8**	**–**	**–**	**–**	**–**	**3.0**	**6.8**
Derivative transactions (HfT)	**3.5**	**4.3**	**3.0**	**1.4**	**–**	**–**	**0.5**	**2.9**
Assets held for trading/positive market values from derivative financial instruments (hedge accounting)	3.5	4.3	3.0	1.4	–	–	0.5	2.9
Other financial instruments (LaR)	**1,071.4**	**3,019.9**	**492.5**	**688.7**	**–**	**–**	**578.9**	**2,331.2**
Loans and advances to banks	1,071.4	3,019.9	492.5	688.7	–	–	578.9	2,331.2
Total	**1,077.9**	**3,031.0**	**495.5**	**690.1**	**–**	**–**	**582.4**	**2,340.9**

Offset financial liabilities and financial liabilities with underlying netting or similar arrangements

EUR millions	Book value before offsetting		Offset amount		Recognised net book value after offsetting	
	2017	2016	2017	2016	2017	2016
Offsetting of current accounts in accordance with Section 10 RechKredV (LaR)	**124.2**	**107.6**	**78.5**	**54.7**	**45.7**	**52.9**
Derivative transactions (HfT)	**570.2**	**1,007.4**	**530.2**	**834.7**	**40.0**	**172.7**
Liabilities held for trading/negative market values from derivative financial instruments (hedge accounting)	570.2	1,007.4	530.2	834.7	40.0	172.7
Other financial instruments (LaR)	**492.5**	**688.7**	**–**	**–**	**492.5**	**688.7**
Liabilities to banks	492.5	688.7	–	–	492.5	688.7
Total	**1,186.9**	**1,803.7**	**608.7**	**889.4**	**578.2**	**914.3**

EUR millions	Recognised net book value after offsetting		Amounts that are subject to other netting arrangements: Assets 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Offsetting of current accounts in accordance with Section 10 RechKredV (LaR)	**45.7**	**52.9**	**–**	**–**	**–**	**–**	**45.7**	**52.9**
Derivative transactions (HfT)	**40.0**	**172.7**	**3.0**	**1.4**	**–**	**–**	**37.0**	**171.3**
Liabilities held for trading/negative market values from derivative financial instruments (hedge accounting)	40.0	172.7	3.0	1.4	–	–	37.0	171.3
Other financial instruments (LaR)	**492.5**	**688.7**	**492.5**	**688.7**	**–**	**–**	**0.0**	**0.0**
Liabilities to banks	492.5	688.7	492.5	688.7	–	–	0.0	0.0
Total	**578.2**	**914.3**	**495.5**	**690.1**	**–**	**–**	**82.7**	**224.2**

(70) Leasing transactions

Finance leasing

As at 31 December 2017, 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:

EUR millions	2017	2016
Residual maturities		
Up to 1 year	15.6	15.1
From 1 to 5 years	59.4	49.7
More than 5 years	20.0	19.5
Total	**95.0**	**84.3**

In the financial year, minimum lease payments in the amount of EUR 14.5 million (previous year: EUR 15.4 million) were recognised as an expense.

(71) Fiduciary transactions

Fiduciary transactions break down as follows:

EUR millions	2017	2016
Trust assets	**10.8**	**11.0**
Loans and advances to clients	10.8	11.0
Trust liabilities	**10.8**	**11.0**
Liabilities to banks	10.8	11.0

(72) Contingent liabilities and other commitments

EUR millions	2017	2016
Contingent liabilities	**752.5**	**833.3**
Liabilities from guarantees and indemnity agreements	749.2	831.5
Contingent liabilities from legal disputes	3.3	1.8
Other commitments	**3,250.6**	**2,692.4**
Irrevocable credit commitments	3,250.6	2,692.4
Total	**4,003.1**	**3,525.7**

(73) 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.

In addition, other financial obligations in the DKB Group result from the joint liability for loans of EUR 5.6 million (previous year: EUR 6.1 million), of which EUR 5.6 million (previous year: EUR 6.1 million) is due to non-consolidated affiliated 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 2017.

Furthermore, there are other financial obligations in the form of secured payment claims from the collection of contributions for the bank levy of EUR 11.9 million (previous year: EUR 8.4 million) and from the collection of contributions to the deposit guarantee fund of the Association of German Public Banks (VÖB) of EUR 7.4 million (previous year: EUR 3.9 million).

(74) 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.

(75) Shareholdings

Notes regarding 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 2017, DKB has the following associated companies:

Subsidiaries included in the consolidated financial statements

Name and registered headquarters	Capital share DKB in %	Equity EUR millions	Results EUR millions
DKB Finance GmbH, Berlin[1, 2]	100.0	12.4	–4.2
DKB Grund GmbH, Berlin[1, 2]	100.0	0.0	0.1
DKB Service GmbH, Potsdam[1, 2]	100.0	3.5	0.0
FMP Forderungsmanagement Potsdam GmbH, Potsdam[1, 3]	100.0	13.5	5.8
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin[1]	100.0	2.3	0.0
PROGES EINS GmbH, Berlin[1, 4]	100.0	0.5	0.0

[1] Preliminary annual financial statements 31.12.2017
[2] Profit transfer agreement and controlling agreement
[3] Controlling agreement
[4] Profit transfer agreement

Subsidiaries not included in the consolidated financial statements

Name and registered headquarters	Capital share DKB in %	Equity EUR millions	Results EUR millions
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich[1, 2, 3, 5]	94.5	–10.1	0.0
DKB Immobilien Beteiligungs GmbH, Potsdam[2, 5]	100.0	2.2	0.2
DKB Wohnen GmbH, Berlin[1, 2, 5]	94.5	0.0	0.0
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin[1, 2, 5]	100.0	2.5	0.0
GbR Olympisches Dorf, Potsdam[2, 5]	99.7	0.1	0.1
Melhoria Immobiliengesellschaft mbH, Potsdam[1, 2, 5]	100.0	3.1	0.0
Oberhachinger Bauland GmbH Wohnbau- und Erschließungsgesellschaft, Munich[2, 5]	86.0	–2.4	0.0
Potsdamer Immobiliengesellschaft mbH, Potsdam[2, 5]	100.0	0.0	0.0
PROGES DREI GmbH, Berlin[2, 5]	100.0	0.7	0.0
PROGES ENERGY GmbH, Berlin[2, 5]	100.0	0.7	0.3
PROGES Sparingberg GmbH, Berlin[2, 5]	100.0	0.1	–0.5
PROGES VIER GmbH, Berlin[4, 5]	100.0	0.2	0.1
PROGES ZWEI GmbH, Berlin[2, 5]	100.0	3.9	2.7
DKB Stiftung Liebenberg gGmbH, Löwenberger Land OT Liebenberg[2, 5, 6]	–	0.1	0.0
DKB Stiftung Schorssow UG, Schorssow[2, 5, 6]	–	0.0	0.0
DKB Stiftung – Vermögensverwaltungsgesellschaft mbH, Fürth[2, 5, 6]	–	0.0	0.0

[1] Profit transfer agreement and controlling agreement
[2] Annual financial statements 31.12.2016
[3] No actual negative assets are present.
[4] Annual financial statements 31.12.2015
[5] Financial statements according to HGB
[6] Control exercised by structured company of the Group

Other joint ventures

Name and registered headquarters	Capital share DKB in %	Equity EUR millions	Results EUR millions
AKG ImmoPlus GmbH, Berlin[2, 3]	50.0	0.5	N/A
German Biofuels GmbH, Pritzwalk[1, 3]	19.9	–7.7	1.2
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin[1, 3]	50.0	0.0	0.0
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin[1, 3]	47.0	–6.7	0.3

[1] Annual financial statements 31.12.2016
[2] Opening balance sheet 2017
[3] Financial statements according to HGB

Other shareholdings

Name and registered headquarters	Capital share DKB in %	Equity EUR millions	Results EUR millions
AQUILA Technische Entwicklungen GmbH, Schönhagen	16.1	N/A	N/A
Bau-Partner GmbH, Halle (Saale)[4, 11]	49.7	0.2	–0.6
Deutsche Life Science GmbH, Berlin[6, 11]	10.2	–18.1	0.7
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam[1, 11]	5.1	36.7	1.8
FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, München[7, 11]	14.0	4.8	0.0
GESO Gesellschaft für Sensorik, geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena[8, 11]	43.1	–0.4	0.0
JFA Verwaltung GmbH, Leipzig[2, 11]	10.7	–13.0	0.1
LEG Kiefernsiedlung Grundstücksgesellschaft b. R., Berlin[1, 11]	6.1	–3.4	0.3
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b. R., Berlin[1, 11]	7.0	–5.8	0.7
LEG Wohnpark Heroldplatz Grundstücksgesellschaft b. R., Berlin[1, 11]	7.2	–1.5	0.1
Mediport Venture Fonds Zwei GmbH, Berlin[5, 11]	53.8	–0.9	–1.1
Neue Novel Ferm Verwaltungs GmbH, Berlin[3, 11]	49.0	0.0	0.0
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin[3, 11]	49.0	4.0	N/A
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Hamburg[1, 11]	5.2	8.2	–0.4
Visa Inc., USA[9, 10]	< 1.0	32,760.0	6,699.0

[1] Annual financial statements 31.12.2016
[2] Annual financial statements 31.12.2015
[3] Prepared annual financial statements 31.12.2015
[4] Prepared annual financial statements 31.12.2010
[5] Prepared annual financial statements 31.12.2009
[6] Prepared annual financial statements 31.12.2008
[7] Annual financial statements 30.06.2017
[8] Annual financial statements 31.12.2012
[9] Annual financial statements 30.09.2017
[10] In USD, according to US GAAP
[11] Financial statements according to HGB

Structured companies not included in the consolidated financial statements

Name and registered headquarters	Capital share DKB in %	Equity/ Fund assets in EUR millions	Results EUR millions
DKB Asien Fonds TNL, Luxembourg[2, 3, 4]	86.1	21.5	0.0
DKB Europa Fonds TNL, Luxembourg[2, 3, 4]	86.4	40.7	0.8
DKB Pharma Fonds TNL, Luxembourg[2, 3, 4]	78.8	34.9	–0.2
DKB Teletech Fonds AL, Luxembourg[2, 3, 4]	93.0	23.1	-0.2
DKB Zukunftsfonds TNL, Luxembourg[2, 3, 4]	83.5	37.7	-0.2
BGV III FEEDER1 S.C.S. SICAV-FIS, Luxembourg[1, 3, 4]	16.7	45.6	18.0
DKB STIFTUNG for social commitment, Löwenberger Land OT Liebenberg[1, 5]	–	16.2	1.7

[1] Annual financial statements 31.12.2016
[2] Earnings figures as at 31.03.2017
[3] Financial statements in accordance with the International Standards on Auditing accepted for Luxembourg by the Commission de Surveillance du Secteur Financier.
[4] Fund assets reporting date 31.12.2017
[5] Financial statements according to 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.

(76) Bodies of Deutsche Kreditbank AG

Supervisory Board

Shareholders' representatives:

Dr Johannes-Jörg Riegler
Chair of the Supervisory Board
Chair of the Board of Management of Bayerische Landesbank (CEO)

Bernd Fröhlich
Chair of the Board of Management of Sparkasse Mainfranken Würzburg

Stefan Höck
(from 1 April 2017)
Deputy Head of the Department of State Investments and Real Estate Management, Bavarian State Ministry of Finance, Regional Development and Regional Identity

Michael Huber
Chair of the Board of Management of Sparkasse Karlsruhe Ettlingen

Marcus Kramer
Member of the Board of Management of Bayerische Landesbank

Walter Pache
Chair of the Board of Management of Sparkasse Günzburg-Krumbach
Independent financial expert

Michael Schneider
(until 31 March 2017)
Chair of the Board of Management of LfA Förderbank Bayern (retired)

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

Dr Edgar Zoller
Deputy Chair of the Board of Management of Bayerische Landesbank (Deputy CEO)

Employee representatives:

Bianca Häsen
Deputy Chair of the Supervisory Board
Employee
Deutsche Kreditbank AG

Michaela Bergholz
DBV representative
(Deutscher Bankangestellten Verband; German association of bank employees)

Christine Enz
DBV representative
(Deutscher Bankangestellten Verband; German association of bank employees)

Jörg Feyerabend
Employee
DKB Service GmbH

Jens Hübler
Executive employee
Deutsche Kreditbank AG

Frank Radtke
Employee
Deutsche Kreditbank AG

Frank Siegfried
Employee
Deutsche Kreditbank AG

Gunter Wolf
Employee
Deutsche Kreditbank AG

Honorary member:

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

Board of Management

Stefan Unterlandstättner
Chair of the Board of Management

Rolf Mähliß
Member of the Board of Management

Dr Patrick Wilden
(until 31 December 2017) member of the Board of Management

Alexander von Dobschütz
(from 1 January 2018) member of the Board of Management

Tilo Hacke
Member of the Board of Management

Thomas Jebsen
Member of the Board of Management

(77) Related parties

The DKB Group's related parties as specified in IAS 24 comprise the following groups:

– Sole shareholder (BayernLB)

– Non-consolidated subsidiaries

– Joint ventures

– Associated companies

– 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 a range of commercial relations with related parties. 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 transactions with related parties is shown below:

EUR millions	2017	2016
Loans and advances to banks	**1,071.4**	**3,019.9**
Parent company	1,071.4	3,019.9
Loans and advances to clients	**117.4**	**194.7**
Non-consolidated subsidiaries	77.5	154.8
Joint ventures	35.7	35.0
Other related companies	4.2	4.9
Risk provisions	**24.8**	**25.8**
Non-consolidated subsidiaries	1.8	2.9
Joint ventures	23.0	22.9
Assets held for trading	**3.6**	**4.3**
Parent company	3.6	4.3
Financial investments	**30.3**	**30.3**
Other related companies	30.3	30.3
Other assets	**151.7**	**121.9**
Parent company	146.1	120.9
Non-consolidated subsidiaries	5.6	1.0
Joint ventures	0.0	–
Other related companies	0.0	0.0
Liabilities to banks	**771.6**	**933.1**
Parent company	492.5	688.7
Other related companies	279.1	244.4
Liabilities to clients	**96.1**	**66.6**
Non-consolidated subsidiaries	36.0	35.7
Joint ventures	1.3	1.0
Other related companies	58.8	29.9

EUR millions	2017	2016
Securitised liabilities	**48.7**	**25.6**
Parent company	11.5	0.5
Other related companies	37.2	25.1
Trading liabilities	**0.8**	**1.2**
Parent company	0.8	1.2
Negative fair values from derivative financial instruments (hedge accounting)	**2.2**	**0.1**
Parent company	2.2	0.1
Provisions	**0.0**	**0.0**
Non-consolidated subsidiaries	0.0	0.0
Other related companies	0.0	0.0
Other liabilities	**10.8**	**10.2**
Parent company	0.6	0.5
Non-consolidated subsidiaries	1.0	3.1
Joint ventures	0.1	0.2
Other related companies	9.1	6.4
Subordinated capital	**561.2**	**258.9**
Parent company	561.2	258.9
Contingent liabilities	**0.9**	**0.9**
Non-consolidated subsidiaries	0.9	0.9
Other related companies	0.0	0.0
Other commitments	**4.7**	**3.7**
Non-consolidated subsidiaries	1.3	0.5
Other related companies	3.4	3.2

Other commitments only contain irrevocable credit commitments.

Loans, advances and deposits

Transactions with related parties include loans, advances and deposits to members of the Board of Management and Supervisory Board of DKB AG as well as members of the Board of Management and Supervisory Board of BayernLB. Loans were granted at standard market conditions and terms.

EUR millions	2017	2016
Loans and advances[1]		
Members of the Board of Management of DKB[2]	2.7	2.7
Members of the Supervisory Board of DKB[2]	0.9	1.0
Members of the Board of Management of BayernLB[2]	0.0	0.1
Members of the Supervisory Board of BayernLB[2]	0.3	–

[1] Multiple entries are possible.
[2] The loans and advances are completely collateralised.

EUR millions	2017	2016
Contributions[1]		
Members of the Board of Management of DKB	2.7	1.8
Members of the Supervisory Board of DKB	2.4	1.7
Members of the Board of Management of BayernLB	2.6	1.9
Members of the Supervisory Board of BayernLB	1.4	1.6

[1] Multiple entries are possible.

Salaries of the members of the Board of Management and the Supervisory Board of the DKB Group

EUR millions	2017	2016
Members of the Board of Management of DKB	**2.7**	**2.7**
Current employee benefits	2.1	2.1
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**	**0.5**
Current employee benefits	0.5	0.5
Former members of the Board of Management of DKB and their surviving dependants	**0.7**	**0.8**
Pension reserves formed for members of the Board of Management of DKB	**17.5**	**21.7**
Pension reserves formed for former members of the Board of Management of DKB and their surviving dependants	**20.6**	**16.6**

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.

(78) 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 of the fund. The scope of the investment funds with which the DKB Group maintains business relationships is determined by their fund assets, which amounted to EUR 203.5 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 6.9 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 26.8 million as at 31 December 2016.

Assets and liabilities recorded in the balance sheet from shares in non-consolidated structured companies

	Investment funds	Other financing	Total
EUR millions	**2017**	**2017**	**2017**
Assets			
Loans and advances to clients	–	10.0	**10.0**
Financial investments	141.5	–	**141.5**
Total	**141.5**	**10.0**	**151.5**
Liabilities			
Liabilities to clients	–	1.8	**1.8**
Other liabilities	–	0.0	**0.0**
Total	**–**	**1.8**	**1.8**

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.

(79) Seats held on statutory supervisory bodies of major corporations or financial institutions

As at the balance sheet reporting day, 31 December 2017, the following seats were held by members of the Board of Management 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
(until 31.12.2017 member of the Board of Management)
VÖB Service GmbH, Bonn (end of activity 22.11.2017)

Alexander von Dobschütz
(from 01.01.2018 member of the Board of Management)
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main

(80) Auditor's fee

The auditor's fee recognised in the financial year as an expense is composed as follows:

EUR millions	2017[1]	2016[1]
Audit services for the financial statements	3.5[2]	2.6[2,3]
Other auditing services	0.0	0.0[3]
Tax consultancy services	0.2	0.2
Other services	1.9	0.8
Total	**5.6**	**3.6**

[1] Excluding VAT (net)
[2] Of which EUR 0.2 million for the previous year
[3] Adjustment of the previous year's figures based on the changes to IDW HFA 36

The auditor's fee includes, in particular, the audit of the consolidated financial statements and the annual financial statements of DKB, as well as the annual financial statements of other Group companies, including statutory contract extensions and auditing focal points agreed with the Supervisory Board. In addition, the review of the half-year financial report and project-related audits in the areas of IT and IFRS 9 were integrated into the audit report.

Other audit services (EUR 15 thousand) mainly relate to investigations in connection with our green bond issue. In addition, tax advisory services, which include support in the preparation of tax returns and tax advice on individual matters, were provided. Other services relate to quality assurance support services for internal DKB projects to implement legal and regulatory requirements.

(81) Employees

Average employee capacities during the financial year:

	2017	2016
Full-time staff (excluding apprentices)	**2,381**	**2,355**
Female	1,139	1,162
Male	1,242	1,193
Part-time staff (excluding apprentices)	**652**	**625**
Female	554	536
Male	98	89
Apprentices	**16**	**12**
Female	7	5
Male	9	7
Total	**3,049**	**2,992**

The working hours of the part-time staff were converted to those of full-time staff.

(82) Shareholders

DKB is a wholly owned subsidiary of BayernLB with 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 26 February 2018 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 the consolidated financial statements.

Berlin, 26 February 2018

Deutsche Kreditbank AG
The Board of Management

Stefan Unterlandstättner **Rolf Mähliß** **Alexander von Dobschütz**

Tilo Hacke **Thomas Jebsen**

Additional information

Responsibility statement by the Board of Management

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, 26 February 2018

Deutsche Kreditbank AG
The Board of Management

Stefan Unterlandstättner | **Rolf Mählïß** | **Alexander von Dobschütz**

Tilo Hacke | **Thomas Jebsen**

Independent auditor's report

To Deutsche Kreditbank Aktiengesellschaft, Berlin

Report on the audit of the consolidated financial statements and combined management report

Audit opinions

We have audited the consolidated financial statements of Deutsche Kreditbank Aktiengesellschaft, Berlin – comprising the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity for the financial year from 1 January 2017 to 31 December 2017 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the combined management report of Deutsche Kreditbank Aktiengesellschaft for the financial year from 1 January 2017 to 31 December 2017. In accordance with German law, we have not examined the content of the corporate governance statement contained in the "Non-financial performance indicators" section of the combined management report.

In our opinion based on the findings of our audit

- the enclosed consolidated annual financial statements are in all material respects 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 as at 31 December 2017 and its earnings situation for the financial year from 1 January 2017 until the end of 31 December 2017 in accordance with these requirements and
- the combined management report provides a suitable understanding of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the above-mentioned declaration on corporate governance.

In accordance with Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections against the correctness of the consolidated financial statements and the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated annual financial statements and the combined management report in accordance with Section 317 HGB, EU Auditor Regulation (No. 537/2014; hereinafter "EU-APrVO") and the German generally accepted accounting standards laid down by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW). Our responsibility in accordance with these regulations and principles is further described in the section "Responsibility of the auditor for the audit of the consolidated financial statements and combined management report" of our audit opinion. We are independent of the Group company in accordance with European and German commercial and professional legal regulations and have met our other German professional duties in accordance with these requirements. In addition, we declare in accordance with Article 10 (2) letter f) of EU-APrVO that we have not provided any prohibited non-audit services pursuant to Article 5 (1) of EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements and combined management report.

Particularly significant audit issues arising from the audit of the consolidated financial statements

Particularly significant audit issues are those which, in our opinion and due discretion, were most significant to our audit of the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017. These issues have been considered in connection with our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these issues.

Appropriateness of the specific loan loss allowances on loans and advances to clients in the large-scale lending business

Please refer to Note 9 "Risk provisions" in the notes to the consolidated financial statements for information on the accounting and measurement methods applied. With regard to the management of problematic exposures, we refer to the section "Counterparty default risks" of the combined management report.

RISK FOR THE FINANCIAL STATEMENTS

Deutsche Kreditbank AG reports loans and advances to clients in the consolidated financial statements as at 31 December 2017 in the amount of EUR 64,552 million, which corresponds to around 83 % of the balance sheet total. Of this, approximately 79 % is attributable to the large-scale commercial lending business, which includes clients in the strategic business areas "corporate clients" and "infrastructure", including major financing in agriculture as well as project and special financing. To manage the counterparty default risk in the lending business, the bank recorded valuation allowances of EUR 357 million as at 31 December 2017, of which EUR 258 million related to specific valuation allowances and EUR 99 million to portfolio valuation allowances.

As part of the provisioning for credit risks, the determination of specific valuation allowances in particular requires forward-looking estimates of expected recoveries from interest and redemption claims, which are based on value-determining parameters and assumptions and are subject to a high degree of discretion. The discretionary decisions have a significant influence on the amount of the required valuation allowance. On the one hand, the parameters used in the calculation may not have been adequately determined; on the other hand, the assumptions made with regard to key value-determining parameters such as the exposure strategy, the development of interest and repayment capacities or the overall prospects of success of clients' restructuring concepts may not have been adequately derived. It was therefore of particular importance in our audit to obtain evidence that the value-determining parameters were determined appropriately on the whole and that the assumptions made were derived appropriately.

OUR APPROACH TO THE AUDIT

Using the risk-based audit approach, we based our audit opinion both on control-based audit procedures and on meaning-related audit procedures. As a result, we performed the following audit procedures with, among others, the assistance of KPMG credit risk specialists:

As a first step, we gained an understanding of the development of the loan portfolio, the associated counterparty default risks, the methods and models used and the internal control system with regard to the identification, management, monitoring and evaluation of counterparty default risks in the loan portfolio as a whole.

In order to assess the adequacy of the internal control system, we conducted surveys and inspected the relevant documents. We then satisfied ourselves of the implementation and effectiveness of the relevant controls, which are intended to ensure compliance with the system for determining the specific loan loss allowance and the appropriate derivation of the value-determining assumptions and parameters. For the IT systems and procedures used in this context, we examined the appropriateness and effectiveness of system and application control with the involvement of our IT specialists and assessed the validation, sensitivity and scenario analyses carried out by the company, as well as proofs of representativeness.

Finally, on the basis of a deliberate selection of loan commitments from the population of the large-scale lending business, we were convinced that the parameters on which the valuation of the loans was based were adequately determined and that the assumptions for loan commitments of this selection were derived in an appropriate manner. We assessed the reliability of the underlying selection criteria on the basis of a representative sample of individual cases. Where specific loan loss allowances had to be recognised in these cases, we have also computed them and verified their correct recognition in the accounting system.

OUR CONCLUSIONS

The assumptions and parameters on which the calculation of specific loan loss allowances on loans and advances to clients in the large-scale lending business is based were selected appropriately and used in estimating the expected recoveries in accordance with the accounting principles to be applied for the measurement of specific loan loss allowances.

Miscellaneous information

The legal representatives are responsible for the miscellaneous information. Miscellaneous information includes:

- the corporate governance statement and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the combined management report and our audit opinion.

Our opinion on the consolidated financial statements and combined management report does not extend to miscellaneous information, and accordingly we do not express an audit opinion or any other form of conclusion on such information.

In connection with our audit, we have the responsibility to read the miscellaneous information and, in doing so, to assess whether the miscellaneous information

- is materially inconsistent with the consolidated financial statements, combined management report or the findings of our audit, or
- otherwise appears materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representatives are responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for the presentation of a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls they have determined as necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether intentional or not.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, where relevant, matters relating to the continuation of the company's activities. In addition, they are responsible for accounting on the basis of the going-concern accounting principle, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

The legal representatives are responsible for the preparation of the combined management report, which as a whole provides a suitable view of the Group's position, is consistent in all material respects with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (and such systems) which they have deemed necessary to enable the preparation of a combined management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

Responsibility of the auditor for the audit of the consolidated financial statements and combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether intended or not, and whether the combined management report as a whole provides a suitable view of the Group's position and is in accordance, in all material respects, with the consolidated financial statements and the findings of our audit, complies with the requirements of the German legal regulations and suitably presents the opportunities and risks of future development, and to issue an audit report that includes our audit opinions on the consolidated financial statements and combined management report.

Sufficient assurance is a high degree of certainty, but no guarantee that an audit conducted in accordance with Section 317 HGB and EU-APrVO in accordance with the generally accepted standards for the audit of financial statements laid down by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements may result from infringements or inaccuracies and are considered material if it could reasonably be expected that they will influence the financial decisions of the users of these financial statements, made individually or collectively on the basis of these consolidated financial statements and combined management report.

During the audit, we exercise due discretion and maintain a critical attitude. In addition:

- we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and combined management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the precautions and measures relevant to the audit of the combined management report for planning audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- we assess the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values and related disclosures presented by the legal representatives.

- we draw conclusions about the appropriateness of the going-concern accounting principle applied by the legal representatives and, based on the evidence obtained, whether there is a material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue its activities as a going concern. If we conclude that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the combined management report in our audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of evidence obtained by the date of our audit opinion. However, future events or circumstances may prevent the Group from continuing its business activities.

- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying business transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB.

- we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the combined management report. We are responsible for the management, supervision and execution of the audit of the consolidated financial statements. We bear the sole responsibility for our audit opinions.

- we assess the consistency of the combined management report with the consolidated financial statements, its compliance with the law and the picture it conveys of the Group's position.

- we perform audit procedures on the forward-looking statements presented by the legal representatives in the combined management report. On the basis of sufficient suitable audit evidence, we follow up on the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not express an independent opinion on these forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system which we identify during our audit.

We make a statement to those responsible for the monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other matters that can reasonably be expected to affect our independence and the safeguards taken to that end.

From the matters that we have discussed with those responsible for supervision, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions exclude public disclosure of the facts.

Miscellaneous legal and other legal requirements

Other disclosures in accordance with Article 10 of EU-APrVO

We were elected as Group auditors by the Annual General Meeting on 9 March 2017. We were appointed by the Supervisory Board on 14 July 2017. In compliance with the transitional provision of Article 41 (1) of EU-APrVO, we have been the Group auditor of Deutsche Kreditbank Aktiengesellschaft without interruption since the 1990 financial year.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee under Article 11 of EU-APrVO (Audit Report).

Responsible auditor

The auditor responsible for the audit is Mr Ulrich Bergmann.

Berlin, 26 February 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft [Audit firm]

Signed Bergmann	Signed Thiel
Auditor	Auditor

Multi-year overview

Earnings indicators

EUR millions	2017	2016	2015	2014	2013
Net interest income	935.2	795.1	790.4	670.2	621.1
Risk provisions	127.3	128.7	143.8	134.4	133.5
Net commission income	–39.2	6.9	–1.3	–4.2	–20.4
Administrative expenses	446.3	417.0	376.8	368.6	338.6
Profit/loss before taxes	264.7	331.2	236.0	150.5	156.8
Cost/income ratio (CIR) in %	50.8	45.8	48.0	54.9	52.7
Return on equity (RoE) in %	9.6	12.4	9.6	6.1	6.4

Balance sheet figures

EUR millions	2017	2016	2015	2014	2013
Total assets	77,322.9	76,522.3	73,428.8	71,587.2	68,722.2
Equity	3,255.5	3,019.1	2,945.7	2,764.3	2,717.9
Core capital ratio in %	8.8	8.9	8.2	8.7	8.2
Client receivables	64,552.2	63,228.3	61,582.1	59,609.5	57,759.2
Client deposits	53,931.0	53,438.0	48,558.2	47,319.0	44,082.1

Client indicators

	2017	2016	2015	2014	2013
Number of clients	3,761,498	3,518,055	3,250,968	3,071,434	2,849,933
Number of retail current accounts (DKB-Cash)	2,746,526	2,501,689	2,214,771	2,003,377	1,749,978

Employee figures

	2017	2016	2015	2014	2013
FTE | headcount as at 31 Dec	3,084 | 3,379	3,032 | 3,316	2,937 | 3,220	2,832 | 3,104	1,748 | 1,896
Average age in years	43.1	42.8	42.5	42.1	42.5
Average length of service in years	8.5	8.2	7.9	7.4	8.9
Gender breakdown m | f in %	43.3 | 56.7	41.7 | 58.3	40.5 | 59.5	40.9 | 59.1	42.8 | 57.2
Gender breakdown by management position m | f in %	60.5 | 39.5	61.1 | 38.9	62.5 | 37.5	65.1 | 34.9	68.7 | 31.3
Workforce availability in %	95.1	95.0	95.3	96.2	96.5
Training days/employee	3.4	3.4	2.4	2.4	3.7

2014: Initial consolidation of DKB Service GmbH

Contact and legal notice

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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, although we did not check the veracity of the information.

This document is based upon the German Annual Report 2017 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 2017 of DKB AG can be downloaded from our website www.dkb.de.

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Pictures page 2: 1st row – Monique Wüstenhagen (left and right), 2nd row – Marcel Ohm/Jung von Matt (left) and Monique Wüstenhagen (right), 3rd row: Cem Guenes (left) and Ingo Boddenberg (right)
Version: March 2018

The cover picture shows our employee Florian Furtlehner from the Competence Centre for Renewable Energies.

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