# Half-year Financial Report 2017

DKB
Deutsche Kreditbank AG

## Performance indicators

| EUR million | 30 Jun 2017 | 2016 |
|---|---|---|
| Net interest income | 429.2 | 795.1 |
| Risk provisions | 59.1 | 128.7 |
| Net commission income | –12.9 | 6.9 |
| Administrative expenses | 216.5 | 417 |
| Profit before taxes | 113.3 | 331.2 |
| | | |
| Cost/income ratio (CIR) in % | 52.2 % | 45.8 % |
| Return on equity (RoE) in % | 8.2 % | 12.4 % |

## Balance sheet figures

| EUR million | 30 Jun 2017 | 2016 |
|---|---|---|
| Balance sheet total | 74,625.7 | 76,522.3 |
| Equity | 3,104.1 | 3,019.1 |
| Core capital ratio in % | 8.7 % | 8.9 % |
| Client receivables | 63,369.2 | 63,228.3 |
| Client deposits | 51,607.0 | 53,438.0 |
| Client receivables as % share of total assets | 84.9 % | 82.6 % |

# Contents

# Group interim management report

# Basic principles

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

We use over 80 % of our total assets for loans exclusively in Germany. Entrepreneurial and sustainable actions are important to us. When granting loans we look at compliance with environmental and social standards. We therefore finance, for example, the construction of housing adapted to the needs of the elderly and families, energy-efficient real estate, inpatient and outpatient healthcare facilities, and building projects in schools and day-care facilities in Germany. In addition, we have been providing loans for a large number of renewable energy projects in the wind, solar, bioenergy and hydropower sectors since 1996. Our 3.6 million retail clients can conduct their banking business conveniently and securely online using the latest technologies. We split our Group activities into the three market segments – Retail Clients, Infrastructure and Corporate Clients – and the Financial Markets, which includes the Treasury division of DKB and the Non-Core Business and Other segments. Deutsche Kreditbank AG, Berlin, is the parent company for the Deutsche Kreditbank, Berlin Group. Details on the basic principles of the Group can be found in the 2016 annual report (p. 36 et seq.). The statements contained therein still apply.

The interim management report for the first half of 2017 and the half-year financial statements for 2017 have been drawn up pursuant to section 37w of the German Securities Trading Act (Wertpapierhandelsgesetz; WpHG), in accordance with section 315a, paragraph 1 of the German Commercial Code (Handelsgesetzbuch; HGB) and (EC) Regulation no. 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 and other ordinances on the adoption of specific international accounting standards on the basis of the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standard Board (IASB), as well as the supplementary commercial law provisions pursuant to section 315a, paragraph 1 HGB. The statements are also based on the requirements of GAS 16 of the German Accounting Standards Committee (ASCG) in the version amended by GAAS 7 on 21 April 2016.

# Report on the economic position

## Economic environment

### Macroeconomic environment: economy on stable growth path

After a sluggish start to the year, the global economy picked up speed and posted stable growth in the rest of the first half of the year. In Germany, the economy gained further momentum: seasonally and calendar-adjusted real gross domestic product climbed by 0.6 % in the first quarter of 2017 compared with the fourth quarter of 2016 and was thus significantly higher than the potential rate.

The recovery also continued into the second quarter, mainly supported by buoyant industrial activity, with key drivers coming from both within Germany and abroad. The steady increase in the level of employment was an indicator that the service sector grew once again. Private consumption remained an important engine of growth.

The inflation rate in Germany was close to the ECB's target of 2.0 %. Consumer prices in Germany in June 2017 were 1.6 % higher than in June 2016. Compared with May 2017, the consumer price index in June 2017 was up 0.2 %.

### Financial markets: overall economic environment positive, risk factors remain

In the first half of 2017, international financial markets continued to fall under the sway of expansionary monetary policy measures taken by the central banks. Within the eurozone, there was uncertainty in Italy, which is fighting a high trade deficit. In Greece, too, the overall situation remained difficult. In both countries, these conditions had an appreciable effect on the banking sector; in Italy, two banks were saved from collapse by state aid. The concerns of market participants with regard to the French elections, which had built up in the interim period, dissipated again after Macron's victory. The UK's notice to withdraw from the EU and new elections held there at short notice had very little impact on financial markets in the first half of the year, although there were increasing signs of a hardening of fronts in the course of the exit negotiations. This holds the potential for unrest in financial markets.

Outside Europe, financial markets directed their attention to the USA, whose central bank hiked base rates twice in the first half of the year as the US economy continued to shine.

With the outlook for the economy positive and inflation in Europe near the ECB's target, it is increasingly likely that the ECB will change tack to a less expansive monetary policy. The key interest rate in the reporting period was unchanged at 0 % and the deposit rate for banks at –0.4 %.

Yields on the bond market were increasingly volatile in the first half of the year. For instance, the yield on the 10-year German Bund oscillated between its trough of 0.17 % and peak of 0.49 % over the reporting period. As at the reporting date, it was yielding 0.43 %.

Stock markets saw stable growth in the first six months: the DAX closed on 30 June 2017 at 12,325, which was 899 above its level at the start of the year. In the same period, the euro appreciated against the US dollar by approximately 9 % to USD 1.14.

# Business performance

## Overall performance: still stable

Despite the persistently difficult interest rate environment and still high regulatory requirements, the DKB Group can look back on a good and successful first half of 2017.

Net interest income after risk provisions rose by 14.3 % to EUR 370.1 million compared with the same period of the previous year.

The year-on-year 50 % fall in profit before taxes of EUR 113.3 million is mainly due to the one-off measurement effect in the year-before period in connection with the takeover of Visa Europe Limited of EUR 129.5 million. Adjusted for this one-off effect, pre-tax profit was EUR 14.6 million higher than in the first half of 2016.

Client receivables were virtually unchanged on the previous year at EUR 63.4 billion (31 December 2016: 63.2 billion). Client deposits fell slightly in line with strategy to EUR 51.6 billion (31 December 2016: EUR 53.4 billion). Accordingly, total assets also fell marginally. At the half-year point they stood at EUR 74.6 billion (31 December 2016: EUR 76.5 billion).

The change in the key ratios for return on capital and profitability over the first half of the year were as follows:

return on equity (RoE) reached 8.2 % and was thus higher than the figure for H1 2016 adjusted for the one-off effect from the sale of Visa Europe Limited (mid-year 2016: 7.6 %). With the one-off effect included, RoE in the first half of 2016 was 17.7 %.

The cost/income ratio (CIR) stood at 52.2 %, roughly on par with the adjusted prior-year level (mid-year 2016: 51.4 %). Including the effect of the Visa transaction, CIR in the first half of 2016 was 38.6 %.

The good overall performance continued to be driven by all segments.

In the reporting period, organisational changes resulted in changes in allocations to the segments. The smaller business clients from the freelance professions (Corporate Clients segment) and healing professions (Infrastructure segment) were transferred to the Retail Clients segment. This resulted in changes to the prior-year figures. These are taken into account below.

## Retail clients segment: expanded customer base, better services

In the first half of 2017, the retail business had to operate in a tough competitive environment where market players frequently used incentives once again to gain new clients. Clients are increasingly leaning towards independently processing bank transactions.

In parallel to looking after their clients, banks are having to contend with increasingly onerous regulatory requirements. These were in the past half year, inter alia, the implementation of the 4th money laundering directive, the PRIIPs regulation, MiFID II and the German anti-tax evasion law.

In spite of the high intensity of competition, we were able to expand our client base by 182,000 in the first half of the year. The driver of this trend continued to be the DKB-Cash account package (30 June 2017: 2.6 million clients), ensuring that we remain the market leader for current accounts among direct banks. As at the end of the first six months, we served 3.6 million retail clients. Overall, this made DKB the second largest direct bank in Germany.

The volume of receivables stood at EUR 13.2 billion, similar to the end of 2016 (EUR 13.4 billion). The supporting pillars were consumer loans and construction financing. Together, these largely offset falls due to repayments.

At the same time, conditions for lending products for clients were improved once again: in the case of DKB personal loans, the effective annual interest rate for instalment loans was cut by 0.4 % to 3.49 % in February. Upon signing up directly for internet banking, clients with a DKB-Cash account received an additional interest rate advantage of 0.2 percentage points, giving them an effective annual interest rate of 3.29 %.

As at the reporting date, the total deposit volume posted a small increase of EUR 1.1 billion to EUR 30.2 billion. Two major dampening effects were less favourable conditions and the introduction of the interest rate cap for deposits on credit cards of EUR 100,000 and above.

The DKB-Broker continued to be well accepted by clients: as at the end of the first six months, the number of securities accounts managed rose by around 30,000 to 166,000. There was strong interest here in savings-plan-based exchange traded funds (ETFs), which we have offered since last year in cooperation with iShares, the ETF arm of the asset manager BlackRock.

Campaigns to boost client loyalty through DKB live (free access to sports and leisure events) proved popular among clients once again. The usability of Online-Cashback was further improved for clients.

In line with the announcements at the beginning of the year, we set up the Individual clients division in the Retail Clients segment during the first half-year. Through this division we will be serving smaller business clients from the freelance professions and healing professions and wealthy retail clients. 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.

## Infrastructure segment: further good progress, separate support of housing associations

In a stable, but still competitive, market environment, the Infrastructure segment reported buoyant business. The volume of receivables stabilised at EUR 36.6 billion against a background of large repayments (31 December 2016: EUR 36.6 billion), while the deposit volume fell by EUR 2.1 billion to EUR 15 billion due to the conditions on offer in the current interest rate environment.

The "Local authorities, education, research" client group was expanded in the reporting period as planned and is now called "**Local authorities and social infrastructure**". This also includes the hospitals and inpatient nursing facilities from the former "health and care" client group. The framework conditions in the new client group were, in principle, positive. In particular, the local authorities had high investment needs for information infrastructure and digital equipment. The same was true for the areas of education and social infrastructure, in which there was a significant lack of capacity in child day-care facilities. In the health sector, social insurers increased their expenditure on medical and nursing care by hospitals and nursing facilities and services. The client group's receivables volume (nominal) increased by EUR 0.1 billion to EUR 10.9 billion in the first half-year. This growth was rather moderate in comparison to the previous-year period due to strong competition. The total deposit volume fell by 16.2 % to EUR 7.7 billion.

The **Energy and utilities** client group posted a modest first half of the year in the credit business. Key new business was acquired primarily in the traditional core business of utilities for replacement investment in energy infrastructure. However, there was virtually no growth in the water and wastewater industry sectors. The trend of municipal utilities investing in renewable energies remained intact. The volume of receivables as at 30 June 2017 was 1.9 % higher at EUR 6.1 billion. The volume of deposits fell by EUR 0.5 billion and stood at EUR 1.7 billion.

Supported by the continuing low interest rate policy, demand for financing in the **Housing** client group remained high. There was particularly strong demand for loans for new building and energy-saving measures, with the continuing high level of competition from banks creating significant pressure on margins. On the liabilities side, clients took advantage of the low interest rates to increase repayments. Especially in the demographically weaker regions, housing associations continued to follow their debt reduction strategy. The volume of receivables amounted to EUR 19.6 billion in the first half, the same as in the previous-year period (EUR 19.6 billion), with client deposits falling by 14.2 % to EUR 2.6 billion. Market penetration of housing associations throughout Germany was at 81 %, and therefore 1 percentage point below year-end 2016.

To improve the service we offer, we wound up the administration-related business from the Housing division in the first half of the year and established regional administrator teams. The volume of deposits increased by EUR 0.4 billion to EUR 3 billion. As at the half-year reporting date, more than 8,400 commercial real estate administrators were managing their portfolios at DKB AG for more than 43,000 condominium owners' associations.

The **Civic participation** business area continued to grow despite strong signs of tough competition from other banks. As at the end of the first half of the year, the total number of initiated DKB civic participation projects stood at 95.

## Corporate Clients segment: further growth

As expected, the Corporate Clients segment unveiled good business figures for the first half of the year. The volume of receivables as at the reporting date was 2.9 % higher at EUR 13.1 billion. A significant driver of growth in an environment of quite pronounced capital spending restraint by agricultural businesses came from the financing of wind power projects. The deposit volume fell by 9.4 % to EUR 2.2 billion.

There was greater demand for capital spending in the **Environmental technology** client group: the volume of receivables rose by 4.4 % to EUR 8.2 billion. The deposit volume amounted to EUR 1.1 billion as at the reporting date (year-end 2016: EUR 1.1 billion). The amended German renewable energies act has been in force since the beginning of this year. Support measures through tenders, as already practised in photovoltaics, now also apply to wind power projects.

The **Food and agriculture** client group still had to deal with a difficult market environment. Although the economic situation of agricultural businesses recently brightened thanks to better prices, these businesses have held back on investing in new barns. The volume of receivables amounted to EUR 3.5 billion and was therefore unchanged (year-end 2016: EUR 3.5 billion). The volume of deposits decreased by 13.7 % compared with the previous year and stood at EUR 0.9 billion as at the reporting date.

The general conditions in the **Tourism** client group were good. In the past half year, many portfolio holders sold their projects. In the course of this period the business area reported disposals, but this was largely offset by new business. The volume of receivables stood at EUR 1.1 billion, similar to the previous-year period (EUR 1.1 billion). The volume of deposits remained stable at EUR 0.2 billion.

## Financial Markets segment

In the first half of the year, DKB AG built up its regulatory liquidity buffer. We did this by increasing our holdings of highly liquid securities in accordance with the definition of the Capital Requirements Regulation by a nominal EUR 0.3 billion.

DKB's business had a solid refinancing base in the first half of the year once again: client deposits totalled EUR 51.6 billion as at 30 June 2017. This was thus lower than at the end of the year (31 December 2016: EUR 53.4 billion), in line with strategy.

Due to the extensive liquidity, the decision was taken not to make any further issues on the capital market for the time being. Moody's Investor Service raised the rating for DKB AG's senior unsecured issues from A3 to A2.

The volume of new business in the programme loan business stood at EUR 0.9 billion in the first half of the year (30 June 2016: EUR 1.3 billion), in line with strategy.

The portfolio volume from programme loans and global loans of the development banks amounted to EUR 13.5 billion as at the middle of the year (mid-year 2016: EUR 12.5 billion).

## Non-Core Business segment

In the first half of the year, the Bank continued to run down business activities not allocated to the core business as planned. A key element of this was the repayment of loans. The volume of receivables in the segment was only EUR 0.4 billion as at the reporting date (year-end 2016: EUR 0.5 billion).

The securities portfolio in the non-core business was completely wound down in the reporting period.

## Other segment

DKB Service GmbH provided support to the units in the DKB Group in line with its task profile. This includes monitoring and managing digitalisation projects to improve processes further.

# Results of operations

| | H1 2017 EUR million | H1 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Net interest income | 429.2 | 390.4 | 38.8 | 10 |
| Risk provisions | –59.1 | –66.5 | 7.4 | 11 |
| **Net interest income after risk provisions** | **370.1** | **323.9** | **46.2** | **14** |
| Net commission income | –12.9 | –1.1 | –11.8 | < –100 |
| Gains or losses on fair value measurement | 70.8 | 23.6 | 47.2 | > 100 |
| Gains or losses on hedge accounting | –79.2 | –35.1 | –44.1 | < –100 |
| Gains or losses on financial investments | 13.0 | 141.1 | –128.1 | –91 |
| Administrative expenses | –216.5 | –200.7 | –15.8 | –8 |
| Expenses from the bank levy, deposit guarantee scheme and banking supervision | –25.4 | –22.7 | –2.7 | –12 |
| Other income and expenses | –6.0 | 0.8 | –6.8 | < –100 |
| Gains or losses on restructuring | –0.6 | –1.6 | 1 | 63 |
| **Profit/loss before taxes** | **113.3** | **228.2** | **–114.9** | **–50** |
| Income taxes | –1.3 | –7.1 | 5.8 | 82 |
| **Consolidated profit/loss** | **112.0** | **221.1** | **–109.1** | **–49** |

## Net interest income

| | H1 2017 EUR million | H1 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Interest income and positive interest expenses | 958.8 | 1,056.3 | –97.5 | –9 |
| Interest expenses and negative interest income | –529.6 | –665.9 | 136.3 | 20 |
| **Net interest income** | **429.2** | **390.4** | **38.8** | **10** |

Net interest income rose mainly thanks to interest rate adjustments in the client business and lower interest expenses from interest hedging transactions, in spite of a continued difficult interest rate environment.

## Risk provisions

There was a year-on-year fall in risk provisions. This was mainly due to higher releases of specific loan loss provisions.

## Net commission income

| | H1 2017 EUR million | H1 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Credit card business | 8.3 | 21.7 | –13.4 | –62 |
| Payments | –24.8 | –27.8 | 3.0 | 11 |
| Other net commission income | 3.6 | 5.0 | –1.4 | –28 |
| **Net commission income** | **–12.9** | **–1.1** | **–11.8** | **< –100** |

Net commission income was the same as in the year-before period, in particular as a result of an expected decline in net income in the credit card business due to the interchange regulation.

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

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

Gains or losses on financial investments in the year-before period resulted primarily from the disposal gain of Visa Europe Limited of EUR 129.5 million and therefore fell as expected in the first half of 2017.

## Administrative expenses

| | H1 2017 EUR million | H1 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Staff costs | –115.5 | –109.3 | –6.2 | –6 |
| Other administrative expenses | –97.8 | –88.3 | –9.5 | –11 |
| Depreciation and impairments on property, plant and equipment and intangible assets | –3.2 | –3.1 | –0.1 | –3 |
| **Administrative expenses** | **–216.5** | **–200.7** | **–15.8** | **–8** |

The higher administrative expenses arose mainly from the implementation of regulatory provisions. This resulted in particular in higher expenses due to the associated increase in headcount, higher consulting expenses and higher expenditure on IT.

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

| | H1 2017 EUR million | H1 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Bank levy | –19.6 | –17.5 | –2.1 | –12 |
| Deposit guarantee scheme | –4.4 | –4.2 | –0.2 | –5 |
| Banking supervision | –1.4 | –1.0 | –0.4 | –40 |
| **Expenses from the bank levy, deposit guarantee scheme and banking supervision** | **–25.4** | **–22.7** | **–2.7** | **–12** |

### Other income and expenses

| | H1 2017 EUR million | H1 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Other income | 18.3 | 18.3 | 0.0 | 0 |
| Other expenses | –24.3 | –17.5 | –6.8 | –39 |
| **Other income and expenses** | **–6.0** | **0.8** | **–6.8** | **< –100** |

The increase in other expenses mainly came from increased legal risks due to the current case law of the German Federal Court of Justice on processing fees for business clients.

## Net assets

#### Assets

| | 30 Jun 2017 EUR million | 31 Dec 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Cash reserves | 3,369.7 | 1,428.6 | 1,941.1 | > 100 |
| Loans and advances to banks | 1,272.3 | 5,365.5 | –4,093.2 | –76 |
| Loans and advances to clients | 63,369.2 | 63,228.3 | 140.9 | 0 |
| Risk provisions | –368.1 | –448.8 | 80.7 | 18 |
| Portfolio hedge adjustment | 558.7 | 831.4 | –272.7 | –33 |
| Financial investments | 6,159.7 | 5,880.1 | 279.6 | 5 |
| Other assets | 264.2 | 237.2 | 27.0 | 11 |
| **Total assets** | **74,625.7** | **76,522.3** | **–1,896.6** | **–2** |

**Liabilities**

| | 30 Jun 2017 EUR million | 31 Dec 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Liabilities to banks | 14,627.2 | 14,510.0 | 117.2 | 1 |
| Liabilities to clients | 51,607.0 | 53,438.0 | –1,831.0 | –3 |
| Securitised liabilities | 4,405.0 | 4,459.0 | –54.0 | –1 |
| Negative fair values from derivative financial instruments | 39.6 | 119.2 | –79.6 | –67 |
| Provisions | 159.2 | 143.3 | 15.9 | 11 |
| Other liabilities | 683.6 | 833.7 | –150.1 | –18 |
| Equity | 3,104.1 | 3,019.1 | 85.0 | 3 |
| **Total assets** | **74,625.7** | **76,522.3** | **–1,896.6** | **–2** |

The slight fall in total assets was mostly due to the year-on-year drop in liabilities to clients in the Infrastructure area.

Reported equity consists of the following:

| | 30 Jun 2017 EUR million | 31 Dec 2016 EUR million | Change EUR million | Change % |
|---|---|---|---|---|
| Subscribed capital | 339.3 | 339.3 | 0.0 | 0 |
| Capital surplus | 1,414.4 | 1,414.4 | 0.0 | 0 |
| Retained earnings | 1,094.0 | 1,024.0 | 70.0 | 7 |
| Revaluation surplus | 132.1 | 161.7 | –29.6 | –18 |
| Consolidated net retained profits/net accumulated losses | 124.3 | 79.7 | 44.6 | 56 |
| **Equity** | **3,104.1** | **3,019.1** | **85.0** | **3** |

# Financial position

Liquidity management is based on the principles derived from the German Banking Act (KWG), which are explained in the risk report. Please therefore refer to the risk report and the cash flow statement.

# Events after the reporting date

No events arose after the balance sheet date which had a significant impact on financial performance and financial position.

# Report on opportunities and risks

## Risk report

The DKB Group complied with its risk policy in the first half of 2017. The information presented in the risk report of the first half-year financial report therefore refers only to major developments in the reporting period. The risk management of the DKB Group, the corresponding structural and procedural organisation and the procedures and methods implemented for risk measurement and monitoring are also described in detail in the risk report in the Annual Report for 2016, including the internal control and risk management system for ensuring the correctness and reliability of the accounts.

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.

For quantitative information not within the scope of the risk report and especially the data presented to meet the requirements of IFRS 7, please refer to the information in the notes section.

### Significant developments in the reporting period

Complying with the regulatory capital requirements and securing risk-bearing capacity are key elements in the management of the DKB Group. In the reporting period, the DKB Group met both the regulatory requirements in respect of the equity base and liquidity as well as the requirements on economic capital adequacy as part of the risk-bearing capacity calculation. The 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 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 a Value-at-Risk method for both the liquidation approach and the going-concern perspective. In addition, the results of the OpRisk scenario analysis for the financial year 2017 were taken into account when estimating the economic capital amount.

- Business risk was previously estimated on the basis of an aggregated view of net interest and net commission income and administrative expenses. In the reporting period, the method was modified so that commission income is now separately observed.

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

### 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 economic 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. In addition, based on a going-concern approach, the ability of the Bank to operate as a going concern and the protection of the owner are both monitored.

As at the reporting date, the following risk profile was determined in the liquidation approach:

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Counterparty risks | 374 | 415 |
| of which client receivables | 355 | 361 |
| of which Group-internal receivables from BayernLB | 19 | 54 |
| Market risks | 185 | 219 |
| Investment risks | 7 | 6 |
| Operational risks | 111 | 84 |
| Rise in the cost of liquidity risks | 104 | – |
| Business risks | 9 | – |
| **Total economic capital requirement** | **790** | **724** |
| **Available cover funds** | **3,526** | **3,539** |
| of which allocated as limits | 1,755 | 1,965 |

The total economic capital requirement rose by EUR 66 million compared with 31 December 2016. This rise was due mainly to a modified method of taking into account the rise in the cost of liquidity risks in the risk-bearing capacity calculation. Up to 31 December 2016, the risk amounts for the rise in the cost of liquidity risks (EUR 102 million) and business risks (EUR 0 million) were already deducted when calculating the available cover funds. Since January 2017, these two types of risk have been factored into the calculation of the overall risk capital requirement and thus limited. A deduction when calculating the available cover funds is thus no longer necessary.

Adjusted for the change in the reporting of the economic capital requirement for the rise in the cost of liquidity risks and business risks, the total economic capital requirement fell compared with 31 December 2016. This decrease is a result of a EUR 41 million lower economic capital requirement for counterparty risks, primarily due to the repayment of internal Group claims by BayernLB. The refinement of the methods for estimating counterparty risk only has a minor impact on the economic capital amount in the reporting dates comparison. Meanwhile, market risk fell by EUR 34 million due to declining market volatility, while the economic capital requirement for operational risks rose. This increased by EUR 27 million to EUR 111 million on the basis of the methodological changes implemented in the financial year and taking into account the results of the updated OpRisk scenario analysis.

As at the reporting date, there were cover funds of EUR 3.5 billion available.

Under the annual capital planning, the total limit was adjusted. As cover for the operating business, a total of EUR 1.8 billion of available cover funds were allocated to limit the individual risk types. The remaining portion is held to cover the scenario loss calculated in the review of the Group-wide standard "severe economic downturn" scenario.

As at the reporting date, 45 % of the overall limit was utilised (31 December 2016: 37 %) and therefore this metric remains at a comfortable level. The risk-bearing capacity was assured at all times in the reporting period. Likewise, the limits for the economic capital requirement of individual risk types were adhered to throughout the reporting period.

## Stress testing

Supplementing the risk-bearing capacity calculation, the DKB Group analyses in stress testing and scenario 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. Based on the methodology used in the BayernLB Group, two standard stress scenarios are observed and the analyses are supplemented by additional bank-specific scenarios and sensitivity analyses.

The standard scenario used uniformly by the BayernLB Group – "Severe economic downturn" – is based on ICAAP logic and impacts all risks types. Here, testing checks whether the risk-bearing capacity is met even in a severe recession. From the stress scenario as at 30 June 2017, an additional economic capital requirement of EUR 1.3 billion (31 December 2016: EUR 1.2 billion) was calculated. Overall, the economic capital required for the scenario was EUR 2.1 billion (31 December 2016: EUR 1.9 billion). This was completely covered by the available cover funds of EUR 3.5 billion.

In the going-concern scenario, a change in the relevant risk parameters is also simulated across all risk types. From the going-concern perspective, the capital available in the short term must be sufficient to cover the scenario loss, so that business operations can be continued in compliance with the regulatory minimum capital requirements.

The economic capital considered is based on the free movement of own funds as defined by the Capital Requirements Regulation (CRR) after taking into account additional capital requirements, including the capital preservation buffer. An income component is also factored in which takes into account the sustainable achievable income as well as the share of the net profit for the year which has already been produced and which is capped by the respective current projection of net profit for the year.

In January 2017, the method for determining the economic capital amount in the going-concern scenario 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.

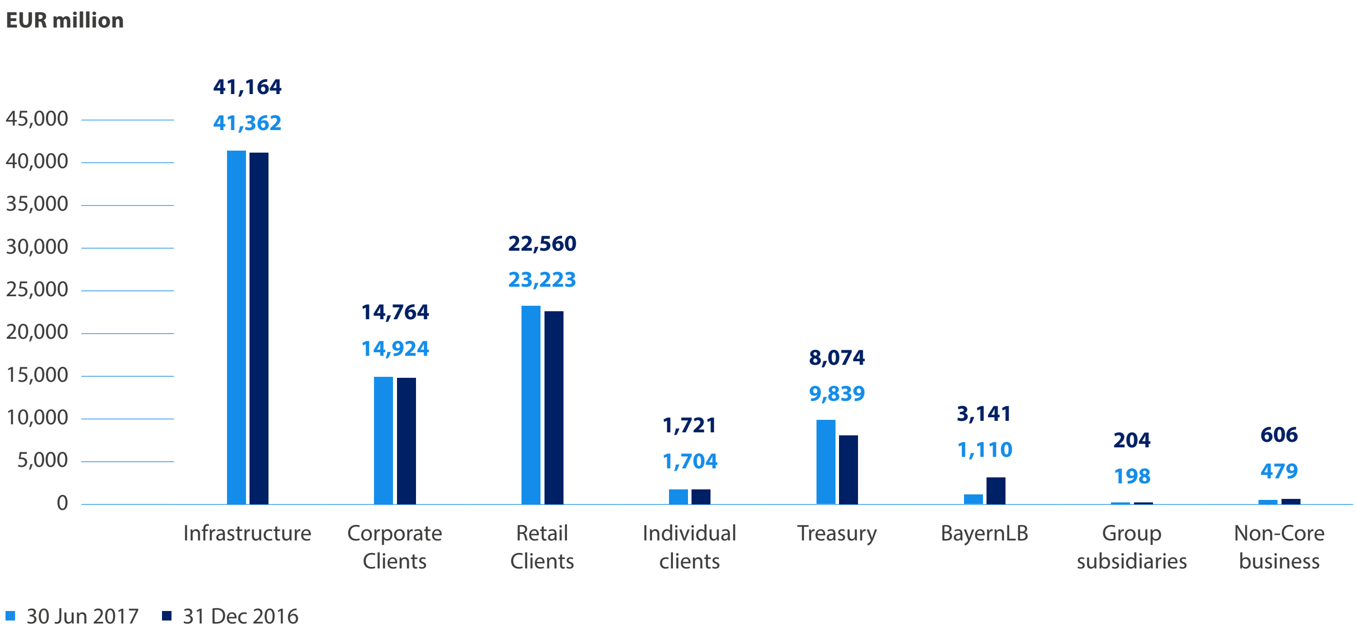
In the reporting dates comparison, 54 % of going-concern capital was utilised as at 30 June 2017 (31 December 2016: 33 %). The increase is mainly due to the transfer of the net profit as at 31 December 2016 to BayernLB, the refinement of the methods for estimating counterparty and operational risk and the factoring in of the results of the updated OpRisk scenario analysis.

In addition to the uniform stress tests prescribed by the BayernLB Group, the DKB Group introduced bank-specific stress tests so that the requirements of MaRisk are considered in an individualised risk assessment even for extreme stress situations. These scenarios are based on a going-concern perspective. In the reporting period, the bank-specific stress scenarios had sufficient capital backing on all reference dates.

## Changes in counterparty risks

In the first half-year, there was a marginal increase in the credit exposure of EUR 0.6 billion to EUR 92.8 billion (31 December 2016: EUR 92.2 billion). Taking a breakdown of the client groups of the DKB Group, the following picture emerged:

**Credit exposure**

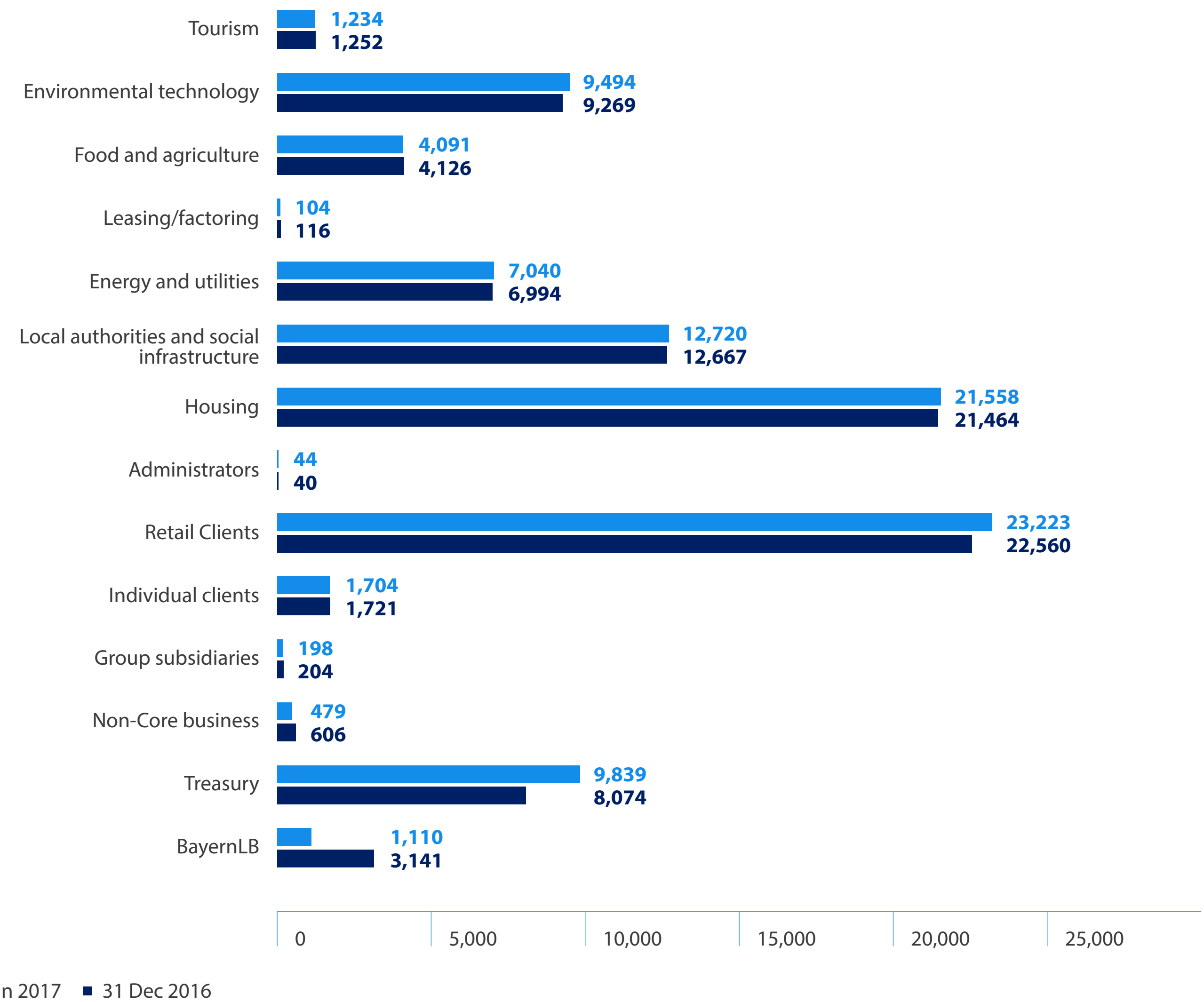



The increase in credit exposure was mostly due to strategy-compliant growth in the client business. At the same time, the expansion of the liquidity portfolio and the reduction of the non-core business was continued.

In the reporting period, the Group internal exposure fell markedly due to the repayment of Schuldschein note loans within the framework of funding in the BayernLB Group. As of 30 June 2017, receivables from BayernLB amounted to EUR 1.1 billion (31 December 2016: EUR 3.1 billion).

## Credit exposure by client group

**EUR million**

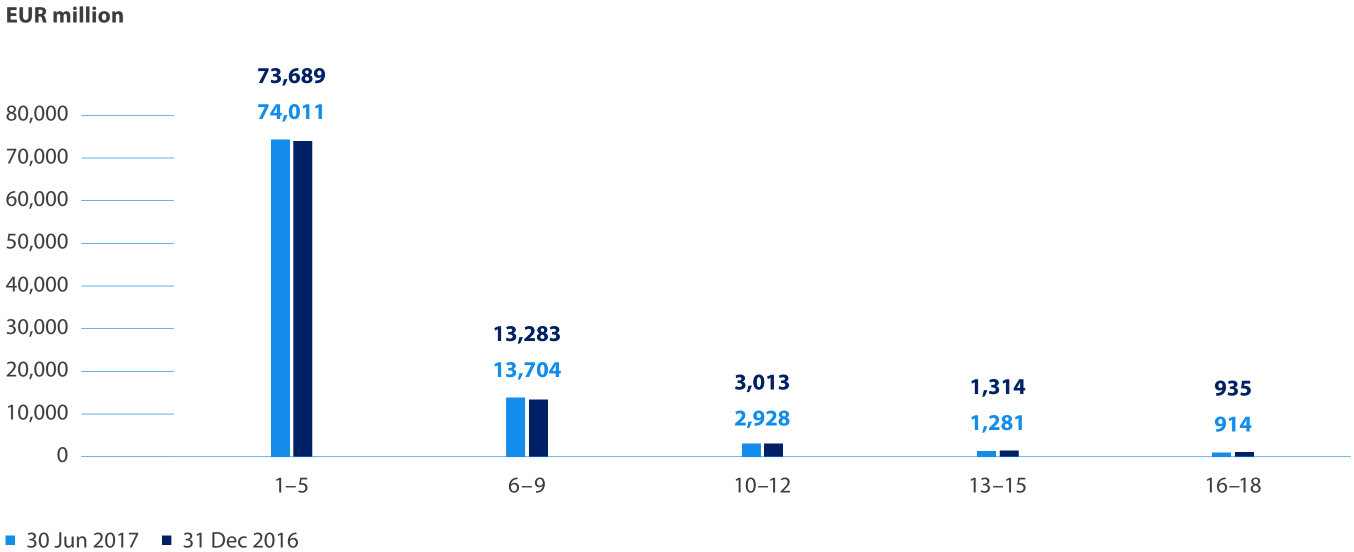



In the strategic Infrastructure and Corporate Clients business areas, growth was focused on renewable energy and the Housing client group. The increase in the credit exposure with Retail Clients is mainly due to the growth of DKB-Cash.

The Treasury client group consists essentially of the securities portfolio of DKB AG, the business with institutional clients and the liquidity reserve. The increase in credit exposure reflected the expansion of the liquidity portfolio. The securities portfolio focuses on first-class domestic and eurozone public sector bonds, as well as bonds of supranational issuers and development banks. As at 30 June 2017, open securities positions in the peripheral countries of the eurozone had a nominal value of EUR 90 million and were therefore unchanged from 31 December 2016. These comprise exclusively Italian government bonds.

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

**Credit exposure by rating category**




The quality of the portfolio improved slightly in the first half of the year. The average probability of default in the portfolio reduced to 0.63 % (31 December 2016: 0.65 %). The average rating category of the overall portfolio was still at 6. The share of investment grade, that is the proportion of positions with a rating in categories 1 to 5, was 80 % (31 December 2016: 80 %). The share of exposures in default (rating categories 1–18) was unchanged at 1.0 % of the overall credit exposure as at 30 June 2017 (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 30 June 2017, 34 groups of connected clients pursuant to Article 4, paragraph 1, no. 39 CRR were identified as cluster exposures (31 December 2016: 33).

## Change in market risks

### Change in market risks at banking book level

The economic capital requirement for all market risks decreased in the reporting period by EUR 34 million to EUR 185 million. The highest end-of-day value was measured in February 2017 (EUR 256 million), while the lowest end-of-day value was in May 2017 (EUR 133 million). The decline in the economic capital requirement is mainly due to lower market data volatility.

As at the reporting date, the interest rate risk amounted to EUR 335 million, with an interest rate shift of +200 bp. In relation to the equity in accordance with CRR, this is equivalent to a share of 10.5 % (31 December 2016: 8.6 %). In this scenario, in the reporting period the lowest loss of present value measured was EUR 207 million (May 2017), while the highest loss of present value was EUR 350 million (June 2017).

New long-term loans, an expansion of the liquidity portfolio and significant decline in client deposits due to the changes in conditions had the effect of increasing risk.

This effect was partly mitigated in the supervisory interest rate shock by concluding payer swaps and taking on subordinated capital.

## Market 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 also 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. In addition, DKB invests to a limited degree in equities via fund products.

The nominal bond portfolio of the DKB Group (excluding own issues) increased to EUR 5.8 billion in the reporting period (31 December 2016: EUR 5.5 billion). The bond portfolio is mainly used to meet regulatory requirements and protect DKB's ability to pay at any time. The securities held are central-bank-eligible and can always be liquidated quickly without significant loss in value.

Due to a less risky portfolio structure in terms of interest rate risk, the economic capital amount fell to EUR 263 million as at the reporting date (31 December 2016: EUR 276 million) despite the winding down of the portfolio.

## Refinancing

The framework conditions for refinancing are set out in the DKB Funding Policy and the DKB Refinancing Strategy. They are in line with the corresponding guidelines at BayernLB. The funding planning prepared annually by the Treasury division is based on DKB's multi-year planning. During the funding planning, detailed planning is drawn up for refinancing money and capital market instruments to be used.

DKB refinances itself primarily from client deposits, the development banking business and issues on the capital market. Client deposits represent more than half of the refinancing base and, due to the high number of customers, in particular in the Retail Clients and Infrastructure areas, are very granular. Following the strong increases of previous years, the first half of 2017 saw a decline in total client deposits of EUR 1.8 billion. The decrease was a consequence of targeted winding down of large-volume deposits from corporate and infrastructure clients, while deposits from the Retail Client area continued to grow. The total volume of client deposits amounted to EUR 51.6 billion (31 December 2016: EUR 53.4 billion). Net new business in the credit area was refinanced in the reporting period from available liquidity. The high proportion of deposit business makes DKB significantly less sensitive to disruptions on the money and capital markets.

In addition to client deposits, the development business represents another important pillar of refinancing. In the first-half of 2017, new programme loans with a volume of EUR 0.9 billion (comparison period 2016: EUR 1.3 billion) were agreed. The total portfolio of pass-through and global loans amounted to around EUR 13.5 billion as at the end of the reporting period (31 December 2016: EUR 13.2 billion).

To boost medium- and long-term refinancing funds, DKB can issue public-sector Pfandbriefs, mortgage Pfandbriefs and unsecured bonds (e.g. in a green bond format) in a benchmark or private placement format. Due to the high level of available liquidity, no capital market issues were undertaken in the reporting period. Secured and unsecured capital market issues diversify the funding structure and offer good access to the capital market. The rating agency Moody's rates our public sector and mortgage Pfandbriefs at "Aaa" and DKB's unsecured bonds at "A2".

For short-term funding and liquidity management, the interbank market is used when necessary, although only limited use was made of this option in the reporting period.

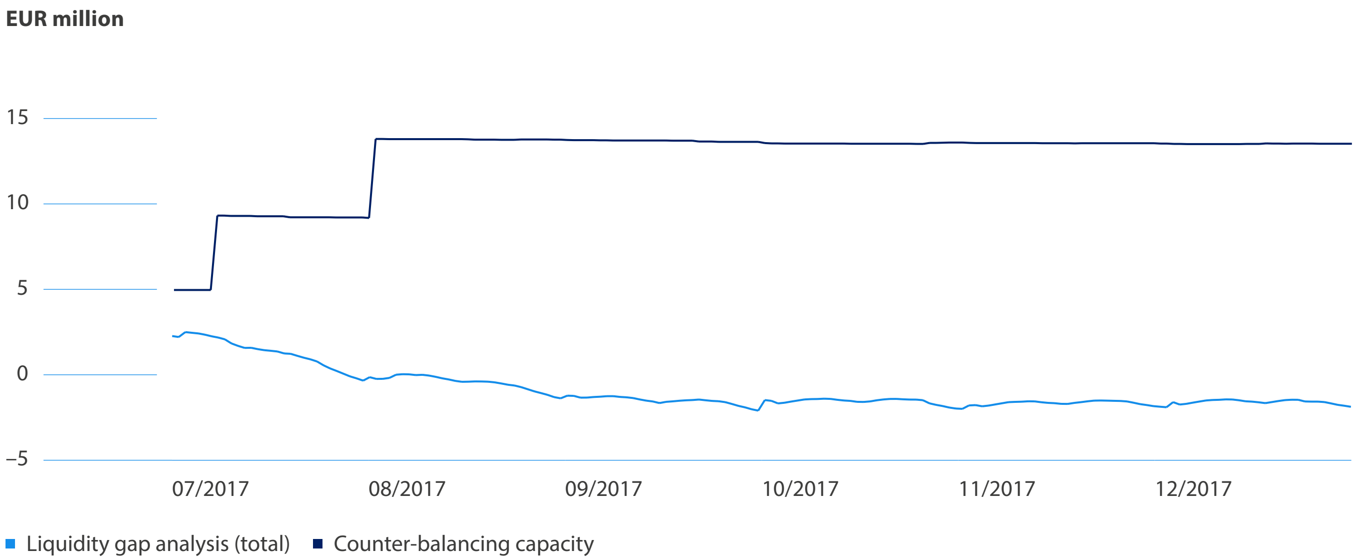
In addition to the above-mentioned sources of funding, the Bank employs open market operations – based on the ECB pledged securities account – with the central bank for short-term liquidity management. With an unused credit line of about EUR 10.0 billion at the midway point of 2017, the pledged securities account is a significant liquidity buffer.

The liquidity holdings of securities were expanded over the course of the year. As a component of the counterbalancing 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.

## Changes in liquidity risks

As at 30 June 2017, DKB AG's liquidity overview had the following structure for the next 180 days:




The strategic liquidity management is carried out with the help of a weekly rolling liquidity forecast. All liquidity inflows and liquidity outflows are collated in the liquidity gap analysis. The balance of net liquidity outflows and net liquidity inflows and existing counter-balancing capacity is the liquidity surplus at this point in time.

DKB's liquidity gap analysis indicated in July 2017 a positive value for the vast majority of the period, i.e. the expected liquidity inflows outweighed the liquidity outflows (net liquidity inflow). With the currently prevailing limit system, the lowest liquidity surplus within the next 180 days was EUR 7.1 billion as at the reporting date. The available counter-balancing capacity covered in full at all times the net amount of the expected liquidity outflows.

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 Clients and Infrastructure segments and combinations of individual stress events are considered in other scenarios. The minimum liquidity surplus in a worst-case scenario (combination of market stress and retail clients) was EUR 5.5 billion for the observation horizon of one week and EUR 6.5 billion for that of one month.

The metric under the German Liquidity Regulation (LiqV) was 2.83 as at the reporting date (31 December 2016: 3.31). As at 30 June 2017, the liquidity coverage ratio (LCR) stood at 149 % (31 December 2016: 167 %). The requirements of the LiqV and the guidelines for the LCR were met throughout the first half of 2017.

### Change in operational risks

The risk profile is significantly impacted by the business model for retail clients, whose client processes and transactions are handled online. Consequently, operational risks arise primarily in respect of system availability for the smooth processing of all transactions, crashes in the Bank's online portal due to external influences, the security of data against unauthorised access, account opening or credit fraud through counterfeit documents and fraud involving non-cash forms of payment. In addition, operational risks in the recent past were strongly influenced by consumer legal rulings for retail clients affected, leading in part to increased legal risks.

The DKB Group uses various instruments and methods to record, measure, analyse and assess the risk situation. Recording loss data in a loss database allows loss events to be identified, analysed and assessed so that patterns, trends and concentrations of operational risks can be identified.

In addition, during the annual OpRisk risk inventory and following OpRisk scenario analysis, rare but realistic and potentially serious operational risks are determined and assessed under the coordination of the Risk Office and the various organisational units of the Bank. The scenarios quantified for the DKB Group do not overlap in terms of content and provide a realistic estimate of the potential operational risk. In the reporting period, a fundamentally revised method was used for the OpRisk scenario analysis.

The results of this method are fed into the calculation of the amount of economic 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 scenario was switched to a Value-at-Risk approach.

The losses incurred in the reporting period due to operational risks, after implementation of measures to reduce losses, increased compared with the year-before period and, as at the reporting date, amounted to EUR 15.9 million (30 June 2016: EUR 10.7 million). This increase in OpRisk losses was primarily due to rulings relating to consumer rights regarding the handling of improperly drafted cancellation policies.

In July 2017, the German Federal Court of Justice ruled 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 on 30 June 2017. There is, however, uncertainty with regard to the size of the total loss for the Bank arising because of the German Federal Court of Justice's ruling.

## Opportunities report

The statements on the opportunity profile, opportunity management and opportunity risk situation in financial year 2016 made in the 2016 Annual Report continue to apply. The DKB Group can react swiftly even to short-term developments.

# Outlook

## Changes in conditions: economy can keep to its upward trend

According to Bundesbank estimates, the upswing in Germany will remain intact over the rest of the year and into 2018: stable consumption by the state and private households, high corporate capital spending and strong exports will support broad, steady momentum. Only the labour market is likely to constrain growth opportunities because of the increasing shortages of supply.

Consumer prices in the second half of the year are expected to rise more sharply on the back of higher crude oil and food prices. As measured by the Harmonized Index of Consumer Prices (HICP), the German Bundesbank is forecasting growth in inflation from 0.4 % in the previous year to 1.5 % in the current year.

## Growth within the Group: business performance will remain very buoyant

After the end of the first half of the year, we can confirm the forecast in the 2016 Annual Report for financial year 2017. In all three market segments we expect stable operational and economic growth, which will allows us to post a consolidated profit of between EUR 200 million and EUR 230 million.

The cost/income ratio and return on equity will be on par with 2016 after adjusting for the special effects from the sale of the shares in Visa Europe Limited.

# Condensed interim consolidated financial statements of the DKB Group as at 30 June 2017

# Consolidated statement of comprehensive income

for the period from 1 January 2017 to 30 June 2017

## Income statement

| EUR million | Notes | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|---|
| Interest income | | 958.1 | 1,056.0[1] |
| Positive interest expenses | | 0.7 | 0.3 |
| Interest expenses | | –506.4 | –664.3[1] |
| Negative interest income | | –23.2 | –1.6 |
| Net interest income | (5) | 429.2 | 390.4 |
| Risk provisions | (6) | –59.1 | –66.5 |
| Net interest income after risk provisions | | 370.1 | 323.9 |
| Commission income | | 163.2 | 148.5 |
| Commission expenses | | –176.1 | –149.6 |
| Net commission income | (7) | –12.9 | –1.1 |
| Gains or losses on fair value measurement | (8) | 70.8 | 23.6 |
| Gains or losses on hedge accounting | (9) | –79.2 | –35.1 |
| Gains or losses on financial investments | (10) | 13.0 | 141.1 |
| Administrative expenses | (11) | –216.5 | –200.7 |
| Expenses from the bank levy, deposit guarantee scheme and banking supervision | (12) | –25.4 | –22.7 |
| Other income and expenses | (13) | –6.0 | 0.8 |
| Gains or losses on restructuring | (14) | –0.6 | –1.6 |
| **Profit/loss before taxes** | | **113.3** | **228.2** |
| Income taxes | (15) | –1.3 | –7.1 |
| **Consolidated profit/loss** | | **112.0** | **221.1** |
| attributable to DKB AG owners | | 112.0 | 221.1 |
| Profit transferred to controlling shareholders | | – | – |
| Profit brought forward | | 12.2 | 10.2 |
| Transfer to retained earnings | | – | 0.0 |
| **Consolidated net retained profits/net accumulated losses** | | **124.2** | **231.3** |

Calculations may result in the figures in the table being rounded up or down by ± one unit.
[1] Adjustment of year-before period figures to account for negative interest.

## Reconciliation of comprehensive income for the period

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| **Consolidated profit/loss** | **112.0** | **221.1** |
| **Components of other comprehensive income temporarily not recognised in profit or loss** | | |
| **Changes in the revaluation surplus from AfS financial instruments** | **–29.6** | **51.2** |
| Change in measurement | –16.6 | 59.2 |
| Reclassification adjustment due to realised gains and losses | –13.1 | –8.1 |
| Change in deferred taxes | 0.1 | 0.1 |
| **Changes in the revaluation surplus 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** | **2.6** | **–10.1** |
| Change in measurement | 2.6 | –10.1 |
| Change in deferred taxes | 0.0 | 0.0 |
| **Other comprehensive income** | **–27.0** | **–75.9** |
| **Total comprehensive income** | **85.0** | **145.2** |
| attributable to DKB AG owners | 85.0 | 145.2 |

Calculations may result in the figures in the table being rounded up or down by ± one unit.

# Consolidated balance sheet

as at 30 June 2017

## Assets

| EUR million | Notes | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|---|
| Cash reserves | | 3,369.7 | 1,428.6 |
| Loans and advances to banks | (16) | 1,272.3 | 5,365.5 |
| Loans and advances to clients | (17) | 63,369.2 | 63,228.3 |
| Risk provisions | (18) | –368.1 | –448.8 |
| Portfolio hedge adjustment assets | (19) | 558.7 | 831.4 |
| Assets held for trading | (20) | 3.9 | 4.3 |
| Positive fair values from derivative financial instruments (hedge accounting) | (21) | 0.0 | – |
| Financial investments | (22) | 6,159.7 | 5,880.1 |
| Property, plant and equipment | | 44.7 | 44.9 |
| Intangible assets | | 7.9 | 5.4 |
| Current income tax assets | (23) | 0.2 | 0.2 |
| Deferred income tax assets | (23) | 0.0 | 0.0 |
| Other assets | | 207.5 | 182.4 |
| **Total assets** | | **74,625.7** | **76,522.3** |

Calculations may result in the figures in the table being rounded up or down by ± one unit.

## Liabilities

| EUR million | Notes | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|---|
| Liabilities to banks | (24) | 14,627.2 | 14,510.0 |
| Liabilities to clients | (25) | 51,607.0 | 53,438.0 |
| Securitised liabilities | (26) | 4,405.0 | 4,459.0 |
| Liabilities held for trading | (27) | 60.8 | 53.4 |
| Negative fair values from derivative financial instruments (hedge accounting) | (28) | 39.6 | 119.2 |
| Provisions | (29) | 159.2 | 143.3 |
| Current income tax liabilities | (30) | 0.3 | 0.4 |
| Deferred income tax liabilities | (30) | 0.8 | 0.5 |
| Other liabilities | (31) | 121.7 | 372.6 |
| Subordinated capital | (32) | 500.0 | 406.8 |
| Equity | | 3,104.1 | 3,019.1 |
| Equity excluding non-controlling interests | | 3,104.1 | 3,019.1 |
| Subscribed capital | | 339.3 | 339.3 |
| Capital surplus | | 1,414.4 | 1,414.4 |
| Retained earnings | | 1,094.1 | 1,024.0 |
| Revaluation surplus | | 132.1 | 161.7 |
| Consolidated net retained profits/net accumulated losses | | 124.2 | 79.7 |
| Non-controlling interests | | – | – |
| **Total liabilities** | | **74,625.7** | **76,522.3** |

Calculations may result in the figures in the table being rounded up or down by ± one unit.

# Consolidated statement of changes in equity

| EUR million | Subscribed capital | Hybrid capital | Capital surplus | Retained earnings | Revaluation surplus | Consolidated net retained profits/net accumulated losses | Equity before non-controlling interests | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 Dec 2015** | **339.3** | **0.0** | **1,314.4** | **970.1** | **250.1** | **71.8** | **2,945.7** | **0.0** | **2,945.7** |
| Changes in the revaluation surplus | | | | | –65.8 | | –65.8 | | –65.8 |
| Changes from the revaluation of defined benefit pension plans | | | | –10.1 | | | –10.1 | | –10.1 |
| **Other comprehensive income** | **0.0** | **0.0** | **0.0** | **–10.1** | **–65.8** | **0.0** | **–75.9** | **0.0** | **–75.9** |
| Consolidated profit/loss | | | | | | 221.1 | 221.1 | | 221.1 |
| **Total consolidated profit/loss** | **0.0** | **0.0** | **0.0** | **–10.1** | **–65.8** | **221.1** | **145.2** | **0.0** | **145.2** |
| Capital increases/capital decreases | | | 100.0 | | | | 100.0 | | 100.0 |
| Changes in the scope of consolidation and other changes | | | | | | | 0.0 | | 0.0 |
| Allocations to/removals from the reserves | | | | 61.6 | | –61.6 | 0.0 | | 0.0 |
| Transferred profit | | | | | | | 0.0 | | 0.0 |
| Distribution | | | | | | | 0.0 | | 0.0 |
| **As at 30 Jun 2016** | **339.3** | **0.0** | **1,414.4** | **1,021.6** | **184.3** | **231.3** | **3,190.9** | **0.0** | **3,190.9** |
| Changes in the revaluation surplus | | | | | 94.4 | | 94.4 | | 94.4 |
| 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 | | | | 1.9 | | | 1.9 | | 1.9 |
| **Other comprehensive income** | **0.0** | **0.0** | **0.0** | **1.9** | **–22.6** | **0.0** | **–20.7** | **0.0** | **–20.7** |
| Consolidated profit/loss | | | | | | 105.8 | 105.8 | | 105.8 |
| **Total consolidated profit/loss** | **0.0** | **0.0** | **0.0** | **1.9** | **–22.6** | **105.8** | **85.1** | **0.0** | **85.1** |

| EUR million | Subscribed capital | Hybrid capital | Capital surplus | Retained earnings | Revaluation surplus | Consolidated net retained profits/net accumulated losses | Equity before non-controlling interests | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Capital increases/capital decreases | | | | | | | 0.0 | | 0.0 |
| Changes in the scope of consolidation and other changes | | | | | | | 0.0 | | 0.0 |
| Allocations to/removals from the reserves | | | | 0.5 | | –0.5 | 0.0 | | 0.0 |
| Transferred profit | | | | | | –256.9 | –256.9 | | –256.9 |
| Distribution | | | | | | | 0.0 | | 0.0 |
| **As at 31 Dec 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 | | | | | –29.6 | | –29.6 | | –29.6 |
| Changes from the revaluation of defined benefit pension plans | | | | 2.6 | | | 2.6 | | 2.6 |
| **Other comprehensive income** | **0.0** | **0.0** | **0.0** | **2.6** | **–29.6** | **0.0** | **–27.0** | **0.0** | **–27.0** |
| Consolidated profit/loss | | | | | | 112.0 | 112.0 | | 112.0 |
| **Total consolidated profit/loss** | **0.0** | **0.0** | **0.0** | **2.6** | **–29.6** | **112.0** | **85.0** | **0.0** | **85.0** |
| Capital increases/capital decreases | | | | | | | 0.0 | | 0.0 |
| Changes in the scope of consolidation and other changes | | | | | | | 0.0 | | 0.0 |
| Allocations to/removals from the reserves | | | | 67.5 | | –67.5 | 0.0 | | 0.0 |
| Transferred profit | | | | | | | 0.0 | | 0.0 |
| Distribution | | | | | | | 0.0 | | 0.0 |
| **As at 30 Jun 2017** | **339.3** | **0.0** | **1,414.4** | **1,094.1** | **132.1** | **124.2** | **3,104.1** | **0.0** | **3,104.1** |

# Condensed consolidated cash flow statement

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| **Cash and cash equivalents as at 1 Jan** | **1,428.6** | **719.9** |
| Cash flow from operating activities | 2,103.1 | 8.8 |
| Cash flow from investing activities | –5.5 | 111.4 |
| Cash flow from financing activities | –156.5 | 26.4 |
| **Cash and cash equivalents as at 30 Jun** | **3,369.7** | **866.5** |

The cash flow statement shows the changes in liquid funds in the DKB Group.

The reported cash and cash equivalents comprises cash in hand and deposits with central banks.

# Selected explanatory notes to the financial statements (Notes)

## Disclosures relating to financial instruments



## Disclosures relating to the risk situation



## Other disclosures

# General Information

## (1) Fundamentals of consolidated financial reporting

The interim financial statements of Deutsche Kreditbank AG (DKB AG), Berlin, were prepared in compliance with section 315a, paragraph 1 of the German Commercial Code (Handelsgesetzbuch; HGB) and EC Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as well as other ordinances on the adoption of specific international accounting standards on the basis of the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standard Board (IASB). Along with the standards designated as IFRS, the IFRS also encompass the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). These interim financial statements are based on the IFRS as applicable in the EU. They take particular account of the requirements of IAS 34 on interim reporting.

In the interim financial statements as at 30 June 2017 – with the exception of the changes described below – the same accounting and valuation methods apply as in the consolidated financial statements as at 31 December 2016. The information in these interim financial statements should be read in connection with the information in the published and audited consolidated financial statements as at 31 December 2016.

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

The interim financial statements comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the condensed consolidated cash flow statement and the notes, including segment reporting. The reporting currency is the euro.

The interim management report is published in a separate section of the half-year financial report. Likewise, most of the risk reporting is presented as a component of the risk report in the interim management report. Further details on the risk situation in accordance with IFRS 7 are provided in note 37 "Risks from financial instruments".

All amounts are shown in millions of euro (EUR million) unless otherwise indicated. Calculations may result in the figures being rounded up or down by ± one unit.

### IFRS applied for the first time

The following new and amended standards/interpretations were applicable for the first time in financial year 2017:

- The aim of the disclosure initiative amendments to IAS 7 is to improve the information about the change in the entity's debts. The amendments stipulate that an entity must provide information on the changes of financial liabilities whose incoming and outgoing cash flows are shown in the cash flow statement under cash flow from financing activities. Related financial assets must also be disclosed (e.g. assets from hedging transactions). Information must be disclosed on cash effects, changes from the acquisition or sale of an entity, currency-rate-related changes, changes in the fair values and other changes. 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.

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

  The classification and measurement of financial assets is, according to IFRS 9, dependent, on the one hand, on the business model in which the financial asset is held (business model criterion), and, on the other, on the properties of the contractual payment flows of the respective financial instrument (payment flow criterion). On the basis of the current analyses, the DKB Group expects that the new regulations for classifying and measuring will have only minor consequences for the consolidated financial statements of DKB.

  IFRS 9 furthermore provides for a new impairment model, which is based on the expected loan defaults. When applying impairment provisions, entities must apply either the general method, the simplified method or the method for financial assets that were already impaired on acquisition or when the loan was extended. According to the general method, an allowance is to be formed on every financial statement reporting day, either in the amount of the loan defaults whose occurrence is expected in the next twelve months, or in the amount of the loan defaults to be expected over the entire term. This depends on whether a significant increase in the credit risk has occurred since first recognition. The simplified method can be applied for trade accounts receivable, contract assets and receivables from leases. In these cases, the allowance is formed on the basis of the loan defaults expected over the entire term immediately as of the time the loan is extended. For financial assets that are already impaired on acquisition or when extended, the accumulated changes in the loan defaults expected over the entire term are to be recognised. Due to the new requirements to extend recognition of loan losses over the full term, the DKB Group expects that first-time application will lead to a significant increase in measures to protect the loan portfolio against risk.

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

  The new requirements of IFRS 9 will be analysed and implemented within the framework of a cross-divisional project within the DKB Group. A steering committee was implemented as the topmost decision-making body for the project. The members of the steering committee are the Chairman of the Board of Management, the Chief Financial Officer and the Chief Risk Officer of DKB AG, as well as the heads of the Finance, Risk Office, Mid Office and IT divisions. In addition, there is also one representative each from Internal Auditing (project support) and BayernLB on the committee. 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. Since the middle of the year, the changed processes have been subjected to a comprehensive function, system and integration test, so that a timely implementation of the new IFRS 9 requirements is ensured.

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

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

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

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

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

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

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

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

## (2) Changes on the previous year

Interest which the DKB Group pays for the temporary provision of capital (negative interest income) or receives for the temporary acceptance of capital (positive interest expenses) has been disclosed separately since 31 December 2016, in the net interest income in the consolidated statement of comprehensive income.

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

## (3) Scope of consolidation

In addition to DKB, six subsidiaries are included in the consolidated financial statements as at 30 June 2017 (31 December 2016: six). DKB directly or indirectly holds a 100% equity interest 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.

# Segment reporting

## (4) Segment reporting

Segment reporting is performed in accordance with the regulations of IAS 34 on interim financial reporting in conjunction with 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.

The segment reporting is divided into six segments 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 client 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 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 DKB AG's Treasury. Essentially, this includes funding including managing interest rate risk, deposit business with institutional clients, passing on client deposits to BayernLB as part of the intragroup funding system and internal transactions with BayernLB to manage liquidity. The activities within the custody account-A business are also assigned to this segment. This primarily involves management of the securities portfolio needed for core business (including the liquidity portfolio required by supervisory legislation) and business involving the DKB retail fund. The gains or losses on DKB AG's hedging transactions are also assigned to the Financial Markets segment.

- Transactions that are no longer part of the Group's strategy and which are being wound down as part of the BayernLB Group's higher-level restructuring programme are shown in the Non-Core segment. These include 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 that 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, and 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 129.5 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 current half-year's earnings, these include, in particular, consolidation entries from offsetting income between Group companies in net interest income and the consolidation issues 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. The earnings for the current reporting year do not contain any additional reconciliation items for which explanations are required.

Intra-segment transactions are only reported under the net interest income item in the Non-Core and Corporate Clients segments and relate to the lending and deposit business of the respective Group subsidiaries. This relates to segment assets totalling EUR 141.1 million, with no material 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, and 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) and 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 segment.

Segment assets are determined on the basis of balance sheet figures. Client receivables, which are shown at nominal value, are an exception. The difference of EUR 157.6 million (31 December 2016: EUR 73.2 million) as well as risk provisions on loans and advances of DKB AG of EUR –363.8 million (31 December 2016: EUR –444.5 million) are included in the reconciliation column.

The average economic capital is determined on the basis of regulatory core capital and allocated in compliance with the average, allocated risk positions as per supervisory reporting figures (risk assets and market risks in accordance with the standard credit risk approach specified in article 111 et seq. of the regulation (EU) no. 575/2013 (CRR) plus 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 income items (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments, other 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.

The assignments to the segments have changed compared with the half-year financial report 2016. The corresponding comparative figures from the first half of the previous year were adjusted.

## Segment reporting 30 June 2017

| EUR million | Retail Clients | Infrastructure | Corporate Clients | Financial Markets | Non-Core Business | Other | Reconciliation/ consolidation | **Group** |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 200.1 | 149.7 | 77.0 | –8.6 | 3.2 | 9.8 | –2.0 | **429.2** |
| Risk provisions | –15.9 | –13.2 | –35.2 | – | 5.9 | –0.7 | – | **–59.1** |
| Net commission income | –29.0 | 1.2 | 12.7 | –1.2 | 0.2 | 0.4 | 2.8 | **–12.9** |
| Gains or losses on fair value measurement | – | – | – | 70.8 | – | – | – | **70.8** |
| Gains or losses on hedge accounting | – | – | – | –79.2 | – | – | – | **–79.2** |
| Gains or losses on financial investments | – | – | – | 13.0 | – | – | – | **13.0** |
| Administrative expenses | –99.9 | –42.2 | –31.6 | –3.2 | –8.4 | –96.6 | 65.4 | **–216.5** |
| Expenses from the bank levy, deposit guarantee scheme and banking supervision | – | – | – | – | – | –25.4 | – | **–25.4** |
| Other income and expenses | 3.5 | – | 0.2 | – | – | 58.8 | –68.5 | **–6.0** |
| Gains or losses on restructuring | – | – | – | – | –0.6 | – | – | **–0.6** |
| **Profit/loss before taxes** | **58.8** | **95.5** | **23.1** | **–8.4** | **0.3** | **–53.7** | **–2.3** | **113.3** |
| | | | | | | | | |
| Segment assets | 13,226.6 | 36,643.8 | 13,126.4 | 7,916.4 | 405.5 | 3,742.1 | –435.1 | **74,625.7** |
| Risk positions | 7,378.9 | 11,390.0 | 12,205.1 | 272.3 | 284.3 | 187.3 | – | **31,717.9** |
| Average economic capital | 643.5 | 993.5 | 1,059.2 | 22.9 | 27.5 | 18.9 | – | **2,765.6** |
| | | | | | | | | |
| Return on equity (RoE) | 18.3 % | 19.2 % | 4.4 % | < 0 % | > 0 % | | | **8.2 %** |
| Cost/income ratio (CIR) | 57.2 % | 28.0 % | 35.2 % | < 0 % | > 100 % | | | **52.2 %** |

## Segment reporting 30 June 2016

| EUR million | Retail Clients | Infrastructure | Corporate Clients | Financial Markets | Non-Core Business | Other | Reconciliation/ consolidation | **Group** |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 212.4 | 105.0 | 69.7 | –3.5 | 3.6 | 6.0 | –2.8 | **390.4** |
| Risk provisions | –23.9 | –6.1 | –20.8 | – | –15.0 | –0.7 | – | **–66.5** |
| Net commission income | –18.4 | 1.6 | 10.8 | –1.0 | 0.5 | 3.3 | 2.1 | **–1.1** |
| Gains or losses on fair value measurement | – | – | – | 23.8 | –0.2 | – | – | **23.6** |
| Gains or losses on hedge accounting | – | – | – | –35.1 | – | – | – | **–35.1** |
| Gains or losses on financial investments | – | – | – | 11.6 | 0.0 | 129.5 | – | **141.1** |
| Administrative expenses | –97.7 | –38.9 | –27.8 | –2.3 | –8.9 | –88.2 | 63.1 | **–200.7** |
| Expenses from the bank levy, deposit guarantee scheme and banking supervision | – | – | – | – | – | –22.7 | – | **–22.7** |
| Other income and expenses | –0.7 | –0.0 | 0.2 | – | –0.0 | 66.3 | –65.0 | **0.8** |
| Gains or losses on restructuring | – | – | – | – | –1.6 | – | – | **–1.6** |
| **Profit/loss before taxes** | **71.7** | **61.6** | **32.1** | **–6.5** | **–21.6** | **93.5** | **–2.6** | **228.2** |
| Segment assets | 13,776.0 | 36,011.0 | 12,267.3 | 10,833.8 | 642.7 | 1,061.8 | –586.6 | **74,006.0** |
| Risk positions | 7,272.5 | 10,727.6 | 11,280.2 | 337.3 | 483.8 | 138.9 | – | **30,240.3** |
| Average economic capital | 624.3 | 923.7 | 949.1 | 28.1 | 46.1 | 10.4 | – | **2,581.7** |
| Return on equity (RoE) | 23.0 % | 13.3 % | 6.8 % | < 0 % | < 0 % | | | **17.7 %** |
| Cost/income ratio (CIR) | 50.5 % | 36.5 % | 34.4 % | < 0 % | > 100 % | | | **38.6 %** |

# Notes to the consolidated statement of comprehensive income

## (5) Net interest income

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| **Interest income** | **958.1** | **1,056.0**[1] |
| Interest income from lending and money market transactions | 947.4 | 1,043.1[1] |
| Interest income from bonds and other fixed-income securities | 8.8 | 10.4 |
| Current income | 1.9 | 2.5 |
| **Positive interest expenses** | **0.7** | **0.3** |
| **Interest expenses** | **–506.4** | **–664.3**[1] |
| Interest expenses for liabilities to banks and clients | –273.1 | –372.9[1] |
| Interest expenses for securitised liabilities | –20.6 | –19.7 |
| Interest expenses for subordinated capital | –9.5 | –8.3 |
| Interest expenses for derivatives (hedge accounting) | –120.1 | –221.9 |
| Interest expenses for derivatives in economic hedging relationships | –71.7 | –23.7 |
| Other interest expenses | –11.4 | –17.8 |
| **Negative interest income** | **–23.2** | **–1.6** |
| **Total** | **429.2** | **390.4** |

[1] Adjustment of year-before period's figures to account for negative interest

The interest income from lending and money market transactions includes income from impaired receivables (unwinding effect) of EUR 3.7 million (H1 2016: EUR 5.1 million).

## (6) Risk provisions

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| **Additions** | **–101.2** | **–103.3** |
| Impairment losses on loans and advances | –94.1 | –96.9 |
| Provisions in the credit business | –7.1 | –6.4 |
| **Releases** | **37.2** | **36.8** |
| Impairment losses on loans and advances | 36.7 | 24.4 |
| Provisions in the credit business | 0.5 | 4.7 |
| **Recoveries on written-down receivables** | **4.9** | **7.7** |
| **Total** | **–59.1** | **–66.5** |

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

## (7) Net commission income

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| Credit card business | 8.3 | 21.7 |
| Securities business | 0.4 | 1.6 |
| Lending business | –2.0 | 1.5 |
| Payments | –24.8 | –27.8 |
| Other net commission income | 5.2 | 1.9 |
| **Total** | **–12.9** | **–1.1** |

## (8) Gains/losses on fair value measurement

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| **Net trading income** | **70.8** | **23.8** |
| Interest-related transactions | 70.4 | 23.1 |
| Currency-related transactions | 0.4 | 0.7 |
| **Fair value gains/losses from the fair value option** | **–** | **–0.2** |
| **Total** | **70.8** | **23.6** |

Current gains or losses from fair value option securities and derivatives in economic hedges are shown under net interest income.

## (9) Gains or losses on hedging transactions

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| Measurement of underlying transactions | –83.6 | 270.8 |
| Measurement of hedging instruments | 193.6 | –55.2 |
| Amortisation of the portfolio hedge adjustment | –189.2 | –250.7 |
| **Total** | **–79.2** | **–35.1** |

## (10) Gains or losses on financial investments

Gains or losses on financial investments primarily arise on the proceeds from the sale of securities.

## (11) Administrative expenses

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| Staff costs | –115.5 | –109.3 |
| Other administrative expenses | –97.8 | –88.3 |
| Depreciation and impairments on property, plant and equipment and intangible assets | –3.2 | –3.1 |
| **Total** | **–216.5** | **–200.7** |

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

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| Bank levy | –19.6 | –17.5 |
| Deposit guarantee scheme | –4.4 | –4.2 |
| Banking supervision | –1.4 | –1.0 |
| **Total** | **–25.4** | **–22.7** |

## (13) Other income and expenses

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| Other income | 18.3 | 18.3 |
| Other expenses | –24.3 | –17.5 |
| **Total** | **–6.0** | **0.8** |

## (14) Gains or losses on restructuring

Restructuring expenses are incurred from the implementation of the restructuring measures specified for the DKB Group as part of the BayernLB Group and the associated unwinding strategy in the subsidiaries.

## (15) Income taxes

| EUR million | 1 Jan–30 Jun 2017 | 1 Jan–30 Jun 2016 |
|---|---|---|
| Current income taxes | –0.7 | –6.2 |
| Deferred income taxes | –0.6 | –0.9 |
| **Total** | **–1.3** | **–7.1** |

# Notes to the consolidated balance sheet

## (16) Loans and advances to banks

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Loans and advances to domestic banks | 1,272.3 | 5,355.2 |
| Loans and advances to foreign banks | – | 10.3 |
| **Total** | **1,272.3** | **5,365.5** |

## (17) Loans and advances to clients

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Loans and advances to domestic clients | 62,812.3 | 62,662.5 |
| Loans and advances to foreign clients | 556.9 | 565.8 |
| **Total** | **63,369.2** | **63,228.3** |

## (18) Risk provisions

### Specific loan loss provisions for loans and advances to clients

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Opening balance** | **–385.0** | **–369.7** |
| **Changes recognised through profit or loss** | **–51.5** | **–110.0** |
| Additions | –91.9 | –163.6 |
| Releases | 36.7 | 43.3 |
| Unwinding | 3.7 | 10.3 |
| **Changes not recognised through profit or loss** | **133.7** | **94.7** |
| Utilisation | 133.7 | 94.7 |
| **Closing balance** | **–302.8** | **–385.0** |

No specific loan loss provisions for loans and advances to banks were recognised in the reporting period.

**Portfolio loan loss provisions for loans and advances to clients**

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Opening balance** | **–63.8** | **–59.8** |
| **Changes recognised through profit or loss** | **–1.5** | **–20.0** |
| Additions | –1.5 | –20.1 |
| Releases | 0.0 | 0.1 |
| **Changes not recognised through profit or loss** | **–** | **16.0** |
| Utilisation | – | 16.0 |
| **Closing balance** | **–65.3** | **–63.8** |

There were portfolio loan loss provisions of EUR 19 thousand (H1 2016: EUR 21 thousand) for loans and advances to banks as at the reporting date.

Loans and advances of EUR 9.5 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 (FY 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.

## (19) 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 558.7 million (H1 2016: 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) item and on the assets side under the positive fair values from derivative financial instruments (hedge accounting) item.

## (20) Assets held for trading

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Positive fair values from derivative financial instruments (not hedge accounting) | 3.9 | 4.3 |
| **Total** | **3.9** | **4.3** |

## (21) Positive fair values from derivative financial instruments (hedge accounting)

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Positive fair values from fair value hedges (portfolio hedges) | 0.0 | – |
| **Total** | **0.0** | **–** |

## (22) Financial investments

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **AfS financial investments** | **6,159.7** | **5,865.1** |
| Bonds and other fixed-income securities | 5,937.5 | 5,636.1 |
| Equities and other non-fixed-income securities | 155.7 | 164.7 |
| Other financial investments | 66.5 | 64.3 |
| **LaR financial investments** | **–** | **15.0** |
| Bonds and other fixed-income securities | – | 15.0 |
| **Total** | **6,159.7** | **5,880.1** |

## (23) Income tax assets

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Current income tax assets | 0.2 | 0.2 |
| Deferred income tax assets | 0.0 | 0.0 |
| **Total** | **0.2** | **0.2** |

## (24) Liabilities to banks

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Liabilities to domestic banks | 13,364.3 | 13,301.6 |
| Liabilities to foreign banks | 1,262.9 | 1,208.4 |
| **Total** | **14,627.2** | **14,510.0** |

## (25) Liabilities to clients

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Liabilities to domestic clients | 50,662.8 | 52,483.6 |
| Liabilities to foreign clients | 944.2 | 954.4 |
| **Total** | **51,607.0** | **53,438.0** |

## (26) Securitised liabilities

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Bonds and notes issued** | | |
| Mortgage Pfandbriefs | 2,363.4 | 2,416.3 |
| Public sector Pfandbriefs | 1,542.9 | 1,542.7 |
| Other bonds and notes | 498.7 | 500.0 |
| **Total** | **4,405.0** | **4,459.0** |

Mortgage Pfandbriefs of EUR 40.0 million were written down directly in the reporting period.

## (27) Liabilities held for trading

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Negative fair values from derivative financial instruments (no hedge accounting) | 60.8 | 53.4 |
| **Total** | **60.8** | **53.4** |

## (28) Negative fair values from derivative financial instruments (hedge accounting)

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Negative fair values from fair value hedges (portfolio hedges) | 39.6 | 119.2 |
| **Total** | **39.6** | **119.2** |

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

## (29) Provisions

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Provisions for pensions and similar obligations** | **77.4** | **78.1** |
| **Other provisions** | **81.8** | **65.2** |
| Provisions in the credit business | 15.4 | 13.3 |
| Miscellaneous provisions | 66.4 | 51.9 |
| **Total** | **159.2** | **143.3** |

## (30) Income tax liabilities

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Current income tax liabilities | 0.3 | 0.4 |
| Deferred income tax liabilities | 0.8 | 0.5 |
| **Total** | **1.1** | **0.9** |

## (31) Other liabilities

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Profit transfer to BayernLB | – | 256.9 |
| Accruals | 60.9 | 67.9 |
| Deferred income | 11.2 | 12.6 |
| Other obligations | 49.6 | 35.2 |
| **Total** | **121.7** | **372.6** |

## (32) Subordinated capital

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Subordinated liabilities | 472.7 | 380.0 |
| Profit participation certificates | 27.3 | 26.8 |
| **Total** | **500.0** | **406.8** |

Subordinated liabilities of EUR 100.0 million were issued and EUR 1.3 million repaid in the reporting period.

# Disclosures relating to financial instruments

For the information on the risks resulting from financial instruments pursuant to IFRS 7, please refer to the risk report in the DKB Group's interim management report.

## (33) Fair value and measurement hierarchies of financial instruments

### Fair value of financial instruments[1]

| | Fair value | Carrying amount | Fair value | Carrying amount |
|---|---|---|---|---|
| **EUR million** | **30 Jun 2017** | **30 Jun 2017** | **31 Dec 2016** | **31 Dec 2016** |
| **Assets** | **78,071.9** | **74,689.0** | **80,271.2** | **76,693.6** |
| Cash reserves | 3,369.7 | 3,369.7 | 1,428.6 | 1,428.6 |
| Loans and advances to banks | 1,276.3 | 1,272.3 | 5,372.5 | 5,365.5 |
| Loans and advances to clients[2] | 67,306.8 | 63,927.9 | 67,650.0 | 64,059.7 |
| Assets held for trading | 3.9 | 3.9 | 4.3 | 4.3 |
| Positive fair values from derivative financial instruments (hedge accounting) | 0.0 | 0.0 | – | – |
| Financial investments[3] | 6,115.2 | 6,115.2 | 5,815.8 | 5,835.5 |
| **Liabilities** | **73,267.1** | **71,239.6** | **75,450.6** | **72,986.4** |
| Liabilities to banks | 15,536.7 | 14,627.2 | 15,651.4 | 14,510.0 |
| Liabilities to clients | 52,515.7 | 51,607.0 | 54,526.6 | 53,438.0 |
| Securitised liabilities | 4,510.8 | 4,405.0 | 4,602.4 | 4,459.0 |
| Liabilities held for trading | 60.8 | 60.8 | 53.4 | 53.4 |
| Negative fair values from derivative financial instruments (hedge accounting) | 39.6 | 39.6 | 119.2 | 119.2 |
| Subordinated capital | 603.5 | 500.0 | 497.6 | 406.8 |

[1] For current financial instruments, the carrying amount equates to the fair value as a rule.
[2] Including portfolio hedge adjustment assets.
[3] Excluding investments and shares in affiliates, which 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 very 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 that 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 that 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 that 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

Financial instruments measured at fair value were transferred between the levels of the hierarchy during the reporting period. The end of the reporting period is used as the transfer date.

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **EUR million** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Assets** | | | | | | | | |
| Loans and advances to clients | – | – | – | – | 5.6 | 7.0 | **5.6** | **7.0** |
| Assets held for trading | – | – | 3.9 | 4.3 | – | – | **3.9** | **4.3** |
| Positive fair values from derivative financial instruments (hedge accounting) | – | – | 0.0 | – | – | – | **0.0** | **–** |
| Financial investments[1] | 4,902.7 | 4,070.7 | 1,190.5 | 1,730.1 | – | – | **6,093.2** | **5,800.8** |
| of which debt instruments | 4,747.0 | 3,906.0 | 1,190.5 | 1,730.1 | – | – | **5,937.5** | **5,636.1** |
| of which equity and equity-like instruments | 155.7 | 164.7 | – | – | – | – | **155.7** | **164.7** |
| **Total** | **4,902.7** | **4,070.7** | **1,194.4** | **1,734.4** | **5.6** | **7.0** | **6,102.7** | **5,812.1** |
| **Liabilities** | | | | | | | | |
| Liabilities held for trading | – | – | 60.8 | 53.4 | – | – | **60.8** | **53.4** |
| Negative fair values from derivative financial instruments (hedge accounting) | – | – | 39.6 | 119.2 | – | – | **39.6** | **119.2** |
| **Total** | **–** | **–** | **100.4** | **172.6** | **–** | **–** | **100.4** | **172.6** |

[1] Excluding investments and shares in affiliates

On the basis of the review of whether bonds complied with the parameters to be met cumulatively for allocation to Level 1 (e.g. number of prices) as at 30 June 2017, bonds and notes worth EUR 384.1 million were reclassified from Level 1 to Level 2 and bonds worth EUR 905.9 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 million | Financial investments 2017 | Financial investments 2016 | Loans and advances to clients 2017 | Loans and advances to clients 2016 | Non-current assets held for sale (shares in Visa Europe Limited) 2017 | Non-current assets held for sale (shares in Visa Europe Limited) 2016 | Total 2017 | Total 2016 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 Jan** | **19.7** | **–** | **7.0** | **12.0** | **–** | **117.0** | **26.7** | **129.0** |
| Effects recognised through profit or loss | – | – | –0.5 | 0.2 | – | – | **–0.5** | 0.2 |
| of which other income and expenses | – | – | –0.5 | 0.2 | – | – | **–0.5** | 0.2 |
| Change in the revaluation surplus | 2.2 | –0.4 | –0.4 | –0.2 | – | 12.5 | **1.8** | 11.9 |
| Purchases | – | 17.9 | 0.0 | – | – | – | **0.0** | 17.9 |
| Sales | – | – | – | –1.2 | – | –129.5 | **–** | –130.7 |
| Settlements | – | – | –0.5 | –0.3 | – | – | **–0.5** | –0.3 |
| **As at 30 Jun** | **21.9** | **17.5** | **5.6** | **10.5** | **–** | **–** | **27.5** | **28.0** |
| Effects for financial instruments that are in the portfolio on 30 June, recognised through profit or loss | – | – | –0.5 | –0.5 | – | – | **–0.5** | –0.5 |
| of which other income and expenses | – | – | –0.5 | –0.5 | – | – | **–0.5** | –0.5 |

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

### Loans and advances to clients

(acquired on the non-performing loan market through mortgage-backed loans)

| Significant non-observable parameters | Range (average) | Change in parameters | Change recognised through profit or loss | Change in equity |
|---|---|---|---|---|
| Realisation value | EUR 0 thousand to EUR 159 thousand (EUR 25 thousand) | +5.0 %<br>–5.0 % | EUR +62 thousand<br>EUR –67 thousand | EUR +191 thousand<br>EUR –180 thousand |
| Realisation period | 1 month to 37 months (10 months) | +6 months<br>–6 months | EUR –0 thousand<br>EUR +0 thousand | EUR –6 thousand<br>EUR +9 thousand |
| Interest rate | 0.42 % to 0.53 % (0.43 %) | +0.05 %<br>–0.05 % | EUR 0 thousand<br>EUR 0 thousand | EUR –0 thousand<br>EUR +3 thousand |

**Financial investments (shares in VISA Inc.)**

| Significant non-observable parameters | Weighted average | Change in parameters | Change recognised through profit or loss | Change in equity |
|---|---|---|---|---|
| Subscription ratio of the Visa Inc. ordinary shares | 50.0 % | +10 % | – | EUR +2,195 thousand |
| | | −10 % | – | EUR −2,195 thousand |

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

## (34) Financial instrument measurement category

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Assets** | | |
| **Financial assets measured at fair value through profit or loss** | **3.9** | **4.3** |
| Assets held for trading (HfT) | 3.9 | 4.3 |
| **Loans, advances and securities (LaR)** | **64,635.9** | **68,601.8** |
| Loans and advances to banks | 1,272.3 | 5,365.5 |
| Loans and advances to clients | 63,363.6 | 63,221.3 |
| Financial investments | – | 15.0 |
| **Financial assets available for sale (AfS)** | **6,165.3** | **5,872.1** |
| Loans and advances to clients | 5.6 | 7.0 |
| Financial investments | 6,159.7 | 5,865.1 |
| **Positive fair values from derivative financial instruments (hedge accounting)** | **0.0** | **–** |
| **Liabilities** | | |
| **Financial liabilities measured at fair value through profit or loss** | **60.8** | **53.4** |
| Liabilities held for trading (HfT) | 60.8 | 53.4 |
| **Financial liabilities measured at amortised cost (LaC)** | **71,139.2** | **72,813.8** |
| Liabilities to banks | 14,627.2 | 14,510.0 |
| Liabilities to clients | 51,607.0 | 53,438.0 |
| Securitised liabilities | 4,405.0 | 4,459.0 |
| Subordinated capital | 500.0 | 406.8 |
| **Negative fair values from derivative financial instruments (hedge accounting)** | **39.6** | **119.2** |

## (35) Reclassification 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 securities affected (carrying amount as at 31 December 2016: EUR 15.0 million) fell due in the reporting period. The reclassification impacted the Group's earnings in the reporting period by EUR 0.0 million (FY 2016: EUR 0.0 million). There were no reclassifications in the reporting period.

## (36) Derivatives transactions

The following table shows the outstanding interest-rate-related and foreign-currency-related derivatives and other forward transactions as at the reporting date.

**Volumes**

| | Nominal value | | Positive fair value | Negative fair value |
|---|---|---|---|---|
| **EUR million** | **30 Jun 2017** | **31 Dec 2016** | **30 Jun 2017** | **30 Jun 2017** |
| **Interest rate risks** | **10,290.0** | **11,950.0** | **21.6** | **713.8** |
| Interest rate swaps | 10,270.0 | 11,925.0 | 21.6 | 713.0 |
| Options on interest rate swaps | 20.0 | 25.0 | – | 0.8 |
| **Currency risks** | **34.0** | **35.0** | **0.6** | **–** |
| Forward exchange transactions | 34.0 | 35.0 | 0.6 | – |
| **Total** | **10,324.0** | **11,985.0** | **22.2** | **713.8** |

EUR 8,245.0 million (H1 2016: 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.

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

# Disclosures relating to the risk situation

## (37) 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.

## Changes in counterparty risks

The maximum credit risk breaks down as follows:

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| Cash reserves | 3,369.7 | 1,428.6 |
| Loans and advances to banks | 1,272.3 | 5,365.5 |
| Loans and advances to clients | 63,001.1 | 62,779.5 |
| Financial investments | 5,937.6 | 5,651.1 |
| Derivatives | 3.9 | 4.3 |
| Contingent liabilities | 921.2 | 831.5 |
| Irrevocable commitments | 3,010.5 | 2,692.4 |
| **Total** | **77,516.3** | **78,752.9** |

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 million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Rating 1–9** | **72,878.6** | **74,091.0** |
| Cash reserves | 3,369.7 | 1,428.6 |
| Loans and advances to banks | 1,272.3 | 5,365.5 |
| Loans and advances to clients | 58,549.5 | 58,323.3 |
| Financial investments | 5,937.6 | 5,561.1 |
| Derivatives | 3.9 | 4.3 |
| Contingent liabilities | 883.5 | 788.6 |
| Irrevocable commitments | 2,862.1 | 2,529.6 |
| **Rating 10–12** | **2,572.9** | **2,576.2** |
| Loans and advances to clients | 2,436.3 | 2,434.5 |
| Contingent liabilities | 23.2 | 26.8 |
| Irrevocable commitments | 113.4 | 114.9 |
| **Rating 13–15** | **900.7** | **903.7** |
| Loans and advances to clients | 875.9 | 885.7 |
| Contingent liabilities | 6.8 | 7.1 |
| Irrevocable commitments | 18.0 | 10.9 |
| **Default categories (rating 16–18)** | **211.5** | **150.1** |
| Loans and advances to clients | 192.2 | 121.1 |
| Contingent liabilities | 6.7 | 8.3 |
| Irrevocable commitments | 12.6 | 20.7 |
| **Total** | **76,563.7** | **77,721.0** |

The following table shows financial assets that are past due but not impaired:

| | Maximum credit risk | | Eligible collateral | |
|---|---|---|---|---|
| **EUR million** | **2017** | **2016** | **2017** | **2016** |
| **Loans and advances to clients** | **619.0** | **647.0** | **449.7** | **440.6** |
| Up to 1 month | 411.2 | 410.1 | 299.5 | 271.1 |
| More than 1 month up to 3 months | 117.3 | 145.1 | 99.0 | 117.7 |
| More than 3 months up to 1 year | 60.6 | 62.7 | 48.7 | 49.6 |
| More than 1 year | 29.9 | 29.1 | 2.5 | 2.2 |
| **Loans and advances to banks** | **–** | **–** | **–** | **–** |
| **Financial investments** | **–** | **–** | **–** | **–** |
| **Derivatives** | **–** | **–** | **–** | **–** |
| **Contingent liabilities** | **–** | **–** | **–** | **–** |
| **Irrevocable commitments** | **4.4** | **16.3** | **–** | **–** |
| Up to 1 month | 4.4 | 16.1 | – | – |
| More than 1 month up to 3 months | – | 0.2 | – | – |
| **Total** | **623.4** | **663.3** | **449.7** | **440.6** |

The maximum credit risk of impaired assets changed as follows in the first half of 2017:

| | Maximum credit risk | | Eligible collateral | |
|---|---|---|---|---|
| **EUR million** | **2017** | **2016** | **2017** | **2016** |
| Loans and advances to clients | 328.2 | 367.9 | 114.2 | 148.3 |
| Loans and advances to banks | – | – | – | – |
| Financial investments | – | – | – | – |
| Derivatives | – | – | – | – |
| Contingent liabilities | 1.0 | 0.7 | – | – |
| Irrevocable commitments | – | – | – | – |
| **Total** | **329.2** | **368.6** | **114.2** | **148.3** |

The structure of eligible collateral for the impaired commitments does not differ from the general composition of the collateral portfolio.

Impaired assets – consisting of specific loan loss provisions and provisions – fell by EUR 75.9 million to EUR 315.0 million.

Portfolio provisions of EUR 65.3 million were created for loans and advances that were not impaired. Provisions of EUR 3.2 million were also created at portfolio level for off-balance-sheet business.

## Forborne exposure

Forbearance measures are generally defined as concessions to a debtor against the background of financial difficulties. The aim of such concessions is to put the borrower in a position where they can meet their obligations under the loan agreement.

Concessions may either be made by modifying existing conditions in favour of the debtor or by granting partial or complete debt restructuring measures. Among others, modifications to the term, interest rate and repayment schedule count as forbearance measures, as do debt waivers or capitalisation of arrears.

Forborne exposure changed as follows in the reporting period:

| EUR million | 2017 | 2016 |
|---|---|---|
| Loans and advances to clients | **681.5** | **531.0** |
| Contingent liabilities | 13.9 | 10.6 |
| Irrevocable commitments | 31.8 | 19.5 |
| **Total** | **727.2** | **561.1** |

## Market risks

The DKB Group divides market risks for the Bank as a whole (banking book and custody account-A) into the risk factors: interest, equities, credit spread, foreign currency and volatility. The economic capital requirements for the Bank as a whole changed in the first reporting half-year as follows:

| | 6-month comparison 2017 | | | 12-month comparison 2016 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **30 Jun 2017** | **Maximum** | **Minimum** | **31 Dec 2016** | **Maximum** | **Minimum** |
| Interest | 173 | 218 | 109 | 181 | 462 | 123 |
| Equities | 42 | 87 | 42 | 86 | 112 | 73 |
| Credit spread | 21 | 23 | 15 | 17 | 26 | 16 |
| Foreign currency | 6 | 7 | 6 | 6 | 8 | 0 |
| Volatility | 0 | 0 | 0 | 0 | 0 | 0 |
| **Correlated total risk** | **185** | **256** | **133** | **219** | **482** | **187** |

The securities portfolio had the following structure in terms of issuers and products as at 30 June 2017:

| Market value in EUR million | Banks | | Non-banks | | Public sector issuers | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30 Jun 2017 | 31 Dec 2016 | 30 Jun 2017 | 31 Dec 2016 | 30 Jun 2017 | 31 Dec 2016 | 30 Jun 2017 | 31 Dec 2016 |
| Bonds | 1,780.3 | 1,605.0 | 285.9 | 303.3 | 3,871.4 | 3,742.8 | 5,937.6 | 5,651.1 |
| Funds | – | – | 155.7 | 164.7 | – | – | 155.7 | 164.7 |
| Equities | – | – | – | – | – | – | – | – |
| **Total** | **1,780.3** | **1,605.0** | **441.6** | **468.0** | **3,871.4** | **3,742.8** | **6,093.3** | **5,815.8** |

The regional breakdown of the securities portfolio by market value changed as follows:

| | 30 Jun 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | EUR million | % | EUR million | % |
| Germany | 4,328.0 | 71 | 4,092.0 | 70 |
| Europe/EU | 1,498.9 | 25 | 1,456.2 | 25 |
| Europe/Non-EU | 148.1 | 2 | 136.3 | 2 |
| USA | 22.0 | 0 | 34.8 | 1 |
| Other | 96.3 | 2 | 96.5 | 2 |
| **Total** | **6,093.3** | **100** | **5,815.8** | **100** |

# Other

## (38) Pfandbriefs (covered bonds) in circulation

| | Nominal value | | Present value | |
|---|---|---|---|---|
| EUR million | 30 Jun 2017 | 31 Dec 2016 | 30 Jun 2017 | 31 Dec 2016 |
| **Public sector Pfandbriefs and mortgage Pfandbriefs** | | | | |
| Total amount of the cover pools[1] | 17,989.5 | 17,487.2 | 19,983.0 | 19,747.8 |
| Total amount of Pfandbriefs in circulation | 8,649.3 | 9,061.3 | 9,661.8 | 10,294.3 |
| **Surplus cover** | **9,340.2** | **8,425.9** | **10,321.2** | **9,453.5** |
| | **108%** | **93%** | **107%** | **92%** |

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

## (39) Contingent liabilities and other commitments

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Contingent liabilities** | **926.2** | **833.3** |
| Liabilities from guarantees and indemnity agreements | 921.2 | 831.5 |
| Contingent liabilities from legal disputes | 5.0 | 1.8 |
| **Other commitments** | **3,010.5** | **2,692.4** |
| Irrevocable credit commitments | 3,010.5 | 2,692.4 |
| **Total** | **3,936.7** | **3,525.7** |

## (40) Bodies of Deutsche Kreditbank AG

### Supervisory Board

#### Shareholders' representatives

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

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

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

**Marcus Kramer**
Member of the Board of Management of Bayerische Landesbank

**Stefan Hock**
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**
Chairman of the Board of Directors of Sparkasse Karlsruhe Ettlingen

**Michael Schneider**
Until 31 March 2017
Chairman of the Board of Directors of LfA Förderbank Bayern (retired)

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

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

#### Employees' representatives

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

**Christine Enz**
Representative of DBV (German Association of Bank Employees DBV)

**Jens Hübler**
Senior employee
Deutsche Kreditbank AG

**Frank Radtke**
Employee
Deutsche Kreditbank AG

**Michaela Bergholz**
Representative of DBV (German Association of Bank Employees DBV)

**Jörg Feyerabend**
Employee
DKB Service GmbH

**Gunter Wolf**
Employee
Deutsche Kreditbank AG

**Frank Siegfried**
Employee
Deutsche Kreditbank AG

#### Honorary members

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

### Board of Management

**Stefan Unterlandstättner**
Chairman of the Board of Management

**Rolf Mähliß**
Member of the Board of Management

**Dr Patrick Wilden**
Member of the Board of Management

**Tilo Hacke**
Member of the Board of Management

**Thomas Jebsen**
Member of the Board of Management

## (41) Related parties

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

– Sole shareholder (parent company) Bayerische Landesbank, Munich

– Non-consolidated subsidiaries of the DKB Group

– Joint ventures of the DKB Group

– Associates of the DKB Group

– Other related companies – these include the subsidiaries, joint ventures and associates of the BayernLB Group, the Free State of Bavaria and companies that are controlled by the Free State of Bavaria or that are jointly managed by it or subject to significant influence from it, as well as the Bavarian Association of Savings Banks and companies that are controlled by the Bavarian Association of Savings Banks or are jointly managed by it

– Members of the Board of Management and the Supervisory Board of DKB AG and of the Board of Management and the Supervisory Board of Bayerische Landesbank, as well as their close family members

The DKB Group maintains a range of commercial relations with related parties. In essence, these relationships comprise typical banking services such as deposit, credit and money market business.

Transactions with related parties are concluded at standard market conditions and terms as part of normal business activities.

The scope of transactions with related parties is shown below:

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Loans and advances to banks** | **968.2** | **3,019.9** |
| Parent company | 968.2 | 3,019.9 |
| **Loans and advances to clients** | **199.0** | **194.7** |
| Non-consolidated subsidiaries | 159.1 | 154.8 |
| Joint ventures | 34.8 | 35.0 |
| Other related companies | 5.1 | 4.9 |
| **Risk provisions** | **25.9** | **25.8** |
| Non-consolidated subsidiaries | 2.7 | 2.9 |
| Joint ventures | 23.2 | 22.9 |
| **Assets held for trading** | **3.9** | **4.3** |
| Parent company | 3.9 | 4.3 |
| **Positive fair values from derivative financial instruments (hedge accounting)** | **0.0** | **–** |
| Parent company | 0.0 | – |
| **Financial investments** | **30.3** | **30.3** |
| Other related companies | 30.3 | 30.3 |
| **Other assets** | **138.5** | **121.9** |
| Parent company | 137.5 | 120.9 |
| Non-consolidated subsidiaries | 1.0 | 1.0 |
| Other related companies | 0.0 | 0.0 |
| **Liabilities to banks** | **879.1** | **933.1** |
| Parent company | 559.4 | 688.7 |
| Other related companies | 319.7 | 244.4 |
| **Liabilities to clients** | **61.8** | **66.6** |
| Non-consolidated subsidiaries | 10.5 | 35.7 |
| Joint ventures | 0.8 | 1.0 |
| Other related companies | 50.5 | 29.9 |

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Securitised liabilities** | **26.6** | **25.6** |
| Parent company | 1.5 | 0.5 |
| Other related companies | 25.1 | 25.1 |
| **Liabilities held for trading** | **0.9** | **1.2** |
| Parent company | 0.9 | 1.2 |
| **Negative fair values from derivative financial instruments (hedge accounting)** | **0.6** | **0.1** |
| Parent company | 0.6 | 0.1 |
| **Provisions** | **0.0** | **0.0** |
| Non-consolidated subsidiaries | 0.0 | 0.0 |
| Other related companies | 0.0 | 0.0 |
| **Other liabilities** | **2.8** | **10.2** |
| Parent company | 0.3 | 0.5 |
| Non-consolidated subsidiaries | 0.1 | 3.1 |
| Joint ventures | 0.1 | 0.2 |
| Other related companies | 2.3 | 6.4 |
| **Subordinated capital** | **353.0** | **258.9** |
| Parent company | 353.0 | 258.9 |
| **Contingent liabilities** | **0.9** | **0.9** |
| Non-consolidated subsidiaries | 0.9 | 0.9 |
| Other related companies | 0.0 | 0.0 |
| **Other commitments** | **5.9** | **3.7** |
| Non-consolidated subsidiaries | 2.6 | 0.5 |
| Other related companies | 3.3 | 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 million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Loans and advances**[1] | | |
| Members of the Board of Management of DKB AG [2] | 3.0 | 2.7 |
| Members of the Supervisory Board of DKB AG [2] | 1.1 | 1.0 |
| Members of the Board of Management of BayernLB [2] | 0.1 | 0.1 |
| Members of the Supervisory Board of BayernLB [2] | 0.3 | – |

[1] Multiple responses are possible.
[2] The loans and advances are fully collateralised.

| EUR million | 30 Jun 2017 | 31 Dec 2016 |
|---|---|---|
| **Deposits**[1] | | |
| Members of the Board of Management of DKB AG | 2.6 | 1.8 |
| Members of the Supervisory Board of DKB AG | 2.5 | 1.7 |
| Members of the Board of Management of BayernLB | 2.7 | 1.9 |
| Members of the Supervisory Board of BayernLB | 1.3 | 1.6 |

[1] Multiple responses are possible

Berlin, 8 August 2017

Deutsche Kreditbank AG
The Board of Management

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

**Tilo Hacke** **Thomas Jebsen**

# Statement of the legal representatives

We declare that, to the best of our knowledge and in accordance with the applicable accounting principles for interim reporting, the interim consolidated financial statements provide a true representation of the Group's net assets, financial position and performance under consideration of the generally accepted accounting principles, and that the interim Group management report presents a true representation of the business performance, including the business result and the position of the Group, and that the significant opportunities and risks of the Group's expected development over the rest of the financial year are described.

Berlin, 8 August 2017

Deutsche Kreditbank AG
The Board of Management

**Stefan Unterlandstättner** **Rolf Mählíß** **Dr Patrick Wilden**

**Tilo Hacke** **Thomas Jebsen**

# Review report

For Deutsche Kreditbank AG, Berlin

We have reviewed the condensed interim consolidated financial statements – comprising the consolidated balance sheet as of 30 June 2017, consolidated statement of comprehensive income for the period from 1 January to 30 June 2017, condensed consolidated cash flow statement, consolidated statement of changes in equity and selected explanatory notes – and the interim Group management report prepared by Deutsche Kreditbank AG, Berlin, for the period from 1 January to 30 June 2017, which are part of the half-year financial report pursuant to section 37w of the German Securities Trading Act. Preparation of the condensed interim consolidated financial statements pursuant to the IFRS applicable to interim financial reporting, as adopted by the EU, and of the interim Group management report in accordance with the provisions of the German Securities Trading Act that apply to interim Group management reports is the responsibility of the company's Board of Management. Our task is to submit a review report for the condensed interim consolidated financial statements and the interim Group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and the interim Group management report taking into consideration German generally accepted standards for reviewing financial statements set forth by the Institute of Public Auditors in Germany (German: Institut der Wirtschaftsprüfer or IDW). According to these standards, the review is to be planned and performed in such a manner that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in all material respects, in agreement with the IFRS applicable to interim financial reporting, as adopted by the EU, and that the interim Group management report has not been prepared, in all material respects, in agreement with the provisions of the German Securities Trading Act that apply to interim Group management reports. A review is limited primarily to inquiries of company employees and to analytical assessments and therefore does not provide the assurance that can be obtained in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an audit report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in all material respects, in agreement with the IFRS applicable to interim financial reporting, as adopted by the EU, or that the interim Group management report has not been prepared, in all material respects, in agreement with the provisions of the German Securities Trading Act that apply to interim Group management reports.

Berlin, 8 August 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Bergmann<br>Wirtschaftsprüfer<br>(German Public Auditor) | Thiel<br>Wirtschaftsprüfer<br>(German Public Auditor) |

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