# Half-Year Financial Report 2018

DKB

Deutsche Kreditbank AG

### Performance indicators

| **EUR millions** | **30.06.2018** | **2017** |
|---|---|---|
| Net interest income | 510.5 | 935.2 |
| Risk result | –28.9 | –127.3 |
| Net commission income | –11.3 | –39.2 |
| Administrative expenses | 231.8 | 446.3 |
| Profit/loss before taxes | 191.8 | 264.7 |
| | | |
| Cost/income ratio (CIR) in % | 48.6 % | 50.8 % |
| Return on equity (RoE) in % | 13.2 % | 9.6 % |

### Balance sheet figures

| **in EUR millions** | **30.06.2018** | **2017** |
|---|---|---|
| Total assets | 75,636.5 | 77,322.9 |
| Equity | 3,338.9 | 3,255.5 |
| Core capital ratio in % | 9.4 % | 8.8 % |
| Client receivables | 64,448.2 | 64,552.2 |
| Client deposits | 53,040.1 | 53,931.0 |
| Client receivables as % share of balance sheet total | 85.2 % | 83.5 % |

# 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. We use over 85% of our total assets for lending in Germany.

For us, not only entrepreneurial, but also sustainable actions are important. This is why we also look at compliance with environmental and social standards when granting loans. We therefore finance, for example, the establishment of housing adapted to the needs of the elderly and families, energy-efficient real estate as well as inpatient and outpatient healthcare facilities, and building projects in schools and daycare 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 sector since 1996. Using the latest technologies, our more than 3.8 million private clients can conduct their banking transactions conveniently and securely online.

We split our Group activities into three market segments – Retail, Infrastructure and Corporates – and the Financial Markets, which includes the Treasury division of the DKB, and Other segments. Deutsche Kreditbank AG, Berlin is the parent company for the Deutsche Kreditbank, Berlin Group. Further information on the basic principles of the Group can be found in the 2017 Annual Report (p. 34 et seq.). The statements contained therein still apply.

The interim management report for the first half of 2018 and the half-year financial statements for 2018 have been drawn up pursuant to section 115 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 regulations on the adoption of specific international accounting standards on the basis of the International Financial Reporting Standards (IFRSs) 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 Accounting Standards Committee of Germany (ASCG) in the version amended by GAAS 7 on 22 September 2017.

# Report on the economic position

## Economic environment

### Macroeconomic environment: Economic growth weakens slightly

Following strong growth in the previous year, overall economic activity in Germany was more subdued in the first quarter of 2018. The economic expansion rate (seasonally and calendar-adjusted) increased by only 0.3% compared with the last quarter of 2017. This is partly due to special effects, in particular the high level of sickness caused by the unusually strong influenza outbreak. The economy stabilised again in the second quarter. Consumer demand continued to play a prominent role here.

The inflation rate in Germany rose to 2.1% in June. The inflation rate – measured by the consumer price index – thus exceeded 2% for the second month in succession (May 2018: 2.2%). The main reasons for this development were higher prices for energy and food.

### Financial markets: Numerous political uncertainties lead to volatilities

In the first half of the year, the financial markets were affected by a number of political events. These included the mutual creation of trade barriers and the introduction of customs duties in the USA, China and Europe, the withdrawal of the USA from the international nuclear deal with Iran, the new elections and the formation of a government in Italy as well as the Brexit negotiations that continue to be difficult.

The US Federal Reserve continued its course of steady tightening and raised the key interest rate twice in the first half of the year – to between 1.75% and 2.0%. It also indicated that it would raise interest rates further until the end of this year and in the next year.

In June 2018, the Europe-wide inflation rate stood at 2.0%, exactly at the ECB's key threshold. At its Council meeting on 14 June, the ECB in principle confirmed its accommodative monetary policy stance. At the same time, it announced that net bond purchases of EUR 30 billion per month would continue until the end of September. Thereafter, however, they will be reduced to EUR 15 billion per month until the end of the year and then discontinued altogether. The main refinancing rate remained at 0% and the deposit rate for banks remained unchanged at -0.40%.

Yields on the bond market continued to be volatile in the first half of the year. The yield on ten-year German government bonds fluctuated between 0.26% and 0.77% in the reporting period.

The German stock markets declined overall in the first half of 2018: the DAX lost around 5% standing at 12,306 points on 29 June.

In the same period, the euro lost around 2.7% against the US dollar and, at the end of the first half of the year, it was trading at USD 1.17.

# Business performance

## Overall performance: Improvement in profit/loss before taxes

The upheaval in the banking market continues. It is determined by high cost and competitive pressure, investments in digitisation, increasing requirements due to regulations with regard to IT infrastructure, security and capital structure and continued historically low interest rates. Against this backdrop, the DKB Group remains on a good path. Performance in the first half of the year was clearly positive.

Net interest income after the risk result/provisions rose by 30.5% to EUR 481.6 million compared with the same period of the previous year. The expense items developed in line with planning, so that earnings before taxes improved by EUR 78.5 million to EUR 191.8 million year-on-year.

Client receivables changed only slightly compared with the balance sheet date and, at EUR 64.4 billion, were slightly below the figure as of 31 December 2017 (EUR 64.6 billion). Client deposits fell to EUR 53.0 billion (31 December 2017: EUR 53.9 billion). The balance sheet total decreased to EUR 75.6 billion as at the half-year balance sheet date (31 December 2017: EUR 77.3 billion).

The change in the key ratios for return on capital and profitability over the first half of the year was as follows: the return on equity (ROE) reached 13.2%, up 5.0 percentage points on the previous year (mid-2017: 8.2%). At 48.6%, the cost/income ratio (CIR) was better than in the previous year (mid-2017: 52.2%).

In order to continue to meet the technological requirements, we founded DKB Code Factory GmbH in June of this year as a wholly owned subsidiary of DKB AG. The task of the company's own start-up is to develop new, innovative products and services for DKB. At the same time, we were able to gain an experienced digital expert for the function of CDO at DKB.

## Retail clients segment: Growth despite intense competition

In the first half of 2018, the retail clients business continued to operate in an intense competitive environment that was accompanied by high client expectations. For clients, the digital performance of financial institutions is playing an ever more important role when it comes to clients choosing their banks.

Client growth in the retail clients segment remained at the previous year's level. The number of new clients was 193,000 (30 June 2017: 182,000). In addition to DKB Cash, an anchor product was the free DKB Business account – a business account for freelancers. This product enabled us to gain around 1,300 doctors, dentists, pharmacists, lawyers and tax consultants as clients. As of the half-year reporting date, we served a total of more than 3.8 million clients in the retail clients segment, making us the second-largest online bank in Germany.

The deposit volume increased by EUR 1.9 billion to EUR 33.4 billion due to the growth in new clients. The volume of receivables (nominal) fell slightly year-on-year by EUR 0.3 billion to EUR 12.6 billion. It was supported in particular by the increase in mortgages and instalment loans. The latter have been concluded and processed entirely digitally since February 2018.

In the securities business, the number of custody accounts managed by us rose to 218,000 (31 December 2017: 187,000).

We provided additional digital services to our retail clients in the first six months. We have been testing the "HERBIE" digital client assistant in a pilot phase in cooperation with the Berlin-based fintech company, FinReach, since March 2018; this digital client assistant uses artificial intelligence to help potential clients obtain private loans. We have introduced new multi-banking features for DKB Cash clients. For a better overview, clients can have all their personal bank accounts and custody accounts, including those of third-party institutions, displayed in DKB's Internet banking.

## Infrastructure segment: Financing demand remains at a high level

As expected, the infrastructure segment continued to be characterised by a high demand for financing across all client groups, although the dynamics between client groups varied distinctly. In view of the fierce competition, margin pressure remained high across all client groups.

The volume of receivables as at the reporting date was EUR 0.3 billion higher at EUR 38.3 billion. Compared with the same half-year period of the previous year, growth even amounted to EUR 1.7 billion or 4.5%. Given the conditions in line with the strategy, the deposit volume fell to EUR 13.1 billion as at the balance sheet date (31 December 2017: EUR 15.5 billion).

In the client group of **local authorities and social infrastructure**, the general conditions remain positive despite strong competition. There is a high need for investment in public infrastructure. Investment requirements also continue to be high in the health and education sectors. Public demand for credit has recently weakened slightly due to the relatively good budgetary position. The introduction of chargeable account models is continuing to have an effect, with the result that the client base fell slightly to 10,060 clients in the past half year (31 December 2017: 10,260 clients).

The **energy and utilities** client group demand for credit in the first half of 2018 developed an upward momentum across all target industries. Demand for loans with long maturities increased. While many of the traditional utilities continued to seek replacement investments in their energy infrastructure, a trend towards investing in renewable energies became evident for municipal utilities.

With the ECB's ongoing policy of low interest rates, demand for loans in the **housing** client group also remained high. Investments were increasingly made in new construction and energy-related measures. At the same time, borrowers, including in particular housing associations in demographically weaker regions, continued to implement their debt reduction strategy. At the end of the first half of the year, the market penetration of housing associations was 87%, six percentage points higher than at the turn of the year.

The **management business** also developed positively in the first half of 2018. Deposits from this client group grew by EUR 0.3 billion to EUR 3.6 billion. As at the half-year reporting date, more than 9,500 commercial residential property managers (31 December 2017: 9,050) managed the portfolios of more than 51,800 condominium owners associations (31 December 2017: 48,600) with the DKB AG.

In the first half of the year, the development in the **civic participation** segment was characterised by a declining number of projects in the renewable energies sector in an environment of strong banking competition. As expected, demand for civic wind projects in particular declined during the first six months. The total number of DKB civic participation projects managed rose by six to 109 as at the balance sheet date.

## Corporate clients segment: Receivables volume slightly lower

Business in the corporate clients segment developed moderately in the first half of the year. The volume of receivables fell slightly by 1.1% to EUR 13.1 billion as at the balance sheet date. The financing of wind power and other renewable energy projects could not fully compensate for the noticeable reluctance of agricultural businesses to invest. At EUR 2.4 billion, the deposit volume remained almost at the level of the balance sheet date (31 December 2017: EUR 2.6 billion).

In the **environmental technology** client group, the market players in the wind sector, the growth driver to date, behaved cautiously in the first half of the year, in line with expectations. As forecast, the expansion of wind turbines in Germany as a whole is below the level of previous years due to the influences of the changeover to the EEG funding system. The demand for photovoltaic financing, especially for ground-mounted systems, remains good in line with the market situation.

In the **food and agriculture** client group, the propensity of agricultural businesses to invest remained subdued. Some positive developments were also noted: in the bioenergy sector, for example, there was growing interest in measures to make biogas plants more flexible.

The development from 2017 continued in the **tourism** client group. In the first six months of 2018, volume declines due to numerous disposals were not compensated for by new business.

### Financial markets segment: Refinancing strategy continued

Market developments led to a decline in the revaluation reserve and hidden reserves in DKB's liquidity portfolio.

The portfolio of highly liquid securities (as defined by supervisory law) in the liquidity buffer was increased by EUR 0.2 billion (net) in the first half of 2018.

DKB's refinancing structure remained essentially unchanged. Client deposits fell by EUR 0.9 billion to EUR 53.0 billion compared with 31 December 2017. This is mainly attributable to adjustments in terms and conditions in line with our strategy.

Large-volume capital market issues were dispensed with due to DKB's good liquidity position.

### Other segment

As a result of the successful reduction in non-core business activities in recent years and the resulting very low level of inventories (receivables volume as at 30 June 2018: less than EUR 0.3 billion), non-core business has been allocated to the Other segment as of this year.

DKB Service GmbH continued its activities in line with its task profile for the DKB Group. In the first half of 2018, it again provided the majority of its services for DKB AG.

# Results of operations

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Net interest income | 510.5 | 429.2 | 81.3 | 18.9 |
| Risk provisions | – | –59.1 | 59.1 | 100.0 |
| Risk result | –28.9 | – | –28.9 | –100.0 |
| **Net interest income after risk result/provision** | **481.6** | **370.1** | **111.5** | **30.1** |
| Net commission income | –11.3 | –12.9 | 1.6 | 12.4 |
| Gains or losses on fair value measurement | 11.0 | 70.8 | –59.8 | –84.5 |
| Gains or losses on hedging transactions | –34.2 | –79.2 | 45.0 | 56.8 |
| Gains or losses on financial investments | 0.4 | 13.0 | –12.6 | –96.9 |
| Administrative expenses | –231.8 | –216.5 | –15.3 | –7.1 |
| Expenses from the bank levies, deposit protection and banking supervision | –30.7 | –25.4 | –5.3 | –20.9 |
| Other income and expenses | 6.7 | –6.0 | 12.7 | >100.0 |
| Gains or losses on restructuring | 0.1 | –0.6 | 0.7 | >100.0 |
| **Profit/loss before taxes** | **191.8** | **113.3** | **78.5** | **69.3** |
| Income taxes | –1.4 | –1.3 | –0.1 | –7.7 |
| **Consolidated profit/loss** | **190.4** | **112.0** | **78.4** | **70.0** |

## First-time application of IFRS 9

The DKB Group has applied the provisions of IFRS 9 since 1 January 2018. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" and contains new provisions for the classification and measurement of financial instruments as well as new regulations for the recognition of impairments of financial assets and for the accounting of hedging relationships (hedge accounting).

The first-time application of IFRS 9 resulted in an effect of EUR –98.5 million, which was recognised directly in equity in accordance with the provisions of IFRS 9. The effect is primarily a result of the new regulations for taking into account expected credit losses over the term and from model adjustments due to the changeover to IFRS 9.

As a result of the introduction of IFRS 9, the DKB Group has created a new item in the consolidated statement of comprehensive income, namely the "Risk result" item, in order to better reflect the interrelationships of credit rating-related effects on profit or loss. The risk result combines the earnings effects of the former item "Risk provision" with the earnings effects of insignificant modifications of Level 2 and Level 3 financial instruments and the results from the disposal of financial instruments in the AAC category.

For further information on the first-time application of IFRS 9, please refer to the Notes (Note 2).

## Net interest income

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Interest income and positive interest expenses | 886.2 | 958.8 | –72.6 | –7.6 |
| Interest expenses and negative interest income | –375.7 | –529.6 | 153.9 | 29.1 |
| **Net interest income** | **510.5** | **429.2** | **81.3** | **18.9** |

Net interest income increased in particular due to lower interest expenses from interest rate hedging transactions.

## Risk result/risk provision

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Risk provision result | –22.7 | –59.1 | 36.4 | 61.6 |
| Result from the disposal of AAC category financial instruments | –6.2 | – | –6.2 | –100.0 |
| **Risk result** | **–28.9** | **–59.1** | **30.2** | **51.1** |

## Net commission income

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Credit card business | 12.2 | 8.3 | 3.9 | 47.0 |
| Lending business | –7.6 | –2.0 | –5.6 | < –100.0 |
| Payments | –22.8 | –24.8 | 2.0 | 8.1 |
| Other net commission income | 6.9 | 5.6 | 1.3 | 23.2 |
| **Net commission income** | **–11.3** | **–12.9** | **1.6** | **12.4** |

## Gains or losses on fair value measurement

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Result from derivatives in commercial hedging relationships | 6.2 | 70.8 | –64.6 | –91.2 |
| Fair value gains/losses from FVPLM financial instruments | 4.8 | – | 4.8 | 100.0 |
| **Gains or losses on fair value measurement** | **11.0** | **70.8** | **–59.8** | **–84.5** |

As a result of the introduction of IFRS 9, the Group also for the first time reports changes in fair value from FVPLM financial instruments in the fair value result, in addition to the result from derivatives in commercial hedging relationships. This primarily includes the funds held by the DKB Group and shares in companies.

## Gains or losses on hedging transactions

The result from hedging transactions reflects the interest rate-induced effects of the interest rate derivatives concluded by DKB for hedging purposes and their underlying transactions as part of hedge accounting.

## Gains or losses on financial investments

As in the previous year, gains or losses on financial investments arise on the proceeds from the sale of securities.

## Administrative expenses

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Staff costs | –122.6 | –115.5 | –7.1 | –6.1 |
| Other administrative expenses | –105.2 | –97.8 | –7.4 | –7.6 |
| Depreciation and impairments on property, plant and equipment and intangible assets | –4.0 | –3.2 | –0.8 | –25.0 |
| **Administrative expenses** | **–231.8** | **–216.5** | **–15.3** | **–7.1** |

The higher administrative expenses arose mainly from investments in digitisation and from the continued high demands imposed by regulatory requirements.

## Expenses from the bank levies, deposit protection and banking supervision

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Bank levy | –22.0 | –19.6 | –2.4 | –12.2 |
| Deposit guarantee scheme | –7.0 | –4.4 | –2.6 | –59.1 |
| Banking supervision | –1.7 | –1.4 | –0.3 | –21.4 |
| **Expenses from the bank levies, deposit protection and banking supervision** | **–30.7** | **–25.4** | **–5.3** | **–20.9** |

## Other income and expenses

| | 1st HY 2018 in EUR millions | 1st HY 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Other income | 28.3 | 18.3 | 10.0 | 54.6 |
| Other expenses | –21.6 | –24.3 | 2.7 | 11.1 |
| **Other income and expenses** | **6.7** | **–6.0** | **12.7** | **> 100.0** |

# Net assets

### Assets

| | 30 Jun 2018 in EUR millions | 31 Dec 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Cash reserves | 3,525.6 | 1,742.8 | 1,782.8 | > 100.0 |
| Loans and advances to banks | 1,071.1 | 4,601.6 | –3,530.5 | –76.7 |
| Loans and advances to clients | 64,448.2 | 64,552.2 | –104.0 | –0.2 |
| Risk provisions | –396.5 | –356.9 | –39.6 | –11.1 |
| Portfolio hedge adjustment | 411.5 | 455.4 | –43.9 | –9.6 |
| Assets held for trading | 3.0 | 3.6 | –0.6 | –16.7 |
| Positive fair values from derivative financial instruments | 0.2 | – | 0.2 | 100.0 |
| Financial investments | 6,262.3 | 6,027.9 | 234.4 | 3.9 |
| Other assets | 311.1 | 296.3 | 14.8 | 5.0 |
| **Total assets** | **75,636.5** | **77,322.9** | **–1,686.4** | **–2.2** |

### Liabilities

| | 30 Jun 2018 in EUR millions | 31 Dec 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Liabilities to banks | 14,019.4 | 14,381.1 | –361.7 | –2.5 |
| Liabilities to clients | 53,040.1 | 53,931.0 | –890.9 | –1.7 |
| Securitised liabilities | 4,191.2 | 4,725.1 | –533.9 | –11.3 |
| Trading liabilities | 0.9 | 22.3 | –21.4 | –96.0 |
| Negative fair values from derivative financial instruments | 19.8 | 17.7 | 2.1 | 11.9 |
| Provisions | 180.5 | 164.4 | 16.1 | 9.8 |
| Other liabilities | 167.1 | 141.1 | 26.0 | 18.4 |
| Subordinated capital | 678.6 | 684.7 | –6.1 | –0.9 |
| Equity | 3,338.9 | 3,255.5 | 83.4 | 2.6 |
| **Total assets** | **75,636.5** | **77,322.9** | **–1,686.4** | **–2.2** |

Reported equity consists of the following:

| | 30 Jun 2018 in EUR millions | 31 Dec 2017 in EUR millions | Change in EUR millions | Change in % |
|---|---|---|---|---|
| Subscribed capital | 339.3 | 339.3 | 0.0 | 0.0 |
| Capital surplus | 1,414.4 | 1,414.4 | 0.0 | 0.0 |
| Retained earnings | 1,305.8 | 1,093.4 | 212.4 | 19.4 |
| Revaluation surplus | 71.5 | 133.5 | –62.0 | –46.4 |
| Consolidated net retained profits/net accumulated losses | 207.9 | 274.9 | –67.0 | –24.4 |
| **Equity** | **3,338.9** | **3,255.5** | **83.4** | **2.6** |

# Financial position

The liquidity management is based on the principles derived from the German Banking Act (KWG), which are explained in the risk report. Reference is therefore made at this point to the disclosures in the risk report and to the cash flow statement.

# Report on opportunities and risks

## Risk report

The DKB Group complied with its risk policy in the first half of 2018. The disclosures in the risk report of the half-year financial report therefore refer 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 2017, 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.

### Significant developments in the reporting period

Complying with the regulatory capital requirements and securing risk-bearing capacity are key elements in the management of the DKB Group. In the period under review, the DKB Group met the regulatory requirements with regard to capital adequacy and liquidity as well as the requirements for 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.

No methodological changes with a material impact on the risk profile were made in the reporting period. Only individual parameter updates were made due to the validations carried out.

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 risk capital is sufficient to cover future risks from the underlying transactions. By actively managing the economic capital adequacy based on the internal risk measurement methods, the bank ensures that the risks it is exposed to, or the planned risks, are at all times in line with the bank's capital resources.

The DKB Group has selected a liquidation approach as the key management approach in the context of the ICAAP. In addition, based on a going-concern approach, the ability of the Bank to operate as a going concern in compliance with the regulatory minimum capital requirements and the protection of the owners is monitored.

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

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Counterparty default risks | 463 | 375 |
| of which client receivables | 436 | 350 |
| of which Group-internal receivables from BayernLB | 27 | 25 |
| Market price risks | 205 | 320 |
| Investment risks | 8 | 7 |
| Operational risks | 128 | 109 |
| Rise in the cost of liquidity risks | 92 | 98 |
| Business risks | 2 | 9 |
| **Total risk capital requirement** | **898** | **918** |
| **Available cover funds** | **4,034** | **3,846** |
| of which allocated as limits | 1,675 | 1,755 |

The risk capital requirement was reduced by a total of EUR 20 million compared with 31 December 2017. The increase in risk capital requirements for credit and operational risks due to the updating of valuation parameters was more than compensated for by, in particular, the reduction in market price risks. The reduction in market price risks is mainly attributable to the conclusion of interest rate hedges and a more positive market environment.

Under the annual capital planning, the total limit was adjusted and slightly reduced. As cover for the operating business, a total of EUR 1.675 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 (see the Stress testing chapter).

As at the reporting date, 54% of the overall ICAAP limit was utilised (31 December 2017: 52%) and this metric therefore 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.

The considerations in the liquidation approach are supplemented with a going-concern perspective. In the going-concern perspective, the capital available in the short term must be sufficient to cover the risk capital requirement, so that business operations can be continued in compliance with the regulatory minimum capital requirements. The risk capital taken into account is based on the free hard core capital. In a year-on-year comparison, the utilisation of the cover funds available under the going-concern approach fell to 47% as at 30 June 2018 (31 December 2017: 55%). The decline in utilisation is mainly due

to the reduction of market price risks.

## 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, a standard stress scenario is 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. It examines whether the risk-bearing capacity also exists in the event of a severe recession. The reduction in market price risks in particular reduced the risk capital requirement for this scenario by EUR 0.2 billion to EUR 1.9 billion compared with 31 December 2017. This is fully covered by the cover funds of EUR 4.0 billion available as at the reporting date.

In addition to the uniform stress tests prescribed by the BayernLB Group, the DKB Group implemented bank-specific stress tests so that the requirements of MaRisk are considered in an individualised risk assessment even for extreme stress situations. 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 of 2018, there was a marginal decrease in the credit exposure of EUR 0.8 billion to EUR 95.0 billion (31 December 2017: EUR 95.8 billion). Taking a breakdown of the client groups of the DKB Group, the following picture emerged:

**Credit exposure**

**EUR millions**


A slight increase in exposure can be observed in the infrastructure and retail clients business segments. The growth in infrastructure is mainly driven by the housing client group. The increase in the credit exposure for retail clients is mainly due to the continued growth in DKB Cash.

The corporate clients segment includes, among other things, business with clients in the food and agriculture sectors. Drought-related crop failures can lead to a deterioration in the economic situation of individual clients in this sector. The corresponding exposures are closely monitored.

The treasury segment mainly comprises business with institutional clients and DKB's liquidity reserve held as securities or on central bank accounts. While the build-up of securities in the liquidity portfolio continued, the liquidity reserve was reduced overall as a result of active management measures.

The securities portfolio focuses on first-class domestic and eurozone public-sector bonds as well as bonds of supranational issuers and development banks.

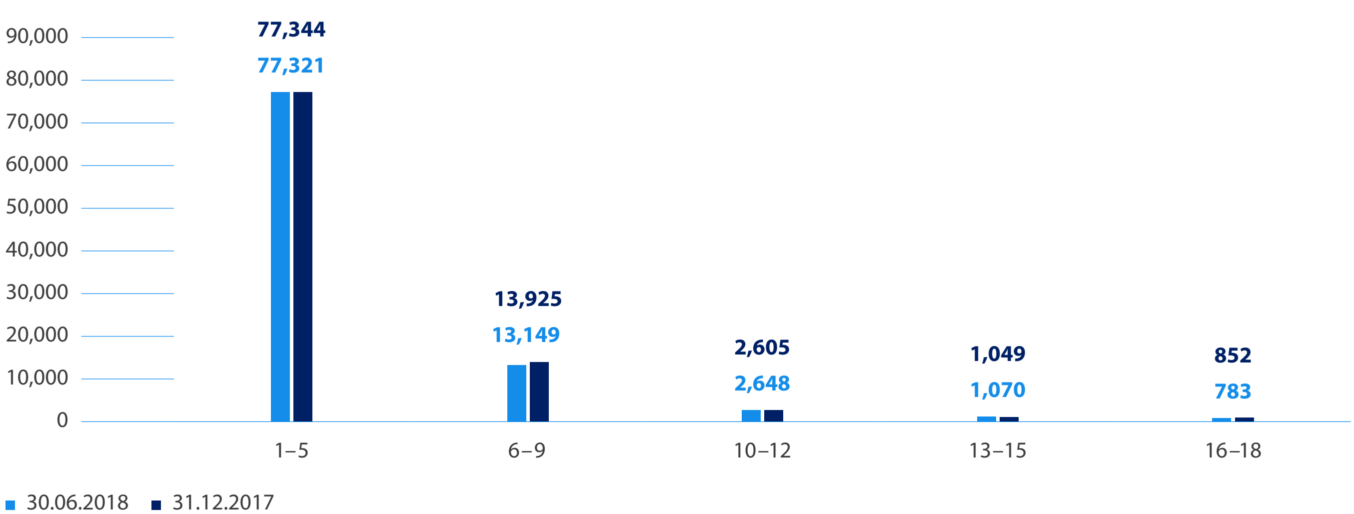
As at 30 June 2018, open securities positions in the peripheral countries of the eurozone had a nominal value of EUR 90 million and were therefore unchanged as at 31 December 2017. These positions exclusively comprise Italian government bonds.

In the reporting period, the Group's internal exposure continued to fall due to the repayment of promissory note loans within the framework of funding in the BayernLB Group. As at 30 June 2018, receivables from BayernLB totalled EUR 1.0 billion (31 December 2017: EUR 1.2 billion).

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

**Credit exposure by rating category**

**EUR millions**




The average probability of default in the portfolio remains at 0.55 %. The average rating category of the overall portfolio was therefore still at 6. The share of investment grade, that is the proportion of positions with a rating in categories 1 to 5, was 81% (31 December 2017: 81%). The share of defaulted commitments (rating classes 16–18) improved in the first half of the year and, as of 30 June 2018, amounted to 0.8 % (31 December 2017: 0.9%) of the entire credit exposure.

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 2018, 29 groups of connected clients pursuant to Article 4 paragraph 1 no. 39 CRR were identified as cluster exposures (31 December 2017: 34).

## Change in market price risks

### Change in market price risks at the banking book level

The interest rate risk in the event of a sudden and unexpected change in interest rates (interest rate shift of +/- 200 basis points) amounted to EUR 261 million as at the reporting date (scenario of a sudden rise in interest rates of 200 basis points). In relation to the equity in accordance with CRR, this is equivalent to a share of 7.3 % (31 December 2017: 8.8%). The relevant net present value loss is the greater of the two values resulting from an assumed sudden rise or fall in interest rates. In May 2018, the lowest net present value loss determined was EUR 191 million and in January 2018, the highest significant net present value loss was EUR 385 million. The scenario with the greatest effect throughout the entire year was the scenario of an assumed sudden interest rate increase of 200 basis points, with an exception in May.

The risk-increasing effect of the long-term new loans business and the increase in liquidity holdings due to fixed-interest securities was countered by the conclusion of payer swaps and the issue of long-dated mortgage Pfandbriefs. Changes in the structure of client deposits also led to a reduction in risk.

The risk capital requirement for all market price risks decreased in the reporting period by EUR 114 million and amounted to EUR 205 million as at 30 June 2018. The highest value of EUR 366 million was reached in January 2018 and the lowest value of EUR 181 million in May 2018.

### Market price risks from the securities business

In addition to the risk factor limits at the level of the bank as a whole, there is a sub-risk limit for the securities portfolio that is measured and monitored on a correlated basis. Due to the high proportion of securities from public issuers in Germany, the securities portfolio is dominated by interest rate risks. These are held for the purpose of liquidity risk management. In addition, DKB AG invests in shares via an existing portfolio of fund products.

The nominal bond portfolio of the DKB Group (excluding own issues) increased to EUR 6.0 billion in the reporting period (31 December 2017: EUR 5.7 billion). The securities portfolio primarily relates to liquidity holdings required by the regulator, which ensures that securities that are eligible for rediscount with the central bank and securities that are quickly realisable on private markets immediately and without value losses are available at all times.

Compared to 31 December 2017, the risk capital requirement for custody account A decreased from EUR 242 million to EUR 217 million. Quieter interest rate markets had a risk-relieving effect on this ratio.

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

## Refinancing

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

The DKB Group refinances itself primarily from client deposits, the development banking business and the issue of capital market products. Client deposits represent more than half of the refinancing base and, due to the high number of clients, in particular in the retail and infrastructure segments, are very granular. Client deposits fell by EUR 0.9 billion in the first half of 2018. The total volume of client deposits now amounts to EUR 53.0 billion (31 December 2017: EUR 53.9 billion). The decline is primarily attributable to the targeted reduction of non-granular deposits. The high proportion of deposit business makes the DKB Group significantly less sensitive to disruptions on the money and capital markets.

By 30 June 2018, new programme loans with a volume of EUR 640 million (30 June 2017: EUR 850 million) were agreed. Total transit and global loans amounted to approximately EUR 13.0 billion as at the half-year reporting date (31 December 2017: EUR 13.5 billion).

DKB AG issues public Pfandbriefs and mortgage Pfandbriefs in benchmark and private placement formats to strengthen its medium and long-term refinancing funds. The capital market issues have a diversifying effect on the refinancing structure and demonstrate access to the capital market at all times. Due to the high level of liquidity, the issue volume is low on the whole. Pfandbriefs at a volume of EUR 50 million were placed in the reporting year. The rating agency Moody's continued to rate our public sector and mortgage Pfandbriefs at "Aaa". The unsecured bonds of DKB AG were rated at "A2".

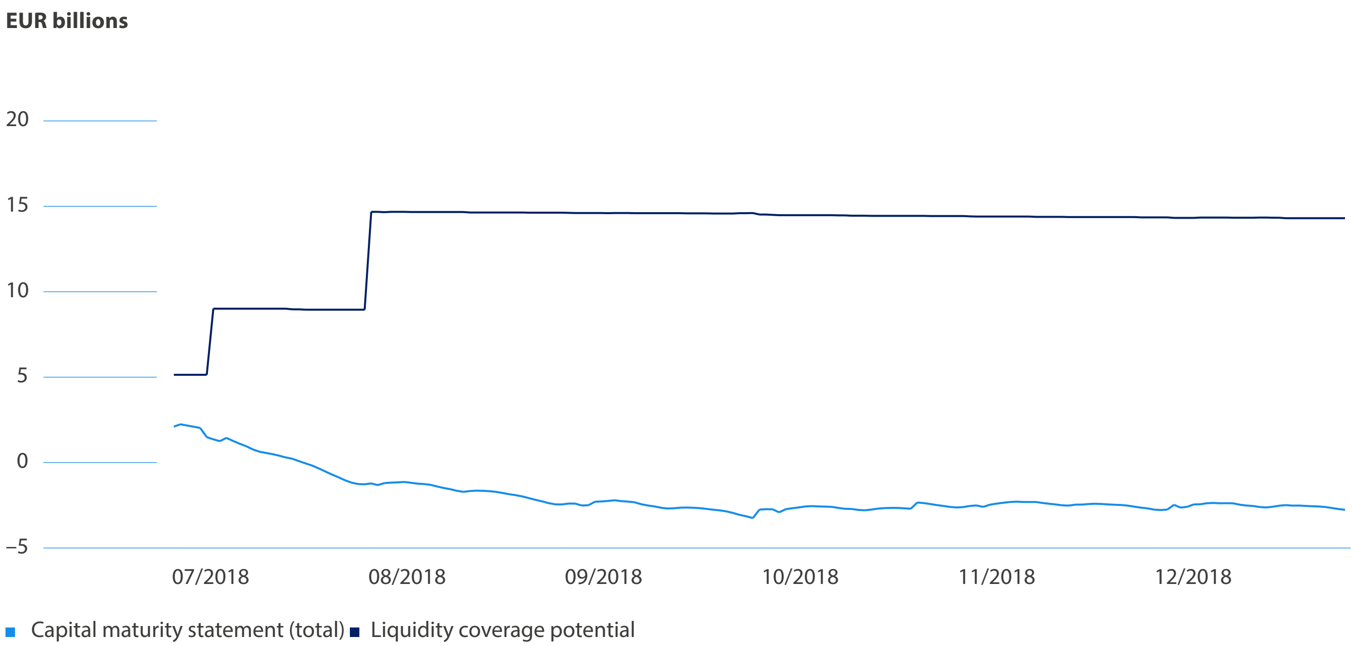
If necessary, the interbank money market is used for short-term refinancing and liquidity management. However, due to DKB AG's refinancing structure, the proportion of interbank refinancing is small, in line with our strategy.

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

## Changes in liquidity risks

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

As at 30 June 2018, 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. The liquidity coverage potential covers the liquidity gaps in the capital maturity statement at all times. The balance arising from the capital maturity statement and the liquidity coverage potential is called the liquidity surplus. With the currently prevailing limit system, the lowest liquidity surplus within the next 180 days was EUR 6.8 billion as at the reporting date. DKB AG thus has sufficient liquidity.

In addition, for several stress scenarios the DKB Group takes into account the additional observation period of one week and one month for capital market-oriented institutions in accordance with BTR 3.2 MaRisk. In addition to the effects of a market liquidity crisis, the rapid outflow of funds in the retail client and infrastructure segments, as well as combinations of stress events, are considered in other scenarios. The minimum liquidity surplus for the next 180 days is EUR 5.1 billion in the worst-case scenario (combination of market and retail client stress).

The regulatory key figures in accordance with LCR were complied with throughout the first half of 2018. As at 30 June 2018, the LCR was 151% (31 December 2017: 168%), well above the minimum regulatory requirement of 100%. The decline is the result of the deliberate separating out of non-granular deposits.

### 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 from unauthorised access, account opening or credit fraud through counterfeit documents and fraud involving non-cash forms of payment. In addition, operational risks have recently been strongly influenced by decisions of the highest courts for retail and corporate clients which, inter alia, leads 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.

During the annual OpRisk Self-Assessment (OSA), rare but realistic and potentially serious operational risks are determined and assessed under the coordination of the Risk Office and the various organisational units of the bank. On the basis of the significant risks identified in the OpRisk Self Assessment, the scenarios to be determined are then selected. Within the scenario analysis, significant risks are analysed in more detail than in the OSA in order to specify and assess risk drivers, internal and external factors influencing the probability of occurrence, the extent of damage and thus the overall loss distribution. This enables more precise control (for example, by implementing further measures and/or controls).

The results of this method are fed into the calculation of the amount of risk capital for operational risks. The risk capital amount represents the value at risk for the operational risk calculated using statistical models. The limits for the risk capital are calculated as part of the annual risk capital allocation process (ICAAP).

As at 1 January 2018, there was a change in the recording of collective losses and losses from legal risks. Since then, changes in the potential damage of a loss event are taken into account in the month in which the loss event was first recorded. Until 31 December 2017, the change in the potential damage was recognised in the month in which it occurred. In accordance with the changed procedure, the comparative figure as at 30 June 2017 was EUR 1.8 million. Losses arising from operational risks in the first half of 2018 following the implementation of loss mitigation measures rose year-on-year to EUR 13.7 million as at the reporting date due to risks from new court rulings on the reversal of loans in distance selling. To protect against possible claims, a suitable provision was created.

## Opportunities report

The statements on the opportunity profile, opportunity management and opportunity risk situation in financial year 2018 made in the 2017 Annual Report continue to apply. The DKB Group can react swiftly even to short-term developments.

# Report on expected developments

## Changes in conditions: Boom continues, but loses pace

After the initial dip at the beginning of the year, the economic development will initially improve before weakening again slightly by the end of the year, according to Bundesbank estimates. After still expecting growth of 2.5% in December 2017, economists expected calendar-adjusted growth of 2.0% in June. Trade conflicts and political uncertainty in some eurozone countries are creating uncertainty. Exports and investments by companies are likely to lose pace. Overall, the uncertainties relating to the outlook for Germany's economy are to be rated considerably higher than before.

Further financial market developments will, to a large extent, depend on whether the ECB actually terminates the bond purchase programmes or whether it continues them in their current form on the basis of current developments in Italy or Spain. One factor that can cause additional fluctuations is the future economic policy of the USA. In this respect, we continue to expect high levels of volatility.

Inflation, as measured by the Harmonised Index of Consumer Prices, is expected to be 1.8% this year, 0.1 percentage point higher than last year.

## Growth within the Group: Stable business performance continues at a high level

Given the positive development in net interest income after risk provisioning in the first half of the year, we expect consolidated profit/loss before taxes to be better than the forecast in the 2017 Annual Report and at least at the level of the

previous year (31 December 2017: EUR 264.7 million).

The cost/income ratio (CIR) and return on equity (ROE) are expected to remain at the previous year's level (CIR 2017: 50.8%) or slightly below that of the previous year (ROE 2017: 9.6%).

# Condensed interim consolidated financial statements of the DKB Group as of 30 June 2018

# Consolidated statement of comprehensive income

for the period from 1 January 2018 to 30 June 2018

### Income statement

| EUR millions | Notes | 01.01.– 30.06.2018 |
|---|---|---|
| Interest from financial instruments calculated using the effective interest method | | 527.7 |
| Interest income | | 881.1 |
| Positive interest expenses | | 3.5 |
| Interest expenses | | –348.5 |
| Negative interest income | | –8.4 |
| Other interest | | –17.2 |
| Interest income | | 1.6 |
| Positive interest expenses | | 0.0 |
| Interest expenses | | –7.4 |
| Negative interest income | | –11.4 |
| Net interest income | (5) | 510.5 |
| Risk result | (6) | –28.9 |
| Net interest income after risk result | | 481.6 |
| Commission income | | 137.3 |
| Commission expenses | | –148.6 |
| Net commission income | (7) | –11.3 |
| Gains or losses on fair value measurement | (8) | 11.0 |
| Gains or losses on hedging transactions | (9) | –34.2 |
| Gains or losses on financial investments | (10) | 0.4 |
| Administrative expenses | (11) | –231.8 |
| Expenses from the bank levy, deposit guarantee scheme and banking supervision | (12) | –30.7 |
| Other income and expenses | (13) | 6.7 |
| Gains or losses on restructuring | (14) | 0.1 |
| **Profit/loss before taxes** | | **191.8** |
| Income taxes | (15) | –1.4 |
| **Consolidated profit/loss** | | **190.4** |
| attributable to DKB AG owners | | 190.4 |
| Profit transferred to controlling shareholders | | – |
| Profit brought forward | | 17.5 |
| Withdrawals from retained earnings | | 0.0 |
| **Consolidated net retained profits/net accumulated losses** | | **207.9** |

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

**Reconciliation of comprehensive income for the period**

| EUR millions | 01.01.– 30.06.2018 |
|---|---|
| **Consolidated profit/loss** | **190.4** |
| **Temporary components of other comprehensive income that are not recognised in profit or loss** | |
| **Changes in the revaluation surplus from FVOCIM financial instruments** | **–9.9** |
| Change in measurement | –8.3 |
| Change in portfolio due to realisation of profit or loss | –1.6 |
| Change in deferred taxes | – |
| **Changes in the revaluation reserve arising from non-current assets held for sale** | **–** |
| Change in measurement | – |
| Change in portfolio due to realisation of profit or loss | – |
| **Components of other comprehensive income permanently not recognised in profit or loss** | |
| **Changes from the revaluation of defined benefit pension plans** | **1.3** |
| Change in measurement | 1.3 |
| Change in deferred taxes | 0.0 |
| **Other comprehensive income** | **–8.6** |
| **Total comprehensive income** | **181.8** |
| attributable to DKB AG owners | 181.8 |

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

# Consolidated statement of comprehensive income for the period from 1 January 2017 to 30 June 2017

## Income statement

| **EUR millions** | **01.01.– 30.06.2017** |
|---|---|
| Interest income | 958.1 |
| Positive interest expenses | 0.7 |
| Interest expenses | –506.4 |
| Negative interest income | –23.2 |
| Net interest income | 429.2 |
| Risk provisions | –59.1 |
| Net interest income after risk provisions | 370.1 |
| Commission income | 163.2 |
| Commission expenses | –176.1 |
| Net commission income | –12.9 |
| Gains or losses on fair value measurement | 70.8 |
| Gains or losses on hedge accounting | –79.2 |
| Gains or losses on financial investments | 13.0 |
| Administrative expenses | –216.5 |
| Expenses from the bank levy, deposit guarantee scheme and banking supervision | –25.4 |
| Other income and expenses | –6.0 |
| Gains or losses on restructuring | –0.6 |
| **Profit/loss before taxes** | **113.3** |
| Income taxes | –1.3 |
| **Consolidated profit/loss** | **112.0** |
| attributable to DKB AG owners | 112.0 |
| Profit transferred to controlling shareholders | – |
| Profit brought forward | 12.2 |
| Transfer to retained earnings | 0.0 |
| **Consolidated net retained profits/net accumulated losses** | **124.2** |

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

## Reconciliation of comprehensive income for the period

| EUR millions | 01.01.– 30.06.2017 |
|---|---|
| **Consolidated profit/loss** | **112.0** |
| **Temporary components of other comprehensive income that are not recognised in profit or loss** | |
| **Changes in the revaluation surplus from AfS financial instruments** | **–29.6** |
| Change in measurement | –16.6 |
| Change in portfolio due to realisation of profit or loss | –13.1 |
| Change in deferred taxes | 0.1 |
| **Changes in the revaluation reserve arising from non-current assets held for sale** | **–** |
| Change in measurement | – |
| Change in portfolio due to realisation of profit or loss | – |
| **Components of other comprehensive income permanently not recognised in profit or loss** | |
| **Changes from the revaluation of defined benefit pension plans** | **2.6** |
| Change in measurement | 2.6 |
| Change in deferred taxes | 0.0 |
| **Other comprehensive income** | **–27.0** |
| **Total comprehensive income** | **85.0** |
| attributable to DKB AG owners | 85.0 |

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

# Consolidated balance sheet

as at 30 June 2018

## Assets

| EUR millions | Notes | 30.06.2018 | 31.12.2017 |
|---|---|---|---|
| Cash reserves | (16) | 3,525.6 | 1,742.8 |
| Loans and advances to banks | (17) | 1,071.1 | 4,601.6 |
| Loans and advances to clients | (18) | 64,448.2 | 64,552.2 |
| Risk provisions | (19) | –396.5 | –356.9 |
| Portfolio hedge adjustment assets | (20) | 411.5 | 455.4 |
| Assets held for trading | (21) | 3.0 | 3.6 |
| Positive fair values from derivative financial instruments (hedge accounting) | (22) | 0.2 | 0.0 |
| Financial investments | (23) | 6,262.3 | 6,027.9 |
| Property, plant and equipment | | 47.7 | 46.5 |
| Intangible assets | | 9.8 | 9.2 |
| Current income tax assets | (24) | 0.1 | 0.0 |
| Deferred income tax assets | (24) | 0.0 | 0.3 |
| Other assets | | 253.5 | 240.3 |
| **Total assets** | | **75,636.5** | **77,322.9** |

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

## Liabilities

| EUR millions | Notes | 30.06.2018 | 31.12.2017 |
|---|---|---|---|
| Liabilities to banks | (25) | 14,019.4 | 14,381.1 |
| Liabilities to clients | (26) | 53,040.1 | 53,931.0 |
| Securitised liabilities | (27) | 4,191.2 | 4,725.1 |
| Trading liabilities | (28) | 0.9 | 22.3 |
| Negative fair values from derivative financial instruments (Hedge accounting) | (29) | 19.8 | 17.7 |
| Provisions | (30) | 180.5 | 164.4 |
| Current income tax liabilities | (31) | 1.5 | 1.2 |
| Deferred income tax liabilities | (31) | 0.5 | 0.0 |
| Other liabilities | | 165.1 | 139.9 |
| Subordinated capital | (32) | 678.6 | 684.7 |
| Equity | (33) | 3,338.9 | 3,255.5 |
| Equity excluding non-controlling interests | | 3,338.9 | 3,255.5 |
| Subscribed capital | | 339.3 | 339.3 |
| Capital surplus | | 1,414.4 | 1,414.4 |
| Retained earnings | | 1,305.8 | 1,093.4 |
| Revaluation surplus | | 71.5 | 133.5 |
| Consolidated net retained profits/net accumulated losses | | 207.9 | 274.9 |
| **Total liabilities** | | **75,636.5** | **77,322.9** |

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

# Consolidated statement of changes in equity

| EUR millions | Subscribed capital | Hybrid capital | Capital surplus | Retained earnings | Revaluation surplus | Consolidated net profit/ loss | Equity before non-con- trolling interests | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **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** |
| Changes in the revaluation surplus | | | | | 1.4 | | 1.4 | | 1.4 |
| Changes from the revaluation of defined benefit pension plans | | | | –1.2 | | | –1.2 | | –1.2 |
| **Other comprehensive income** | **0.0** | **0.0** | **0.0** | **–1.2** | **1.4** | **0.0** | **0.2** | **0.0** | **0.2** |
| Consolidated profit/loss | | | | | | 151.2 | 151.2 | | 151.2 |
| **Total consolidated profit/loss** | **0.0** | **0.0** | **0.0** | **–1.2** | **1.4** | **151.2** | **151.4** | **0.0** | **151.4** |

| EUR millions | Subscribed capital | Hybrid capital | Capital surplus | Retained earnings | Revaluation surplus | Consolidated net profit/loss | 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 | | | | | | | 0.0 | | 0.0 |
| Distribution | | | | | | | 0.0 | | 0.0 |
| **As at 31 Dec 2017** | **339.3** | **0.0** | **1,414.4** | **1,093.4** | **133.5** | **274.9** | **3,255.5** | **0.0** | **3,255.5** |
| IFRS 9 first-time application effect | | | | –46.2 | –52.3 | | –98.5 | | –98.5 |
| **As at 01 Jan 2018** | **339.3** | **0.0** | **1,414.4** | **1,047.2** | **81.2** | **274.9** | **3,157.0** | **0.0** | **3,157.0** |
| Changes in the revaluation surplus | | | | | –9.7 | | –9.7 | | –9.7 |
| Changes from the revaluation of defined benefit pension plans | | | | 1.2 | | | 1.2 | | 1.2 |
| **Other comprehensive income** | **0.0** | **0.0** | **0.0** | **1.2** | **–9.7** | **0.0** | **–8.5** | **0.0** | **–8.5** |
| Consolidated profit/loss | | | | | | 190.4 | 190.4 | | 190.4 |
| **Total consolidated profit/loss** | **0.0** | **0.0** | **0.0** | **1.2** | **–9.7** | **190.4** | **181.9** | **0.0** | **181.9** |
| 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 | | | | 257.4 | | –257.4 | 0.0 | | 0.0 |
| Transferred profit | | | | | | | 0.0 | | 0.0 |
| Distribution | | | | | | | 0.0 | | 0.0 |
| **As at 30 Jun 2018** | **339.3** | **0.0** | **1,414.4** | **1,305.8** | **71.5** | **207.9** | **3,338.9** | **0.0** | **3,338.9** |

# Condensed consolidated cash flow statement

| EUR millions | 01.01.–30.06.2018 | 01.01.–30.06.2017 |
|---|---|---|
| **Cash and cash equivalents as at 1 Jan** | **1,742.8** | **1,428.6** |
| Cash flow from operating activities | 1,798.4 | 2,103.1 |
| Cash flow from investing activities | –6.6 | –5.5 |
| Cash flow from financing activities | 0.0 | –156.5 |
| **Cash and cash equivalents as at 30 Jun** | **3,525.6** | **3,369.7** |

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)

# 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 (IFRSs) adopted and published by the International Accounting Standard Board (IASB). Along with the standards designated as IFRSs, the IFRSs also encompass the International Accounting Standards (IASs) 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 IFRSs 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 2018 – 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 2017. 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 2017.

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-yearly 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 38.

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

### IFRSs applied for the first time

In financial year 2018, the following new or changed standards/interpretations were to be applied for the first time:

- **IFRS 9 "Financial Instruments":** The DKB Group has applied the provisions of IFRS 9 since 1 January 2018. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" and 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 optional new regulations for the accounting of hedging relationships (hedge accounting). In addition, the new provisions of IFRS 7 "Financial Instruments: Disclosures", require more comprehensive disclosures in the notes. The effects on DKB's consolidated financial statements are set out in Note 2.

- **IFRS 15 "Revenue from Contracts with Customers":** The DKB Group implemented IFRS 15 as from 1 January 2018. This standard establishes a comprehensive framework for determining whether, to what extent and when revenue is recognised and replaces the existing revenue recognition guidelines, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes". In addition, the provisions of IFRS 15 require more extensive disclosures in the notes. We do not expect that the application of IFRS 15 will have significant consequences for DKB's consolidated financial statements.

- Changes to two standards were made as part of the **annual improvements to the IFRSs/IASs (2014–2016 cycle)**. IAS 28 "Investments in Associates and Joint Ventures" 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 temporary exceptions to the application of transitional provisions of IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IFRS 10 "Consolidated Financial Statements" were deleted, as these are no longer relevant due to the passage of time.

The changes have no impact on the consolidated financial statements of the DKB Group.

Amendments to other standards are also to be applied which, however, have no effect on the consolidated financial statements of DKB.

## IFRSs 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.

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. In the reporting period, the DKB Group started a project to determine the effects and implement the requirements of IFRS 16. 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.

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

## (2) Changes on the previous year

The changes compared to the previous year result from the first-time application of IFRS 9 and IFRS 15. In the following sections, the new accounting policies resulting from the implementation of IFRS 9 are first described. The effects from the first-time application of IFRS 9 are then presented. Furthermore, in the reporting period, the presentation in the consolidated statement of comprehensive income was adjusted. The changes resulting from the first-time application of IFRS 15 are then explained.

The provisions of IFRS 9 were applied retrospectively without adjusting the previous year's figures.

## First-time application of IFRS 9

### (a) Adjustments to accounting policies in accordance with IFRS 9

#### Classification and measurement of financial instruments

IFRS 9 classifies financial assets using the respective business model for managing financial assets and the contractually agreed repayment and interest payment terms.

IFRS 9 distinguishes between the following **business models:**

– The objective of the "hold" business model is to hold financial assets to collect the contractual cash flows.

– The objective of the "hold and sell" business model is to collect the contractual cash flows and sell the financial assets.

– Financial assets held for trading or those not meeting the criteria of the two business models mentioned above are allocated to a residual business model.

The business model underlying the loan portfolio of the DKB Group is derived from the business strategy and the client group and functional strategies. These are determined by the Management Board as part of the strategy process. The aim of the DKB Group is to enter into long-term and valuable client relationships. This strategic orientation is also reflected in the risk strategy and multi-year planning of the DKB Group. Against this background, the loan portfolio of the DKB Group was largely allocated to the "hold" business model. Sales from the loan portfolio are unusual in the DKB Group. The Bank has adopted regulations which, under certain conditions, permit a harmless sale from the "hold" business model. The regulations take into account the occasion, frequency and volume of any sales.

The securities held by the DKB Group primarily serve to secure liquidity as part of liquidity management in accordance with regulatory requirements and the Group's strategic objectives. They are part of a business strategy, the objective of which is to hold securities in order to collect their contractual cash flows. As part of the liquidity and earnings management, sales are also carried out on an ad-hoc basis. As a result, the securities of the DKB Group were allocated to the "hold and sell" business model.

In the case of financial instruments of the "hold" and "hold and sell" business models, the extent to which the contractual terms of the financial asset result in cash flows that represent **only principal and interest payments** on the outstanding capital amount (SPPI-neutral) must be assessed upon addition of the financial asset.

The lending business of the DKB Group is based on loan agreements that exclusively contain terms and conditions that result in repayment and interest payments on the outstanding capital amount.

The securities portfolio of the DKB Group also exclusively comprises repayments of principal and interest on the outstanding capital amount.

In accordance with IFRS 9, a financial asset

– is to be allocated to the category "at amortised cost" (**AAC category**) if it is subject to the "hold" business model and is SPPI-neutral. In this case, they are measured at amortised cost,

– is to be allocated to the category "fair value through other comprehensive income mandatory" (**FVOCIM category**) if it is subject to the "hold and sell" business model and is SPPI-neutral. In this case, they are measured at fair value with no effect on income,

– is to be allocated to the category "fair value through profit and loss mandatory" (**FVPLM category**) if it is subject to the residual business model or if it is harmful to SPPI. In addition, equity instruments and derivatives are also classified as FVPLM. In this case, the fair value is measured through profit or loss.

IFRS 9 also permits, under certain conditions, the voluntary allocation of financial assets to the two fair value categories (designation). Accordingly, financial instruments can also be allocated to the categories "fair value through other comprehensive income designated" (**FVOCID category**) and "fair value through profit and loss designated" (**FVPLD category**). The DKB Group does not designate any such assets.

Financial instruments in the AAC and FVOCI categories with impaired creditworthiness at the time of acquisition are classified as "purchased or originated credit-impaired financial assets" **(POCI)** in accordance with IFRS 9. In this case, initial measurement is at fair value. Subsequent measurement is based on a credit risk-adjusted effective interest rate (CAEIR) at amortised cost or at fair value without recognition through profit or loss.

The recognition and measurement of financial liabilities under IFRS 9 remained unchanged compared to IAS 39.

## Impairment of financial assets

The provisions of IFRS 9 on the recognition of impairment losses on financial assets relate to AAC and FVOCI financial instruments as well as financial guarantees and loan commitments.

With the introduction of IFRS 9, an adjustment was made from an incurred loss model in accordance with IAS 39 to an expected credit loss model.

The impairment model of IFRS 9 provides for the following three levels that reflect the development of the credit quality of a financial asset:

- **Level 1:** If a financial instrument is acquired and there is no significant increase in credit risk or no default, valuation adjustments are made in the amount of the expected twelve-month credit loss. In the DKB Group, valuation adjustments are calculated using parameter-based models.

- **Level 2:** In the event of a significant increase in credit risk since addition, but in the absence of an impaired credit rating, the valuation allowances are measured at the amount of the credit losses expected over the term. In the DKB Group, valuation adjustments are calculated using parameter-based models.

  A significant increase in credit risk in the DKB Group is determined using a relative transfer criterion. The relative transfer criterion is based on the comparison of the rating of a financial instrument at the measurement date with its rating at the acquisition date. If a certain significance limit is exceeded as a result of the comparison, the credit risk of the financial instrument is deemed to have increased significantly. The significance limits are set for each rating submodule, acquisition rating and the past term of the financial instrument. To determine the significance limit, each financial instrument is assigned an expected development of the probability of default (PD profile). Based on this expected normal migration behaviour of the financial instrument, a tolerance range is generated within which an increase in credit risk is not considered significant. The tolerance range is calculated on the basis of the one-year migration matrix valid for the financial instrument at the time of acquisition. The significance limit for each point in time is the sum of the expected PD profile and the defined tolerance limits. If the rating valid on the measurement date exceeds the significance limit valid for this date, the credit risk of the financial instrument is deemed to have increased significantly.

  In addition to the relative transfer criterion, an assignment is made to Level 2 if there is a payment delay of more than 30 days.

- **Level 3:** In the case of a financial asset the creditworthiness of which is impaired as of the balance sheet date, the valuation adjustments are measured in the amount of the credit losses expected over the term. The DKB Group distinguishes between significant and insignificant receivables when determining the valuation adjustment. For significant transactions (with a gross exposure of over EUR 750 thousand), risk provisions are determined on the basis of expert estimates of expected recoveries, taking into account at least two possible scenarios and their probability of occurrence. For non-significant transactions (with a maximum gross exposure of EUR 750 thousand), risk provisions are calculated using parameter-based models.

  The DKB Group considers the creditworthiness of a loan exposure to be impaired as soon as the DKB Group has to assume that the debtor will not meet its credit obligations or the contractually agreed payments are more than 90 days overdue.

Valuation allowances for financial instruments with impaired credit ratings (POCI) at the time of acquisition are measured at the amount of the credit losses expected over the term.

When parameter-based models are used, the credit loss expected over the term is the sum of the individual expected period losses. The respective period losses result from the following key parameters:

- Probability of default (PD),
- Loss given default (LGD), and
- Exposure at default (EaD).

One-year PDs are used to calculate the expected twelve-month credit loss in Level 1 and the level demarcation. The DKB Group primarily uses the models of Sparkassen Rating und Risikosysteme GmbH (SR) and Rating Service Unit GmbH & Co. KG (RSU) for this purpose, which are quality assured by DKB on the basis of validations carried out and proof of representativeness. Lifetime PDs are also relevant for determining the credit loss expected over the term in Level 2. For this purpose, PD profiles are made available to the DKB Group by SR and RSU for the pooling procedures. The PD profiles for RSU and SR are derived on the basis of historically observed information. No external default data is included in the determination of PD profiles. In addition, the bank's own expert estimates are used to a limited extent. Macroeconomic factors are taken into account in the form of defined macroeconomic scenarios.

In addition to its own models, the DKB Group also uses RSU's LGD model to determine the LGDs. The models are based on historical portfolio data, taking into account macroeconomic factors (such as market price time series to reflect the performance of collateral).

The EaDs are derived from the expected cash flows of the respective financial instrument. In addition to contractually agreed cash flow factors, such as contractual rights for the client to terminate or extend the original term of the contract or the right to make unscheduled repayments, assumptions about the drawing behaviour of clients for products with an unused portion of the commitment are also taken into account. A credit conversion factor (CCF) is also used to calculate the EADs for off-balance sheet commitments.

The DKB Group's securities portfolio is primarily used for liquidity management and exclusively comprises securities with investment grade ratings. Due to this low risk of default, the option under IFRS 9 to waive the assessment of a significant increase in the default risk is used here as long as the security remains in the investment grade range.

## Accounting for hedging relationships (hedge accounting)

The provisions on macro hedge accounting have been excluded from IFRS 9. For this reason, IFRS 9 includes options for the further application of the rules for hedge accounting in accordance with IAS 39. The DKB Group uses the option of continuing to account for hedging relationships in accordance with IAS 39.

**(b) Effects from the first-time application of IFRS 9**
The first-time application of IFRS 9 resulted in an effect of EUR -98.5 million, which was recognised directly in equity:

| EUR millions | IFRS 9 first-time application effect |
|---|---|
| Adjustments to carrying amounts | –11.1 |
| Adjustments to valuation allowances | –87.2 |
| Deferred taxes | –0.2 |
| **Total** | **–98.5** |

## Reconciliation of carrying amounts

The categories of financial assets have changed as follows compared with IAS 39:

| EUR millions | | 31.12.2017 | | 01.01.2018 |
|---|---|---|---|---|
| | IAS 39 category | Carrying amount | IFRS 9 category | Carrying amount |
| Cash reserves | LAR | 1,742.8 | AAC | 1,742.8 |
| Loans and advances to banks | LAR | 4,601.6 | AAC | 4,601.6 |
| | LAR | 64,539.5 | AAC[1] | 64,524.8 |
| | LAR | 8.8 | FVPLM[2] | 10.1 |
| Loans and advances to clients | AFS | 3.9 | FVOCIM | 3.9 |
| Assets held for trading | HFT | 3.6 | FVPLM | 3.6 |
| | AFS | 5,832.2 | FVOCIM | 5,832.2 |
| | AFS | 175.7 | FVPLM[3] | 177.5 |
| Financial investments | AFS | 20.0 | AAC | 20.0 |

[1] The carrying amount adjustments result primarily from the POCI valuation.
[2] The carrying amount adjustments result primarily from the fair value measurement.
[3] The carrying amount adjustments result from the fair value measurement (formerly: application of IAS 39.46 (c)).

For the first-time application, a financial asset with a carrying amount of EUR 20.0 million was reclassified from the IAS 39 AFS category to the IFRS 9 AAC category. The financial asset was measured at amortised cost on 31 December 2017 in accordance with IAS 39.46 (c). Even without reclassification in accordance with the new provisions of IFRS 9, there would therefore have been no other balance sheet recognition as at the balance sheet date or no valuation result to be recognised directly in equity in the reporting period.

The categories of financial liabilities have changed as follows compared with IAS 39:

| EUR millions | | 31.12.2017 | | 01.01.2018 |
|---|---|---|---|---|
| | IAS 39 category | Carrying amount | IFRS 9 category | Carrying amount |
| Liabilities to banks | LAC | 14,381.1 | AAC | 14,381.1 |
| Liabilities to clients | LAC | 53,931.0 | AAC | 53,931.0 |
| Securitised liabilities | LAC | 4,725.1 | AAC | 4,725.1 |
| Trading liabilities | HFT | 22.3 | FVPLM | 22.3 |
| Subordinated capital | LAC | 684.7 | AAC | 684.7 |

## Reconciliation of valuation allowances

| EUR millions | 31.12.2017 | | 01.01.2018 | |
|---|---|---|---|---|
| | IAS 39 category | Risk provisions | IFRS 9 category | Risk provisions |
| Loans and advances to banks | LAR | 0.0 | AAC | 0.0 |
| Loans and advances to clients | LAR | 356.9 | AAC | 423.4 |
| Financial investments | AFS | – | FVOCIM | 0.3 |

The change in the risk provision is a result of the inclusion of credit losses expected over the term in Level 2 and from model adjustments due to the changeover to IFRS 9:

| in EUR millions | | | |
|---|---|---|---|
| | Risk provision as at 31.12.2017 | Risk provision as at 01.01.2018 | |
| | 46.4 | Level 1 | 42.0 |
| | 49.9 | Level 2 | 115.4 |
| Portfolio provisions | 2.9 | Level 3/POCI | 10.1 |
| Specific loan loss provisions | 257.7 | Level 3/POCI | 256.2 |

## Reconciliation of provisions

| in EUR millions | | | |
|---|---|---|---|
| | Provisions as at 31.12.2017 | Provisions as at 01.01.2018 | |
| | 1.8 | Level 1 | 5.3 |
| | 0.9 | Level 2 | 11.7 |
| | 0.0 | Level 3 | 0.2 |
| Portfolio reserves | 0.5 | IAS 37 | 0.3 |
| | 4.5 | Level 3 | 10.3 |
| Individual transaction provisions | 10.8 | IAS 37 | 11.1 |

The change in provisions is a result of the first-time recognition of revocable loan commitments, the recognition of credit losses expected over the term in Level 2 and from model adjustments due to the changeover to IFRS 9.

**(c) Adjustments to the presentation of net interest income**
IFRS 9 introduced a subsequent amendment to IAS 1.82(a), which requires interest income calculated using the effective interest method to be reported separately in the consolidated statement of comprehensive income.

In March 2018, the IFRS Interpretation Committee published an agenda decision on the presentation of revenue in the form of interest. It states that interest income on financial assets in the AAC and FVOCI categories may not be combined with interest income from financial assets in other categories. This also applies to the recognition of negative interest.

The reporting of interest income and expenses by the DKB Group in the reporting period was adjusted accordingly (see Note 5).

**(d) Adjustments to the presentation of the risk provision**

As a result of the introduction of IFRS 9, the DKB Group has created a new item in the consolidated statement of comprehensive income, namely the item "Risk result" (see Note 6), in order to better reflect the interrelationships of credit rating-related effects on profit or loss.

The risk result combines the earnings effects of the former item "Risk provision" with the earnings effects of insignificant modifications of Level 2 and Level 3 financial instruments and the results from the disposal of financial instruments in the AAC category.

### First-time application of IFRS 15

With the introduction of IFRS 15, the principal-agent relationship must be assessed when third parties are involved in the provision of services for clients of the DKB Group. If the reporting company only acts as an intermediary and thus as an agent, the net sales revenue must be recognised in the amount of the commission received in accordance with IFRS 15.B36. Before the first-time application of IFRS 15, commission income and expenses in the DKB Group were reported gross, i.e. not net. From the DKB Group's perspective, there is an agent relationship for insurance benefits and other ancillary benefits in the credit card business. As of 30 June 2018, expenses from the credit card business of EUR 30.2 million were therefore netted against income from the credit card business.

### (3) Scope of consolidation

In addition to DKB, six subsidiaries are included in the consolidated financial statements as at 30 June 2018 (31 December 2017: six). DKB directly or indirectly holds a 100 % capital participation in the consolidated subsidiaries. As at the reporting date, there were no non-controlling interests. The group of fully consolidated companies was determined in accordance with materiality criteria. Companies measured in accordance with the equity method are not included in the consolidated financial statements.

## 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.

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

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

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

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

– The financial markets segment comprises the Treasury division of DKB. Essentially, this includes funding including managing interest rate risk, deposit business with institutional clients, passing on client deposits to BayernLB as part of the intra-Group funding system as well as internal transactions with BayernLB to manage liquidity. The activities within the custody account-A business are also assigned to this segment. This relates, in particular, to the management of the securities portfolio required for the core business (including the regulatory liquidity portfolio) and the business with the DKB mutual funds. The gains or losses on DKB AG's hedging transactions are also assigned to the financial markets segment.

– The "other" segment contains cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source. These include central administrative expenses, investment income from subsidiaries, the bank levy, deposit guarantee scheme and supervisory fees for DKB AG as well as other special effects. The activities of DKB Service GmbH are also presented in this segment. Its key areas of activity are processing back office tasks for the DKB Group, handling standardised bulk business for DKB products and supplying services for Group companies. The non-core business segment bundles all the business that no longer complies with our business strategy, which is being reduced as part of the higher level restructuring concept of the BayernLB Group. This includes selected client portfolios and investments, including DKB's lending and deposit business with these investments.

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

In principle, all consolidation effects within the DKB Group are presented in the reconciliation column. For the result of the current year, these are in the net interest income, and include, in particular, consolidation entries from the offsetting of results between Group companies and the consolidation items between DKB AG and DKB Service GmbH. The administrative expenses, other income and expenses and net commission income items were significantly affected by the consolidation of DKB Service GmbH, both in the "other" segment and in the consolidation. Overall, these effects are of minor significance for the Group's earnings. In the result of the current reporting year, there are no further reconciliation items requiring explanation.

Intra-segment transactions are only reported under the net interest income item in the other (from non-core business) and corporate clients segments and relate to the lending and deposit business of the respective Group subsidiaries. This relates to segment assets totalling EUR 64.2 million, without significant intra-segment earnings. There are no dependencies on major clients as defined in IFRS 8.34.

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

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

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

Segment assets are determined on the basis of balance sheet figures. Clients receivables, which are shown at nominal value, are an exception. The difference of EUR 147.2 million (31 December 2017: EUR 98.1 million) as well as risk provisions on loans and advances of DKB amounting to –EUR 392.6 million (31 December 2017: –EUR 351.9 million) are included in the reconciliation column.

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

The return on equity (RoE) is determined as the ratio of profit/loss before taxes and the allocated average equity. The cost/income ratio (CIR) represents the ratio of administrative expenses to the total of the income items of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments, other comprehensive income and the result from the disposal of AAC category financial instruments (as part of the risk result). 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.

In contrast with the previous year's report, the non-core business is no longer reported as a separate segment. The corresponding comparative figures from the previous year were adjusted in the other segment. As a result of the introduction of IFRS 9, the DKB Group has created a new item in the consolidated statement of comprehensive income, namely the "Risk result" item, in order to better reflect the interrelationships of credit rating-related effects on profit or loss. The risk result combines the earnings effects of the former item "Risk provision" with the earnings effects of insignificant modifications of Level 2 and Level 3 financial instruments and the results from the disposal of financial instruments in the AAC category.

**Segment reporting as at 30.06.2018**

| EUR millions | Retail clients | Infrastructure | Corporate clients | Financial markets | Other | Reconciliation/Consolida-tion | Group |
|---|---|---|---|---|---|---|---|
| Net interest income | 221.2 | 190.4 | 93.3 | –0.4 | 7.6 | –1.6 | **510.5** |
| Risk result | –5.2 | 8.4 | –33.7 | 0.0 | 1.6 | – | **–28.9** |
| Net commission income | –21.3 | 3.4 | 7.0 | –1.5 | –5.1 | 6.2 | **–11.3** |
| Gains or losses on fair value measurement | – | – | –0.1 | 6.1 | 5.0 | – | **11.0** |
| Gains or losses on hedging transactions | – | – | – | –34.2 | – | – | **–34.2** |
| Gains or losses on financial investments | – | – | – | 0.4 | – | – | **0.4** |
| Administrative expenses | –110.2 | –63.1 | –35.0 | –5.9 | –87.3 | 69.7 | **–231.8** |
| Expenses from the bank levies, deposit protection and banking supervision | – | – | – | – | –30.7 | – | **–30.7** |
| Other income and expenses | –9.7 | 1.5 | 10.5 | – | 82.4 | –78.0 | **6.7** |
| Gains or losses on restructuring | – | – | – | – | 0.1 | – | **0.1** |
| **Profit/loss before taxes** | **74.8** | **140.6** | **42.0** | **–35.5** | **–26.4** | **–3.7** | **191.8** |
| Segment assets | 12,668.7 | 38,297.4 | 13,155.0 | 7,672.7 | 4,252.9 | –410.2 | **75,636.5** |
| Risk positions | 7,542.4 | 12,010.5 | 11,961.6 | 283.2 | 488.1 | – | **32,285.8** |
| Average commercial equity | 682.3 | 1,068.6 | 1,099.9 | 23.5 | 40.1 | – | **2,914.5** |
| Return on equity (RoE) | 21.9 % | 26.3 % | 7.6 % | < 0 % | | | **13.2 %** |
| Cost/income ratio (CIR) | 57.4 % | 32.0 % | 31.5 % | < 0 % | | | **48.6 %** |

## Segment reporting 30 June 2017

| EUR millions | Retail clients | Infrastructure | Corporate clients | Financial markets | Other | Reconciliation/Consolida-tion | Group |
|---|---|---|---|---|---|---|---|
| Net interest income | 200.1 | 149.7 | 77.0 | –8.6 | 13.0 | –2.0 | **429.2** |
| Risk provisions | –15.9 | –13.2 | –35.2 | – | 5.2 | – | **–59.1** |
| Net commission income | –29.0 | 1.2 | 12.7 | –1.2 | 0.6 | 2.8 | **–12.9** |
| Gains or losses on fair value measurement | – | – | – | 70.8 | – | – | **70.8** |
| Gains or losses on hedging transactions | – | – | – | –79.2 | – | – | **–79.2** |
| Gains or losses on financial investments | – | – | – | 13.0 | – | – | **13.0** |
| Administrative expenses | –99.9 | –42.2 | –31.6 | –3.2 | –105.0 | 65.4 | **–216.5** |
| Expenses from the bank levies, deposit protection 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** | **–53.4** | **–2.3** | **113.3** |
| Segment assets | 13,226.6 | 36,643.8 | 13,126.4 | 7,916.4 | 4,147.6 | –435.1 | **74,625.7** |
| Risk positions | 7,378.9 | 11,390.0 | 12,205.1 | 272.3 | 471.6 | – | **31,717.9** |
| Average commercial equity | 643.5 | 993.5 | 1,059.2 | 22.9 | 46.4 | – | **2,765.6** |
| Return on equity (RoE) | 18.3 % | 19.2 % | 4.4 % | < 0 % | | | **8.2 %** |
| Cost/income ratio (CIR) | 57.2 % | 28.0 % | 35.2 % | < 0 % | | | **52.2 %** |

# Notes to the consolidated statement of comprehensive income

In the case of tabular presentations, the information for the reporting period and the previous period is summarised in a table if the structure of the table has remained unchanged compared with the previous period – despite the change in classification and measurement regulations due to IFRS 9. Otherwise, the information is displayed in two separate tables.

## (5) Net interest income

### Interest from financial instruments calculated using the effective interest method

| EUR millions | 01.01.–30.06.2018 |
|---|---|
| **Interest income** | **881.1** |
| Interest income from lending and money market transactions | 870.0 |
| Interest income from bonds and other fixed-income securities | 10.6 |
| Other interest income | 0.5 |
| **Positive interest expenses** | **3.5** |
| **Interest expenses** | **–348.5** |
| Interest expenses for liabilities to banks and clients | –209.8 |
| Interest expenses for hedge accounting derivatives | –84.5 |
| Interest expenses for securitised liabilities | –19.5 |
| Interest expenses for subordinated capital | –14.0 |
| Other interest expenses | –20.7 |
| **Negative interest income** | **–8.4** |
| **Total** | **527.7** |

The interest income from lending and money market transactions includes income from impaired receivables (unwinding effect) of EUR 5.9 million (previous year: EUR 3.7 million).

## Other interest

| EUR millions | 01.01.–30.06.2018 |
| --- | --- |
| **Interest income** | **1.6** |
| Interest income from lending and money market transactions | 0.6 |
| Other interest income | 1.0 |
| **Positive interest expenses** | **0.0** |
| **Interest expenses** | **–7.4** |
| Interest expenses for derivatives in commercial hedging relationships | –6.0 |
| Other interest expenses | –1.4 |
| **Negative interest income** | **–11.4** |
| **Total** | **–17.2** |

The following table shows the composition of net interest income for the first half of 2017:

| EUR millions | 01.01.–30.06.2017 |
| --- | --- |
| **Interest income** | **958.1** |
| Interest income from lending and money market transactions | 947.4 |
| Interest income from bonds and other fixed-income securities | 8.8 |
| Current income | 1.9 |
| **Positive interest expenses** | **0.7** |
| **Interest expenses** | **–506.4** |
| Interest expenses for liabilities to banks and clients | –273.1 |
| Interest expenses for hedge accounting derivatives | –120.1 |
| Interest expenses for derivatives in economic hedging relationships | –71.7 |
| Interest expenses for securitised liabilities | –20.6 |
| Interest expenses for subordinated capital | –9.5 |
| Other interest expenses | –11.4 |
| **Negative interest income** | **–23.2** |
| **Total** | **429.2** |

## (6) Risk result

The risk result includes the effects on profit or loss of credit rating-related valuation changes as part of risk provisioning and modifications. The risk result also includes the results from the disposal of AAC financial instruments.

| EUR millions | 01.01.–30.06.2018 |
|---|---|
| **Risk provision result** | **–22.7** |
| Income from the reversal of balance sheet and off-balance sheet risk provisions | 268.8 |
| Expenses from the addition of balance sheet and off-balance sheet risk provisions | –283.4 |
| Expenses from direct write-offs | –11.8 |
| Income from receipts on receivables written off | 4.3 |
| Result from non-significant modifications[1] | –0.6 |
| **Result from the disposal of AAC category financial instruments** | **–6.2** |
| Modification income from significant modifications | 4.0 |
| Modification expenses from significant modifications | –11.1 |
| Disposal gains | 0.9 |
| Disposal expenses | – |
| **Total** | **–28.9** |

[1] Relates to modifications of Level 2 and Level 3 financial instruments. The modifications to Level 1 financial instruments are shown in net interest income.

The following table shows the composition of the risk provision for the first half of 2017:

| EUR millions | 01.01.–30.06.2017 |
|---|---|
| **Additions** | **–101.2** |
| Impairment losses on loans and advances | –94.1 |
| Provisions in the credit business | –7.1 |
| **Releases** | **37.2** |
| Impairment losses on loans and advances | 36.7 |
| Provisions in the credit business | 0.5 |
| **Recoveries on written-down receivables** | **4.9** |
| **Total** | **–59.1** |

## (7) Net commission income

| EUR millions | 01.01.–30.06.2018 | | | 01.01.–30.06.2017 |
|---|---|---|---|---|
| | Income | Expenses | Result | Result |
| Credit card business | 96.4 | –84.2 | 12.2 | 8.3 |
| Lending business | 17.7 | –25.3 | –7.6 | –2.0 |
| Payments | 8.2 | –31.0 | –22.8 | –24.8 |
| Other net commission income | 15.0 | –8.1 | 6.9 | 5.6 |
| **Total** | **137.3** | **–148.6** | **–11.3** | **–12.9** |

Commission income is allocated to the segments of the DKB Group as follows:

| EUR millions | Retail clients | Infrastructure | Corporate clients | Financial markets | Other | Reconciliation/Consolidation | Group |
|---|---|---|---|---|---|---|---|
| Credit card business | 96.4 | – | – | – | – | 0.0 | **96.4** |
| Lending business | 11.9 | 3.8 | 4.7 | – | 0.2 | –2.9 | **17.7** |
| Payments | 3.5 | 2.5 | 2.1 | – | 0.1 | 0.0 | **8.2** |
| Other net commission income | 13.5 | 0.5 | 0.4 | 0.5 | 8.5 | –8.4 | **15.0** |
| **Total** | **125.3** | **6.8** | **7.2** | **0.5** | **8.8** | **–11.3** | **137.3** |

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

| EUR millions | 01.01.–30.06.2018 | 01.01.–30.06.2017 |
|---|---|---|
| **Net trading income** | **6.2** | **70.8** |
| Interest-related transactions | 5.6 | 70.4 |
| Currency-related transactions | 0.6 | 0.4 |
| **Fair value gains/losses from FVPLM financial instruments** | **4.8** | **–** |
| **Total** | **11.0** | **70.8** |

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

## (9) Gains or losses on hedging transactions

| EUR millions | 01.01.–30.06.2018 | 01.01.–30.06.2017 |
|---|---|---|
| Measurement of underlying transactions | 45.1 | –83.6 |
| Measurement of hedging instruments | 9.6 | 193.6 |
| Result from the amortisation of the portfolio hedge adjustment | –88.9 | –189.2 |
| **Total** | **–34.2** | **–79.2** |

## (10) Gains or losses on financial investments

As in the previous year, gains or losses on financial investments arise on proceeds from the sale of securities.

## (11) Administrative expenses

| EUR millions | 01.01.–30.06.2018 | 01.01.–30.06.2017 |
|---|---|---|
| Staff costs | –122.6 | –115.5 |
| Other administrative expenses | –105.2 | –97.8 |
| Depreciation and impairments on property, plant and equipment and intangible assets | –4.0 | –3.2 |
| **Total** | **–231.8** | **–216.5** |

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

| EUR millions | 01.01.–30.06.2018 | 01.01.–30.06.2017 |
|---|---|---|
| Bank levy | –22.0 | –19.6 |
| Deposit guarantee scheme | –7.0 | –4.4 |
| Banking supervision | –1.7 | –1.4 |
| **Total** | **–30.7** | **–25.4** |

## (13) Other income and expenses

| EUR millions | 01.01.–30.06.2018 | 01.01.–30.06.2017 |
|---|---|---|
| Other income | 28.3 | 18.3 |
| Other expenses | –21.6 | –24.3 |
| **Total** | **6.7** | **–6.0** |

## (14) Gains or losses on restructuring

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

## (15) Income taxes

| EUR millions | 01.01.–30.06.2018 | 01.01.–30.06.2017 |
|---|---|---|
| Current income taxes | –0.6 | –0.7 |
| Deferred income taxes | –0.8 | –0.6 |
| **Total** | **–1.4** | **–1.3** |

# Notes to the consolidated balance sheet

In the case of tabular presentations, the information for the reporting period and the previous period is summarised in a table if the structure of the table has remained unchanged compared with the previous period – despite the change in classification and measurement regulations due to IFRS 9. Otherwise, the information is displayed in two separate tables.

## (16) Cash reserve

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Cash in hand | 8.0 | 9.8 |
| Credit balances with central banks | 3,517.6 | 1,733.0 |
| **Total** | **3,525.6** | **1,742.8** |

The cash reserve consists exclusively of financial instruments in the AAC category.

## (17) Loans and advances to banks

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Loans and advances to domestic banks | 1,056.1 | 4,601.6 |
| Loans and advances to foreign banks | 15.0 | – |
| **Total** | **1,071.1** | **4,601.6** |

Loans and advances to banks consist exclusively of financial instruments in the AAC category.

The risk provision for loans and advances to banks are allocated exclusively to Level 1 and amounted to EUR 7 thousand as of the balance sheet date (31 December 2017: EUR 18 thousand). There were no transfers between levels in the reporting period.

In the reporting period, no model changes were made that would have had an effect on the level of the risk provision.

Loans and advances to banks did not contain any credit rating-impaired financial instruments at the time of acquisition (POCI) in the reporting period.

## (18) Loans and advances to clients

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Loans and advances to domestic clients | 63,849.8 | 63,985.1 |
| Loans and advances to foreign clients | 598.4 | 567.1 |
| **Total** | **64,448.2** | **64,552.2** |

Loans and advances to clients consist of financial instruments in the following categories:

| EUR millions | 30.06.2018 |
|---|---|
| AAC category receivables | 64,434.7 |
| FVPLM category receivables | 10.0 |
| FVOCIM category receivables | 3.5 |
| **Total** | **64,448.2** |

The risk provision for losses on loans and advances to clients in the AAC category developed as follows:

| EUR millions | Level 1 | Level 2 | Level 3 | POCI | Total |
|---|---|---|---|---|---|
| **As at 1 Jan** | **–41.7** | **–115.4** | **–265.4** | **–0.9** | **–423.4** |
| Additions from lending/purchases | –18.5 | –9.9 | –25.5 | –0.7 | –54.6 |
| Reversals from disposal/repayment/sale | 2.2 | 40.8 | 75.9 | 2.4 | 121.3 |
| Credit rating-related changes | 11.7 | –42.8 | –51.6 | –3.6 | –86.3 |
| Usage/depreciation | 0.0 | – | 41.3 | – | 41.3 |
| Reallocation to Level 1 | –5.7 | 5.7 | – | – | – |
| Reallocation to Level 2 | 9.4 | –11.6 | 2.2 | – | – |
| Reallocation to Level 3 | 1.3 | 10.1 | –11.4 | – | – |
| Unwinding | – | – | 5.0 | 0.2 | 5.2 |
| **As at 30 Jun** | **–41.3** | **–123.1** | **–229.5** | **–2.6** | **–396.5** |

The gross carrying amount of loans and advances to AAC clients is composed as follows:

| EUR millions | 30.06.2018 |
|---|---|
| Gross carrying amount of Level 1 receivables | 61,340.7 |
| Gross carrying amount of Level 2 receivables | 2,334.1 |
| Gross carrying amount of Level 3 receivables | 652.1 |
| Gross carrying amount of POCI receivables | 107.8 |
| **Total** | **64,434.7** |

The impairment losses on receivables from clients in the FVOCIM category relate exclusively to financial instruments with impaired credit ratings (POCI) at the time of acquisition and amounted to EUR 2.2 million as at the balance sheet date. There were no transfers between levels in the reporting period.

In the reporting period, no model changes were made that would have had an effect on the level of the risk provision or the impairments.

In the reporting period, the total amount of undiscounted expected credit losses in the initial recognition of financial instruments with impaired credit ratings (POCI) amounted to EUR 10.7 million.

## (19) Risk provision

| EUR millions | Level 1 | Level 2 | Level 3 | POCI | Total |
|---|---|---|---|---|---|
| Loans and advances to banks | 0.0 | – | – | – | 0.0 |
| Loans and advances to clients | –41.3 | –123.1 | –229.5 | –2.6 | –396.5 |
| **Total** | **–41.3** | **–123.1** | **–229.5** | **–2.6** | **–396.5** |

The development of the risk provision in the reporting period is shown for loans and advances to banks (Note 17) and loans and advances to clients (Note 18).

The following tables show the composition of the risk provision as at 31 December 2017.

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

| EUR millions | 31.12.2017 |
|---|---|
| **Opening balance** | **–385.0** |
| **Changes recognised through profit or loss** | **–89.8** |
| Additions | –150.7 |
| Releases | 53.7 |
| Unwinding | 7.2 |
| **Changes not recognised through profit or loss** | **217.2** |
| Utilisation | 217.2 |
| **Closing balance** | **–257.6** |

No specific valuation allowances were recognised for loans and advances to banks.

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

| EUR millions | 31.12.2017 |
|---|---|
| **Opening balance** | **–63.8** |
| **Changes recognised through profit or loss** | **–35.5** |
| Additions | –35.5 |
| Releases | 0.0 |
| **Changes not recognised through profit or loss** | **–** |
| Utilisation | – |
| **Closing balance** | **–99.3** |

As of 31 December 2017, receivables of EUR 21.1 million were written off directly. Direct depreciations are shown as the utilisation of specific valuation allowances.

## (20) 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 411.5 million (previous year: EUR 455.4 million). It was offset by the fair values of hedging transactions, on the liabilities side under the negative fair values from derivative financial instruments (hedge accounting) and on the assets side under the positive fair values from derivative financial instruments (hedge accounting).

## (21) Assets held for trading

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Positive fair values from derivative financial instruments (no hedge accounting) | 3.0 | 3.6 |
| **Total** | **3.0** | **3.6** |

Assets held for trading consist exclusively of financial instruments in the FVPLM category.

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

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Positive fair values from fair value hedges (portfolio hedges) | 0.2 | – |
| **Total** | **0.2** | **–** |

## (23) Financial investments

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Bonds and other fixed-income securities | 6,057.7 | 5,832.2 |
| Equities and other non-fixed-income securities | 141.2 | 141.5 |
| Other financial investments | 63.4 | 54.2 |
| **Total** | **6,262.3** | **6,027.9** |

Financial investments consist of financial instruments in the following categories:

| EUR millions | 30.06.2018 |
|---|---|
| FVOCIM category financial investments | 6,057.7 |
| FVPLM category financial investments | 184.6 |
| AAC category financial investments | 20.0 |
| **Total** | **6,262.3** |

The valuation allowances deducted from the carrying amount for the financial assets in the category FVOCIM are allocated exclusively to Level 1 and amounted to EUR 0.3 million as at the balance sheet date. There were no transfers between levels in the reporting period.

In the reporting period, no model changes were made that would have had an effect on the level of the valuation allowances.

Financial investments did not contain any credit rating-impaired financial instruments at the time of acquisition (POCI) in the reporting period.

## (24) Income tax assets

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Current income tax assets | 0.1 | 0.0 |
| Deferred income tax assets | 0.0 | 0.3 |
| **Total** | **0.1** | **0.3** |

## (25) Liabilities to banks

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Liabilities to domestic banks | 13,089.9 | 13,250.7 |
| Liabilities to foreign banks | 929.5 | 1,130.4 |
| **Total** | **14,019.4** | **14,381.1** |

Liabilities to banks consist exclusively of financial instruments in the AAC category.

## (26) Liabilities to clients

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Liabilities to domestic clients | 52,021.6 | 52,942.9 |
| Liabilities to foreign clients | 1,018.5 | 988.1 |
| **Total** | **53,040.1** | **53,931.0** |

Liabilities to clients consist exclusively of financial instruments in the AAC category.

## (27) Securitised liabilities

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Bonds and notes issued** | | |
| Mortgage Pfandbriefs | 2,272.4 | 2,304.5 |
| Public-sector Pfandbriefs | 920.9 | 1,423.5 |
| Other bonds and notes | 997.9 | 997.1 |
| **Total** | **4,191.2** | **4,725.1** |

Securitised liabilities consist exclusively of financial instruments in the AAC category.

Mortgage Pfandbriefs of EUR 20.0 million and public Pfandbriefs of EUR 500.0 million were repaid in the reporting period.

## (28) Liabilities held for trading

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Negative fair values from derivative financial instruments (no hedge accounting) | 0.9 | 22.3 |
| **Total** | **0.9** | **22.3** |

Liabilities held for trading consist exclusively of financial instruments in the FVPLM category.

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

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Negative fair values from fair value hedges (portfolio hedges) | 19.8 | 17.7 |
| **Total** | **19.8** | **17.7** |

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

## (30) Provisions

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Provisions for pensions and similar obligations** | **81.1** | **80.7** |
| **Other provisions** | **99.4** | **83.7** |
| Provisions in the credit business | 38.2 | 15.2 |
| Miscellaneous provisions | 61.2 | 68.5 |
| **Total** | **180.5** | **164.4** |

Provisions in the lending business reflect the credit risks in the off-balance sheet lending business:

| EUR millions | 30.06.2018 |
|---|---|
| **Provisions for loan commitments and financial guarantees in accordance with IFRS 9** | **31.6** |
| Provisions for loan commitments and financial guarantees – Level 1 | 6.0 |
| Provisions for loan commitments and financial guarantees – Level 2 | 6.7 |
| Provisions for loan commitments and financial guarantees – Level 3 | 17.6 |
| Provisions for loan commitments and financial guarantees – POCI | 1.3 |
| **Provisions for other contingent liabilities in accordance with IAS 37** | **6.6** |
| **Total** | **38.2** |

The development of provisions for loan commitments and financial guarantees in accordance with IFRS 9 in the reporting period is presented under contingent liabilities and other commitments (Note 34).

## (31) Income tax liabilities

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Current income tax liabilities | 1.5 | 1.2 |
| Deferred income tax liabilities | 0.5 | 0.0 |
| **Total** | **2.0** | **1.2** |

## (32) Subordinated capital

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Subordinated liabilities | 599.3 | 607.9 |
| Additional regulatory core capital | 50.0 | 50.0 |
| Profit participation certificates | 29.3 | 26.8 |
| **Total** | **678.6** | **684.7** |

The subordinated capital consists exclusively of financial instruments in the AAC category.

Subordinated capital of EUR 2.7 million were issued, EUR 0.8 million redeemed and EUR 2.0 million repaid in the reporting period.

## (33) Equity

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Subscribed capital** | **339.3** | **339.3** |
| Statutory nominal capital | 339.3 | 339.3 |
| **Capital surplus** | **1,414.4** | **1,414.4** |
| **Retained earnings** | **1,305.8** | **1,093.4** |
| Statutory reserve | 242.4 | 242.4 |
| Reserve from the revaluation of defined benefit pension plans | –26.7 | –27.9 |
| Other retained earnings | 1,090.1 | 878.9 |
| **Revaluation surplus** | **71.5** | **133.5** |
| **Consolidated net retained profits/net accumulated losses** | **207.9** | **274.9** |
| **Total** | **3,338.9** | **3,255.5** |

Retained earnings increased by EUR 212.4 million mainly due to the allocation of the consolidated balance sheet profit from the previous year less the first-time application effect of IFRS 9.

At EUR 71.8 million, the revaluation reserve resulted primarily from the fair value measurement of FVOCIM financial instruments. The decline compared to the end of the previous year is mainly due to a reclassification of EUR 52.3 million to retained earnings due to the first-time application of IFRS 9.

Impairment losses on FVOCIM financial instruments are shown in loans and advances to clients (Note 18) and financial investments (Note 23).

## (34) Contingent liabilities and other commitments

| EUR millions | 30.06.2018 |
|---|---|
| **Contingent liabilities** | **744.8** |
| Financial guarantees in accordance with IFRS 9 | 129.3 |
| Other liabilities from guarantees and indemnity agreements | 613.0 |
| Contingent liabilities from legal disputes | 2.5 |
| **Other commitments** | **18,879.4** |
| Loan commitments | 18,879.4 |
| **Total** | **19,624.2** |

The following table shows the composition of contingent liabilities and other commitments as of 31 December 2017. The disclosures are made after the deduction of valuation allowances.

| EUR millions | 31.12.2017 |
|---|---|
| **Contingent liabilities** | **752.5** |
| Liabilities from guarantees and indemnity agreements | 749.2 |
| Contingent liabilities from legal disputes | 3.3 |
| **Other commitments** | **3,250.6** |
| Irrevocable credit commitments | 3,250.6 |
| **Total** | **4,003.1** |

The provisions for loan commitments and financial guarantees in accordance with IFRS 9 developed as follows:

| EUR millions | Level 1 | Level 2 | Level 3 | POCI | Total |
|---|---|---|---|---|---|
| **As at 1 Jan** | **5.3** | **11.7** | **10.5** | **–** | **27.5** |
| Additions from lending/purchases | 6.4 | 10.8 | 10.8 | 0.7 | 28.7 |
| Reversals from disposal/repayment/sale | –0.8 | –2.7 | –6.3 | 0.0 | –9.8 |
| Credit rating-related changes | –5.0 | –12.5 | 2.8 | 0.6 | –14.1 |
| Reallocation to Level 1 | 0.7 | –0.7 | – | – | – |
| Reallocation to Level 2 | –0.6 | 0.6 | 0.0 | – | – |
| Reallocation to Level 3 | – | –0.5 | 0.5 | – | – |
| Unwinding | – | – | –0.7 | 0.0 | –0.7 |
| **As at 30 Jun** | **6.0** | **6.7** | **17.6** | **1.3** | **31.6** |

In the reporting period, no model changes were made that would have had an effect on the level of the risk provision.

The exposure of loan commitments and financial guarantees is comprised as follows:

| EUR millions | 30.06.2018 |
|---|---|
| Exposure from loan commitments and financial guarantees – Level 1 | 18,811.0 |
| Exposure from loan commitments and financial guarantees – Level 2 | 154.2 |
| Exposure from loan commitments and financial guarantees – Level 3 | 43.2 |
| Exposure from loan commitments and financial guarantees – POCI | 0.3 |
| **Total** | **19,008.7** |

# 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.

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

### Fair value of financial instruments[1]

| | Fair value | | Carrying amount | |
|---|---|---|---|---|
| **EUR millions** | **30.06.2018** | **31.12.2017** | **30.06.2018** | **31.12.2017** |
| **Assets** | **78,474.1** | **80,506.5** | **75,721.90** | **77,354.6** |
| Cash reserves | 3,525.6 | 1,742.8 | 3,525.6 | 1,742.8 |
| Loans and advances to banks | 1,074.7 | 4,606.9 | 1,071.1 | 4,601.6 |
| Loans and advances to clients[2] | 67,602.7 | 68,154.1 | 64,859.7 | 65,007.5 |
| Assets held for trading | 3.0 | 3.6 | 3.0 | 3.6 |
| Positive fair values from derivative financial instruments (hedge accounting) | 0.2 | – | 0.2 | – |
| Financial investments[3] | 6,267.9 | 5,999.1 | 6,262.3 | 5,999.1 |
| **Liabilities** | **73,827.2** | **75,704.6** | **71,950.0** | **73,761.9** |
| Liabilities to banks | 14,820.3 | 15,242.3 | 14,019.4 | 14,381.1 |
| Liabilities to clients | 53,838.0 | 54,789.3 | 53,040.1 | 53,931.0 |
| Securitised liabilities | 4,289.4 | 4,828.3 | 4,191.2 | 4,725.1 |
| Trading liabilities | 0.9 | 22.3 | 0.9 | 22.3 |
| Negative fair values from derivative financial instruments (hedge accounting) | 19.8 | 17.7 | 19.8 | 17.7 |
| Subordinated capital | 858.8 | 804.7 | 678.6 | 684.7 |

1 For current financial instruments, the book value regularly corresponds to the fair value.
2 Including portfolio hedge adjustment attributable to assets
3 In the previous year: Excluding participations and shares in affiliated companies that are measured at cost.

The DKB Group is not planning to sell any of the financial instruments reported.

## Hierarchy of fair values

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

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

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

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

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

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

These include loans and advances to clients and company shares.

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

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

### Financial instruments measured at fair value

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.

| EUR millions | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | | | | 30.06.2018 |
| **Assets** | | | | |
| Loans and advances to clients | – | – | 13.5 | **13.5** |
| Assets held for trading | – | 3.0 | – | **3.0** |
| Positive fair values from derivatives (hedge accounting) | – | 0.2 | – | **0.2** |
| Financial investments (debt instruments) | 4,899.8 | 1,299.2 | 1.7 | **6,200.7** |
| Financial investments (equity instruments) | – | – | 41.6 | **41.6** |
| **Total** | **4,899.8** | **1,302.4** | **56.8** | **6,259.0** |
| **Liabilities** | | | | |
| Trading liabilities | – | 0.9 | – | **0.9** |
| Negative fair values from derivatives (hedge accounting) | – | 19.8 | – | **19.8** |
| **Total** | **–** | **20.7** | **–** | **20.7** |

| EUR millions | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | | | | 31.12.2017 |
| **Assets** | | | | |
| Loans and advances to clients | – | – | 3.9 | **3.9** |
| Assets held for trading | – | 3.4 | – | **3.4** |
| Positive fair values from derivatives (hedge accounting) | – | – | – | **–** |
| Financial investments (debt instruments)[1] | 3,629.0 | 2,203.2 | – | **5,832.2** |
| Financial investments (equity instruments)[1] | 141.5 | – | – | **141.5** |
| **Total** | **3,770.5** | **2,206.6** | **3.9** | **5,981.0** |
| **Liabilities** | | | | |
| Trading liabilities | – | 22.3 | – | **22.3** |
| Negative fair values from derivatives (hedge accounting) | – | 17.7 | – | **17.7** |
| **Total** | **–** | 40.0 | – | **40.0** |

[1] Excluding participations and shares in affiliated companies

On the basis of the review of whether bonds complied with the parameters to be met cumulatively for allocation to Level 1 (such as number of prices) as at 30 June 2018, bonds and notes worth EUR 180.1 million were reclassified from Level 1 to Level 2 and bonds worth EUR 1,132.1 million were reclassified from Level 2 to Level 1.

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

| | Financial investments | | Loans and advances to clients | | Total | |
|---|---|---|---|---|---|---|
| **EUR millions** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **As at 31 Dec** | **25.4** | **19.8** | **3.9** | **7.0** | **29.3** | **26.8** |
| First-time application of IFRS 9 | 10.6 | – | 10.1 | – | 20.7 | – |
| **As at 1 Jan** | **36.0** | **19.8** | **14.0** | **7.0** | **50.0** | **26.8** |
| Effects recognised through profit or loss | 5.3 | – | 0.1 | –0.5 | 5.4 | –0.5 |
| of which other income and expenses | – | – | –0.2 | –0.5 | –0.2 | –0.5 |
| of which gains or losses on fair value measurement | 5.3 | – | 0.3 | – | 5.6 | – |
| of which risk provision | – | – | – | – | – | – |
| Change in the revaluation surplus | – | 2.1 | –0.1 | –0.4 | –0.1 | 1.7 |
| Purchases | 2.0 | – | 0.0 | 0.0 | 2.1 | 0.0 |
| Sales | – | – | –0.1 | – | –0.1 | – |
| Settlements | – | – | –0.4 | –0.5 | –0.4 | –0.5 |
| **As at 30 Jun** | **43.3** | **21.9** | **13.5** | **5.6** | **56.8** | **27.5** |
| Effects for financial instruments, which are in the portfolio on 30 June, recognised through profit or loss | 5.3 | – | 0.1 | –0.5 | 5.4 | –0.5 |
| of which other income and expenses | – | – | –0.2 | –0.5 | –0.2 | –0.5 |
| of which gains or losses on fair value measurement | 5.3 | – | 0.3 | – | 5.6 | – |
| of which risk provision | – | – | – | – | – | – |

## 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 | Bandwidth (average) | Change in parameters | Change affecting net income | Change not recognised through profit or loss |
|---|---|---|---|---|
| Realisation value | EUR 0 thousand to EUR 159 thousand (EUR 20 thousand) | +5.0 %<br>−5.0 % | +EUR 162 thousand<br>−EUR 162 thousand | EUR 0.0 thousand<br>EUR 0.0 thousand |
| Realisation period | 1 month up to 35 months (7 months) | +6 months<br>−6 months | +EUR 5.5 thousand<br>−EUR 4.4 thousand | EUR 0.0 thousand<br>EUR 0.0 thousand |
| Interest rate | −0.54 % up to 0.29 % (−0.45 %) | +0.05 %<br>−0.05 % | EUR 0.0 thousand<br>EUR 0.0 thousand | −EUR 1.5 thousand<br>+EUR 1.5 thousand |

### Receivables from clients (loans measured at fair value (category: FVPLM))

| Significant non-observable parameters | Bandwidth (average) | Change in parameters | Change affecting net income | Change not recognised through profit or loss |
|---|---|---|---|---|
| Valuation spread | −0.13 % up to 0.68 % (0.20 %) | +10 BP<br>−10 BP | −EUR 30.6 thousand<br>+EUR 30.8 thousand | EUR 0.0 thousand<br>EUR 0.0 thousand |

### Financial investments (shares in Visa Inc.)

| Significant non-observable parameters | Weighted average | Change Parameter | Changes recognised through profit or loss | Changes not recognised through profit or loss |
|---|---|---|---|---|
| Subscription ratio of Visa Inc. ordinary shares | 49.8 % | +10 %<br>−10 % | +EUR 3,034.5 thousand<br>−EUR 3,034.5 thousand | EUR 0.0 thousand<br>EUR 0.0 thousand |

### Financial investments (other shares in companies)

| Significant non-observable parameters | Weighted average | Change in parameters | Change affecting net income | Change not recognised through profit or loss |
|---|---|---|---|---|
| Company-specific market risk premium | 6.5 % | +25 BP<br>−25 BP | −EUR 140.0 thousand<br>+EUR 147.0 thousand | EUR 0.0 thousand<br>EUR 0.0 thousand |

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

## (36) Reclassification of financial assets

There were no reclassifications of financial assets in the reporting period.

## (37) Derivative 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 millions** | **30.06.2018** | **31.12.2017** | **30.06.2018** | **30.06.2018** |
| **Interest rate risks** | **8,270.0** | **8,590.0** | **8.8** | **513.8** |
| Interest-rate swaps | 8,250.0 | 8,570.0 | 8.8 | 513.2 |
| Options on interest-rate swaps | 20.0 | 20.0 | – | 0.6 |
| **Currency risks** | **23.1** | **22.8** | **0.0** | **0.3** |
| Forward exchange transactions | 23.1 | 22.8 | 0.0 | 0.3 |
| **Total** | **8,293.1** | **8,612.8** | **8.8** | **514.1** |

The nominal values of the interest-rate swaps relate to portfolio hedges at EUR 8,230.0 million (previous year: EUR 8,125.0 million). 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.

## (38) 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.

### Default risk

The maximum default risk[1] is distributed as follows:

| **EUR millions** | **30.06.2018** |
|---|---|
| Cash reserves | 3,525.6 |
| Loans and advances to banks | 1,071.1 |
| Loans and advances to clients | 64,448.2 |
| Financial investments | 6,262.3 |
| Derivatives | 3.2 |
| Loan commitments and financial guarantees | 19,008.7 |
| **Total** | **94,319.1** |

[1] for balance sheet assets the gross book value is given, for off-balance sheet items the exposure

The following table shows the distribution of the maximum credit risk[1] as at 31 December 2017:

| EUR millions | 31.12.2017 |
|---|---|
| Cash reserves | 1,742.8 |
| Loans and advances to banks | 4,601.6 |
| Loans and advances to clients | 64,195.3 |
| Financial investments | 5,832.2 |
| Derivatives | 3.6 |
| Contingent liabilities | 749.2 |
| Irrevocable commitments | 3,250.6 |
| **Total** | **80,375.3** |

[1] for balance sheet assets the gross book value is given, for off-balance sheet items the exposure, in each case after deduction of valuation adjustments

Level 3 financial instruments and POCI financial instruments are covered by valuation allowances and eligible collateral as follows:

| EUR millions | Maximum default risk | Valuation adjustments | Eligible collateral |
|---|---|---|---|
| Loans and advances to clients | 763.4 | 232.1 | 151.8 |
| Loan commitments and financial guarantees | 43.5 | 31.6 | 0.9 |
| **Total** | **806.9** | **263.7** | **152.7** |

The following table shows the maximum credit risk and the corresponding eligible collateral as of 31 December 2017:

| EUR millions | Maximum credit risk | Eligible collateral |
|---|---|---|
| Loans and advances to clients | 417.0 | 100.9 |
| Contingent liabilities | 0.1 | – |
| **Total** | **417.1** | **100.9** |

The distribution of the default risk in default rating grades 16 to 18 between Level 3 financial instruments and POCI financial instruments is shown as follows:

| EUR millions | Default risk 30.06.2018 |
|---|---|
| **Rating 16** | **8.0** |
| Level 3 | 4.4 |
| POCI | 3.6 |
| **Rating 17** | **495.3** |
| Level 3 | 402.5 |
| POCI | 92.8 |
| **Rating 18** | **252.2** |
| Level 3 | 251.3 |
| POCI | 0.9 |
| **Total** | **755.5** |

The following table shows the maximum credit risk in the default ratings 16 to 18 as at 31 December 2017:

| EUR millions | 31.12.2017 |
|---|---|
| **Default categories (rating 16–18)** | **144.9** |
| Loans and advances to clients | 128.4 |
| Contingent liabilities | 7.1 |
| Irrevocable commitments | 9.4 |
| **Total** | **144.9** |

## 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 is distributed as follows in the reporting period:

| **EUR millions** | **30.06.2018** |
|---|---|
| Loans and advances to clients | **839.9** |
| Contingent liabilities | 13.1 |
| Commitments | 48.0 |
| **Total** | **900.9** |

The following table shows the Forborne exposure as of 31 December 2017:

| **EUR millions** | **31.12.2017** |
|---|---|
| Loans and advances to clients | **827.7** |
| Contingent liabilities | 12.5 |
| Irrevocable commitments | 15.0 |
| **Total** | **855.2** |

## Market price risk

The DKB Group divides market price 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:

| | | | 2018 | | | 2017 |
|---|---|---|---|---|---|---|
| **EUR millions** | **30.06.2018** | **Maximum** | **Minimum** | **31.12.2017** | **Maximum** | **Minimum** |
| Interest | 199.3 | 334.4 | 163.1 | 173.0 | 218.0 | 109.0 |
| Equities | 47.1 | 48.6 | 34.2 | 42.0 | 87.0 | 42.0 |
| Credit spread | 24.9 | 25.2 | 11.9 | 21.0 | 23.0 | 15.0 |
| Foreign currency | 6.1 | 7.3 | 6.1 | 6.0 | 7.0 | 6.0 |
| Volatility | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Correlated total risk** | **205.4** | **365.7** | **180.6** | **185.0** | **256.0** | **133.0** |

The securities portfolio had the following structure as of 30 June 2018:

| Market value | | Banks | | Non-banks | | Public sector issuers | | Total |
|---|---|---|---|---|---|---|---|---|
| **EUR millions** | **30.06.2018** | **31.12.2017** | **30.06.2018** | **31.12.2017** | **30.06.2018** | **31.12.2017** | **30.06.2018** | **31.12.2017** |
| Bonds | 1,977.2 | 1,768.4 | 299.3 | 321.4 | 3,781.2 | 3,742.4 | 6,057.7 | 5,832.2 |
| Funds | – | – | 141.2 | 141.5 | – | – | 141.2 | 141.5 |
| Equities | – | – | – | – | – | – | – | – |
| **Total** | **1,977.2** | **1,768.4** | **440.5** | **462.9** | **3,781.2** | **3,742.4** | **6,198.9** | **5,973.7** |

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

| | | 30.06.2018 | | 31.12.2017 |
|---|---|---|---|---|
| | **EUR millions** | **in %** | **EUR millions** | **in %** |
| Germany | 4,308.1 | 69.5 | 4,145.3 | 69.4 |
| Europe/EU | 1,655.6 | 26.7 | 1,543.7 | 25.9 |
| Europe/Non-EU | 155.8 | 2.5 | 162.8 | 2.7 |
| USA | – | – | 25.4 | 0.4 |
| Other | 79.4 | 1.3 | 96.5 | 1.6 |
| **Total** | **6,198.9** | **100.0** | **5,973.7** | **100.0** |

# Other disclosures

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

| | Nominal value | | Present value | |
|---|---|---|---|---|
| **EUR millions** | **30.06.2018** | **31.12.2017** | **30.06.2018** | **31.12.2017** |
| **Public sector Pfandbriefs and mortgage Pfandbriefs** | | | | |
| Total amount of the cover pools1 | 17,495.0 | 17,394.6 | 19,229.2 | 19,243.2 |
| Total amount of Pfandbriefs in circulation | 7,784.6 | 8,427.1 | 8,697.8 | 9,397.0 |
| | **9,710.4** | **8,967.5** | **10,531.4** | **9,846.2** |
| **Surplus cover** | **124.7 %** | **106.4 %** | **121.1 %** | **104.8 %** |

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

## (40) Bodies of Deutsche Kreditbank AG

### Supervisory Board

#### Shareholders' representatives:

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

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

**Stefan Höck**
Deputy Head of the Department of State Investments,
Real Estate Management,
Bavarian State Ministry of Finance,
Regional Development and Regional Identity

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

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

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

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

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

### Employee representatives:

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

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

**Carsten Birkholz**
Employee
Deutsche Kreditbank AG
(from 14 March 2018) member of the Supervisory Board

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

**Jörg Feyerabend**
Employee
DKB Service GmbH

**Jens Hübler**
Executive employee
Deutsche Kreditbank AG

**Maria Miranow**
Employee
Deutsche Kreditbank AG
(from 14 March 2018) member of the Supervisory Board

**Frank Radtke**
Employee
Deutsche Kreditbank AG

**Frank Siegfried**
Employee
Deutsche Kreditbank AG
(until 13 March 2018) member of the Supervisory Board

**Gunter Wolf**
Employee
Deutsche Kreditbank AG
(until 13 March 2018) member of the Supervisory Board

### Honorary members:

**Günther Troppmann**

## Board of Management

**Stefan Unterlandstättner**
Chair of the Board of Management

**Rolf Mähliß**
(until 31 March 2018) member of the Board of Management

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

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

**Alexander von Dobschütz**
Member of the Board of Management

**Jan Walther**
(from 1 April 2018) 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 parties – this includes mainly the subsidiaries, joint ventures and associates of the BayernLB Group, the Free State of Bavaria and companies controlled by the Free State of Bavaria or which the latter jointly manages or over which it has significant influence as well as the Sparkassenverband Bayern and companies controlled by the Sparkassenverband Bayern or which the latter jointly manages

- Members of the Board of Management and the Supervisory Board of DKB 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. Essentially, these relationships include typical bank services, for example in the deposit, lending and money market business.

Furthermore, there are operating lease arrangements with related companies in which the DKB Group is the lessee.

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 millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Loans and advances to banks** | **816.8** | **1,071.4** |
| Parent company | 816.8 | 1,071.4 |
| **Loans and advances to clients** | **102.3** | **117.4** |
| Non-consolidated subsidiaries | 64.1 | 77.5 |
| Joint ventures | 34.1 | 35.7 |
| Other related companies | 4.1 | 4.2 |
| **Risk provisions** | **–8.4** | **–24.8** |
| Non-consolidated subsidiaries | –0.2 | –1.8 |
| Joint ventures | –8.2 | –23.0 |
| **Assets held for trading** | **3.0** | **3.6** |
| Parent company | 3.0 | 3.6 |
| **Positive fair values from derivative financial instruments (hedge accounting)** | **0.2** | **–** |
| Parent company | 0.2 | – |
| **Financial investments** | **30.2** | **30.3** |
| Other related companies | 30.2 | 30.3 |
| **Other assets** | **175.6** | **151.7** |
| Parent company | 175.5 | 146.1 |
| Non-consolidated subsidiaries | 0.1 | 5.6 |
| Joint ventures | 0.0 | 0.0 |
| Other related companies | 0.0 | 0.0 |
| **Liabilities to banks** | **820.2** | **771.6** |
| Parent company | 552.1 | 492.5 |
| Other related companies | 268.1 | 279.1 |
| **Liabilities to clients** | **92.4** | **96.1** |
| Non-consolidated subsidiaries | 27.2 | 36.0 |
| Joint ventures | 2.2 | 1.3 |
| Other related companies | 63.0 | 58.8 |

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Securitised liabilities** | **38.7** | **48.7** |
| Parent company | 1.5 | 11.5 |
| Other related companies | 37.2 | 37.2 |
| **Trading liabilities** | **0.9** | **0.8** |
| Parent company | 0.9 | 0.8 |
| **Negative fair values from derivative financial instruments (hedge accounting)** | **2.6** | **2.2** |
| Parent company | 2.6 | 2.2 |
| **Provisions** | **0.6** | **0.0** |
| Non-consolidated subsidiaries | 0.0 | 0.0 |
| Other related companies | 0.6 | 0.0 |
| **Other liabilities** | **6.0** | **10.8** |
| Parent company | 0.1 | 0.6 |
| Non-consolidated subsidiaries | 0.0 | 1.0 |
| Joint ventures | 0.1 | 0.1 |
| Other related companies | 5.8 | 9.1 |
| **Subordinated capital** | **555.2** | **561.2** |
| Parent company | 555.2 | 561.2 |
| **Contingent liabilities** | **0.9** | **0.9** |
| Non-consolidated subsidiaries | 0.9 | 0.9 |
| Other related companies | 0.0 | 0.0 |
| **Other commitments** | **4.4** | **4.7** |
| Non-consolidated subsidiaries | 1.0 | 1.3 |
| Other related companies | 3.4 | 3.4 |

## Loans, advances and deposits

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

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Loans and advances**[1] | | |
| Members of the Board of Management of DKB AG [2] | 1.5 | 2.7 |
| Members of the Supervisory Board of DKB AG [2] | 0.5 | 0.9 |
| Members of the Board of Management of BayernLB [2] | 0.0 | 0.0 |
| Members of the Supervisory Board of BayernLB [2] | 0.3 | 0.3 |

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

| EUR millions | 30.06.2018 | 31.12.2017 |
|---|---|---|
| **Deposits**[1] | | |
| Members of the Board of Management of DKB AG | 2.1 | 2.7 |
| Members of the Supervisory Board of DKB AG | 2.1 | 2.4 |
| Members of the Board of Management of BayernLB | 2.2 | 2.6 |
| Members of the Supervisory Board of BayernLB | 0.1 | 1.4 |

[1] Multiple entries are possible.

## (42) Events after the balance sheet date

There were no events of particular significance for the DKB Group after 30 June 2018.

Berlin, 7 August 2018

Deutsche Kreditbank AG
The Board of Management

**Stefan Unterlandstättner** **Tilo Hacke** **Thomas Jebsen**

**Alexander von Dobschütz** **Jan Walther**

# Responsibility statement by the Board of Management

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, 7 August 2018

Deutsche Kreditbank AG
The Board of Management

**Stefan Unterlandstättner** **Tilo Hacke** **Thomas Jebsen**

**Alexander von Dobschütz** **Jan Walther**

# Review report

For Deutsche Kreditbank AG, Berlin

We have reviewed the condensed interim consolidated financial statements – consisting of the consolidated balance sheet as of 30 June 2018, consolidated statement of comprehensive income for the period from 1 January to 30 June 2018, condensed consolidated cash flow statement, consolidated statement of changes in equity and selected explanatory notes – and the Deutsche Kreditbank AG, Berlin, interim Group management report for the period from 1 January to 30 June 2018, which are part of the half-year financial report pursuant to section 115 of the German Securities Trading Act. The preparation of the condensed interim consolidated financial statements pursuant to the International Accounting Standard IAS 34 "Interim 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 IAS 34 "Interim 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 enquiries 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 IAS 34 "Interim 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, 7 August 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft [Audit firm]

Bergmann
Auditor

Thiel
Auditor

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