Annual Report 2019

Deutsche Kreditbank AG

Performance indicators

in EUR million	2019	2018
Net interest income	950.5	945.1
Risk result[1]	55.9	111.8
Net commission income	–34.5	–33.7
Administrative expenses	541.4	474.7
Profit/loss before taxes	297.8	301.2
Cost/income ratio (CIR) in %	56.7	51.5
Return on equity (ROE) in %	9.5	10.2

Balance sheet figures

in EUR million	2019	2018
Total assets	83,754.4	77,387.6
Equity	3,426.7	3,340.4
CET1 ratio in %	9.1	9.7
Client receivables	69,526.3	65,932.5
Client deposits	60,766.5	54,336.1

Client figures

	2019	2018
Number of clients	4,367,494	4,073,875
Number of retail current accounts (DKB-Cash)	3,248,569	2,980,293

Employee figures

	2019	2018
FTEs | headcount as at 31 Dec.	3,839 | 4,148	3,431 | 3,731
Average age in years	42.7	42.9
Average length of service in years	8.1	8.4
Gender breakdown m | f in %	44.6 | 55.4	43.8 | 56.2
Gender breakdown by management position m | f in %	64.2 | 35.8	62.4 | 37.6
Workforce availability in %	95.3	95.1
Training days/employee	4.0	3.8

[1] Risk provisions until 2017

Company profile

Deutsche Kreditbank AG (DKB), with approximately 4,148 employees and total assets of EUR 83.8 billion, is one of Germany's top 20 banks. Our products are leaders in the market and are distinguished by fair terms. We serve more than 4.3 million clients. They are able to conduct their banking transactions comfortably and securely online using the latest technology. Our industry experts assist our business clients in person at their offices.

Entrepreneurial and sustainable actions are of great importance to us: this is why we use around 84% of our net assets for loans, such as for the construction of apartments suitable for the elderly and families, energy-efficient real estate, outpatient and inpatient health facilities, and for construction projects in schools and day-care centres in Germany. With client relationships built on a foundation of sustainability, DKB is a market leader in many of these sectors, and has been for some years. Since the financing of a first wind turbine in 1996, numerous renewable energy projects in the wind, solar and water sectors have been realised with DKB as a banking partner.

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

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Letter from the Board of Management

Dear Sir or Madam, dear #geldverbesserer,

In many ways, 2019 was a challenging year for DKB. The industry environment, which remains difficult, is characterised by the ongoing phase of low interest rates and high regulatory requirements and expenses. On the costs side, substantial investments and efforts in the digitisation of our products, services and processes are necessary. These challenges heighten the already intense competition and increase the pressure to develop client-centric and innovative solutions. Nevertheless, we managed to grow significantly in the year under review and to strengthen our position among the top 20 banks in Germany, thus bringing the 2019 financial year to a successful close. Our attractive offers for our clients, the continuous improvement of our banking services and the ongoing clear focus on our sustainable business model were the key to this.

Our profit before taxes under IFRS amounted to EUR 297.8 million at the end of the year, almost reaching the previous year's record level of EUR 301.2 million. Net interest income amounted to a strong EUR 950.5 million (2018: EUR 945.1 million) despite the low interest rate phase. The risk result improved to –EUR 55.9 million (2018: –EUR 111.8 million). As a result of the extensive investments in digitisation, the implementation of regulatory requirements and the recruitment of new employees to accelerate our digitisation initiative, administrative expenses rose to EUR 541.4 million in the same period (2018: EUR 474.7 million).

With these investments in digitisation and personnel, we are setting the course for a successful future on our way to becoming a technology company with a banking licence. Because the fact is: in order to remain competitive in the future, we as a bank must now more than ever think in terms of processes, efficient structures and the constant client focus of technology companies. Our mission is to provide digital banking products for our retail and business clients that are tailored to their needs and provide them with a compelling client experience while maintaining the highest security standards. To this end, we also work with other financial services providers and establish platform economies to continually expand our range of solutions. In this context, for example, in 2019 we launched a cooperation with the Swiss fintech company Loanboox, whose platform we use to successfully offer municipal financing for business clients and to increasingly digitise our sales channels.

The introduction of Google Pay and Apple Pay in the year under review was an important milestone in the innovative expansion of our payment solutions in retail banking. This means that we are extremely well-positioned in the mobile payment segment and that our anchor product DKB-Cash has become even more attractive. At the same time, we developed new credit card functions for our clients, such as Card Control and the 3-D Secure procedure, which has been significantly simplified. This has enabled us to focus even more strongly on the issue of security when making payments.

The continuing strong growth in client numbers shows that our products and services meet the requirements of the market. In 2019, DKB had more than 4.3 million retail clients. We will continue to do everything we can to offer our existing clients added value and impressive customer experiences, and to convince new clients with our services every day. To achieve this, we are increasingly focusing on the scalability and acceleration of our retail and corporate customer business by automating internal and external processes and making them more efficient. In 2019, the focus was on the consistent digitisation of the lending process and the expansion of automated decision-making channels.

We link our growth targets and transformation to becoming a tech bank with entrepreneurial actions that are in harmony with ecological, social and economic goals. Sustainability has been part of the DKB DNA for many years. We were able to defend our position as "Industry Leader" in the ISS-ESG sustainability rating in 2019. Since mid-2019, we have been using #geldverbesserer to convince people throughout Germany to open an account with DKB and thus automatically promote sustainable projects, e.g. in the field of renewable energies and education.

In the 2019 financial year, we demonstrated that we are one of the most sustainable banks in Germany and that we are very responsive to the growing sustainability requirements of our clients, of politicians and regulators, of society, science and the media and – last, but not least – of our employees. With a social bond and the first blue social bond, we successfully issued two further sustainable capital market products. In addition, "DKB-Crowd" was introduced, an investment platform for financing sustainable projects from various sectors. We have developed and adopted a new, comprehensive sustainability strategy that contains ambitious goals and will again take sustainability at DKB to a new level.

Our excellent business result is the result of the cooperation of a strong team. As the Board of Management, we would therefore like to thank our 4,148 employees for their high level of commitment and superb work in 2019. We would also like to thank our clients and business partners for their confidence in us: without them our success would not be possible!

It is in this spirit that we want to continue and build on our current good starting position. The overall conditions for the banking industry remain demanding, but we are facing up to the challenges and have ambitious goals. In 2019, we resolved to further develop our strategic orientation and will start implementing it in 2020. This means that we intend to reach 8 million clients by the end of 2023, which will not be possible without even faster and more intensive digitisation of our products and processes and a compelling user experience.

We look forward to actively shaping the future together with them and you as #geldverbesserer!

The Board of Management

March 2020

Stefan Unterlandstättner

Tilo Hacke

Thomas Jebsen

Alexander von Dobschütz

Jan Walther

Executive bodies

Board of Management

Stefan Unterlandstättner
Chair of the Board of Management

- Strategy and investments
- Business with savings banks
- Human resources and legal
- Sustainability
- Treasury
- Corporate communication, marketing
- Digital transformation
- Internal audit

Tilo Hacke
Member of the Board of Management

- Retail clients
- Business clients
  - Food and agriculture
  - Renewable energies
  - Tourism
- Central and South-East sales region

Thomas Jebsen
Member of the Board of Management

- Business clients
  - Housing sector
  - Local authorities and social infrastructure
  - Energy and utilities
- Individual clients
- Sales regions North, South, Berlin-Brandenburg, South-West, Magdeburg-Hanover and West

Alexander von Dobschütz
Member of the Board of Management

- Risk controlling
- Compliance
- Back office
- Workout

Jan Walther
Member of the Board of Management

- Finance
- Organisation
- Operations and banking services
- IT
- Data protection and occupational safety
- Non-financial risk

Supervisory Board

Shareholders' representatives:

Stephan Winkelmeier
From 21/08/2019
Chair of the Supervisory Board
Chair of the Board of Management of Bayerische Landesbank (CEO)

Michael Bücker
Until 21/08/2019
Member of the Supervisory Board
Member of the Board of Management of Bayerische Landesbank

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

Stefan Höck
Deputy Head of Department Public Sector Holdings, Foundation Bavarian State Ministry of Finance and the Interior

Michael Huber
Chair of the Board of Management of Sparkasse Karlsruhe

Marcus Kramer
Member of the Board of Management of Bayerische Landesbank

Dr Ulrich Netzer
From 20/05/2019
Member of the Supervisory Board
President of the Sparkassenverband Bayern (Association of Bavarian Savings Banks)

Walter Pache
Until 20/05/2019
Independent financial expert

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

Dr Edgar Zoller
Until 21/08/2019
Chair of the Supervisory Board
Deputy Chair of the Board of Management of Bayerische Landesbank (CEO)

Honorary member:

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

Employee representatives:

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

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

Carsten Birkholz
Member of the Supervisory Board
Employee of Deutsche Kreditbank AG

Christine Enz
DBV representative

Jörg Feyerabend
Employee of DKB Service GmbH

Jens Hübler
Senior employee of Deutsche Kreditbank AG

Maria Miranow
Member of the Supervisory Board
Employee of Deutsche Kreditbank AG

Frank Radtke
Employee of Deutsche Kreditbank AG

Authorised representatives

Arnulf Keese

Directors

Thomas Abrokat
Mario Bauschke
Christof Becker
Harald Bergmann
Sabine Breitschwerdt
Mark Buhl
Matthias Burger
Dominik Butz
Gerhard Falkenstein
Peter Forch
Sandra Förster
Mark Hauel
Constanze Heintel-Wolff
Armin Hermann
Frank Heß
Jens Hübler
Henrik Hundertmark
Alexander Kapst
Axel Kasterich
Andreas Kaunath
Arnulf Keese
Christoph Klein
Herbert Klein
Jana Kröselberg
Carsten Kümmerlin
Dörte Lange
Lars Lindemann
Wolfgang Lohfink
Jörg Naumann
Moritz Otte
Frauke Plaß
Claudia Polaschewski
Thomas Pönisch
Roland Pozniak
Wolfgang Reinert
Johann Scheiblhuber
Burkhard Stibbe
Wulf-Dietmar Storm
Ralf Stracke
Thomas Teuber
Karsten Traum
Holm Vorpagel
Ekkehard Weiß
Jürgen Wenzler
Paul Westphal
Andreas Wilmbusse
Thomas Wolff

Trustees

Dr Bernhard Krewerth

Dr Christian Marburger

Report of the Supervisory Board

Dear Sir or Madam,

On behalf of the Supervisory Board, I hereby report on the following monitoring and consultation issues handled by our Board in financial year 2019.

Despite continuing difficult conditions that are posing a challenge to the entire banking industry, such as the ongoing low interest rate policy, high regulatory requirements and an intense competitive environment, DKB can look back on another good year.

As the Supervisory Board, we performed all the tasks incumbent upon us under the law and the Articles of Association in the 2019 financial year thoroughly and with great care, closely advising the Board of Management on the management of the company and monitoring the measures it implemented. Our Board believes that the Board of Management's activities were lawful, appropriate and correct at all times. The Board of Management met its public information obligations at all times and informed us of events and measures relevant to the company on a regular basis, promptly and comprehensively.

In the 2019 financial year, the Board of Management consisted of five members and the Supervisory Board of 16.

Priorities of the Supervisory Board

During financial year 2019, the Supervisory Board held nine meetings. The main topics of the meetings in March, June, September and December included strategy and planning, business development, major projects and monitoring the risk situation. This always included a discussion of current market developments.

A new member of the Supervisory Board was elected at the two extraordinary committee meetings on 25 January 2019. In addition, the committees were reconstituted and the chairmanships were partially reassigned.

The Supervisory Board meeting held on 14 March 2019 was mainly devoted to the annual reports. The Supervisory Board initially dealt with the annual and consolidated financial statements for 2018, which it approved at this meeting after detailed examination and discussion and with reference to the audit reports of the auditor, who was also present. The Board then dealt with the respective annual reports on internal audit, prevention of money laundering, terrorism financing and economic crime, securities compliance, MaRisk compliance and information security. The meeting also focused on the DKB risk strategy, the internal governance principles and the efficiency review of the management and Supervisory Board activities in 2018. The Board also dealt with the initial individual and collective suitability assessment of the members of the Supervisory Board, the Board of Management and the key function holder.

The Supervisory Board met again on 19 June 2019 and focused on DKB's conflict of interest policy and the focus report on the retail clients segment. In addition, updates on key projects such as the digitisation of the credit business were on the agenda. The establishment and review of the contingency plan was also discussed, and the reappointment of the remuneration officers was resolved.

Personnel topics were on the agenda at the meetings held on 21 August 2019 and the Supervisory Board dealt with the composition of the Supervisory Board and its committees.

At its meeting on 19 September 2019, the Board dealt in particular with the further development of the strategic orientation of DKB. The meeting also focused on the topic of Group management in the BayernLB Group. Reports were also given on the on-site audit of the European Central Bank, the Remuneration Regulation for Institutions and the IT strategy.

On 20 September 2019, the Supervisory Board met for a training session on the topic of earnings and risk culture and IT architecture at DKB. IT security and current regulatory developments were also on the agenda.

At the last meeting of the year on 4 December 2019, the focus was again on the future strategic orientation of DKB and the corporate investment in Loanboox. The Supervisory Board also dealt with multi-year planning as well as capital, risk capital and liquidity risk planning.

The Chair of the Supervisory Board was also in regular, intensive contact with DKB's Board of Management between meetings. The Board of Management informed the Supervisory Board in a timely manner when appropriate. The Board was also notified of important events in writing between meetings. Where necessary, the Supervisory Board also passed resolutions between meetings.

Personnel changes in the Supervisory Board

The following personnel changes took place in the Supervisory Board in the 2019 financial year:

From 25 January 2019 to 21 August 2019, Dr Edgar Zoller held the office of Chairman of the Supervisory Board. The Supervisory Board and the Board of Management thank him for his trusting cooperation. With effect from 21 August 2019, Stephan Winkelmeier assumed the role of Chairman of the Supervisory Board.

Walter Pache left the Supervisory Board on 20 May 2019. Dr Ulrich Netzer joined the Supervisory Board with effect from 20 May 2019. Michael Bücker left the Supervisory Board on 21 August 2019. The Supervisory Board and the Board of Management also thank them for their trusting cooperation.

Committee work

In order to effectively carry out its tasks, the Supervisory Board formed five committees: Risk, Audit, Nomination, Compensation Control and Mediation Committees. The four-member Mediation Committee did not meet in 2019. The four other committees were involved in the work of the Supervisory Board through regular meetings. They prepared topics that were discussed or resolved by the Supervisory Board and passed their own resolutions within the scope of their decision-making powers.

The five-member Risk Committee held four meetings in 2019. In line with its remit, the committee dealt with issues relating to the risk situation, risk provisions and risk strategy as well as current regulatory issues. Decisions were also taken on loans requiring submissions.

The Audit Committee, which has five members, met seven times in 2019. It supported the work of the Board in monitoring the accounting process and the annual audit as well as the effectiveness of the risk management system, in particular the internal control system and internal audit. In addition, the topics of compliance, external audits and monitoring the independence of the auditor fell within its area of responsibility.

The Nomination Committee, which consists of four members, met nine times in 2019. The main focus was on the preparation of nominations for the election of members of the Supervisory Board, the implementation of the *ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders* and the performance of the efficiency review of management and supervisory board activities in accordance with section 25 (11) nos. 3 and 4 KWG.

The Remuneration Committee, consisting of four members, held a total of six meetings in 2019. It supported the Supervisory Board in setting targets for the Board of Management and in drawing up proposals for the design of the remuneration systems and reviewing their appropriateness.

Annual audit

The consolidated financial statements and the combined management report, as well as the accounting records these documents are based on for 2019, were audited by the auditors appointed by the shareholders' meeting, PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft, Berlin, and provided with an unqualified audit opinion.

After a detailed discussion and review of the consolidated financial statements, the Supervisory Board endorsed the results of the annual audit. No objections to the result of the audit of the consolidated financial statements and the combined management report were raised as at 31 December 2019. At its meeting today, the Supervisory Board approved the consolidated financial statements presented to it by the Board of Management.

The Supervisory Board thanks the Board of Management as well as all the employees for their great dedication and outstanding results in financial year 2019.

Berlin, 13 March 2020
On behalf of the Supervisory Board

Stephan Winkelmeier
Chair

Combined management report of the DKB Group and DKB AG

The management report of DKB AG and the consolidated management report for the 2019 financial year are combined. Unless DKB AG or the DKB Group are mentioned explicitly below, the mention of "DKB" or "we" means that both the DKB Group as well as DKB AG are affected.

Basic principles of the Group

Structure and business model

One of the 20 largest banks in Germany

Deutsche Kreditbank AG (DKB), with total assets of EUR 83.8 billion, is one of Germany's major banks. DKB is headquartered in Berlin and is a 100% subsidiary of Bayerische Landesbank (BayernLB). From a geographical perspective, our business activities focus on the Federal Republic of Germany. We are represented here locally at 26 locations for our clients.

As of the end of 2019, the DKB Group employed 3,839 staff members (previous year: 3,431 employees). As at the balance sheet date, the DKB Group posted client receivables in the amount of EUR 69.5 billion (previous year: EUR 65.9 billion) as well as client deposits in the amount of EUR 60.8 billion (previous year: EUR 54.4 billion). The net interest income realised in the financial year amounted to EUR 950.5 million (previous year: EUR 945.1 million). Earnings before taxes amounted to EUR 297.8 million (previous year: EUR 301.2 million). The profit on the ordinary activities of DKB AG reached EUR 230.7 million (previous year: EUR 295.1 million).

DKB passes approximately 84% of its net assets on to companies, local authorities and retail clients in Germany in the form of loans. The remaining 16% is attributable to highly liquid collateralised debt securities and central bank balances for liquidity management purposes.

Two-pillar model

DKB's business is based on two pillars: retail/online banking and business clients. As an online bank, we provide online and mobile banking services to over 4 million retail clients throughout Germany. As a bank for business clients, we develop financing and investment solutions together with our clients at 26 locations. We focus on selected and primarily sustainable sectors and promote, for example, the construction and operation of wind, water, bioenergy and photovoltaic plants, the renovation and construction of residential buildings, schools, kindergartens and health centres as well as projects in German agriculture.

Sustainable and digitally focused

Instead of maximising short-term profits, we strive for long-term and valuable business relationships. The financing is based on people's needs and, as a bank, we therefore make an important contribution to a society that is fit for the future. Our goal is to remain one of the pioneers of sustainable banking. Our sustainability strategy is based on the United Nations' Sustainable Development Goals (SDGs) and the related objectives in the German sustainability strategy. This allows us to create coherence with the highest national and international sustainability standards and to apply them to our activities in a measurable and comprehensible manner. This means that we ensure compliance with environmental and social standards when granting loans. In addition, we endeavour to conserve resources in-house and take our responsibility as an employer seriously. We also meet our obligations to society through the independent DKB foundation for corporate responsibility (the DKB STIFTUNG). More detailed information on our sustainable business model is provided in the section Non-financial performance indicators on p. 45 f.

In the spirit of sustainable, successful business management, we have been pursuing digitisation for years. At the beginning of 2000, we established the first online bank without branches and, from the outset, have consistently relied on the technical possibilities offered by modern online banking processes, innovations and targeted cooperation in order to create added value for our customers. We also benefit from the DKB Code Factory – our 100% subsidiary with a high level of flexibility and distinctive digital expertise. DKB Code Factory develops solutions and services with a focus on customer-focused financial products.

Market cultivation via three segments

We divide our activities into three market segments, as well as the segments financial markets, which includes our treasury, and "other".

In the retail clients segment, we support Internet-savvy private clients and individual clients in the healthcare and liberal professions segments with the modern financial services provided by an online bank. Here we also focus on transparent services at competitive terms. The product range essentially comprises the DKB-Cash and DKB Business account packages, construction finance and retail loans, medical practice and law firm finance, real estate finance, investment products, and the partner (co-branding) credit card business.

In the infrastructure segment, we offer customised financing and investment products to clients in the fields of local authorities, social infrastructure, housing, administrators, energy and utilities. Products include local bank and development loans, term loans and overdraft facilities, sureties, deposit banking and the offer of business accounts including payment transaction services.

The corporate clients segment comprises clients from the areas of environmental technology, food and agriculture, and tourism. The products and services on offer correspond largely to those in the infrastructure segment. We provide a high level of expertise in integrating development aid and civic participation when creating appropriate client solutions.

The financial markets segment includes DKB's treasury activities. It is also responsible for interest book management and regulatory liquidity security. Two significant refinancing instruments are Pfandbriefs and uncovered bonds in the form of green bonds and social bonds. This segment also includes the regulatory liquidity portfolio.

The "other" segment contains cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source.

Management and supervision

Close collaboration between executive bodies

The DKB AG Board of Management comprised five members in the past financial year: the Chair Stefan Unterlandstättner and the other members Tilo Hacke, Thomas Jebsen, Alexander von Dobschütz and Jan Walther.

The Board of Management runs the company independently and is responsible for its operational affairs. It develops the strategic alignment, coordinates this with the Supervisory Board and ensures its implementation. In order for the Board to effectively perform its tasks, areas of responsibility are assigned to the Board members, who then take charge of the associated operations. Important strategic decisions as well as lending decisions are taken by the Board of Management as a whole.

The Board of Management of DKB AG is appointed by the Supervisory Board. The Supervisory Board advises the Board of Management in matters relating to the running of the company and monitors its business management. To perform this task effectively, it has formed five committees. The topics that were the focus of the Supervisory Board's work and that of its committees in financial year 2019 are set out in the Supervisory Board's report. At the end of 2019, the Supervisory Board comprised 16 members, with equal numbers of shareholder and employee representatives.

In the meetings and outside of meetings, the Board of Management and the Supervisory Board work closely together. The Board of Management reports regularly, promptly and comprehensively to the Supervisory Board with regard to all issues concerning corporate planning, strategic development, the earnings and financial situation, and the risk situation of the company. The cooperation between and within the executive bodies is regulated in the Articles of Association and in the respective rules of procedure. In addition, DKB's conflict of interest policy governs the handling of any conflicts of interest of the Board of Management and Supervisory Board.

Corporate governance principles as a core value

The Board of Management and the Supervisory Board of DKB AG are committed to responsible corporate management and supervision that is focused on long-term value creation. The principles of corporate governance form the basis of and are the guiding principle for the conduct of all members of the company. In performing their duties, the Board of Management and Supervisory Board are guided by DKB's corporate governance principles. These are derived from the provisions of the German Corporate Governance Code and are regularly reviewed for their effectiveness and regulatory compliance. As soon as the legal requirements or the shareholder's regulations change, or new experience suggests a revision, the principles are adapted. The corporate governance principles apply to both DKB AG as well as all the other companies of DKB. In the opinion of the Board of Management, good corporate governance particularly strengthens the trust that clients, business partners, investors, employees and the public have in DKB AG. It increases corporate transparency and supports the credibility of our company. From the perspective of the company's management, good corporate governance also means a strict understanding of compliance. For us, lawful conduct is a basic prerequisite for lasting and stable business relationships and for long-term, successful corporate development. The Board of Management sees the topic of compliance monitoring as a key management task and expressly commits itself to lawful, socially minded and ethical conduct. Our demanding understanding of management and conduct is also reflected in the conduct standards and guidelines. These include the criteria employed for strategic corporate decision-making, which are oriented towards long-term success, and the Code of Conduct, by which all our employees are guided. At the reporting level, DKB AG complies with corporate governance requirements, such as via the annual publication of a remuneration report in accordance with the company's remuneration policy that can be viewed on the company's website.

Corporate management

Strategically embedded control system

The organisation of the management and control processes in the company is based on a differentiated strategic planning. This is accompanied by a regular assessment of opportunities and risks. A comprehensive risk management system is designed to safeguard the stability of the Group.

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

Key financial figures provide information on earnings and performance

The commercial management focuses on achieving a net assets and financial position that is stable in the long term, and focused on positive earnings performance. To this end, we use key financial figures relating to earnings, profitability and value. Specifically, we use the following IFRS-based financial performance indicators for management purposes:

- Total assets: The performance of total assets provides information on the achievement of our volume targets.

- Cost/income ratio (CIR): This KPI measures the relationship between costs and income, and provides information on the economic efficiency. The 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).

- Return on equity (ROE): This KPI measures the relationship between earnings and equity, and provides information on the return on equity employed. The ROE is calculated as a quotient between the profit before taxes and the assigned regulatory hard core capital.

- Net interest income: Given the significance of the traditional lending and deposit business for DKB, the net interest income (difference between interest income and interest expenses) is a key control parameter and an important performance indicator.

- Profit before taxes: The profit before taxes figure is taken from the income statement and does not take the tax item into account.

- Risk result: The performance of the risk result provides information on the achievement of the risk targets.

On the basis of the German Commercial Code, we consider net profit for the year before profit transfer to be a control parameter.

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

- Volume of receivables (nominal),

- Deposit volume and

- Number of clients in the retail clients segment.

Development of qualitative company factors represented by non-financial data

Our business success is influenced not only by financial but also by non-financial indicators. The issue of sustainability is of particular importance in this context, as we pursue both our financial and non-financial corporate objectives with due regard for sustainable corporate development. As an organisation, we want to combine economic, ecological and social goals in a meaningful way. This includes employee concerns such as employee satisfaction, further training and health.

In order to measure the achievement of objectives, we use quantitative indicators as well as numerous contributing measures.

The “Non-financial performance indicators” section explains the measures we take as we generally seek to achieve the various non-financial objectives.

Report on the economic position

Economic environment

Development of the macroeconomic environment

Global economy suffers from weak economic activity

In 2019, the global economy only grew by around 3.0% (2018: 3.6%). Rising economic and geopolitical tensions, uncertainty about the timing and modalities of Brexit and Italy's temporary political instability created a climate of unease in the countries, in Europe and beyond. The year was marked by the trade dispute between the United States and China, and it remains to be seen how global trade relations and international cooperation will look in the future.

Advanced economies suffered in 2019 above all from declining industrial production, which was particularly noticeable in the export-oriented eurozone and the United Kingdom. Industrial production in the emerging markets stagnated at a very low level in 2019.

Recently, the stock markets have exhibited an optimistic view of the future, with rising share prices also being a consequence of the low level of interest rates.

The euro exchange rate weakened over the course of the year. Above all, Brexit and a generally weaker euro economy weighed on the currency.

The yield on ten-year German government bonds is highly volatile and at an absolute low level.

The German economy suffered increasingly from the subdued global economy in 2019. The domestic economy was supported by private consumer spending, which remains high thanks to a robust labour market.

The inflation rate – measured by the consumer price index (CPI) – weakened yet again.

Development of the industry environment

No end to expansionary monetary policy in sight

Countries around the world have introduced supporting measures to offset the negative consequences of the stalled global economy. In the middle of 2019, the US Federal Reserve (Fed) cut interest rates for the first time since the global financial crisis of 2008 in order to protect the US economy from the weakening global environment despite continuing solid US growth. In addition, other countries such as Australia, Brazil, Indonesia and Turkey have also eased their monetary policy.

The key interest rate of the European Central Bank (ECB) remained at 0% in 2019 and is weighing on the earnings situation of the banking sector. At the same time, the ECB cut the deposit rate to –0.5% in September 2019. It also resumed the bond purchase programme and introduced a two-tier system to accommodate banks with excess liquidity.

Banks remain under high competitive pressure

The banking industry is still in a state of transition and competitive pressure is increasing at various levels. On the costs side, the digitisation of traditional banking processes requires large investments. Internet and technology Groups, as well as fintechs, which are also entering the market, are setting standards when it comes to innovation and customer experience. Products and services should be accessible at all times and everywhere, in a fast, secure, convenient, innovative, holistic and cost-effective way – including those products and services offered by banks.

Companies that do not understand the exponential dynamics of technical advances or integrate them into their own business model will lose touch with the customers of today and tomorrow. The willingness of young retail clients in particular to switch service providers is increasing. Partnerships with tech experts are one way for banks to bring innovative features to the market and offer customers added value. In addition to the high IT costs, the burden is increasing due to rising regulatory requirements.

On the revenue side, the difficult low interest rate environment is leading to increased pressure on margins and is eroding banks' net interest income. Banks are in a dilemma in this respect, as it continues to remain difficult to divert dwindling net interest income to the commission side. Customers are used to receiving banking products such as current accounts free of charge and the majority are not yet prepared to pay for them in the future.

Business performance

Overall performance of DKB

Positive business performance in 2019

We continued to perform according to plan in the 2019 financial year. The forecasts made in the 2018 Annual Report were confirmed and in some cases exceeded.

Thanks to our client-focused product and service portfolio, we were able to increase our customer deposits to EUR 60.8 billion (previous year: EUR 54.4 billion). This was associated with significant balance sheet growth to EUR 83.8 billion.

This growth enabled us to maintain our profit before taxes of EUR 297.8 million at the excellent level of the previous year (EUR 301.2 million).

A major driver of this growth was the good earnings situation in our client business; net interest income after the risk result improved by EUR 61.2 million, or 7.4%, to EUR 894.5 million.

An improvement in the fair value result by EUR 46.9 million to EUR 49.7 million also had a positive effect. In addition to the positive development on the international stock exchanges, we benefited here from the restructuring of the DKB funds. Here, too, we focus on sustainability and realigned our funds in May 2019. The newly launched funds "DKB Nachhaltigkeitsfonds Europa", "DKB Nachhaltigkeitsfonds Klimaschutz" and "DKB Nachhaltigkeitsfonds SDG" are focused on Europe, climate protection and a positive social impact, respectively, and enable us and our clients to contribute to global ecological and social improvements.

With the cross-media campaign #geldverbesserer we have been implementing our sustainable business philosophy in the media since the summer of 2019. The campaign specifically addresses customers who want to invest their money in sustainable and social projects and thus literally become #geldverbesserer. This authentic message has created positive effects, for example in terms of brand relevance and brand image. In line with this, we will continue to adhere to this strategy in the future and develop and offer additional products that make us and our clients #geldverbesserer.

In order to be able to offer our clients the best possible service in the future, we will continue to invest in our digital infrastructure and the necessary personnel. The related investments in 2019 resulted in an increase of EUR 66.7 million in administrative expenses to EUR 541.4 million.

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

DKB Group	Forecast 2019	Actual 2019
Net interest income	Slightly above 2018 (previous year: EUR 945.1 million[1])	**Forecast exceeded** Net interest income of EUR 950.5 million was slightly above that of the previous year. This positive development is primarily due to the slight improvement of EUR 8.7 million to EUR 1,245.3 million in net interest income from the lending and money market business.
Risk result	Slight improvement on 2018 (previous year: –EUR 111.8 million)	**Forecast exceeded** Due to the continued good economic development and an improved portfolio structure, the risk result improved to –EUR 55.9 million.
Profit/loss before taxes	Slightly below 2018 (previous year: EUR 301.2 million)	**Forecast exceeded** Profit before taxes of EUR 297.8 million was at the same level as the previous year. As forecast, good earnings in the client business were offset by increased expenses for internal projects to digitise processes and implement regulatory requirements. In addition to the improved risk result, the result was also positively influenced by a good fair value result.
Total assets	Slightly above 2018 (previous year: EUR 77.4 billion)	**Forecast exceeded** The receivables volume increased significantly to EUR 83.8 billion. This growth resulted primarily from the increase in customer deposits and receivables.
ROE	Slightly below 2018 (previous year: 10.2%)	**Forecast achieved** Return on equity amounted to 9.5%. While the result remained at the previous year's level, regulatory capital increased as expected.
CIR	Slightly above 2018 (previous year: 51.5%)	**Forecast not achieved** The cost/income ratio stood at 56.7%. Compared to the previous year, administrative expenses rose more sharply than income.

[1] Previous year's figures have been adjusted; see Note 2 in the notes to the consolidated financial statements.

DKB AG	Forecast 2019	Actual 2019
Net profit before profit transfer	Slightly above 2018 (previous year: EUR 295.1 million)	**Forecast not achieved** At EUR 230.7 million, net profit for the year before profit transfer was down on the previous year further than expected. The main difference to the consolidated result is due to the different regulations of HGB accounting, especially with regard to the consideration of fair value changes.

Overall performance of the segments

Forecast/actual comparison of key performance indicators

Segments	Forecast 2019	Actual 2019
Retail clients New clients: Receivables volume:	 more than 350,000 slightly above 2018 (EUR 12.4 billion)	**Forecast achieved** 443,000 (EUR 12.8 billion)
Infrastructure Receivables volume:	 slightly above 2018 (EUR 40.2 billion)	**Forecast exceeded** EUR 43.0 billion
Corporate clients Receivables volume:	 slightly above 2018 (EUR 13.1 billion)	**Forecast achieved** Receivables volume: EUR 13.5 billion
Deposit volumes in the client segments	slightly above 2018 (EUR 50.5 billion)	**Forecast exceeded** EUR 57.2 billion

Retail clients segment

Market environment still evolving

In the overall economic environment, the GDP growth rate in 2019 compared to the previous year was 0.6%. On the whole, the German economy grew at a slower pace in 2019 than in previous years. In contrast, private consumption increased by 1.6%. The unemployment rate fell by a further 0.2% year-on-year to an average of 5%.

In 2019, retail banking continued to be dominated by the topics of low interest rates, regulation and digitisation. Traditional banking business models are no longer up to the new challenges and customer requirements in some cases, and financial service providers will have to make large investments to adapt to the new conditions and survive in the highly competitive market. The tougher market conditions in the banking sector are leading more and more to consolidation. This is making itself felt in the public-sector savings banks, the public-sector financial institutions and the cooperative financial group.

In addition to innovative fintechs, Internet and technology Groups which previously served other industries, such as retail, are pushing into the banking market. Customer requirements, especially in terms of convenience and usability, are oriented towards the services of these big-techs. IT companies thus set the direction for future banking innovations and business model developments. Big data and artificial intelligence play an important role in this. By cooperating with fintechs, banks themselves can become platforms and occupy new digital economic areas within the meaning of platform economies.

With the entry into force of the European legislator’s Payment Services Directive 2 (PSD2), registered and licensed third-party payment service providers (TPPs) were also able to integrate their services via central technical interfaces (banking APIs) as of 14 September 2019. This allows third-party account accesses, for example, to be viewed and managed easily and conveniently. Third-party providers are digital payment service providers that are subject to the supervision and control of BaFin and to which banks must grant access to individual account information with the express consent of the account holder and in compliance with certain security requirements. This resulted in changes and improvements in payment transactions, e.g. with regard to security and online banking.

The most important goal is to increase client benefit, while at the same time maintaining the highest security standards, especially in data protection. In order to find out what our clients think of our products, what they have experienced, and what they want, we set up the online community “DKB Meet” in 2018. Through the community, we were in regular contact with our clients on all aspects of DKB-Cash and carried out interactive tasks, short interviews and small-scale tests with them. After a successful pilot phase, the second phase of the project started in February 2019 with an extended time frame and a larger number of participants. Within this framework, clients will continue to be involved in the development of products, communication and services.

Furthermore, we continuously measure client satisfaction on the basis of the international standard, the Net Promoter Score (NPS). The NPS is a key figure calculated by simple, standardised customer surveys and serves as an "early indicator of future business development". In principle, the NPS can lie between –100 and +100. We attained a value of 58 in 2019, which is above the NPS of all online banks in 2019 as a whole. The proportion of clients with a high propensity to recommend us to others, "promoters", which was determined as part of the Net Promoter Score, was again almost 70% in 2019, and thus at a high level.

Client-focused value-added services for debit cards and credit cards

Against this background, we continued to work towards expanding our product and service portfolio in the retail clients segment in 2019 in a targeted manner in order to meet the requirements of our clients and offer them added value.

Our key anchor product "DKB-Cash" continued to enjoy great popularity among clients in 2019 and once again allowed us to remain in the position of market leader among online banks for current accounts. The distinction between "active client" and "non-active client" continued to apply, with correspondingly different product and service offerings, although more than one in two DKB-Cash clients are now registered as an active client and benefit from our extensive range of services. In addition to free payment and withdrawals worldwide, these include free participation in DKB live events and protection if a DKB Visa card is lost.

In this context, 2019 saw the achievement of important milestones in the retail client segment, which contribute to our "no-cash strategy". In May 2019, we launched Google Pay, which enabled us to enter the mobile payment market. Using Google Pay's Android app, our clients can use the DKB Visa card and their smartphone to make mobile payments in an increasing number of stores, apps and online shops. Shortly thereafter, in June 2019, Apple Pay was introduced, enabling our clients to take advantage of all the benefits of their DKB Visa card for mobile payments. This was in response to strong client demand and one of the most important payment trends of recent years. In the second half of the year, we expanded our range of services by introducing both Apple Pay and Google Pay for the Miles & More credit cards.

At the same time, we further developed value-added services such as Card Control and 3-D Secure for our credit cards and increased our focus on payment security. With Card Control in the DKB Banking app, our clients can define the individual transactions with their DKB Visa card they would like to be notified about via push notifications. In addition, they can block individual types of transactions or permanently block their credit cards in the event of an emergency. 3-D Secure provides additional protection, using the latest technical standards for online credit card payments. Payments at participating merchants are conveniently approved by the client in the DKB Banking app via a mobile device.

Expanded product range through partnerships

With the help of partnerships, we have been able to steadily expand our product range. For example, we developed our services offered with the Lufthansa Miles & More credit card by offering individualised additional services for collecting miles, and additional insurance packages.

Our range of banking-related topics, such as insurance, is generally well received by customers. The partnerships entered into in previous years with the insurance robo-advisor Clark and the Hamburg start-up Wechselpilot, the digital switching service for electricity and gas providers, continue to be successful. In line with client needs, we are constantly looking into further development stages and new partnership opportunities.

Sustainable bonds and funds for #geldverbesserer

In 2019, the demand for sustainable investments continued to rise significantly. We strengthened our position as the most sustainable top-20 bank, not least with our new brand campaign #geldverbesserer, and in May we issued a social bond for the first time, which also attracted retail clients due to its denomination. This was followed by the issuing of three sustainable funds in June, together with BayernInvest as fund manager, which follow the Sustainable Development Goals (SDG) of the United Nations in their investment approach.

Rules and regulations: PSD2 directive implemented

We implemented the switch on schedule and made a test portal available to third-party providers as early as March 2019. This allowed developers of the licensed and registered third-party service providers to test the new, future PSD2 API. In a second step, the test portal was expanded and released for live testing. The dedicated PSD2-compliant interface has been available to all PSD2 service providers since September 2019. By the end of 2019, around 500 third-party service providers, banks and savings banks had registered. In addition, we migrated our more than two million customers who previously used the iTAN method to either the chipTAN and TAN2Go backup methods, at the client's choice. As part of this process, strong security authentication (SCA) was also introduced on mobile devices and PCs in September 2019, paying particular attention to usability. On the mobile side, this was implemented by linking the mobile phone, among other things.

Encouraging growth in client numbers

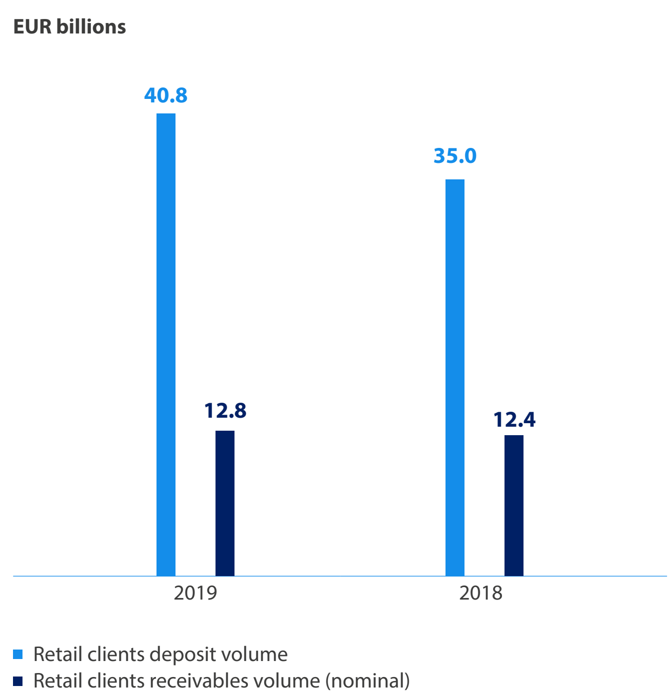
The number of new clients acquired confirms the success of our strategy in the retail client segment: in 2019, we succeeded in expanding our client base to more than 4.3 million (previous year: 4.0 million) and defending our market leadership among online banks for current accounts.

Our anchor product DKB-Cash is one of the few current accounts that is still offered free of charge despite difficult market conditions.

The lending business was under strong competitive pressure. Low interest rates motivated clients with existing contracts to make repayments. Nevertheless, strong new business enabled us to expand our volume of receivables (nominal) to EUR 12.8 billion (previous year: EUR 12.4 billion). At the same time, the deposit volume rose to EUR 40.8 billion (previous year: EUR 35.0 billion).

The securities business picked up momentum rapidly in 2019. The number of retail client custody accounts rose by 38% to more than 343,910 (previous year: 249,000).

Retail clients deposit and receivables volume



Individual client division

Technological developments and regulatory requirements once again proved to be key drivers of change in the banking industry this year. In this context, the individual client segment was also required to flexibly align its processes and products to the respective client needs and to serve these needs in the best possible way. The segment, which mainly offers services for doctors, pharmacists, legal and tax advisors and wealthy individual clients, has therefore positioned itself in a more process-oriented manner and bundled market-related activities in its own specialist areas in order to intensify support for its demanding clients and to further increase its attractiveness for new clients in a highly competitive environment.

Compared to the previous year, around 25% more new clients were acquired in 2019. In total, more than 3,580 new clients are among the approximately 63,000 individually supported commercial and retail clients. Assets increased slightly. At the end of 2019, the receivables volume was EUR 1.68 billion (previous year: EUR 1.62 billion). The deposit volume amounted to EUR 3.5 billion (previous year: EUR 3.4 billion).

Real estate financing for individual clients

In the period under review, our clients increasingly sought real estate financing. We successfully met the increased demand by using modern customer information systems and related technologies. The successful and efficient cooperation with external contractual partners was further expanded. Stable growth was achieved despite the intense competition in these client groups and the continued competitive market environment.

Starter package for lawyers in high demand

The DKB starter package for business start-ups, which was introduced in the previous year, continued to enjoy great popularity. With this package, we support aspiring lawyers in the process of establishing their own law firm. Clients can combine individual modules of the starter package according to their own needs. This gives start-ups the freedom to devote themselves to new professional challenges.

Derivatives advice for business clients

In 2019, we trained derivatives specialists for the first time. These are employees of the individual clients segment who advise our business clients on how to conclude or terminate interest rate derivatives. Demand for this advisory service was already strong among our business clients in the reporting period.

Infrastructure segment

Stable overall performance

In the infrastructure segment, the interest rate situation, economic development and public investments influenced business development and intensified competition and pressure on margins.

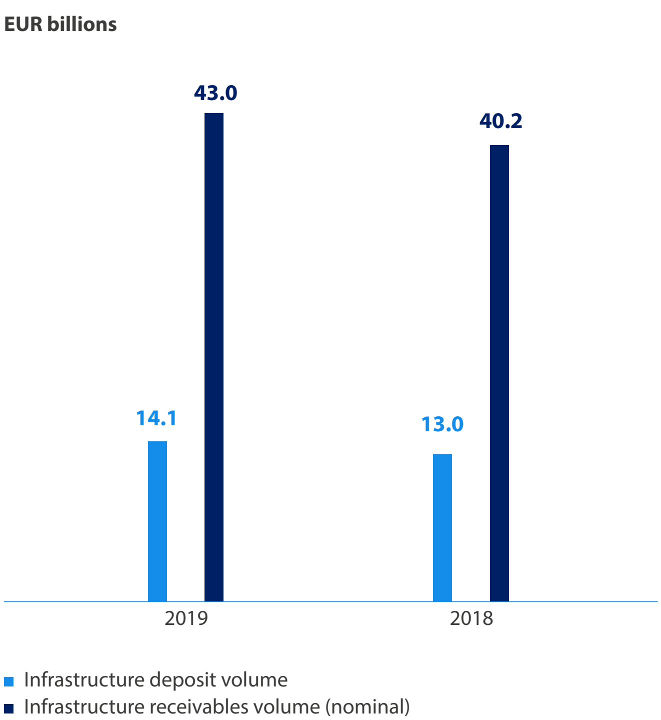
For 2019, the economic trend was generally subdued; trade conflicts that had begun or already been conducted affected the economic sectors in different ways. In contrast, the question of how to cope with the structural change caused by digitisation was of universal relevance. Construction activity continued to flourish; price trends on the real estate market were essentially expansive. Catch-up potential was seen in the area of public investments.

Nevertheless, the asset volume in 2019 developed positively in all client groups in the infrastructure segment, while only two out of four client groups recorded a moderate decline in liabilities overall.

The establishment of digital platforms further intensified the competitive situation and increased the pressure to innovate. In response to this, we acquired a EUR 4.2 million stake in the Swiss fintech company Loanboox in January 2019 as part of our digitisation strategy. The acquisition further strengthened the digital platform business in the public finance segment. The independent money and capital market platform for public corporations, large corporations, institutional investors and banks significantly simplifies the public tender process by intelligently linking borrowers and lenders and making offers comparable. In Germany, 550 cities, municipalities, administrative districts and municipal utilities are already active on the credit platform.

New business with our clients in the infrastructure segment was further expanded in 2019 and amounted to EUR 7.2 billion as at 31 December 2019 (previous year: EUR 5.7 billion). As at the balance sheet date, the receivables volume (nominal) in the client groups amounted to EUR 43.0 billion (previous year: EUR 40.2 billion). The deposits business increased to EUR 14.1 billion (previous year: EUR 13.3 billion).

Infrastructure deposit and receivables volume



Local authorities and social infrastructure: moderate growth

The local government and social infrastructure client group enjoyed moderate growth in the lending business. The predominantly good financial situation of local authorities and the various development programmes led to increased investment activity in public and social infrastructure and helped to reduce the investment backlog. At the same time, however, they also led to slightly weaker demand for loans.

Local authorities invested primarily in transport, education and administrative infrastructure. The social economy, especially the welfare agencies, invested more in the creation of educational and health facilities such as day-care centres, nursing homes or the creation of alternative housing such as residential groups for assisted living or outpatient residential groups. In addition, the social economy was increasingly concerned with the digitisation of processes and the implementation of new technologies in its fields of action.

The asset volume of this client group amounted to EUR 13.8 billion. The volume of liabilities amounted to around EUR 6 billion. Our client base increased to 11,617 clients.

Energy and utilities: investment needs remain high

As expected, the investment needs of utilities and waste management companies remained at a high level in 2019, with increasing momentum in new loan business with energy utilities, water companies and the transport sector. Despite the continued strong competitive environment, the loan business in 2019 was stable.

New lending business continued to be dominated by investments in the energy, water / waste water and transport sectors. A trend towards investment projects in the areas of digitisation, broadband networks and smart cities was still discernible among public utilities and municipal (related) companies. In investing, the public utilities can act from a position of financial strength. The economic situation in Germany in recent years has enabled them to prepare well for the future.

The asset volume as of 31 December 2019 amounted to EUR 6.6 billion. Compared to the previous year, this represents an increase of EUR 205.0 million. The volume of liabilities amounted to around EUR 1.3 billion, which is around EUR 145 million more than in 2018. Our number of clients continued to rise to 2,038, up 120 clients on the previous year.

Housing: strong lending business

2019 was another strong year for our housing client group. The ECB's ongoing low interest rate policy continued to favour investments in real estate. In the portfolio, investments were made in the adaptation and development of housing in line with demand. New construction initiatives in the major cities were continued, and an increasing focus on sustainability promoted energy-saving redevelopment measures. In addition to traditional bank financing with long fixed interest periods, demand for capital market or capital-market-related products (e.g. promissory note loans) continued to rise. Against the background of low interest rates, the debt reduction strategy for housing companies was also continued, particularly in the demographically weaker regions.

The housing client group recorded a very positive development in the lending business with growth of EUR 1.8 billion, while the volume of liabilities remained largely constant at EUR 2.0 billion. Our market share of housing companies amounted to 71% in 2019. The calculation is based on the housing companies organised in the GdW with their own housing stock.

Administrators: stable development

Our management business developed very well overall, with new client demand continuing to rise in 2019. In the year under review we were able to onboard 1,053 new clients.

The assets managed in managed accounts increased to over EUR 4.6 billion (previous year: EUR 3.9 billion). At the end of the year, more than 11,159 commercial property managers with over 63,664 condominium owner associations managed their portfolios with us. Almost 65,000 clients used our administration platform to manage their own and third-party properties, including over 50,000 retail clients. In times of low ECB interest rate policy, real estate is still considered a good investment, although further development will depend on the issues of rent control, rent caps and property taxes. Despite efforts by the German government to facilitate access to residential property through financial incentives such as the child allowance for families building a house, housing construction subsidies and guarantee programmes, the number of approved owner-occupied apartments declined in 2019.

Civic participation: successful launch of a crowd investing platform

Our centre of competence for civic participation supports investments that are implemented in the regional environment of the local population. One of the focal points here is renewable energies (RE). In 2019, renewable energies contributed 42% to the electricity supply in Germany. With a share of approx. 40%, citizens are by far the largest group of protagonists in the expansion of renewable energies to date. As expected, the expansion of wind energy is clearly declining, partly due to a lack of building permits, although we are seeing that interest in citizen participation solutions for the remaining and requested projects remains high.

In our segment of alternative forms of housing, we also noted increased demand in 2019, increasingly also outside the metropolitan areas. New neighbourhood and residential concepts are emerging on the market, ranging from self-organised – including cooperative – stakeholders to creative new design and architecture-centred concepts in metropolitan areas.

In 2019, the number of civic participation projects rose to 133.

With the launch of the DKB crowd investment platform, DKB-Crowd, a milestone was reached throughout the bank for the interaction between retail and business clients. In cooperation with DKB Crowdfunding GmbH, we have been offering a fully digital and streamlined way to involve citizens in our business clients' projects since September 2019. Crowdfunding by means of subordinated loans as economic equity combined with traditional bank financing creates a positive interaction and enables us to cover the total capital requirements of our business clients. For our retail clients, this results in a new asset class of investment with above-average returns and higher risk compared with traditional bank products. They can also participate directly in regional, social and ecological projects via DKB-Crowd. In November 2019, the first project was successfully financed via DKB-Crowd.

Corporate clients segment

Market position further strengthened

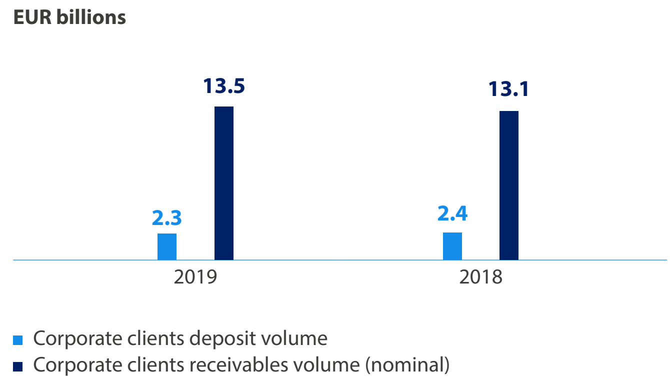
In the year under review, we recorded a significant upturn in growth in the lending business compared with the previous year in an increasingly competitive environment. Our new business, driven by the financing of renewable energy projects and investments in agriculture and food, more than compensated for the high repayments and further consolidated our market positions. Loans and advances to clients increased to EUR 13.5 billion (previous year: EUR 13.2 billion). Customer deposits performed according to plan and remained largely stable at EUR 2.3 billion (previous year: EUR 2.4 billion).

In 2019, the syndicated business and leasing and factoring units were integrated into the corporate clients segment. Independently of the structural allocation to the corporate clients segment, syndicated business of all our client groups is supported in this specialist division. With the strategic expansion of syndicated business and targeted network partner management, we have established ourselves as a professional and sought-after financing partner in the German banking market. As at the end of the financial year, our syndicated business portfolio stood at EUR 2.4 billion. In the leasing and factoring segment, we support selected leasing companies with the aim of purchasing lease receivables within the scope of forfaiting in the target client industries. Declining forfaiting rates were observed on the market, which led to a slight decline in forfaiting business.

We have intensified our cooperation with commercial financing platforms. Furthermore, we adapted our Internet presence to the increased requirements of our business clients with our own online application channels and new landing pages.

The transformation to a tech bank as well as changing client needs and markets in the digital environment require new structures, ranging from market research to development and cooperation with fintechs. A new department has been set up to design and coordinate this digital transformation in the corporate clients segment.

Corporate clients deposit and receivables volume



Environmental technology: receivables volume slightly higher

After an already difficult previous year, the situation in the wind energy sector deteriorated further in 2019. Numerous new projects are stuck in complex approval procedures. As a result, demand from market players for the existing tender quotas was low. The reason for this, in addition to outstanding permits, is the still-relevant influence of appeals against newly granted permits, which initially necessitate lengthy legal proceedings. The direct effects were particularly hard on the plant manufacturers.

As a result of these negative general conditions, the number of new installations reached a historic low. Intense pricing and terms competition among financing institutions arose for the few realisable projects. The impression that politicians were merely taking note of this negative development in the industry persisted well into the year. It was not until the autumn that the first declarations of intent to improve the regulatory framework were issued. We took advantage of this problematic situation in new plant construction by means of targeted sales campaigns in order to leverage discernible financing potential in the portfolio and thus partially compensate for the weak construction of new plants.

In contrast to wind energy, new installations and thus also the demand for financing for photovoltaic systems developed very positively in 2019. Tender quotas are still significantly oversubscribed. In addition to increased demand for larger plants subject to tenders as well as for smaller plants below the tender limit of 750 kWp, there was noticeable demand for plant concepts and financing outside of the EEG funding for the first time. This was due to a further reduction in production costs, rising electricity prices and the previous limitation of the EEG funding to plant sizes of a maximum of 10 MWp. Against this background, we developed suitable financing standards for this new business model. All in all, we benefited from the positive market development and our continued strong market position in the photovoltaics sub-segment.

We systematically tapped further new business potential in 2019 under the "Energy Solutions" label. The Energy Solutions label covers topics such as selected storage technologies, hydrogen, energy contracting, energy distribution and charging infrastructure for electromobility, thus leveraging further growth potential arising from the ongoing energy turnaround process. In particular, our focus is on sector coupling, i.e. extending the energy system transformation beyond the electricity market to include the heating and transport sectors in Germany.

Despite the very difficult situation in the former core sub-segment of wind energy, the total volume of receivables (nominal) in our environmental technology client group slightly increased to EUR 8.6 billion (previous year: EUR 8.5 billion). The liabilities business continued to decline as planned.

Food and agriculture: receivables volume up

After the drought in 2018, this year's crop yields returned to an average level. Nonetheless, heat and drought again caused regional yield losses in the year under review. With good grain harvests worldwide, producer prices were lower than the excellent levels of the previous year. Apart from regional exceptions, adequate yields were thus achieved overall in crop cultivation. Producer prices in milk and pig production remained at a stable level. Pig farmers in particular are benefiting from brisk export demand, especially from Asia. With moderate feed costs, profitable animal production is thus possible in the segments mentioned.

The investment activity of farmers remained weak. This was due not only to the previous year's liquidity burdens that had to be addressed, but also to a lack of planning reliability as a result of changing social and political conditions. The investment climate in the food industry remains favourable. The focus in the lending business is on investments in production facilities in the food processing industry as well as for land purchases and the acquisition of agricultural operations in the context of generational change. DKB's own online application process was introduced as an additional sales channel.

As part of our digital strategy, we have been offering our agricultural clients, as one of the major agricultural banks in Germany, a free digital intercompany comparison since the beginning of the year. This is an innovative service that allows farmers to compare the economic performance of their own farm with that of other farms. The comparison results allow direct conclusions to be drawn about the yield and liquidity situation as well as the stability of the farm itself and show the potential for optimising the personal balance sheet structure. In addition, it is possible to present important key figures of one's own company in condensed form and to display long-term balance sheet developments.

The volume of receivables in our food and agriculture segment increased and now stands at EUR 3.7 billion (previous year: EUR 3.5 billion).

Tourism: receivables volume almost constant

The tourism market continued its positive development this year. Mixed-use projects within the framework of urban development measures and the market entry of new operators became increasingly important. Prime yields did not increase further and consolidated at a high level. Due to the lack of supply, the transaction volume was lower than in the previous year. New business doubled compared with the previous year and will be recognised as receivables on a pro rata basis in the following year. Thanks to the continuing high level of extraordinary repayments due to project sales, the volume of receivables changed only slightly and amounted to EUR 1.0 billion (previous year: EUR 1.0 billion).

Financial markets segment

Securities held for liquidity purposes reduced

The securities held for liquidity purposes decreased slightly in nominal terms. Market developments, however, led to an increase in hidden reserves and revaluation reserves.

Refinancing: retail social bond and blue social bond issued

We continue to rely on the three refinancing pillars of client deposits, development business and the issuance of bonds, with our client deposits growing significantly year-on-year.

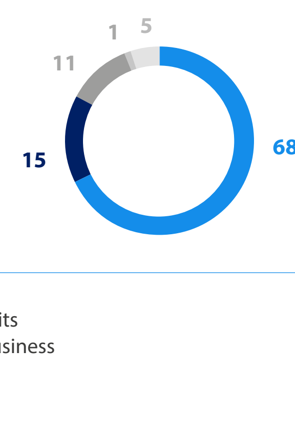
As part of our sustainable focus, we issued the first retail social bond in May 2019. Having already made progress in sustainable investments in previous years with two green bonds and one social bond for institutional investors, we now also enabled retail clients to invest their money via a sustainable bond. The retail social bond has been met with considerable interest.

In November 2019, we followed up with the issue of the first blue social bond, which was extremely successful. The bond was launched on the market as a public Pfandbrief with a volume of EUR 500 million and is used to refinance loans in the areas of waste water and water supply.

Parallel to the social bonds, we issued registered Pfandbriefe with a total volume of EUR 108 million (previous year: EUR 50 million) last year.

Our refinancing sources

in %



Moody's ratings remain unchanged at A2 for the outstanding senior unsecured bonds and Aaa for the public/mortgage Pfandbriefe.

DKB's ratings

	Public-sector Pfandbriefs	Mortgage Pfandbriefs	Issuer rating	Senior unsecured bonds (junior senior unsecured)
Moody's rating	Aaa	Aaa	A1	A2
ISS ESG rating	–	–	B– (prime status)	–
imug rating	very positive (A)	positive (BBB)	positive (BB)	–

The overall volume of new business in programme loans with development institutions amounted to EUR 1.6 billion in 2019 (2018: EUR 1.3 billion). Demand focused on products for the energy turnaround, with the KfW programmes "Energy-Efficient Construction", "Energy-Efficient Rehabilitation" and "Renewable Energies Standard" being the main beneficiaries. The long-standing cooperation with the European Investment Bank was continued by calling in a tranche of EUR 50 million and concluding a further global loan of EUR 100 million for investments in infrastructure and renewable energies.

Total transit and global loans amounted to approximately EUR 12.3 billion at the end of 2019 (31 December 2018: EUR 12.4 billion).

Other segment

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

DKB Service GmbH continued its activities in line with its task profile for the DKB Group. In the first half of 2019, it again provided the majority of its services for DKB AG.

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

Results of operations

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Net interest income[1]	950.5	945.1	5.4	0.6
Risk result	–55.9	–111.8	55.8	50.0
Net interest income after risk result	**894.5**	**833.3**	**61.2**	**7.4**
Net commission income	–34.5	–33.7	–0.8	–2.4
Gains or losses on fair value measurement	49.7	2.8	46.9	>100.0
Gains or losses on hedging transactions[1]	–4.4	–11.9	7.6	63.3
Gains or losses on financial investments	0.1	0.4	–0.3	–78.7
Administrative expenses	–541.4	–474.7	–66.7	–14.1
Expenses from bank levies, deposit guarantee scheme and banking supervision	–51.8	–40.3	–11.4	–28.4
Other income and expenses	–14.5	25.2	–39.8	–157.5
Profit/loss before taxes	**297.8**	**301.2**	**–3.4**	**–1.1**
Income taxes	0.1	–0.1	0.2	>100.0
Consolidated profit/loss	**297.9**	**301.1**	**–3.2**	**–1.1**

[1] Previous year's figures have been adjusted; see Note 2 in the notes to the consolidated financial statements.

The DKB Group was able to maintain its consolidated net profit for 2019 at the previous year's level. This was primarily due to the improved net interest income after risk result, which was driven by the overall good business performance of the market divisions of the DKB Group.

The improved fair value result also had a positive effect. Here we benefited from the favourable development on the international stock exchanges, in particular through the DKB sustainability funds launched in 2019.

This excellent earnings situation enabled the DKB Group to continue its investment strategy for digitising and improving internal processes, which led to higher administrative expenses.

Net interest income

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Interest income and positive interest expenses	1,626.9	1,722.5	–95.6	–5.6
Interest expenses and negative interest income[1]	–676.4	–777.4	101.0	13.0
Net interest income	**950.5**	**945.1**	**5.4**	**0.6**

[1] Previous year's figures have been adjusted; see Note 2 in the notes to the consolidated financial statements.

Net interest income is allocated to the segments as follows:

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Retail clients	381.8	424.1	–42.3	–10.0
Infrastructure	359.6	349.0	10.6	3.0
Corporate clients	183.1	190.1	–7.0	–3.7
Financial markets[1]	26.4	–26.3	52.7	>100.0
Other	24.6	25.9	–1.3	–5.0
Reconciliation/Consolidation	–25.0	–17.7	–7.3	–41.2
Net interest income	**950.5**	**945.1**	**–5.4**	**0.6**

[1] Previous year's figures have been adjusted; see Note 2 in the notes to the consolidated financial statements.

Risk result

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Risk provisions result	–63.7	–104.8	41.1	39.2
Result from the disposal of AAC-category financial instruments	7.8	–7.0	14.8	>100.0
Risk result	**–55.9**	**–111.8**	**55.8**	**50.0**

The risk result is allocated to the segments as follows:

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Retail clients	12.7	–25.8	38.5	>100.0
Infrastructure	–7.2	–7.2	0.0	0.0
Corporate clients	–64.9	–68.6	3.7	5.4
Other	3.5	–10.2	13.7	>100.0
Risk result	**–55.9**	**–111.8**	**55.8**	**50.0**

Net commission income

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Credit card business	23.2	22.8	0.4	1.8
Lending business	–21.2	–17.0	–4.2	–24.5
Payments	–48.7	–46.4	–2.3	–5.0
Other net commission income	12.2	6.9	5.3	76.2
Net commission income	**–34.5**	**–33.7**	**–0.8**	**–2.4**

Net commission income is allocated to the segments as follows:

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Retail clients	–51.8	–53.4	1.6	3.0
Infrastructure	4.4	7.1	–2.7	–38.0
Corporate clients	17.7	15.4	2.3	14.9
Financial markets	–3.7	–3.1	–0.6	–19.4
Other	–17.0	–16.7	–0.3	–1.8
Reconciliation/Consolidation	15.9	17.0	–1.1	–6.7
Net commission income	**–34.5**	**–33.7**	**–0.8**	**–2.4**

Gains or losses on fair value measurement

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Result from derivatives in commercial hedging relationships	2.7	5.8	–3.2	–54.2
Fair value result from FVPLM financial instruments	47.0	–3.0	50.0	>100.0
Gains or losses on fair value measurement	**49.7**	**2.8**	**46.9**	**>100.0**

The fair value gains/losses from FVPLM financial instruments result primarily from the development of the DKB sustainability funds (EUR 26.2 million) and our strategic investments (EUR 15.2 million).

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 AG for hedging purposes and their underlying transactions as part of hedge accounting.

Administrative expenses

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Staff costs	–280.6	–247.3	–33.3	–13.5
Other administrative expenses	–233.9	–218.6	–15.3	–7.0
Depreciation and impairments on property, plant and equipment and intangible assets	–26.9	–8.8	-18.1	>–100.0
Administrative expenses	**–541.4**	**–474.7**	**–66.7**	**–14.1**

The higher personnel expense results from the agreed increase in pay rates and the increase in staffing.

The other administrative expenses increased mainly due to higher levels of investment in digitisation and the continued high demands imposed by regulatory requirements.

The higher depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets result from the capitalisation of rights of use due to the new leasing regulations of IFRS 16 and the associated higher current depreciation.

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Retail clients	–270.8	–224.3	–46.5	–20.7
Infrastructure	–152.4	–135.0	–17.4	–12.9
Corporate clients	–76.8	–72.1	–4.7	–6.5
Financial markets	–12.7	–12.6	–0.1	–0.8
Other	–214.7	–186.3	–28.4	–15.2
Reconciliation/Consolidation	186.0	155.6	30.4	19.5
Administrative expenses	**–541.4**	**–474.7**	**–66.7**	**–14.1**

Expenses from bank levies, deposit guarantee scheme and banking supervision

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Bank levy	–21.8	–22.1	0.3	1.6
Deposit guarantee scheme	–25.5	–15.1	–10.4	–68.7
Banking supervision	–4.6	–3.1	–1.4	–45.4
Expenses from bank levies, deposit guarantee scheme and banking supervision	**–51.8**	**–40.3**	**–11.4**	**–28.4**

The higher expenses for the deposit guarantee scheme result from the increase in client deposits.

Other income and expenses

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Other income	31.2	60.0	–28.8	–48.1
Other expenses	–45.7	–34.7	–10.9	–31.5
Other income and expenses	**–14.5**	**25.2**	**–39.8**	**>–100.0**

The other result was positively influenced in the previous year by the reversal of provisions for legal risks.

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

The return on capital in the financial year was 0.36% (previous year: 0.39%).

Net assets

Assets

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Cash reserves	4,432.5	1,046.2	3,386.3	>100.0
Loans and advances to banks	2,610.2	3,687.8	–1,077.6	–29.2
Loans and advances to clients	69,526.3	65,932.5	3,593.8	5.5
Risk provisions	–410.0	–420.7	10.7	2.5
Portfolio hedge adjustment	765.4	407.1	358.3	88.0
Assets held for trading	9.8	3.2	6.5	>100.0
Positive fair values from derivative financial instruments	–	0.0	0.0	–100.0
Financial investments	6,196.4	6,362.3	–165.9	–2.6
Other assets	624.0	369.1	254.9	69.1
Total assets	**83,754.4**	**77,387.6**	**6,366.9**	**8.2**

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

The increase in loans and advances to clients is driven by all three market segments. An increase of EUR 2,801.9 million is attributable to the infrastructure segment, EUR 437.3 million to the retail clients segment and EUR 386.2 million to the corporate clients segment.

The risk provisions developed as follows in the financial year:

in EUR million	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan.	**–38.4**	**–115.4**	**–261.8**	**–5.0**	**–420.7**
Additions from lending/purchases	–16.6	–6.6	–82.7	–8.2	–114.0
Reversals from disposal/repayment/sale	15.2	102.4	113.1	9.8	240.4
Credit-rating-related changes	–6.2	–99.8	–107.8	–11.3	–225.1
Usage/depreciation	0.0	0.1	92.8	8.2	101.0
Reallocation to Level 1	–23.0	23.0	–	–	0.0
Reallocation to Level 2	3.8	–20.9	17.1	–	0.0
Reallocation to Level 3	11.3	34.6	–45.9	–	0.0
Unwinding	–	–	8.1	0.3	8.4
As at 31 Dec.	**–54.0**	**–82.7**	**–267.1**	**–6.3**	**–410.0**

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

The decline in financial assets is primarily due to scheduled maturities that exceeded purchases in the reporting year.

The increase in other assets is mainly due to the first-time application of the new leasing standard IFRS 16, which capitalised rights of use in the amount of EUR 144.5 million as of 1 January 2019.

Liabilities

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Liabilities to banks	13,101.7	13,813.3	–711.6	–5.2
Liabilities to clients	60,766.5	54,366.1	6,400.4	11.8
Securitised liabilities	4,844.8	4,622.3	222.4	4.8
Trading liabilities	7.5	1.2	6.4	>100.0
Negative fair values from derivative financial instruments	26.0	17.0	9.0	53.3
Provisions	211.4	180.4	31.0	17.2
Other liabilities	490.8	265.2	225.6	85.1
Subordinated capital	879.0	781.7	97.3	12.5
Equity	3,426.7	3,340.4	86.2	2.6
Total assets	**83,754.4**	**77,387.6**	**6,366.9**	**8.2**

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

At EUR 5,757.1 million, the increase in liabilities to clients is primarily attributable to the retail clients segment. The infrastructure and corporate clients segments increased their customer deposits by EUR 875.9 million and EUR 79.4 million respectively.

The development of securitised liabilities, which include public and mortgage Pfandbriefs as well as bearer bonds, results from the issue of new securities that fall short of the maturities of the financial year.

Provisions primarily include provisions for pensions and other personnel obligations of EUR 116.7 million (previous year: EUR 99.8 million), provisions in the lending business of EUR 44.5 million (previous year: EUR 48.9 million) and other provisions of EUR 50.4 million (previous year: EUR 31.7 million).

The increase in other liabilities is mainly due to the EUR 230.7 million liability from the transfer of profits to BayernLB (previous year: EUR 95.1 million).

In 2019, DKB further strengthened its regulatory capital by raising subordinated capital of EUR 100.00 million.

Reported equity consists of the following:

	2019 in EUR millions	2018 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	1,499.5	1,303.8	195.7	15.0
Revaluation surplus	88.5	59.9	28.5	47.6
Consolidated net retained profits/ net accumulated losses	85.0	223.0	–138.0	–61.9
Equity	**3,426.7**	**3,340.4**	**86.2**	**2.6**

Retained earnings increased mainly due to the allocation of the consolidated balance sheet profit.

The revaluation reserve mainly results from the fair value measurement of FVOCIM financial instruments.

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

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

Results of operations

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Net interest income and income from investments	972.4	983.3	–10.9	–1.1
Net commission income	–71.1	–76.5	5.4	7.1
Administrative expenses and amortisation of intangible assets	–542.8	–463.6	–79.2	–17.1
Other operating profit	–42.7	–19.0	–23.7	>–100.0
Operating profit before risk provisions and net measurement gain	**315.8**	**424.2**	**–108.4**	**–25.6**
Risk provisions and net measurement gain	– 85.2	–129.1	43.9	34.0
Profit/loss on ordinary activities	**230.6**	**295.1**	**–64.5**	**–21.9**
Addition pursuant to Section 340g HGB	0.0	–200.0	200.0	–100.0
Taxes on income	0.1	0.0	0.1	>100.0
Profits transferred	–230.7	–95.1	–135.6	>100.0
Net profit for the year	**0.0**	**0.0**	**0.0**	**0.0**

DKB AG was able to maintain its net interest and investment income almost at the level of the previous year despite the difficult interest rate environment. The continuation of our investment strategy to digitise and improve internal processes led to higher administrative expenses and, as a result, to lower profit on ordinary activities.

Net interest income and income from investments

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Interest income	1,595.1	1,694.60	–99.5	–5.9
Interest expenses	–640.2	–724.9	84.7	11.7
Current income from shares and other variable-yield companies, participating interests and shares in affiliated companies	2.7	3.1	–0.4	–12.9
Income from profit pools, profit transfer and partial profit transfer agreements	14.8	10.5	4.3	41.0
Net interest income and income from investments	**972.4**	**983.3**	**–10.9**	**–1.1**

Interest income, at EUR 1,534.3 million (previous year: EUR 1,630.8 million), results primarily from loans and advances to clients.

Interest expenses include EUR 216.8 million (previous year: EUR 230.9 million) interest expenses from liabilities to clients, EUR 212.5 million (previous year: EUR 198.5 million) interest expenses from swap agreements and EUR 188.3 million (previous year: EUR 229.0 million) interest expenses from liabilities to banks.

Net commission income

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Commission income	252.1	241.2	10.9	4.5
Commission expenses	–323.2	–317.7	–5.5	–1.7
Net commission income	**–71.1**	**–76.5**	**5.4**	**7.1**

Commission income includes commissions and fees from the card business amounting to EUR 179.2 million (previous year: EUR 173.3 million).

Commission expenses of EUR 143.2 million (previous year: EUR 146.3 million) are attributable to the card business, EUR 76.7 million (previous year: EUR 77.8 million) to brokerage commissions and EUR 61.1 million (previous year: EUR 56.7 million) to payment transactions.

Administrative expenses and amortisation of intangible assets

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Staff costs	–189.7	–168.9	–20.8	–12.3
Other administrative expenses	–348.9	–292.7	–56.2	–19.2
Amortisation of intangible assets	–4.2	–2.0	–2.2	>–100.0
Administrative expenses and amortisation of intangible assets	**–542.8**	**–463.6**	**–79.2**	**–17.1**

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

The other administrative expenses increased mainly due to higher levels of investment in digitisation and the continued high demands imposed by regulatory requirements.

Other operating profit

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Other operating income	15.2	26.6	–11.4	–42.9
Other operating expenses	–57.9	–45.6	–12.3	–27.0
Other income and expenses	**–42.7**	**–19.0**	**–23.7**	**>–100.0**

The deterioration in the other operating result is due in particular to higher charges from the provision for legal risks.

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

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

Risk provisions and net measurement gain

Risk provisions and net measurement gain comprise the following:

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Risk provisions in the lending business	–86.4	–116.8	30.4	26.0
Net measurement gain on securities and investments	5.1	–12.1	17.2	>100.0
Expenses from loss assumptions	–3.9	–0.2	–3.7	>–100.0
Risk provisions and net measurement gain	**–85.2**	**–129.1**	**43.9**	**34.0**

Risk provisions for the lending business result from a net allocation to risk provisions of EUR 81.1 million (previous year: EUR 106.0 million) and direct write-offs of EUR 12.5 million (previous year: EUR 21.5 million) as well as receipts on receivables written off amounting to EUR 7.2 million (previous year: EUR 10.7 million).

The improvement in the valuation result of the securities portfolio and investments is mainly due to write-ups as a result of the positive market development in 2019.

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

Based on the profit on ordinary activities, the return on capital amounted to 0.28% in the financial year (previous year: 0.38%).

Net assets

Assets

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Cash reserves	4,432.9	1,046.2	3,386.7	>100.0
Loans and advances to banks	2,610.7	3,688.3	–1,077.6	–29.2
Loans and advances to clients	69,059.7	65,481.3	3,578.4	5.5
Bonds and other fixed-income securities	5,860.7	6,176.9	–316.2	–5.1
Other assets	1,535.7	1,040.1	495.6	47.6
Total assets	**83,499.7**	**77,432.8**	**6,066.9**	**7.8**

Liabilities

	2019 in EUR millions	2018 in EUR millions	Change in EUR millions	Change in %
Liabilities to banks	13,208.2	13,909.0	–700.8	–5.0
Liabilities to clients	60,813.0	54,412.6	6,400.4	11.8
Securitised liabilities	4,857.2	4,700.5	156.7	3.3
Provisions	229.5	195.8	33.7	17.2
Other equity and liabilities	298.2	215.2	83.0	38.6
Subordinated capital, profit participation rights and additional regulatory core capital	875.7	781.8	93.9	12.0
Reserve pursuant to Section 340g HGB	782.0	782.0	0.0	0.0
Equity	2,435.9	2,435.9	0.0	0.0
Total assets	**83,499.7**	**77,432.8**	**6,066.9**	**7.8**

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

Other assets consist primarily of cash collateral for derivatives subject to clearing requirements (EUR 1,167.4 million, previous year: EUR 685.4 million).

The increase in other liabilities is mainly due to the EUR 230.7 million liability from the transfer of profits to BayernLB (previous year: EUR 95.1 million).

Balance sheet equity comprises subscribed capital (EUR 339.3 million), the capital reserve (EUR 1,414.4 million) as well as retained earnings (EUR 682.2 million).

Financial position

Our liquidity management is described in detail in the risk report. For this reason, we will refrain from including a detailed analysis of the cash flow statement at this point, and instead refer to the statements made in the risk report and to the cash flow statement of the DKB Group.

Non-financial performance indicators

As a bank, we are convinced that we can make an important contribution to a sustainable and future-proof society. On the one hand, we achieve this through innovative banking products geared to customer needs and by financing projects that people need to live now and in the future. On the other hand, we as a Group have a responsibility towards our employees and the environment. Since our establishment in 1990, we have therefore relied on a sustainable business model that combines economic, ecological and social goals in a meaningful way. We act in a forward-looking manner and focus on economic success that is in harmony with people and the environment. We therefore regard sustainability and employee concerns as non-financial performance indicators for managing our company. Together with the financial performance indicators, they form the basis for a permanent and sustainable increase in the value of the company.

Sustainability

Sustainable business as the foundation of our enterprise value

Sustainability is a fundamental component of our brand core. For this reason, we are continuously striving to maintain or even improve our sustainability performance to our very high standards. In this context, we adopted an integrated sustainability strategy in 2019, which defines clear goals and measures for sustainable corporate success. The strategy is in line with the global sustainability goals of the United Nations (Sustainable Development Goals, SDG) and the goals of the Paris Climate Convention. We are thus the first bank in Germany to shape the concept of "blue sustainability". Blue stands for an impact-driven positive approach as a contribution to preserving the blue planet and deliberately sets new trends in sustainability management. For 40 years, the conventional understanding of sustainability in the financial sector has been characterised by sector exclusions and disaster communication. The desired broad effect for more sustainability has not yet been achieved in this way. Although eco-banks are growing, they still form a small niche in the banking sector.

These findings led to a new approach: if sustainability is to be successful, it requires the mainstream, positive communication and the transformation of the entire economy. We have always focused on industries that focus on people's needs. We are committed to companies that are making the transition to more sustainability and need reliable financing partners to do so.

77.8% of our loan portfolio is SDG-significant. This is equivalent to EUR 54.1 billion, thus more than any other bank in Germany to date. We achieve this by working hand in hand with our clients, employees and partners, who are also committed to sustainability. We implement these achievements with the #geldverbesserer and allow ourselves to be measured against it. For five years now, our performance has been externally assessed by the ISS ESG sustainability rating. We have been awarded the "Industry Leader" seal in the field of sustainability on several occasions.

In summary, we achieve our sustainability performance by:

- aligning all our business processes to the principles of sustainability,
- the sustainable orientation of our loan portfolio through a positive concept in which primarily sustainable client groups that may be financed are defined,
- a comprehensive SDG mapping of the entire loan portfolio, which was carried out for the first time with the Sustainability Report 2018, making it possible to quantify the sustainable impact of business activities, and
- the provision of sustainable capital market products such as green bonds and social bonds,

- the design and sale of sustainable products for retail clients, such as sustainable funds,
- taking social responsibility through participation in socially beneficial projects, and
- cultivating dialogue with various stakeholder groups, as well as active participation in associations and initiatives on sustainable issues.

Focus on sustainable business client groups

We have one of the largest loan portfolios for investments in renewable energies in Germany (EUR 10.7 billion). We have been supporting the energy transformation process since 1996 with financing and the development of corresponding expertise. Over 4,700 photovoltaic, wind power, hydropower and biogas plants have since been realised with our financing. The installed electrical output is more than 9 gigawatts. The electrical energy produced in this way meets the needs of over 5 million two-person households.

The projects implemented by DKB can save around 12.1 million tonnes of CO_2 compared to the German electricity mix. This makes us one of the largest financiers of the energy turnaround in Germany. Our financing of renewable energy plants has replaced the capacity of six nuclear power plants in mathematical terms.

The housing segment, with a volume of receivables of EUR 22.7 billion, also has a strong sustainable focus. Within this client group, the share of municipal housing associations and cooperatives is the largest. Its business purpose is to provide broad sections of society, including the socially disadvantaged, with affordable, sustainable housing. Targeted lending, such as for the construction of apartments suitable for the elderly and families, energy-efficient real estate, outpatient and inpatient health facilities, for construction projects in schools and day-care centres in Germany and for civic participation projects, is another key component of our sustainable business model.

In addition to existing industries, we are also opening up innovative new business areas. In 2019, we were able to open up new business areas with "Energy Solutions", the DKB crowdfunding platform "DKB-Crowd" and the investment in the Swiss fintech company Loanboox.

All DKB funds are becoming sustainable

In order to further enhance and reinforce blue sustainability as our brand core, we restructured all the DKB retail funds in 2019. Since then, our funds have been aligned with sustainability criteria and reflect the broad understanding of blue sustainability. As a result, we have developed three funds with different focal points:

1. The **DKB Climate Protection Fund**, which focuses on the reduction of the CO_2 footprint as a key objective – for clients who understand sustainability primarily in **ecological** terms.
2. The **DKB-SDG Fund**, which focuses primarily on social impacts based on the sustainability goals of the United Nations – for clients who understand sustainability primarily as a **social** issue.
3. The **DKB Sustainability Fund Europe** with a **best-in-class investment approach** – for clients who understand sustainability as the triad of ecology, social and economic issues and for whom financial returns are important at the same time.

Asset management is carried out by BayernInvest. With all its mutual funds, it is committed not only to the Global Compact, but also to the 2019 Paris Agreement. By 2025 at the latest, all managed portfolios should be in line with the 1.5-degree target of the Paris Agreement. This therefore also applies to all DKB funds and is another important step towards greater sustainability.

Since the changeover, sales of DKB sustainability funds have shown a very positive development in the form of a 36% increase to EUR 29.57 million (end of 2019). In the same period, the number of savings plans on these funds increased by 77% to 1,995. We expect the rise in sales volume to continue in 2020. A report on all funds with further information is available on the DKB website for each fund.

Capital market transformation: two further social bonds issued

We use the extensive loan pool from our business with sustainable client groups as the basis for issuing sustainable bonds, making us the first German commercial bank to place both green and social bonds in recent years. Among others, we are a member of the Green Bond Principles and are active in the Social Bond Working Group, under whose direction the Social Bond Principles (SBP) were developed.

DKB has been placing green bonds successfully since 2016. Both green bond issues were heavily oversubscribed. This offering will be further expanded in the future and is yet another example of our activities under the motto of blue sustainability. The services behind it are also independently confirmed by external experts.

In April 2019, we received the "Social Bond of the Year" award from Environmental Finance – one of the most renowned platforms for sustainable finance topics – in the banking category for the innovative social bond issued in 2018. A 30-member jury of independent international top investors with a focus on sustainability selected us as the winner from a large number of international participants. This was followed in November 2019 by the issuing of the first "blue social bond" (volume EUR 500 million), with which we successfully expanded our range of sustainable financial products. Among the subscribers were investors who follow very strict investment guidelines.

Excellent ratings from ISS ESG and imug

The sustainability rating agencies imug and ISS ESG (formerly ISS-oekom) audit us regularly for compliance with sustainability standards, for the presence of and compliance with in-house directives as well as for special measures designed to suit the business activity of the company. In 2019, we reaffirmed our position as the "Industry Leader" in ISS ESG research's sustainability rating. For the fifth time in a row, we received a "B–" and thus again the highest rating of all rated commercial, state and regional banks. DKB's corporate rating continues to mean that it holds "prime status" and is currently in the rarely awarded "good" category.

imug Rating subjected the 25 largest German banks to an ESG stress test for the first time in 2019. We received the highest rating awarded by imug in the study: "BB" in the sustainability rating category, "BBB" for mortgage covered bonds and "A" for public bonds.

A key factor in our repeatedly excellent ratings is our low level of exposure to controversy and ESG risks (environmental, social and governance), and our performance as an employer and in the corporate governance sector, including ethical business practices. ISS ESG particularly appreciates our consistent focus on sustainability in lending. The sustainability rating agency imug sees DKB's strengths in areas such as socially responsible products, environmental reporting, job security and equal opportunities, as well as cooperation with development banks.

In addition to our cooperation with the established rating agencies, we also opened ourselves up to the WWF's sustainability rating in 2019. In 2019, the WWF conducted a rating of banks with the 14 largest German banks in the categories "Visionary", "Pioneer", "Follower/Contemporary", "Upper Midfield", "Lower Midfield" and "Intransparent". Together with two other institutions, we achieved the highest WWF rating in the "Corporate Banks" category, "Follower/Contemporary". The two highest categories, "Visionaries" and "Pioneers", remained unawarded in the first WWF rating.

Sustainability within the company

We publish our environmental performance as a company in the form of an annual environmental statement in accordance with EMAS (Eco-Management and Audit Scheme) and thus transparently show our progress in this area through the development of the core indicators of the EMAS sites. The main aim is to avoid emissions and reduce the consumption of resources in banking operations. In this context, we have defined the following three key objectives, among others:

1. By 2020, we will reduce gross CO_2 emissions per employee by 70% compared to 2010 (status in 2018: 57.2%).

2. By 2030, we will achieve climate-neutral banking operations.

3. By 2050, we will have brought our entire product portfolio into line with the 2-degree limit of the Paris Agreement.

Social engagement

We support social and beneficial projects primarily through corporate volunteering and the DKB STIFTUNG foundation for social commitment. These include in particular the activities of the DKB STIFTUNG as an integration company in the areas of monument preservation, education and promotion of art and culture, as well as environmental protection and nature conservation. In 2019, we again donated EUR 100,000 to six social projects in Germany with the Christmas campaign #DKBHerzenswunsch. By means of a public vote, the total amount was distributed proportionately among the six initiatives.

Employees

Number of IT specialists increased

The DKB Group had 3,839 employees on a capacity basis at the end of 2019 (previous year: 3,431 employees). Of these, DKB AG employed 2,141 people (previous year: 1,917 employees).

The average age in the DKB Group was 42.7 years (previous year: 42.9 years). The proportion of employees under 30 was 12.7% (previous year: 12.3%). The average length of service was 8.1 years (previous year: 8.4 years).

We prefer to fill open positions with qualified personnel from our company. In the event that this is not possible or that special expertise is required for certain task profiles which is not available in-house, we recruit suitable external staff. We followed this principle in 2019 as well.

In terms of external recruitment, our focus in the year under review continued to be on IT specialists. The new employees support us in driving forward the digitisation of the bank. A separate recruiting team was established for this purpose in the reporting period. Around 70 new IT specialists decided to join us in 2019.

In order to present DKB as an attractive employer, we conducted target-group-specific recruiting campaigns and attended relevant trade fairs in the year under review.

The DKB Code Factory also grew in 2019. The number of employees has more than doubled compared to the previous year, the year of establishment, and at the end of the year was 64 (previous year: 31).

Attracting and retaining young talent

Under the motto "For the smart minds of tomorrow", the company continued to promote the development of young talent in 2019. This enabled us to convince around 70 junior staff that we are an attractive and sustainable employer and that our junior staff programmes are the right choice. Trainees with various specialisations (digital transformation, business analysts, general banking), dual students, including those specialising in business information technology, and scholarship holders specialising in leadership in digital innovation supported us on our way to becoming a tech bank. Together with the Stiftung der Deutschen Wirtschaft (SDW), we announced the Work & Write scholarship for the first time at the end of 2019.

Since summer 2019, all junior staff have also been able to benefit from the Young Talent Programme of DKB MANAGEMENT SCHOOL. It is aimed specifically at strengthening the banking know-how, social skills and digital mindset of junior staff.

Focused employee development

Tasks and requirements change at ever shorter intervals. We therefore rely on a comprehensive further development programme for our employees. Our in-house training academy DKB MANAGEMENT SCHOOL identifies relevant trends early on and offers all our employees seminars, specialist training and team development. DKB MANAGEMENT SCHOOL held a total of 548 seminars in the reporting period (previous year: 568). On average, each employee received 4 days of further training last year (previous year: 3.8 days). In addition, the program was expanded in 2019, with over 30 in-house trainers mainly giving impulse workshops, thus strengthening the digital skills of our employees. These include crash courses on IT knowledge, programming languages and data science. In cooperation with HHL Leipzig Graduate School of Management, we also launched a new program for the development of digital skills in 2019. In the period under review, there were already three rounds with around 60 participants.

The Sales Excellence Programme was launched for all sales employees in 2019. Here we aim to professionalise sales activities in both new client acquisition and existing client support.

Agile work is becoming ever more important to us, which is why we create and offer both internal and external needs-based training opportunities.

As part of the development dialogue introduced in 2019, all our employees will receive structured, competence-based feedback from their managers at least once a year and can use this as a basis for targeted personal development.

Supporting change and developing culture

In order to increase change know-how, we have developed and offered various training formats specifically for DKB. In particular, a separate training course for "Agile Change Coaches" was designed and advertised in-house. The coaches will start to support decentralised change projects within the DKB Group in 2020.

For the second time, the corporate culture was analysed – via a bank-wide online survey, culture interviews, workshops and the evaluation of documents. Measures to achieve the target culture were developed on this basis.

Committed to corporate volunteering

Social commitment is an integral part of DKB's corporate culture and is funded accordingly. Employees are involved in projects sponsored by us, such as SINGA or the DKB Foundation (DKB STIFTUNG), as well as in their own association work or social projects. For this purpose, employees can take up to two working days off per year and contribute up to three days of personal time.

Maintaining employee health

We attach great importance to promoting and caring for the health of our employees, and in doing so we are well above the legal requirements. Our health management is regularly awarded top marks. Our services include health checks and the provision of internal and external advice centres. In addition, all employees have the opportunity to participate in sports and health weekends.

The workforce availability was again very high in 2019 at 95.3% (previous year: 95.1%).

Promoting equal opportunities

A special mentoring program was again offered to female managers in 2019 with the aim of further promoting a balanced proportion of women and men represented at the management levels of the company. In addition, we established an internal DKB network for women in management positions in the year under review, which creates a platform for networking, new impetus and increased visibility within the company.

Aiming to meet targets

The Supervisory Board of DKB AG has 16 members, four of whom are women. This corresponds to a proportion of women of 25% and thus to the minimum target figure aimed for by 30 June 2022.

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

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

The proportion of women at the first management level is currently 16.7% at DKB AG (previous year: 17.4%). This is to be increased to at least 20% by 30 June 2022. DKB Service GmbH has a proportion of women of 14.3% at the first management level (previous year: 14.3%), thus achieving its target. The proportion of women at the second management level is currently 33.9% at DKB AG (previous year: 37.5%), and 40% at DKB Service GmbH (previous year: 33.3%). At both companies, this share should amount to at least 30%.

Offering a wide range of social services

In order to ensure the long-term loyalty of our employees to the company, they are offered numerous special benefits. These include voluntary (and above the general pay scale) social benefits, subsidies for insurance and childcare, and benefits for retirement provision.

When it comes to childcare or looking after relatives, our employees can make use of consultations provided by external partners. They arrange childcare solutions, provide rapid assistance in the event of childcare bottlenecks and serve as contacts for issues on which employees need information. In addition, we offer our employees economic incentives: the employees of DKB AG and its wholly owned subsidiaries can participate directly in the company's success by purchasing profit participation certificates. The profit participation certificates have a basic interest rate of 4% and a variable interest rate premium that is dependent on the cost/income ratio (pursuant to HGB).

New work – introduction of FlexWork and trust-based working hours

Our employees have the opportunity to work independently of location and on a flexible schedule. In 2019, the well-known home office format was further developed and FlexWork (location flexibility for work) was introduced for everyone, and employees were equipped and trained with mobile IT work and communication tools as required. At the same time, the offering of trust-based working hours was expanded. Previously reserved for first- and second-level management, all employees have been eligible for a trust-based working arrangement since 2019. By the end of the year, 68.9% of employees had decided to switch to FlexWork, and 30.7% (as at 31 December) had made use of the trust-based working hours. Both offers are being supported by the Fraunhofer Institute for Industrial Engineering IAO and are being systematically developed to further exploit the potential of these new forms of work. For a close dialogue with other companies, scientists and representatives from politics on current issues concerning New Work, we are part of the "BMAS Experimental Spaces" through our cooperation with the Fraunhofer Gesellschaft in the project "New Work – Best Practices and Future Models" and are represented in the publications of the Fraunhofer IAO.

Non-financial statement

DKB AG makes use of the exemption provision of Section 315b (2) sentence 2 HGB to add a non-financial Group statement to the combined management report.

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

Report on risks and opportunities

Risk report

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

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

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

Significant developments in the reporting period

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

On 9 November 2018, the ECB published the final guidance on the bank's internal capital adequacy process (ICAAP) and internal liquidity adequacy process (ILAAP) (hereinafter the ICAAP guidance and the ILAAP guidance respectively). Significant changes resulting from the implementation of the ICAAP guidance document relate to the transformation of the concept of economic risk-bearing capacity into a continuation perspective. The requirements were implemented on 1 January 2019 at DKB. This was associated with an adjustment of the available cover pool, as subordinated capital is no longer eligible in the economic risk-bearing capacity concept under the new regime. At the same time, the confidence level used for risk quantification was adjusted to the confidence level of 99.9% prevailing in Pillar 1 and the calculation of the previous going-concern perspective was discontinued. The economic perspective is supplemented by a normative perspective that ensures compliance with capital ratios required by supervisory law. For improved comparability, the comparative figures as of 31 December 2018 have been adjusted accordingly in the following presentations on the economic perspective.

Development of the overall risk situation

Normative perspective

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

The corresponding bank regulatory KPIs of DKB AG are illustrated as follows:

Regulatory capital adequacy

EUR millions	31/12/2019	31/12/2018
Counterparty risks	33,275	31,490
Operational risks	1,465	1,355
Credit valuation adjustment (CVA)	0	0
Total positions subject to mandatory inclusion	34,740	32,845
Equity	3,873	3,850
of which core capital	3,244	3,278
of which hard core capital	3,144	3,178
Equity ratio	11.15%	11.72%
Core capital ratio (T1)	9.34%	9.98%
Hard core capital ratio (CET1)	9.05%	9.67%

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

Intangible assets and irrevocable payment obligations to deposit guarantee schemes or settlement funds are shown as deductions from core capital.

The AT1 capital remained unchanged in the year under review and amounts to EUR 100 million.

The core capital ratio declined by 0.64% to 9.34%, mainly due to the increase in risk positions.

The proportional reduction of subordinate liabilities and their maturities was countered with new assumptions of EUR 100 million. As a result, the amount of eligible supplementary capital increased slightly to EUR 629 million (previous year: EUR 572 million). Profit participation rights liabilities of EUR 29 million decreased slightly by EUR 0.2 million in the year under review.

With a slight increase in equity, the changes in risk positions led to a reduction in the equity ratio of 0.57% to 11.15%.

The minimum capital ratios required by the regulatory authorities were complied with at all times.

Economic perspective

As at the reporting date, the following risk profile was determined in the economic perspective:

EUR millions	**31/12/2019**	**31/12/2018[1]**
Counterparty default risks	469	489
of which client receivables	461	477
of which Group-internal receivables from BayernLB	8	12
Market price risks	473	299
Investment risks	8	6
Operational risks	147	120
Rise in the cost of liquidity risks	81	103
Business risks	0	0
Risk capital requirement (aggregated)	**1,177**	**1,017**
Available cover funds	**3,645**	**3,471**
of which allocated as limits	1,655	1,775
Utilisation of the available cover funds	32%	29%
Utilisation of the limit	71%	57%

[1] Comparative figures adjusted for changes arising from the ICAAP guidelines

Compared to the previous year, the aggregated risk capital requirement increased by EUR 160 million from EUR 1,017 million to EUR 1,177 million. In the same period, the available cover assets increased by EUR 174 million to EUR 3,645 million.

The increase in the aggregate risk capital requirement is mainly the result of an increase in the interest rate risk in the banking book due to the high level of new lending business. By contrast, the improvement in the quality of the lending portfolio, among other things, led to a reduction in the risk capital requirement for counterparty default risks despite the EUR 7.3 billion increase in gross exposure associated with the high level of new business. Liquidity price risks also declined due to the further inflow of deposits. This is offset by the increase in operational risks resulting from the regular updating of the risk survey.

Of the available coverage capital of EUR 3,645 million, EUR 1,655 million are allocated as limits to cover business operations. The remaining portion is available to cover unexpected losses (e.g. caused by severe stress scenarios).

In the worst-case scenario "severe economic downturn", the aggregate risk capital requirement amounted to EUR 2,372 million with available cover funds of EUR 3,356 million. Thus, DKB AG is sufficiently capitalised even in the simulated scenario of an adverse economic development.

Risk-oriented management

Organisation of risk management

DKB AG's risk management organisation is based on the three-lines-of-defence model. The core element of the model is the guiding principle that every employee should question the consequences of their actions at all times and assess and manage the financial and non-financial risks arising from them. In this context, the business units as risk owners form the first line of defence. The second line of defence is responsible for developing overarching risk management frameworks and monitoring the implementation of procedures in the business units. The third line of defence is the internal audit function as an objective and independent audit and advisory body. It conducts risk-oriented and process-independent audits and assesses the effectiveness and appropriateness of risk management, the internal control system and the correctness of all activities and processes.

The risk committee of the Supervisory Board monitors the risk management for which the Board of Management is responsible. The risk committee primarily deals with issues relating to business strategy, risk strategy and the risk situation.

The Board of Management is responsible for the correct organisation of risk management, the definition and implementation of the risk strategy and the development, fostering and integration of an appropriate risk culture. It is clearly committed to risk-appropriate behaviour. In order to meet its responsibility for implementing an appropriate and functioning risk management system, the Board of Management has established a risk management organisation that, in particular, is responsible for the determination and documentation of principles relating to the risk policy. Besides regulations for the organisation of structures and workflows, processes for identifying, assessing, managing, controlling and communicating risks are set out in accordance with MaRisk (German requirements for risk management).

The areas of Risk Controlling, Non-Financial Risk, Credit Risk and Portfolio Management (CR), Credit Consult, Compliance and Finance form the basis for the risk management and monitoring system and are assigned to the Chief Risk Officer or the Chief Financial Officer. In accordance with MaRisk AT 4.4.1, Risk Controlling is responsible for the tasks related to risk controlling. In particular, this includes supporting the Board of Management in all risk policy matters, i.e. in particular in developing and implementing the risk strategy and in designing the system for limiting overall bank risks via risk management and controlling processes. The Risk Controlling division is supported in particular by the Non-Financial Risk division. The Non-Financial Risk division bundles tasks relating to the management of non-financial risks, particularly information security risks. In addition to ongoing risk reporting and the regular monitoring of risk limit utilisation, the Risk Controlling division regularly monitors the risk-bearing capacity together with the Finance division.

Credit risk management is a joint task of the front and back office, taking into account the principle of segregation of duties. The CR division performs the back office function together with the Credit Consult division. In addition to market-independent voting, the CR division is responsible for risk analysis, assessment and management with regard to risk-relevant commitments that are part of the core business. Together with Risk Controlling (as part of portfolio management), this division is responsible for defining the credit risk strategy with regard to segments, client groups, individual clients and special products.

The Compliance division works towards the implementation of effective procedures for compliance with the legal regulations and corresponding controls that are essential for the bank and manages risks from financial transactions in the areas of money laundering and fraud prevention as well as in the securities business.

Risk strategy

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

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

The content of the risk strategy is based on DKB AG's business strategy and takes into account the corresponding requirements of the BayernLB Group's risk strategy. The risk strategy defines the objectives of risk management in the major business activities and thereby specifies the planning premises made in the business strategy with respect to the identification, control and monitoring of significant risks.

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

The risk strategy sets out the DKB Group's fundamental approach for assuming risk and risk management, in a manner consistent with the business strategy. Deriving the risk strategy from the business strategy is a component of the established strategy process. Together with the business strategy and the risk-bearing capacity concept, the risk strategy includes the underlying conditions for the internal risk capital allocation and planning process and targeted liquidity holdings. The risk capital provided is determined and distributed across the risk types as part of the formulation of risk tolerances for the individual types of risk. In this process, potential adverse developments are also taken into account. The amount of the risk capital provided is in line with the risk capital requirement limit and documents the risk appetite. The risk capital planning process also includes an analysis of the effects on the liquidity and refinancing situation.

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

As a member of the BayernLB Group, DKB AG is included in its Group-wide risk management and risk-bearing capacity concept. In principle, DKB AG applies the standards and methods applicable at BayernLB. Should DKB AG's risk profile require a different view, the Group will use its own procedures and methods that are coordinated with the central Risk Controlling unit of the BayernLB Group. DKB AG follows the stipulations of the Group risk strategy (including sub-risk strategies) of BayernLB and is also obligated to comply with the guidelines applicable at the BayernLB Group.

Risk inventory and significant risk types

A regular risk inventory is carried out in order to identify significant risks and to review the appropriateness of the risk management system in relation to the degree of risk. In particular, the results of the OpRisk self-assessment are also used for non-financial risks. The assessment of the materiality of risks is based, for instance, on the forecast risk capital requirement. Depending on their materiality for the overall risk profile, subsidiaries of DKB AG are included in the strategic guidelines and in the risk management system. An annual investment inventory is carried out to determine the risks arising from subsidiaries.

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

Counterparty default risks comprise the risk that a contractual partner (borrower, issuer or counterparty) cannot, or cannot completely, meet their contractual obligations, and the risk of loss and changes in value arising from collateral provided. Counterparty default risks also include the country risk resulting from country specifics (such as in the form of political or economic crises or currency restrictions). Furthermore, risks due to an uneven distribution of exposure in the concentration risk are recorded as part of the counterparty default risk. These include concentrations on individual borrowers (cluster risks), portfolios (client groups), countries and collateral concentrations due to the type of collateral provided.

The DKB Group is exposed to counterparty default risks in the traditional client business (credit risk) and in the form of issuer and counterparty risks, as well as those arising from internal Group receivables. Country risks arise mainly in the securities portfolio in the case of foreign issuers. These are not significant given the portfolio as a whole. The bank is exposed to counterparty risks in the form of replacement risks only to a negligible extent, mainly for hedging interest rate risks and in secured money market trading. The bank does not permit products such as securitisations in the form of ABS and MBS structures or the purchase of securitised receivables. The bank is not exposed to such risks.

Market price risks are defined as potential losses from changes in the market prices of securities, money market and foreign exchange products and derivatives, as well as a change in interest rates and foreign exchange rates. The sub-risks of interest rate risks, credit spread risks, equity risks, volatility and foreign currency risks as well as market liquidity risks are included under market price risks. Market price risks are entered into in particular in the form of interest rate risks in the banking book. Credit spread risks result from the securities in the liquidity reserve. The bank is not actively exposed to foreign currency risks; these result mainly from participations outside of the eurozone. There are no commodity and securitisation risks. Option risks are primarily a result of implicit options arising from termination rights in the lending business pursuant to Section 489 of the German Civil Code (Bundesgesetzbuch; BGB) and interest rate capping agreements that are taken into account when measuring the interest rate risk in the banking book. Market liquidity risk and net interest income risk (NIIR) are also market price risks. Market liquidity risk is defined as the risk that risk positions can only be closed at financially less favourable conditions than expected. Net interest income risk (NIIR) is a special form of interest rate risk and describes the risk of a reduction in net interest income in the banking book.

Investment risks comprise counterparty default risks from investment positions. These relate to potential losses in value due to the provision of equity or equity-type financing (such as silent partnerships) from liability risks, as well as losses in value from payment obligations or profit transfer agreements. Loans to participating interests form an element of the counterparty default risk.

As part of the non-financial risks, operational risks, closely modelled on the banking regulatory requirements of CRR, are defined as the risk of losses caused by human conduct, process and control weaknesses, technological failures, disasters or external influences. The following significant individual risks are included under operational risks: legal (including general legal risk, compliance risk and conduct risk as well as tax law risk), information security, fraud, personnel, outsourcing, model, (business) process and project risk. As a result of the DKB AG business model, there is a particular focus on information security risks. These risks include the loss of confidentiality of information and the limited availability of systems.

Liquidity risk is defined as the risk that due payment obligations cannot be met in full or on time (insolvency risk) or – in the event of a liquidity crisis – that refinancing funds can only be obtained at higher market rates (liquidity price increase risk). In the context of risk-bearing capacity, liquidity price increase risks are considered together with reputation risks.

The way in which stakeholders perceive the competence, performance, integrity and trustworthiness of the bank leads to and describes the reputation. Reputational risk is defined as the risk that negative public criticism or the bank's own negative image, both externally and internally, could lead to a loss of reputation from the point of view of the stakeholders and cause financial losses for the bank. Reputation risks exist, in particular, in the context of unexpected outflows of customer deposits, as well as the consequence of a massive loss of trust in the bank's creditworthiness or IT security with impacts on liquidity holdings and refinancing costs.

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

Risk-bearing capacity and stress testing

Risk-bearing capacity

The analysis of risk-bearing capacity as part of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) are key components of overall bank management.

The risk-bearing capacity in the ICAAP is considered to be ensured if the available capital is sufficient in both the normative and economic management cycle to cover risks from the underlying transactions. By actively managing the risk-bearing capacity, 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. In line with the conservative corporate policy, complete depletion of the risk cover funds should be virtually ruled out. For this reason, a high confidence level is taken as the basis for quantifying risks and a safety buffer is maintained for the occurrence of extraordinary events.

Under the normative perspective, the ability to consistently meet the regulatory and supervisory capital requirements relevant to DKB AG is assessed over a three-year period. A management buffer that exceeds regulatory and supervisory capital requirements is taken into account. The assessment is carried out within the framework of multi-year planning and the planning indication calculations using a base scenario and several adverse scenarios. As in the economic perspective, all management-related risks are taken into account in this assessment.

In the internal economic perspective, risk-bearing capacity is assessed on the basis of an economic risk capital amount. The procedures for quantifying the economic risk capital amount are based on a value-at-risk approach or, in determining the increase in liquidity cost risk, on a scenario-based approach. When using the value-at-risk approach, a confidence level of 99.9% and a holding period of one year are assumed. Regulatory procedures are used to quantify investment risks. The risk capital requirements calculated for the individual risk types relevant for management are aggregated additively, i.e. without taking into account diversification effects between the risk types.

The aggregated risk capital requirements are compared with the available coverage capital. The available cover funds are determined using an economic approach. The starting point is the equity according to IFRS held by the DKB Group. In order to take account of the economic approach, equity under IFRS is then adjusted for intangible assets and credit-rating-induced migration gains/losses which have occurred in the loan portfolio.

Under ILAAP, risk-bearing capacity is considered to be adequate if the available liquidity reserve fully covers the liquidity outflows which may occur under stress conditions. For a presentation of the monitoring of liquidity risks please see the section on liquidity risks.

The actual utilisation is reported, among other things, in the monthly risk report.

Stress testing

Within the framework of overarching stress and scenario analyses, the effects of extraordinary but plausible events are analysed for all major risk types. Based on the results of the risk inventory, potential stress scenarios are identified and assessed at least quarterly. In addition to macroeconomic stress scenarios, the programme also includes scenarios based on institution-specific vulnerabilities. One panel (the FSA Panel) estimates the probability of occurrence and the impact of the scenarios on capital and liquidity in a normative and economic perspective. The further treatment of the scenarios depends on the result of this assessment. If the result of this assessment requires the scenarios to be quantified, this is usually performed within the framework of multi-year planning and planning indication calculations. However, if necessary, the calculation cycle is increased for scenarios with a very high probability of occurrence and impact. The results of the stress tests are reported to the Board of Management and, as part of multi-year planning, to the Supervisory Board.

In addition, the potential effects of a severe economic downturn on the level of risk requirements and the available cover funds are determined monthly in the economic perspective. The utilisation in this scenario (ICAAP stress) is reported to the Board of Management and Supervisory Board in the risk report.

Regular sensitivity analyses and risk-type-specific stress tests are carried out in addition to the overarching process and the monthly determination of the effects of a severe economic downturn in the economic perspective.

Inverse stress tests are regularly carried out in addition to conventional stress tests. In a deviation from the conventional stress tests, retrograde scenarios are identified that may put the survival of the DKB Group at risk. Inverse stress tests are carried out for individual risk types as well as across risk types. The quantification as well as the presentation of the stress test results and their analysis take place at least once per year.

For all stress scenarios, the responsibility for quantification and commentary lies with Risk Controlling. The examination of normative risk-bearing capacity is the responsibility of the Finance division, which derives the stress effects based on the information supplied by the persons responsible for the risk types (from the Risk Controlling division). Both perspectives are determined in a mutually consistent manner.

Counterparty default risks

Risk management and monitoring

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

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

Management of the counterparty default risk is a joint task for the commercial banking and back office units. In this process, the CR and Credit Consult divisions assume the back office function and are responsible for risk analysis, assessment and management with regard to risk-related exposures. Furthermore, they bear responsibility for the ongoing creditworthiness and transactions analysis, and give the back office the authority to approve loans. The credit authorisation regulation governs the competencies of the various authorised persons depending on the credit volume to be approved, the client group and the rating category.

The written rules (SfO) contain a matrix for each client group, which sets the framework conditions from a sales and risk perspective for new client acquisition, new business and renewals.

At issuer level, a credit approval and credit valuation process along the lines of the counterparty default risks of the lending business and a limit system ensure that the principle of "no transaction without a limit" is also observed for trading transactions. Depending on the credit rating of the respective issuer, the maximum amount of the limit is determined and broken down into product-specific sub-limits for debtor, issuer, replacement and settlement risks. Risk Controlling monitors compliance with the limits on a daily basis and includes this in the daily and monthly report. If the limits are exceeded, the escalation process in place is activated.

The monthly risk report and the quarterly credit risk report provide information on the development of counterparty default risks.

Risk classification procedure

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

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

The Credit Risk Methodology unit is responsible for maintaining the quality of the systems, the implementation and quality assurance of processes as well as the ongoing maintenance and implementation of recalibrations. The validation of the processes using the above-mentioned analyses is carried out by the Model Validation department. Both departments are part of the Risk Controlling division.

The results of the risk classification procedures are reflected in a master scale.

Collateral management

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

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

Determining the market and loan values for mortgage collateral is crucial for collateral valuation. In the case of real estate to be financed with a loan amount to be secured from €400 thousand (incl. prior charges), a valuation report by an expert in accordance with Section 6 BelWertV [Beleihungswertermittlungsverordnung: German Regulation on the Determination of the Mortgage Lending Value] must always be prepared. For real estate valuation in the retail business, DKB relies on appraisal experts JKT Immobilien GmbH and Value AG, and for the valuation of mortgage lending properties in the agriculture and food customer groups on the appraisal offices of Frank Rixen, Sebastian Krebs and engineering firm Bödecker Agriwert. The expertise of LB Immowert, a subsidiary of BayernLB, is used for the remaining client groups. The plausibility check and determination of the mortgage lending values determined by the appraisers in accordance with Section 6 BelWertV is carried out independently of the market by the Operations & Banking Services division, Real Estate Services. The mortgage lending value proposed by the respective appraiser constitutes the upper mortgage lending value limit. In the case of small loans in accordance with Section 24 BelWertV (loan amount below EUR 400 thousand (including prior charges), a simplified procedure is used to determine the mortgage lending value for residential real estate collateral in Germany. The subsidiary, DKB Service, carries out the determination, plausibility check and calculation of the mortgage lending value pursuant to Section 24 BelWertV.

The civil engineers who work on a decentralised basis are also assigned to the Operations & Banking Services division, Real Estate Services department.

In all commitments, the collateral value for making use of the relief provided by KWG and CRR is determined on the basis of the loan values. For economic (internal) control, the liquidation values are determined on the basis of market values. The appropriateness of the valuations is regularly reviewed when determining the loan value. In addition, exposures are continuously monitored, for example as part of disbursement controls, collateral processing or annual exposure monitoring.

The Board of Management receives reports on the collateral amounts and composition as part of the credit risk report provided by the Risk Office.

Risk concentration and sub-portfolio limits

In order to monitor and limit risk concentrations, the DKB Group has implemented various limit systems. The limits are monitored regularly by Risk Controlling. If limits are exceeded, recommendations for action and measures in accordance with the approved escalation model are implemented. Utilisation of the limits is reported to the Board of Management and the Supervisory Board of DKB AG in the monthly risk report. In addition, the limits are presented in detail in the credit risk limit report on a monthly basis. Unless otherwise agreed, limits require a resolution by DKB's Board of Management.

The limits relate to the gross exposure, i. e. without offsetting collateral provided.

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

The DKB Group also sets client group limits for the respective client groups in the areas of infrastructure, corporate clients, retail clients, individual clients, treasury and non-core business. These limits are derived from the multi-year plan and take the Group-wide industry limits into account.

BayernLB Group has limits in place for business with the public sector for the German states and the federal government. The DKB Group is also granted sub-limits from these.

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

The DKB Group is involved in the BayernLB Group's limit allocation process to manage country risks in the securities portfolio and receives sub-limits accordingly. The utilisation of the sub-limits granted is monitored on a daily basis.

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

Risk concentration and borrower limits

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

New business and increases that exceed or extend the gross limit of a group of related customers (GvK) of EUR 50 million pursuant to Art. 4 (1) no. 39 of the CRR are monitored in order to identify risk concentrations in the DKB Group at an early stage. For exposures with a gross limit of at least EUR 400 million at the level of the BayernLB Group, the limits and sub-limits are allocated by BayernLB. The utilisation of the sub-limits is checked daily. If limits are exceeded, escalation measures are initiated.

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

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

Project financing for the "environmental technology" client group is excluded from the internal cluster management. On the basis of the gross client limit, this group of related clients has an exposure ceiling of EUR 350 million. In justified exceptional cases, credit approvals above this limit may only be granted with the approval of the Board of Management and the risk committee in accordance with the credit authorisation regulation. Limits are monitored quarterly by Risk Controlling.

Management of problematic exposures

The DKB Group links the risk management of impending or actual problematic commitments to the rating and the rating-independent early risk identification process. Loan exposures whose deteriorated creditworthiness and/or liquidity require special monitoring are divided into exposures for intensive support (rating 10–12) and problem loan support (rating 13–18) or transferred to these forms of support by exercising a drawing right. The client service units receive a monthly summary of the relevant commitments from the Credit Consult division, which is responsible for the methodology in accordance with MaRisk for the above-mentioned forms of support.

Rating class	Form of support	Independent responsible unit (normal case)
1–9	Normal support	
10–12	Intensive support	Credit risk and portfolio management (CR)
13–15	Problem loan monitoring	
16–18	Problem loan monitoring	Credit Consult (CC)

The responsibility for supporting commitments requiring intensive support remains within the customer service units. They draw up an exposure strategy within the framework of the specifications defined by the Credit Consult division and implement it by means of exposure-specific measures. In these cases, the CR division then provides the second approval (back office) required in accordance with MaRisk. The CR division is granted a drawing right for exposures with a credit rating of 1–9 (drawing right intensive support), the exercise of which involves shifting the competences of the market to those of the 10–12 credit rating category and the market agreeing individual measures, reporting and deadlines with the CR division.

In accordance with MaRisk, the Credit Consult division is also responsible for all decisions relating to problem loan exposures (rating class 13 and above) and for defining strategies. The Credit Consult division is also granted a drawing right (drawing right problem loan support) irrespective of the rating.

Early risk detection

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

This guideline supplements the Credit Policy guideline, the Risk Strategy guideline, the Problem Exposure guideline and the principles of the DKB Group's lending business. It is supplemented by regulations on risk classification procedures and early risk identification and risk monitoring.

Creation of loan loss provisions

The risk provisions of the DKB Group are based on the regulations of IFRS 9. The impairment model of IFRS 9 provides for the following 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 impaired creditworthiness ("credit-impaired"), the valuation allowances are measured at the amount of the expected 12-month credit loss.

- 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.

- Level 3/POCI: In the case of a financial asset whose creditworthiness is impaired at the balance sheet date or whose creditworthiness was already impaired at the time of acquisition (POCI), the valuation allowances are measured in the amount of the expected credit losses over the term.

The impairment amount for Level 1 and Level 2 receivables and for Level 3 non-significant receivables (individual loan commitments with a maximum gross exposure of EUR 750 thousand) is determined using parameter-based models. For significant Level 3 receivables (individual loan commitments with a gross exposure of over EUR 750 thousand), risk provisions are determined on the basis of expert estimates of expected recoveries (discounted cash flow method).

Risk provisioning at DKB AG is based on the provisions of the German Commercial Code, which distinguishes between portfolio-based allowances and specific allowances:

- Portfolio-based valuation allowances: if a financial instrument is acquired and there is no impaired creditworthiness ("credit-impaired"), the valuation allowances are measured at the amount of the expected 12-month credit loss. Valuation adjustments are calculated using parameter-based models.

- Specific valuation allowances: 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 valuation allowance is determined in accordance with the Level 3 method under IFRS 9.

Risk measurement

Value at risk at portfolio level is determined using a simulative credit portfolio model which quantifies migration and default risks with a horizon of one year and a confidence level of 99.9%. Dependencies between the borrowers in the portfolio are quantified using an industry-specific sector model. Finally, uncertainties are also taken into account when determining loss ratios. The risk contributions of the individual business partners to the value at risk of the overall portfolio are determined for the purposes of risk analysis.

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

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

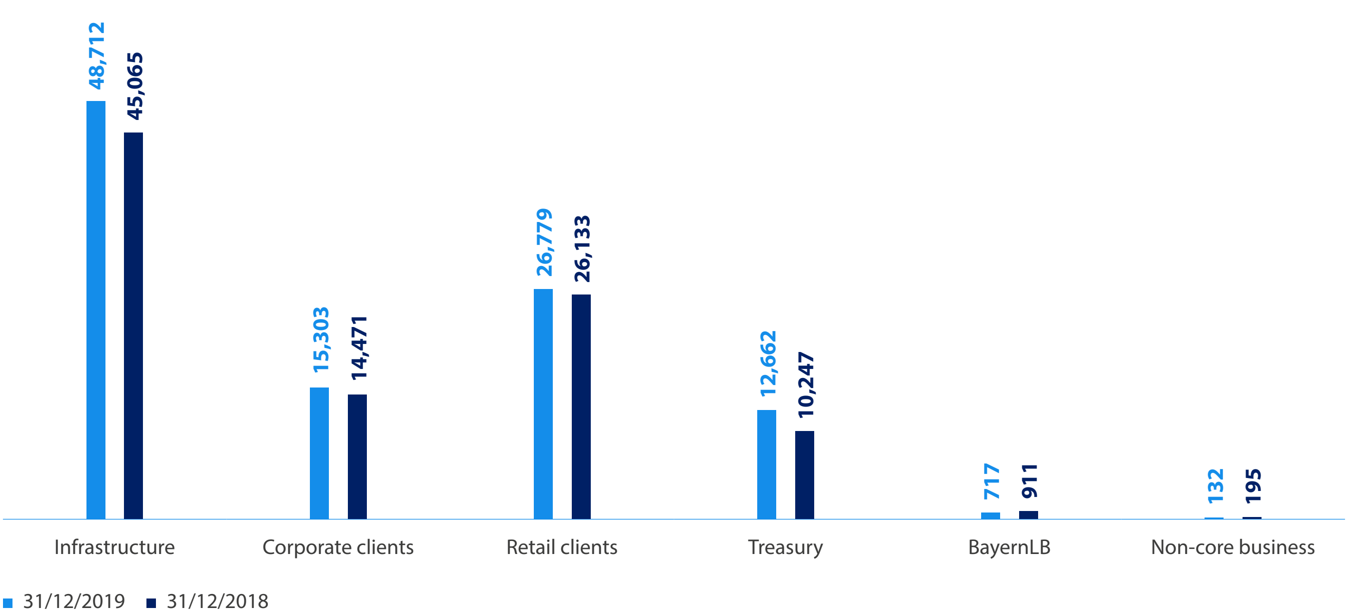
Development of the risk situation

The development of the risk situation is presented based on the business fields of the DKB Group. The transactions of the Treasury division, including intra-Group refinancing with BayernLB, are part of the financial markets segment.

Gross exposure increased by EUR 7.3 billion to EUR 104.3 billion in the reporting year (31 December 2018: EUR 97.0 billion). Broken down by the DKB Group's business fields, the following picture emerges:

Gross exposure by business segment

in EUR million



The gross exposure is offset by collateral of EUR 34.4 billion (31 December 2018: EUR 37.0 billion), resulting in a net exposure of EUR 70.0 billion (31 December 2018: EUR 60.0 billion).

The increase in gross exposure is mainly the result of growth in customer business in the infrastructure and corporate clients business segments in line with the bank's strategy, as well as the increase in the liquidity holdings. The reduction of the non-core business was continued.

The significant growth in gross exposure in the infrastructure business segment to EUR 48.7 billion (31 December 2018: EUR 45.1 billion) was mainly due to business in the housing client group and with municipal clients. The client group of Group subsidiaries, which was still reported separately as at 31 December 2018, has been allocated to the infrastructure business segment since the 2019 financial year. The comparative figure as at 31 December 2018 was adjusted accordingly.

At EUR 15.3 billion, gross exposure in the corporate clients business segment was above the previous year's level (31 December 2018: EUR 14.5 billion). The tangible increase is dominated above all by the environmental technology and agriculture & food customer groups.

In the retail clients business segment, gross exposure increased by EUR 0.7 billion to EUR 26.8 billion compared to the previous year. The increase is due to further growth in the DKB-Cash product package and in private loans.

As at 31 December 2019, receivables from BayernLB amounted to EUR 0.7 billion (31 December 2018: EUR 0.9 billion).

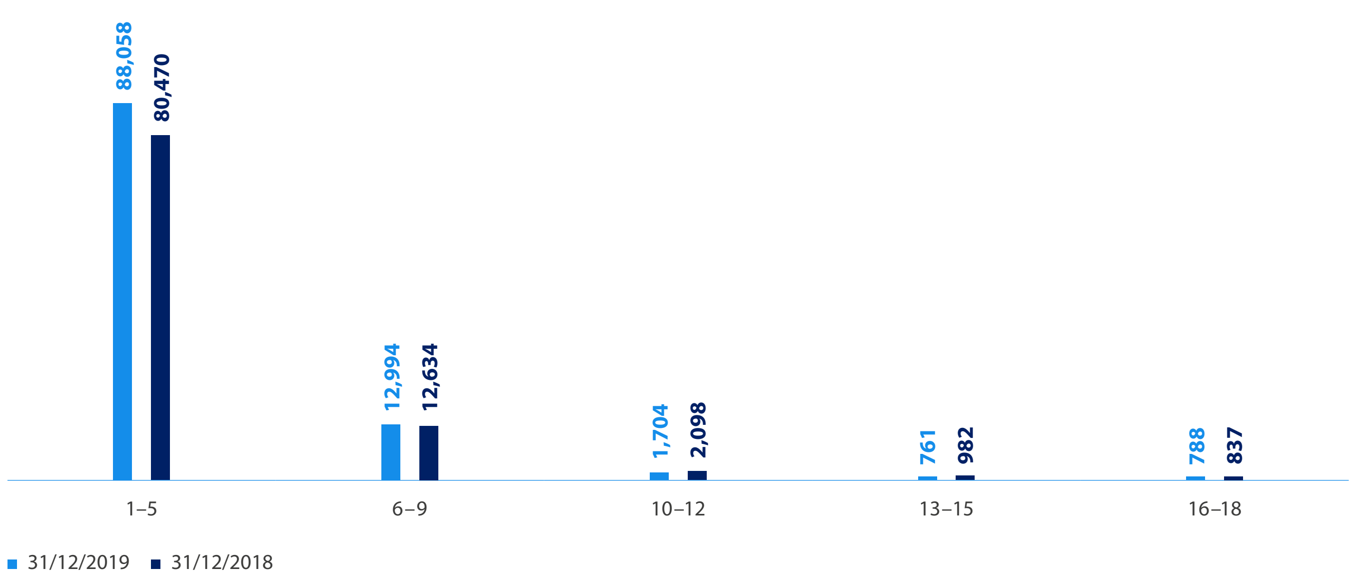
The Treasury division mainly comprises DKB AG's securities portfolio and business with institutional clients. The increase in the gross exposure by EUR 2.4 billion to EUR 12.7 billion reflects in particular the increase in the liquidity holdings, which was boosted by growth in customer deposits.

In addition to bonds issued by domestic and eurozone governments with first-class credit ratings, the securities portfolio primarily comprises bonds issued by supranational issuers and development banks.

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

Gross exposure by rating class

in EUR million



The quality of the portfolio improved noticeably further during the course of the year. The investment-grade share, i.e. the share in positions with ratings in classes 1 to 5, increased to 84.4% (31 December 2018: 82.9%).

The average probability of default in the portfolio reduced significantly to 0.41% (31 December 2018: 0.48%). The overall portfolio thus improved from grade 6 to grade 5 in the investment-grade range. The proportion of defaulting exposures (rating classes 16–18) has declined noticeably compared with the previous year and stands at 0.8% as of 31 December 2019 (0.9% as of 31 December 2018).

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

As at 31 December 2019, 29 groups of related clients pursuant to Article 4 (1) no. 39 CRR were identified as cluster commitments.

As of 31 December 2019, two clients in the environmental technology customer group exceeded the maximum exposure limit of EUR 350 million.

Investment risks

In order to supplement and round off the products and services for the client groups defined in accordance with the bank's strategy, as well as to provide internal services for the DKB Group, DKB AG in principle holds strategic investments with the objective of optimising vertical integration, expanding the product and service areas of DKB AG, developing existing sources of revenue and capturing new sources of revenue. The investment strategy governs the principles for entering into equity risks and risks from equity-like financing.

Here, DKB AG aims to generate appropriate and sustainable profitability according to risk for all participations (except for restructuring companies). Activities related to dealing with the legacy business of construction management companies and the comprehensive winding up of the remaining business activities still in the companies is consistently carried out by the restructuring companies. The reduction is being driven forward with the objective of avoiding asset losses.

The Legal and Management Staff division as well as the Non-Financial Risk division are responsible for the continuous monitoring and control of shareholder risks. In contrast to the monitoring of investment risks, the monitoring of credit risks from loans granted to subsidiaries is the responsibility of the CR and Risk Controlling divisions.

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

In its strategic participations, DKB AG strives to set the strategic direction in line with the current business strategy and multi-year planning as well as the risk strategy of the DKB Group. This generally takes place by acquiring majority shareholdings. Furthermore, it is possible to influence the business and risk policies of the investee companies by taking appropriate measures (articles of association, rules of procedure, membership of supervisory bodies, etc.) or by concluding appropriate inter-company agreements.

The impacts that investment risks have on the risk-bearing capacity are detailed in the monthly reports by Risk Controlling. In addition, the Legal and Management Staff division reports regularly to the Board of Management. It prepares a quarterly report on the participations. Furthermore, the Supervisory Board is given an annual participation report for their information. The Supervisory Board also receives information on the current participation topics at its regular meetings. The Board of Management is promptly informed of any matters relating to the participations.

For the investment portfolio, the risk capital requirement is calculated using the risk weighting method based on the probability of default in accordance with Art. 155 of the CRR.

The limits for the risk capital are calculated as part of the annual risk capital allocation process.

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

Market price risks

Risk management and monitoring

At the DKB Group, market price risks arise exclusively from the investment book. The market price risk comprises the following sub-risks: interest rate risks, credit spread risks, equity risks, volatility and foreign currency risks as well as market liquidity risks. Currency risks are essentially only entered into in connection with strategic investments. In addition, the rule applies that no open foreign currency positions are held and that foreign currency risks entered into in client business are concluded by means of counter-trade transactions. Implicit options from termination rights and interest limitation agreements are also taken into account when measuring the interest rate risk of the banking book.

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

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

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

In order to monitor the market price risks, the DKB Group has implemented a limit system based on value at risk (VaR) consistent with the risk-bearing capacity calculation. The VaR for market price risks is calculated on the basis of a historical simulation with a holding period of one day and a confidence level of 99%. To determine the economic risk capital requirement, this figure is then scaled to a confidence level of 99.9% and a uniform holding period of 250 days. All the positions bearing market price risks are included in the determination of the VaR. Interest rate, credit spread, share and foreign currency risks are taken into account in the calculation. The market liquidity risk is implicitly considered over a holding period of 250 trading days. In addition, for custody account A (securities business), a separate, correlated VaR is determined as a portion of the overall portfolio that takes into account the interest rate, credit spread and share risks in the securities portfolio. There are no foreign currency risks in the securities portfolio.

In addition to the present value consideration of the interest rate risk, the net interest income risk (NIIR) and the earnings at risk (EaR) are used to determine an earnings perspective. The change in interest-sensitive items in the income statement is examined under various interest rate scenarios and on the basis of defined business developments over an observation period of the next 12 months.

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

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

A key control parameter for the stress-testing programme carried out by the DKB Group is the interest rate risk coefficient in accordance with BaFin (Federal Financial Supervisory Authority) circular 06/2019. In these six regulatory scenarios, which differ in the amount of the interest rate shifts to be used, the maximum present value loss in the investment book is limited to 20% of the regulatory capital of DKB AG.

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

In daily reporting, the division heads of Treasury and Risk Controlling are informed about the VaR for trading transactions, the performance of custody account A and compliance with the limit for risk capital requirements.

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

All stress tests are validated and the model maintained once per year or as required.

Change in market price risks at the overall banking level

The interest rate risk in the event of a sudden and unexpected change in interest rates (as per BaFin circular 06/2019) amounted to EUR 470 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 12.1% (31 December 2017: 10.7%). The relevant net present value loss for this scenario is the largest amount resulting from the six regulatory scenarios. Compared to the previous year, the relevant net present value loss rose by almost EUR 80 million, in particular due to new loan business. The lowest relevant cash value loss was EUR 267 million in May and the highest EUR 615 million in December. The relevant loss in present value in 2019 was due to the scenario of a sudden and unexpected rise in interest rates of +200 bp.

The risk capital requirement for the total market price risk of EUR 473 million changed tangibly compared with 31 December 2018 (EUR 318 million). The significant charges on new lending business were only partially offset by increases in customer deposits, the conclusion of payer swaps and the issue of bonds. The highest risk capital requirement of EUR 501 million was reached in December 2019 and the lowest value of EUR 154 million in September 2019.

Development of market price risks from the securities business

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

The DKB Group's nominal bond portfolio (excluding own issues) dropped slightly to EUR 5.8 billion in financial year 2019 (31 December 2018: EUR 6.1 billion). The bond portfolio primarily relates to liquidity holdings required by the regulator, which ensures that securities that are eligible for rediscount with the central bank and securities that are quickly realisable on private markets immediately and without value losses are available at all times.

Compared to 31 December 2018, the risk capital requirement for custody account A decreased significantly from EUR 251 million to EUR 183 million as of 31 December 2019.

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.

Liquidity risks

Risk management and monitoring

The Board of Management bears the overall responsibility for measuring and controlling liquidity risks. It is informed of the liquidity situation at the weekly meetings of the Board of Management and when defined events occur, and also when the need arises, and uses this information to derive measures for fine-tuning liquidity risks or requests the responsible divisions to implement them. The Asset Liability Committee (ALCO) consists of the Board of Management and the heads of Treasury and Risk Controlling, and monitors the strategic liquidity situation based on the risk reports and liquidity status presented, and elaborates medium and long-term control measures. In addition, an emergency committee has been formed in which, in addition to ALCO, the heads of the Corporate Development, Legal and Management Staff divisions are represented. It meets in the case of a liquidity emergency, decides measures to deal with the emergency and monitors their execution.

To ensure uniform management, BayernLB has provided the DKB Group with a substantive and organisational framework for dealing with liquidity risks in the form of guidelines. These guidelines in relation to controlling the liquidity risk have been incorporated into the bank's regulations via the sub-risk strategy for liquidity risks, as well as via the Liquidity Policy, the Liquidity Contingency Plan and the Funding Policy. Here, the sub-risk strategy governs the substantive and organisational framework for handling the existing liquidity risks. These framework conditions are then specified and described in detail in the Liquidity Policy. The organisational framework for the event of a liquidity crisis or liquidity emergency is set out in the liquidity contingency plan. The Funding Policy governs the refinancing principles and processes.

The DKB Group has set out the nature and scope of the management system for liquidity risks in the Liquidity Policy. Besides the organisational structure and division of responsibilities, it also governs the risk measurement, limits, reporting and liquidity management within the DKB Group. This includes, on the one hand, the normative perspective with the regulatory reports (including the LCR and the asset encumbrance report) and, on the other, the economic perspective with the liquidity maturity statement and the intraday liquidity risk. In addition to presenting the risk management system, the Liquidity Policy defines the term "contingency". The liquidity contingency is described in more detail in the Liquidity Contingency Plan, in which, for instance, the composition of the emergency committee, including function and competencies, as well as the procedure and communication channels in an emergency, are defined and possible courses of action are prepared.

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

Risk Controlling carries out independent risk measurement, monitoring and reporting, and escalates any limit breaches.

Liquidity overviews are prepared daily for the purposes of managing the liquidity situation in the short term. The Board of Management decides on the short-term and strategic orientation of liquidity management and key individual requirements, for example on the basis of an annual funding plan. The liquidity overviews are also used at least once a month as a basis for analyses of the assets side, the diversification of the liabilities side and the development of the liquidity coverage potential.

The liquidity situation is monitored at the economic and normative level. The DKB Group has implemented various limit systems that are linked to the different escalation levels for this purpose. The escalation models ensure that undesired changes in the liquidity position of the DKB Group can be countered early on. In addition, intraday liquidity is monitored in accordance with the BCBS-248 key figures.

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

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

The management case represents a scenario in a slightly stressed market and client environment, and considers a period of five years. In addition, the expected new business is derived from the most recent data history and included for the observation period of the next three months. The planning case is based on the management case. Here, the cash flows of the management case are extended to include new business from medium-term planning with a planning horizon of five years. The management case is calculated daily and the planning case monthly.

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

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

MaRisk specifies the time horizons for a week and a month for which liquidatable assets are to be held. Accordingly, the liquidity coverage potential is determined, which can be liquidated within one week (LDP0) or one month (LDP1). To determine the escalation level, the minimum liquidity leeway is determined for both time horizons on the basis of LDP0 or LDP1. The liquidity leeway is defined by how far the liquidity surplus is from the relevant applicable limit. In addition, the time-to-wall, i.e. the earliest time at which the respective liquidity coverage potential is not adequate to meet the net payment obligations of the scenario, is determined with reference to LDP0 and LDP1.

The minimum liquidity leeway in the respective horizon under consideration is crucial for allocation to an escalation level. Besides these quantitative criteria, each member of the emergency committee can also declare a higher liquidity status, for example if a changed market environment justifies this in the view of the member.

To manage the quantitative requirements of the liquidity coverage ratio (LCR), the DKB Group has a limit system with escalation levels, to which recommendations for action and responsibilities are linked depending on the forecast of liquidity development for the next reporting date and the defined limit values for liquidity availability, and which is reported to the Board of Management on a monthly basis. The Reporting and Regulatory Law unit in the Finances division is responsible for monitoring the escalation model for regulatory liquidity management (LCR).

Refinancing sources

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 liquidity requirements in a stress case are also taken into account.

The DKB Group refinances itself primarily from customer deposits, the development banking business and the issue of capital market products. Customer deposits represent more than half of the refinancing base and, due to the high number of clients, in particular in the retail clients and infrastructure segments, are very granular. Deposits increased by EUR 6.4 billion in the reporting period. The total volume of client deposits now amounts to EUR 60.8 billion (31 December 2018: EUR 54.4 billion). This allowed DKB's fundamental strategy, of refinancing the net new business in the area of client loans largely with client deposits, to be successfully implemented once more. The high proportion of deposit business makes the DKB Group significantly less sensitive to disruptions on the money and capital markets.

In addition to client deposits, subsidies represent another important pillar of refinancing. In 2019, new programme loans with a volume of EUR 1.6 billion (31 December 2018: EUR 1.3 billion) were agreed. Total transit and global loans amounted to approximately EUR 12.3 billion at the end of 2019 (31 December 2018: EUR 12.4 billion).

DKB AG has the option of issuing uncovered bonds and Pfandbriefs in a benchmark or private placement format in order to raise medium- and long-term refinancing funds. In the year under review, Pfandbriefs with a volume of EUR 614.8 million were placed. Most of the issuing activity was attributable to the issue of the first blue social covered bond (Blauer Sozialer Öffentlicher Pfandbrief) of DKB AG with a volume of EUR 500 million. The capital market issues have a diversifying effect on the refinancing structure and demonstrate access to the capital market at all times. The rating agency Moody's continued to rate DKB AG's public sector and mortgage Pfandbriefs at "Aaa". The outstanding unsecured bonds of DKB AG were rated at "A2".

If necessary, the interbank money market is used for short-term refinancing and liquidity management/optimisation.

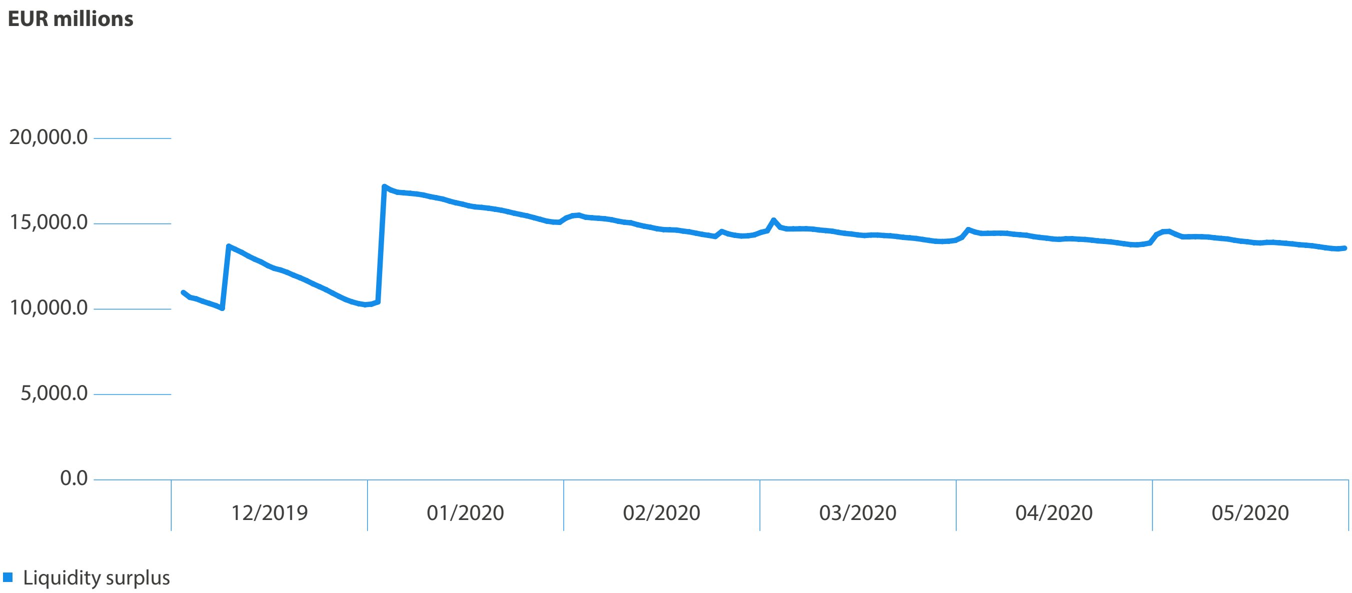
The nominal value of the securities in the liquidity portfolio decreased to EUR 5.8 billion in the course of the year. As a component of the counter-balancing capacity, it contributes to increasing the risk resistance in unexpected stress situations.

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

Development of the risk situation

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

DKB AG's liquidity overview as at 31 December 2019 has the following structure in the management case for the next 180 days:



The strategic liquidity management is carried out with the help of a 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 9.9 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. Besides the effects of a market liquidity crisis, the rapid outflow of funds in the important retail client and infrastructure segments, as well as combinations of stress events, are considered in other scenarios. The minimum liquidity surplus for the next 180 days is EUR 7.7 billion in a worst-case scenario (combination of market and retail client stress).

Operational risks

Risk management and monitoring

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

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

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

Recording loss data allows loss events to be identified, analysed and assessed so that patterns, trends and concentrations of operational risks can be identified. Based on a defined loss reporting process, loss events with a booked and/or estimated gross amount starting at EUR 500 are reported by the organisational units of DKB AG and DKB Service GmbH to the Non-Financial Risk division and recorded in the OpRisk database. Similarly, passive legal disputes with a probability of success from 50% and lost passive legal disputes must be reported. The subsidiaries are also included in the reporting system for recording losses. In addition, all subsidiaries must report losses to DKB AG on an ad-hoc basis. This ad-hoc reporting obligation is applicable throughout the Group.

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

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

In addition to the collection of loss data and the OSA, critical risk indicators (key risk indicators) enable early statements to be made on trends and accumulations in risk development and allow weaknesses in business processes to be identified at an early stage and measures to be adopted without delay. The key risk indicators in the DKB Group are defined, for example, in the respective (sub-)risk strategies.

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

When determining legal risks arising due to or in connection with charges filed against the bank (passive processes), the competent legal unit assesses the risk parameters with respect to their probability of occurrence as well as any potential effects in terms of quantity and quality. Identified legal risks are limited and reduced by legal or procedural measures or taken into account by means of provisions.

To maintain ongoing operations and the security of information and applications, the units of the DKB Group have implemented comprehensive protection measures. The bank has implemented an Information Security Risk Management (ISRM) process to identify and handle information security risks. The information security objectives and strategic approaches are put into operation by means of specific and measurable methods. The success of the measures implemented is reviewed by means of key performance indicators (KPIs). The management and monitoring of IT/information security is performed by the Information Security Officer as part of the Information Security Management System (ISMS).

In addition, the bank manages its risk of operational business continuity in dealing with emergency cases and crises via the Business Continuity Management Strategy (BCM Strategy), which prescribes core processes and measures to continue and restore time-sensitive activities and processes of business operations. The BCM strategy is regularly reviewed to ensure that it is up to date. In addition to the BCM Strategy, emergency plans exist for all time-critical processes, which are regularly tested. In addition, a crisis management team was appointed by the Board of Management, which is authorised to act in emergencies and crises. The crisis team is set up for an indefinite period and consists of heads of central DKB AG divisions and two managing directors of DKB Service. The Board of Management bears overall responsibility for DKB's BCM, in compliance with Group-wide requirements.

The results of this method are fed into the calculation of the amount of risk capital requirement for operational risks. The economic risk capital is calculated using an OpVaR model. The limits for the risk capital are calculated as part of the annual risk capital allocation process.

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

Development of the risk situation

The risk profile is characterised by the Internet-based processes in the retail clients segment. In the first instance, operational risks exist in terms of system availability for seamless settlement of all transactions, disruption of the bank's client access due to external influences, the security of data from unauthorised access, account opening or credit fraud with falsified documents and fraud with electronic payment means. In addition to direct financial losses, the occurrence of such risks can also result in a change in the public perception of DKB AG and thus lead to reputational risks. These can have an indirect negative impact on the liquidity situation (withdrawal of deposits) and the continued achievement of the business objectives of DKB (acquisition of new clients).

At the beginning of January 2020, there was a prolonged disruption to system availability. This disruption was triggered by a third-party attack on DKB's service provider for its servers. This temporarily compromised or disrupted the availability of DKB's website and client access to Internet banking. Measures to remedy these issues were initiated shortly after they were identified. In a parallel process, the possible effects on the reputation and liquidity situation of DKB AG were analysed. No negative effects have been observed to date.

The losses incurred in 2019 due to operational risks, after implementation of measures to reduce losses, decreased significantly compared to the previous year and, as at the reporting date, amounted to around EUR 8.4 million (31 December 2018: EUR 15.0 million).

Internal control system in relation to the accounting process

Objectives and organisation

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

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

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

In addition to largely standardised processes and software, adequate instructions for core activities and processes are set out in our organisational structure. In addition, the "two pairs of eyes" principle is obligatory for large business transactions.

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

The internal audit department audits the entire business operations and thus also our internal control system relating to the accounting process. The internal audit department reports to the Chair of the Board of Management. The audit activity is based on a risk-oriented audit approach and comprises all the relevant activities and processes of DKB, including the outsourced activities.

It includes a review of the effectiveness and appropriateness of the internal control system and risk management. Internal audit carries out its task independently of the activities, processes and functions to be audited, taking into account the relevant applicable legal and regulatory requirements. In order to be able to carry out its duties, internal audit has a full and unrestricted right to information on activities, processes and the IT systems.

Control environment and control procedures

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

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

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

We have outsourced part of our services, mainly IT services, services relating to securities settlements and the credit card business, to external companies. The integration of the outsourced areas into our accounting-relevant internal control system is largely ensured by the outsourcing officers, who are responsible for the ongoing monitoring of the respective external service provider. Besides the internal audit departments of the outsourced companies, the outsourcing measures are audited by the internal audit unit of DKB AG at regular intervals.

Opportunities report

Opportunities profile and opportunities management

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

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

The management of opportunities is linked to company management

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

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

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

Current opportunities situation

The macroeconomic circumstances may develop better than expected: low interest rates and greater trust from consumers and market participants could result in a significant upturn. In the retail clients business, rising consumer trust could result in increased demand for consumer credit and an increase in the achievable margins in the retail clients segment. A broad-based upturn would stimulate companies' investment activities and create a corresponding demand for loans in the infrastructure and corporate clients segments. This could lead to an unexpectedly sharp increase in our interest income.

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

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

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

The trend of competitors introducing or raising account management fees could develop more strongly. This would result in a sharp increase in the number of people switching their accounts from traditional branch banking to online banking. Given the above, the number of new clients in the retail clients segment could develop particularly favourably. We consider the likelihood of this to be high, but are prepared for a possible increase in new client applications.

The advancing digitisation offers opportunities for increasing efficiency. In business with retail clients, mobile banking and mobile payment as well as the use of artificial intelligence will continue to gain in importance.

The increase in new market participants such as fintechs and financial service providers helped by digitisation offers the opportunity for cooperations in order to deploy highly technical, innovative solutions and new technologies and thus improve our market position. We are suitably positioned to take advantage of these opportunities.

We plan to draw efficiency gains from the continuing digitisation of our processes in the medium term. These could occur earlier than expected, in particular in the digitisation of our lending process, which simplifies the work processes and frees up capacities for other activities. This could have either a positive or moderating effect on our administrative expense. We believe that there is a moderate chance of efficiency gains occurring at an earlier stage.

In the course of the increasing sustainable focus of market participants, investor interest in sustainable financial offers could increase sharply. Based on our excellent reputation in this field, which has been further strengthened by the issuance of two green bonds, a social bond, a retail social bond and a blue social bond in 2019, demand for our services could grow at a higher rate than expected. In addition, there are numerous European and international initiatives for the political and regulatory promotion of sustainable business models. Examples include the EU Commission's High-Level Expert Group on Sustainable Finance (HLEG), which published its sustainability taxonomy in 2019, and the Task Force for Climate-related Financial Disclosures (TCFD), which, within the framework of the Financial Stability Board, has made extensive suggestions for the further development of transparency regulations. Should these proposals lead to concrete political or regulatory measures to support sustainable lending business, this could be advantageous for us. The probability of this scenario occurring is considered to be moderate. However, should the opportunities arise, we will be in a position to take advantage of them.

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

Report on expected developments

Expected developments in the business environment

Global problem areas such as the trade war between China and the USA, Brexit and the escalation of the conflict between the United States and Iran, which has been underway since the beginning of 2020, are further clouding the outlook for the global economy. Economic experts from the OECD (Organisation for Economic Co-operation and Development) therefore expect the economy to remain relatively moderate in 2020.

In Germany itself, the Federal Ministry of Economics and Energy forecasts that private consumer spending will fall by 0.3% if the unemployment rate remains unchanged.

ECB maintains its low interest rate policy

The ECB presented a catalogue of measures as early as September 2019, thereby pursuing the goal of continuing a highly expansive monetary policy for a longer period of time and thereby raising the inflation rate. In view of the widely differing interest rate trends – both within the euro area and in comparison with Europe and the USA – we continue to expect volatile bond and stock markets.

Inflation rate to temporarily fall slightly

According to the Bundesbank's forecast, the inflation rate is expected to fall a little further in 2020. The reason for this is falling energy prices. The core inflation rate (excluding energy and food) will maintain the current level and is expected to rise slightly in 2022 due to the overall robust wage growth, rising import prices and recovering profit margins.

The headline inflation rate could initially fall slightly in 2020 for a short time. Against the background of the German government's climate package, a significant increase in the inflation rate in Germany is expected from 2021 onwards.

The real estate market remains under pressure. The prices for owner-occupied apartments and detached and semi-detached houses are expected to continue to rise. The low interest rate environment favours this upward trend. In terms of rents, the situation has recently calmed down somewhat, with new-contract rents, at least, stagnating or even falling slightly, partly due to rent control. Nevertheless, tenants today pay on average almost 20% more rent than ten years ago.

Expected development of the banking market

In the banking environment, further consolidation is expected, as well as an increased introduction or increase in fees. Neobanks are expected to continue to show considerable growth momentum and big-techs will increasingly penetrate the banking business. Nevertheless, these business relationships must also be profitable.

A differentiator for acquiring new clients on the market can be achieved by innovative product design and the integration of third-party providers with innovative products and services. Added to this is the constant trend towards climate-conscious and sustainable action, which is further increased by movements such as "Fridays for Future". Against this background, sustainable financial products will play an increasingly important role. Policy makers, regulators and supervisors have long recognised that climate change entails significant financial risks and that the financial sector therefore plays an important role in achieving the objectives of the Paris Climate Convention.

For example, the EU Commission published new guidelines for reporting climate-related corporate information as part of its Sustainable Finance Programme 2019. These guidelines provide investors and financiers with information on how sustainable their investments are. We therefore believe that the demand for green bonds and sustainable investments will increase significantly in years to come. In this context, our sustainable orientation and the increased communications focus in this regard create growth potential that can be effectively exploited.

Consumers increasingly prefer contactless and mobile payment methods. The momentum in the payment transactions market will continue to grow in the future, driven by the introduction of mobile payment solutions by most financial institutions and savings banks. Despite the increasing importance of non-cash means of payment, consumers want to be able to continue to pay with cash in the future.

As in previous years, there are numerous factors that make it difficult to assess further economic development. For this reason, the following statements on the expected development of the Group are made under the proviso that the underlying political and economic conditions do not change significantly.

Brexit

In June 2016, the United Kingdom decided to withdraw from the European Union in a referendum (Brexit). The withdrawal process was subsequently initiated and on 31 January 2020 the United Kingdom withdrew from the European Union. What the cooperation between the United Kingdom and the EU will look like in the future has yet to be negotiated. The aim is to conclude a comprehensive trade and partnership agreement by the end of 2020. Until then, the United Kingdom will remain in the EU single market and customs union during a transition phase until the end of 2020. If no agreement is reached by the end of the year, there would still be a "no-deal Brexit".

We have considered the effects of a possible no-deal Brexit and see only a minor impact on our risk and earnings position, primarily due to our business activities being focused on Germany. In addition, we are focusing on non-cyclical and sustainable target industries and also have a highly diversified loan portfolio, which also reduces the impact of a disorderly Brexit.

Expected growth within the Group

DKB Group	Actual 2019	Forecast 2020
Net interest income	EUR 950.5 million	**At the level of 2019** We expect net interest income to remain at the level of 2019. The fundamentally positive development due to growth in the market segments is offset by burdens from the ongoing low interest phase.
Risk result	–EUR 55.9 million	**Significantly higher than 2019** In view of the moderate economic outlook, we expect a risk result of between –EUR 80 million and –EUR 100 million.
Profit/loss before taxes	EUR 297.8 million	**Reduction due to investments** We anticipate stable earnings in the client business. Mainly due to further investments in digitisation and improvements of internal processes, earnings before taxes are expected to be up to EUR 100 million below that of 2019.
Total assets	EUR 83.8 billion	**Growth at the level of 2019** Based on the growth we are planning in the market segments, we anticipate an increase of a similar magnitude to 2019.
ROE	9.5%	**Between 6% and 7%** In line with the development of earnings, we expect a reduction in ROE.
CIR	56.7%	**Increase of 5 to 10 percentage points** The investments have a positive effect on the CIR.

DKB AG	Actual 2019	Forecast 2020
Net profit before profit transfer	EUR 230.7 million	We expect a significantly lower net profit before profit transfer compared to 2019.

Expected developments in the segments

Segments	Actual 2019	Forecast 2020
Retail clients	New clients: 443,000 Receivables volume: EUR 12.8 billion	New clients: more than 450,000 Receivables volume: Growth of approx. EUR 2 billion
Infrastructure	Receivables volume: EUR 43.0 billion	Receivables volume: Growth of approx. EUR 2 billion
Corporate clients	Receivables volume: EUR 13.5 billion	Receivables volume: slightly above 2019
Deposit volumes in the client segments	EUR 57.2 billion	In line with the growth in receivables

Retail clients segment: focus on client needs

In the retail clients segment, we will continue to consistently align our Strategy 2020 with client needs. The aim is to maintain our receivables volume at the previous year's level, while we expect a continuous increase in the deposit volume, in line with the market and interest rate environment.

We are investing an additional EUR 400 million over the next few years to accelerate our growth and transformation into a tech bank. Within the new overall Group strategy of Bayerische Landesbank, which is designed to run for five years, DKB is to continue to be a key growth driver for the Group as a whole and significantly expand its market position in Germany. In doing so, we aim to double our client base and invest in the necessary further developments at market and organisational level. Investments will be made primarily in core products, scalability and automation in order to achieve future growth targets.

We anticipate that primary growth via our anchor product DKB-Cash will accelerate in the coming year. As part of our digitisation strategy, we also plan to implement new customer added value in the area of credit cards and payment. In the product areas of personal loans and mortgage lending, the application process will be considerably simplified, adapted even more specifically to client needs and digitally accelerated.

In addition, the successful issues of sustainable bonds and funds for retail clients have encouraged us to continue along this path and to push ahead with the expansion of the securities business in 2020. We will also continue to digitise the broker process in order to optimise the customer experience in the long term.

Mobile banking will have a modern, flexible user interface and the user guidance will be more intuitive. In order to make innovative products available more quickly in the future, we will develop a central technical interface (API) for third-party services in 2020 to significantly simplify the linking of third-party providers. The aim is to create clear added value for our clients through a versatile and digital product experience.

In addition to investing in technology and products, we will start to make our customer service fit for the future in 2020 and further improve it in terms of process quality and infrastructure.

Infrastructure segment: favourable underlying conditions

On the basis of our business model, we anticipate that the conditions for the lending business in the infrastructure segment will remain favourable in 2020. We especially see growth potential in the old federal states, and anticipate high investment activity in housing construction in particular. Due to the subdued economic and interest rate forecasts, many public-sector budgets are caught between the "debt brake" and the "ideal interest rate environment".

Overall, however, the market remains highly competitive, a situation that is being further accelerated by digitisation and the further establishment of the platform business. On our way to becoming a tech bank, we are working in particular on the digitisation of internal processes to increase efficiency and quality.

The interest rate situation, economic development and public investment will remain key factors in 2020 and will influence our business development in the infrastructure sector.

We continue to expect a positive environment with growth potential in the local authorities and social infrastructure client groups. The expansion of the public and social infrastructure will continue to be driven forward by both local authorities and social economy organisations. Nevertheless, due to their different financial resources, which vary from region to region, local authorities will not all be able to invest equally strongly in infrastructure measures.

Digitisation and its implementation, along with the creation of sufficient living space, will be one of the key challenges facing local authorities and the social economy. Digital platforms will also play an important role here. Thanks to our stake in Loanboox, we are well prepared to respond to the needs of this client group.

The shortage of skilled workers in the health and education sectors continues to increase. The competition for qualified specialists will continue to intensify. The problem is likely to become even more acute in rural regions in particular.

In the energy and utilities segment, we continue to expect stable, low-risk development in the industry. The investment requirements of target clients to ensure the stability of supply and waste disposal remain very high. Against this backdrop, we expect to see a larger volume of new lending business, particularly as a result of greater market penetration in the old federal states. Our aim is to compensate for the high repayments expected.

Due to the continuing high demand for real estate and new residential construction, which is being driven by politics and the current interest rate situation, we believe that the development of this area will be positive in 2020. Demographic change and internal migration are driving the need for new construction in the metropolitan areas and needs-based adjustments to existing housing. The effects of regulatory market interventions, such as the rent cap, among others, remain to be seen.

However, liquidity surpluses in the financial market also fuel competition, in which companies outside the banking sector also participate. As fewer and fewer properties are available in so-called A locations, a continued shift to properties in B and C locations is expected.

Due to the ECB's continued low interest rate policy, our client group of administrators will continue to find themselves in a liquid market environment in which a lot of capital flows into real estate. However, the issues of rent control, rent caps and property taxes will influence the further development of this segment. It also remains to be seen whether the federal government's efforts to facilitate access to home ownership through financial incentives such as the child allowance for families building a house, housing construction subsidies and guarantee programmes will have a positive impact on the number of owner-occupied dwellings in the future.

In addition, digitisation, energy system transformation and e-mobility remain important issues for the property management industry.

In the area of civic participation, we expect an increasing number of enquiries for civic participation products and solutions in the future. "Fridays for Future" and other movements interpret climate change as a human task of future importance, with renewable energies as a key tool for coping with it. In this context, the protagonists are also confronting the banks with clear expectations with regard to the financing and support of renewable energy projects. The implementation of climate protection projects presupposes acceptance by the population, which can be achieved or strengthened through public participation. With the DKB-Crowd investment platform, the projects, which are often initially purely regionally rooted, are also addressed more broadly and more in-depth and thus made accessible to a larger population of individuals (the "crowd").

Corporate clients segment: business development

In the field of environmental technology, the overall prospects for 2020 are good, due to an ongoing commitment to climate change. For wind energy, we hope – as does the entire original wind energy industry – for urgently needed positive impetus from politicians, but this is unlikely to have any impact for 2020. The slightly positive development in photovoltaic projects will also continue in 2020. In particular, larger projects outside the scope of the EEG funding will continue to boost the market. We would like to take advantage of the resulting financing opportunities as well as of the continuing high demand for medium-sized and smaller plants.

Based on discussions and analyses already conducted in 2019, a noticeable increase in business volume is also expected in the still-emerging financing segment of energy solutions. Demand is expected to grow significantly, particularly for financing solutions for energy contracting measures, investments in charging infrastructure and power-to-X projects.

We expect the business volume in the food and agriculture segment to increase overall. In the agriculture segment, we anticipate that the general reluctance to invest due to structural causes will remain unchanged. The increase in our brand awareness, especially in the old federal states, is to be further promoted with digital services. As a result, we expect the market share to grow and the volume of business to increase on a continuous basis. In the food industry segment, too, we anticipate growth in the credit volume as a result of greater market penetration.

We will intensify our activities in the tourism segment in the city hotel sector at secondary locations in the coming year. We expect the positive framework conditions to remain constant. Together with the expansion of tourist destinations, we expect a further year-on-year increase in the contribution to growth in the corporate client segment in 2020.

Financial markets segment: focus on proven methods

We will continue to pursue our proven refinancing strategy in the future. To expand our liquidity reserve, we are concentrating on a portfolio of highly liquid bonds from issuers with strong credit ratings. We will continue to focus increasingly on sustainable bonds in the future.

The attractiveness of programme loans will depend on providing effective support even in a negative interest rate environment. With regard to the implementation of the climate change resolutions of the German federal government, product changes in KfW's energy efficiency products are expected at the beginning of 2020, thus stabilising the demand for programme loans in this product family.

Other segment

We will further reduce the now extremely low level of non-core business activities in an orderly manner in the coming financial year.

DKB Service GmbH will continue its activities in 2020 in line with its task profile for the DKB Group. Our focus continues to be on automating and digitising key processes.

Conclusion

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

With net interest income at the previous year's level, we expect net income for the year to be up to EUR 100 million lower than in 2019, primarily due to our further investments in digitisation and the improvement of internal processes.

Consolidated financial statements

Consolidated statement of comprehensive income

for the period from 1 January 2019 to 31 December 2019

Income statement

EUR millions	Notes	01/01–31/12/2019
Interest from financial instruments calculated using the effective interest method		953.2
Interest income		1,613.8
Positive interest expenses		7.5
Interest expenses[1]		–618.9
Negative interest income[1]		–49.2
Other interest		–2.7
Interest income		5.6
Positive interest expenses		0.0
Interest expenses		–8.0
Negative interest income[1]		–0.2
Net interest income	(28)	950.5
Risk provisions result		–63.7
Result from the disposal of AAC-category financial instruments		7.8
Risk result	(29)	–55.9
Net interest income after risk result		894.6
Commission income		272.1
Commission expenses		–306.5
Net commission income	(30)	–34.5
Gains or losses on fair value measurement	(31)	49.7
Gains or losses on hedging transactions (hedge accounting)[1]	(54)	–4.4
Gains or losses on financial investments	(32)	0.1
Administrative expenses	(33)	–541.4
Expenses from bank levies, deposit guarantee scheme and banking supervision	(34)	–51.8
Other income and expenses	(35)	–14.5
Gains or losses on restructuring		–
Profit/loss before taxes		**297.8**
Income taxes		0.1
Consolidated profit/loss		**297.9**
attributable to DKB AG owners		297.9
Profit transferred to controlling shareholders		–230.7
Profit brought forward		18.3
Withdrawals from retained earnings		0.0
Transfer to retained earnings		–0.5
Consolidated net retained profits/net accumulated losses		**85.0**

[1] Adjustment of previous year's figure due to change in presentation (Notes (2))
For mathematical reasons, rounding differences of ± one unit may arise in the tables.

Reconciliation of comprehensive income for the period

EUR millions	01/01–31/12/2019
Consolidated profit/loss	**297.9**
Temporary components of other comprehensive income not recognised in profit or loss	
Changes in the revaluation surplus from FVOCIM financial instruments	**28.6**
Change in measurement	31.4
Change in portfolio due to realisation of profit or loss	–2.8
Change in deferred taxes	–
Components of other comprehensive income permanently not recognised in profit or loss	
Changes from the revaluation of defined-benefit pension plans	**–9.5**
Change in measurement	–9.5
Other comprehensive income	**19.1**
Total comprehensive income	**317.0**
attributable to DKB AG owners	317.0

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

Consolidated statement of comprehensive income

for the period from 1 January 2018 to 31 December 2018

Income statement

EUR millions	Notes	**01/01–31/12/2018**
Interest from financial instruments calculated using the effective interest method		950.1
Interest income		1,712.4
Positive interest expenses		6.7
Interest expenses[1]		–729.0
Negative interest income[1]		–40.0
Other interest		–5.0
Interest income		3.4
Positive interest expenses		0.0
Interest expenses		–8.0
Negative interest income[1]		–0.4
Net interest income	(28)	945.1
Risk provisions result		–104.8
Result from the disposal of AAC-category financial instruments		–7.0
Risk result	(29)	–111.8
Net interest income after risk result		833.3
Commission income		257.2
Commission expenses		–290.9
Net commission income	(30)	–33.7
Gains or losses on fair value measurement	(31)	2.8
Gains or losses on hedging transactions (hedge accounting)[1]	(54)	–11.9
Gains or losses on financial investments	(32)	0.4
Administrative expenses	(33)	–474.7
Expenses from bank levies, deposit guarantee scheme and banking supervision	(34)	–40.3
Other income and expenses	(35)	25.2
Gains or losses on restructuring		0.0
Profit/loss before taxes		**301.2**
Income taxes		–0.1
Consolidated profit/loss		**301.1**
attributable to DKB AG owners		301.1
Profit transferred to controlling shareholders		–95.1
Profit brought forward		17.5
Withdrawals from retained earnings		0.0
Transfer to retained earnings		–0.5
Consolidated net retained profits/net accumulated losses		**223.0**

[1] Adjustment of previous year's figure due to change in presentation (Notes (2))
For mathematical reasons, rounding differences of ± one unit may arise in the tables.

Reconciliation of comprehensive income for the period

EUR millions	**01/01–31/12/2018**
Consolidated profit/loss	**301.1**
Temporary components of other comprehensive income not recognised in profit or loss	
Changes in the revaluation surplus from FVOCIM financial instruments	**–21.3**
Change in measurement	–19.3
Change in portfolio due to realisation of profit or loss	–2.4
Change in deferred taxes	0.4
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
Other comprehensive income	**–22.6**
Total comprehensive income	**278.5**
attributable to DKB AG owners	278.5

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

Consolidated balance sheet

As of 31 December 2019

Assets

EUR millions	Notes	31/12/2019	31/12/2018
Cash reserves	(7/36)	4,432.5	1,046.2
Loans and advances to banks	(8/37)	2,610.2	3,687.8
Loans and advances to clients	(8/38)	69,526.3	65,932.5
Risk provisions	(9/39)	–410.0	–420.7
Portfolio hedge adjustment assets	(10)	765.4	407.1
Assets held for trading	(11/40)	9.8	3.2
Positive fair values from derivative financial instruments (hedge accounting)	(12)	–	0.0
Financial investments	(13/41)	6,196.4	6,362.3
Property, plant and equipment	(15)	197.7	54.1
Intangible assets	(16)	34.4	14.4
Current income tax assets	(26)	0.0	1.6
Other assets	(17)	391.9	299.1
Total assets		**83,754.4**	**77,387.6**

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

Liabilities

EUR millions	Notes	31/12/2019	31/12/2018
Liabilities to banks	(18/42)	13,101.7	13,813.3
Liabilities to clients	(18/43)	60,766.5	54,366.1
Securitised liabilities	(18/44)	4,844.8	4,622.3
Trading liabilities	(19/45)	7.5	1.2
Negative fair values from derivative financial instruments (hedge accounting)	(20)	26.0	17.0
Provisions	(21/46)	211.4	180.4
Current income tax liabilities	(26)	–	0.6
Other liabilities	(22)	490.8	264.5
Subordinated capital	(23/47)	879.0	781.7
Equity	(48)	3,426.7	3,340.4
Equity excluding non-controlling interests		3,426.7	3,340.4
Subscribed capital		339.3	339.3
Capital surplus		1,414.4	1,414.4
Retained earnings		1,499.5	1,303.8
Revaluation surplus		88.5	59.9
Consolidated net retained profits/net accumulated losses		85.0	223.0
Total liabilities		**83,754.4**	**77,387.6**

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

Consolidated statement of changes in equity

EUR millions	Subscribed capital	Hybrid capital	Capital surplus	Retained earnings	Revaluation reserve	Consolidated net retained profits/net accumulated losses	Equity before non-controlling interests	Non-controlling interests	Total equity
As at 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	–52.2		–98.4		–98.4
As at 01 Jan. 2018	**339.3**	**0.0**	**1,414.4**	**1,047.2**	**81.3**	**274.9**	**3,157.1**	**0.0**	**3,157.1**
Changes in the revaluation surplus					–21.4		–21.4		–21.4
Changes from the revaluation of defined-benefit pension plans				–1.3			–1.3		–1.3
Other comprehensive income	**0.0**	**0.0**	**0.0**	**–1.3**	**–21.4**	**0.0**	**–22.7**	**0.0**	**–22.7**
Consolidated profit/loss						301.1	301.1		301.1
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**–1.3**	**–21.4**	**301.1**	**278.4**	**0.0**	**278.4**
Capital increases/capital reductions							0.0		0.0
Changes in the scope of consolidation and other changes							0.0		0.0
Transfers into/removals from reserves				257.9		–257.9	0.0		0.0
Transferred profit						–95.1	–95.1		–95.1
Distribution							0.0		0.0
As at 31 Dec. 2018	**339.3**	**0.0**	**1,414.4**	**1,303.8**	**59.9**	**223.0**	**3,340.4**	**0.0**	**3,340.4**
Changes in the revaluation surplus					28.6		28.6		28.6
Changes from the revaluation of defined-benefit pension plans				–9.5			–9.5		–9.5
Other comprehensive income	**0.0**	**0.0**	**0.0**	**–9.5**	**28.6**	**0.0**	**19.1**	**0.0**	**19.1**
Consolidated profit/loss						297.9	297.9		297.9
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**–9.5**	**28.6**	**297.9**	**317.0**	**0.0**	**317.0**
Capital increases/capital reductions							0.0		0.0
Changes in the scope of consolidation and other changes							0.0		0.0
Transfers into/removals from reserves				205.2		–205.2	0.0		0.0
Transferred profit						–230.7	–230.7		–230.7
Distribution							0.0		0.0
As at 31 Dec. 2019	**339.3**	**0.0**	**1,414.4**	**1,499.5**	**88.5**	**85.0**	**3,426.7**	**0.0**	**3,426.7**

Consolidated cash flow statement

EUR millions	2019	2018
Consolidated annual result	**297.9**	**301.1**
Non-cash items included in the annual result and reconciliation to cash flow from operating activities		
Depreciation, allowances and attributions on/to receivables, property, plant and equipment, and financial investments	110.2	115.0
Changes to provisions	43.6	19.0
Changes to other non-cash items	46.2	44.8
Result from the sale of financial investments and property, plant and equipment	0.2	–0.8
Other adjustments (on balance)	–950.5	–976.6
Subtotal	**–452.3**	**–497.5**
Change in assets and liabilities from operating activities after correction for non-cash components		
Loans and advances to banks	1,077.4	912.4
Loans and advances to clients	–3,701.8	–1,572.1
Securities (insofar as these are not financial investments)	235.1	–355.3
Other assets from operating activities	–97.5	–61.8
Liabilities to banks	–700.8	–555.4
Liabilities to clients	6,406.9	443.2
Securitised liabilities	222.6	–98.8
Other liabilities from operating activities	–532.1	–1.3
Interest and dividends received	1,641.8	1,784.1
Interest paid	–667.3	–767.6
Income tax payments	0.0	–0.1
Cash flow from operating activities	**3,432.0**	**–770.2**

EUR millions	2019	2018
Payments received from the sale of financial investments	–	1.3
Payments received from the sale of property, plant and equipment and intangible assets	0.0	0.1
Payments made for the acquisition of financial investments	–5.5	–3.2
Payments made for the acquisition of property, plant and equipment and intangible assets	–40.3	–21.6
Effects from the change in the group of consolidated companies		
Payments received from the sale of subsidiaries and other business units	–	–
Payments made for the acquisition of subsidiaries and other business units	–	–
Change in cash from other investment activities (on balance)	–	–
Cash flow from investing activities	**–45.7**	**–23.4**
Payments received from contributions to equity	–	–
Payments made for reductions in equity	–	–
Payments made to shareholders and non-controlling interests	–93.8	–
Change in cash from other capital (on balance)	93.8	97.0
Cash flow from financing activities	**0.0**	**97.0**
Cash and cash equivalents as at the end of the previous period	**1,046.2**	**1,742.8**
Cash flow from operating activities	3,432.0	–770.2
Cash flow from investing activities	–45.7	–23.4
Cash flow from financing activities	0.0	97.0
Effects of exchange rate changes, valuation changes and changes in the group of consolidated companies	–	–
Cash and cash equivalents as at the end of the period	**4,432.5**	**1,046.2**

Notes to the cash flow statement

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

Cash flow from operating activities is presented based on the consolidated net income prior to contractual profit transfer using the indirect method.

Here, payment flows from receivables and liabilities vis-à-vis banks and clients, securities held for trading, securitised liabilities and other assets and liabilities are shown. Interest and dividend payments resulting from operating activities are also included.

The cash flow from investing activities comprises the payment processes for the investments and securities portfolio as well as property, plant and equipment and changes in the group of consolidated companies.

Cash flow from financing activities shows the cash-effective portion of the change in subordinated capital and payments to the company shareholders.

The cash and cash equivalents reported are equivalent to the cash reserve balance sheet item and thus include cash on hand and balances with central banks.

Notes

Notes to the consolidated financial statements

General accounting policies

Specific accounting and measurement methods

Segment reporting

Notes to the consolidated statement of comprehensive income

Notes to the consolidated balance sheet

Disclosures relating to financial instruments

Other disclosures

Notes to the consolidated financial statements

The consolidated financial statements of Deutsche Kreditbank AG (DKB), with its registered office in Berlin (Berlin-Charlottenburg Local Court, commercial register number: HRB 34165), were prepared in compliance with Section 315e (1) HGB and EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 as well as 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 Standards 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 consolidated financial statements are based on the IFRSs as applicable in the EU.

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

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

The consolidated management report is printed in a separate section of the annual report. Part of the risk reporting is presented as a component of the risk report in the consolidated management report. Further details on the risk situation according to IFRS 7 are provided in Note 61 "Risks from financial instruments".

To improve the transparency and informative value of the notes, the DKB Group makes use of the option in IAS 1.31 to waive certain IFRS disclosure requirements insofar as this information is not material for an understanding of the DKB Group's net assets, financial position and results of operations. The notes therefore do not provide any further information on the items "Property, plant and equipment", "Intangible assets", "Other assets" and "Other liabilities", the income tax items and leases under IFRS 16.

All amounts are shown in millions of euros (EUR million) unless otherwise indicated. For mathematical reasons, rounding differences of ± one unit may arise.

General accounting policies

(1) Fundamentals of consolidated financial reporting

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

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

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

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

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

Financial assets, liabilities and derivative hedging instruments are classified and measured in accordance with the principles of IAS 32, IAS 9 and IFRS 13.

Assets are recognised if the company has control over them as a result of past events and if an economic benefit can be generated from this right.

Obligations are recognised if the company is obliged to transfer economic resources as a result of past events.

IFRSs applied for the first time

In the 2019 financial year, the following new or amended standards and interpretations, which have been adopted into European law by the EU Commission, were applicable for the first time:

- **IFRS 16 "Leases":** This standard 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 treatment by the lessor is in line with the previous standard - i.e. lessors continue to classify 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".

  The effects of the first-time application of IFRS 16 are shown in Note 2.

- Changes to standards IFRS 3, IFRS 11, IAS 12 and IAS 23 were made as part of the **annual improvements to the IFRSs/IASs (2015–2017 cycle)**. The changes have no impact on the consolidated financial statements of the DKB Group. The revised standards are effective for all financial years starting on or after 1 January 2019.

Amendments to standards IFRS 9, IAS 19, IAS 28 and IFRIC 23 are also to be applied which, however, have no effect on the consolidated financial statements of DKB.

IFRSs to be applied in the future

As part of the **interest rate benchmark reform** phase 1, the standards IFRS 9, IAS 39 and IFRS 7 were amended. In the EU, the amendments are mandatory for financial years starting on or after 1 January 2020 and were not applied ahead of time. The amendments of phase 1 provide for simplifications in the accounting treatment of hedge accounting during the period of implementation of the IBOR reform. The simplifications include a temporary exemption from the application of specific hedge accounting requirements for hedging relationships directly affected by the IBOR reform. The effects of these changes on the consolidated financial statements of DKB are currently being examined.

The other amendments to standards IAS 1 and IAS 8 as well as to the conceptual framework that have currently been adopted are not expected to have any significant impact on the DKB Group.

(2) Changes on the previous year

The changes on the previous year result from the first-time application of the new standard on leases, IFRS 16. The transitional provisions set out in Appendix C of IFRS 16 were observed. The provisions of IFRS 16 were applied retrospectively without restating the previous year's figures in accordance with IFRS 16.C5 (b). The DKB Group applied the practical aids of IFRS 16.C10 (c) to (e) in the first-time application of IFRS 16.

In the DKB Group, there were no leases in which the DKB Group acts as lessor either as at the time of first application or as at 31 December 2019. Sale-and-leaseback transactions were also not carried out by the DKB Group in the reporting period.

The first-time application of IFRS 16 resulted in the following adjustments to the consolidated balance sheet:

EUR millions	31/12/2018	01/01/2019	First-time application of IFRS 16
Property, plant and equipment	54.1	198.6	+144.5
Other liabilities	264.5	409.0	+144.5

In accordance with IFRS 16, the lease payments previously recognised as a rental expense under administrative expenses are now shown as an interest expense (EUR 1.5 million) or as depreciation and amortisation under administrative expenses (EUR 14.6 million).

In the segment report (Note 27), lease payments are allocated to the "other" segment.

The following overview shows the reconciliation of liabilities from operating leases reported as of 31 December 2018 in accordance with IAS 17 and liabilities recognised for the first-time application of IFRS 16:

EUR millions	31/12/2018 01/01/2019
Gross leasing liabilities as at 31/12/2018	**155.9**
Exemption rule for short-term lease agreement	–0.2
Other adjustments	–1.7
Gross leasing liabilities as at 01/01/2019	**154.0**
Discounting (weighted average incremental borrowing rate: 1.0%)	–9.5
Net leasing liabilities as at 01/01/2019	**144.5**

In the year under review, voluntary changes were made to the presentation of the result from hedging transactions (hedge accounting) compared with the previous year in order to improve the presentation and clarity of the statement of income.

The change in presentation relates to the result from the amortisation of the portfolio hedge adjustment and the pull-to-par effect of the hedging instruments. In contrast to the previous year, these two effects are shown in net interest income (interest from financial instruments calculated using the effective interest method). The gain or loss on hedging transactions (hedge accounting) therefore only includes those changes in the value of the underlying transactions and hedging instruments that relate to the hedged interest rate risk. The adjustments are made retrospectively by restating the figures for the previous year. The adjustment of the reporting reduces the net interest income by EUR 6.8 million (previous year: EUR 31.5 million) and improves the result from hedging transactions accordingly.

In addition, the following retrospective adjustments were made to net interest income compared with the previous year:

- The negative interest income from hedge accounting derivatives was reported under other interest in the previous year. In the year under review, negative interest income was reported under interest from financial instruments calculated using the effective interest method, in the same way as other interest income and expenses from hedge accounting derivatives. As a result of this adjustment to the reporting, other interest increased by EUR 28.3 million in the year under review (previous year: EUR 22.4 million); interest from financial instruments calculated using the effective interest method decreased accordingly.

- Since the financial year under review, interest expenses similar to interest and interest expenses not related to a specific period have been reported under interest expenses for liabilities to banks and clients instead of under other interest expenses as was previously the case. The change in presentation serves to improve the transparency of the notes, as the interest expenses concerned result from liabilities to banks and clients despite their nature of being similar to interest and interest expenses or of not relating to a specific period. As a result of this adjustment to the reporting, interest expenses for liabilities to banks and clients increased by EUR 12.6 million in the year under review (previous year: EUR 62.2 million); other interest expenses decreased accordingly.

(3) Principles of consolidation

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

Subsidiaries comprise all companies that are controlled by the DKB Group, regardless of their legal structure. A subsidiary is deemed to be controlled when the DKB Group is exposed to variable return flows from the commitment with this company or has rights to these and the ability to influence these returns by means of its decision-making power over the company.

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

The DKB Group has decision-making powers over a company if it has rights that give it the current ability to control the relevant activities of the company. The relevant activities are those which, depending on the nature and purpose of the company, have a significant impact on its cash flows. These may also be structured entities in which voting rights or similar rights are not the dominant factor in assessing control.

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

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

Subsidiaries are included in the consolidated financial statements by means of full consolidation. At the time of acquisition, insofar as a business combination in accordance with IFRS 3 is involved, the acquisition costs of the subsidiary are offset against the Group's share in the fully recalculated equity as part of capital consolidation. This equity is the balance between the assets valued at their respective fair values at the time of initial consolidation and the debts of the acquired company, taking into consideration the deferred taxes as well as discovered hidden reserves and hidden charges. If asset-side differences arise between the higher acquisition costs and the proportionate, newly calculated equity, these are disclosed in the balance sheet as goodwill under intangible assets. Any remaining negative difference is recognised as income at the time of acquisition.

All receivables and liabilities, income and expenses as well as intercompany profits and losses from intercompany transactions are eliminated as part of the consolidation of debts, expenses and income and the elimination of intercompany profits and losses, unless they are not of minor significance.

Shares in subsidiaries, which, due to their subordinate significance for the net assets and financial position and results of operations of the DKB Group, are not consolidated, are accounted for in accordance with the recognition and measurement provisions of IFRS 9 as financial instruments of the FVPLM category.

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

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

There are currently no material joint ventures or associates included in accordance with the equity method. Shares in joint ventures or associates, which, due to their subordinate significance for the net assets and financial position and results of operations of the DKB Group, are not included in the consolidated financial statements in accordance with the equity method, are accounted for in accordance with the recognition and measurement provisions of IFRS 9 as financial instruments of the FVPLM category and reported under financial investments.

(4) Scope of consolidation

As in the previous year, six subsidiaries are included along with DKB in the consolidated financial statements as at 31 December 2019. DKB directly or indirectly holds a 100% capital participation in the consolidated subsidiaries. As at the reporting date, there were no non-controlling interests. The group of fully consolidated companies was determined in accordance with materiality criteria. Companies measured in accordance with the equity method are not included in the consolidated financial statements.

A complete overview of the subsidiaries included in the consolidated financial statements is provided in the shareholding list (see also Note 65 "Shareholdings").

(5) Currency translation

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

Specific accounting and measurement methods

(6) Financial instruments

Recognition and measurement

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

A financial asset or financial liability is first recognised in the initial measurement at fair value. Financial instruments, which are accounted for at amortised acquisition costs, are measured taking into consideration transaction costs directly attributable to the acquisition of the financial instrument. For financial instruments that are recognised at fair value in the subsequent measurement, there is an immediate recognition of the transaction costs through profit or loss.

The subsequent measurement of financial instruments is based on their assignment to certain measurement categories. 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 as well as the client group and functional strategies. These are determined by the Board of Management 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 reason (primarily the sale due to a deterioration in the client's creditworthiness or due to exceptional circumstances or to avert a loss for DKB) and the effects (primarily measured by the gross carrying amount of the transactions sold in relation to the total gross carrying amount or by the disposal result in relation to the total gross interest income/expense of the respective segment) of possible 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.

For 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 exclusively principal and interest payments on the outstanding principal amount (the SPPI criterion) 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 repayments and interest payments on the outstanding principal amount.

With the exception of the investment funds held by the Group, the securities portfolio of the DKB Group exclusively comprises principal and interest payments 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 assigned to this category. 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 FVOCIM 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. POCIs are measured at amortised cost or at fair value with no effect on income, taking into account a credit-risk-adjusted effective interest rate (CAEIR).

The financial liabilities "at amortised cost" (category AAC) include financial instruments that are not held for trading and for which the fair value option is not applied. They are measured at amortised cost.

Modifications

For contract amendments to financial assets and financial liabilities that change the contractual cash flows but are not significant enough to result in derecognition, the gross carrying amount of the financial instrument is recalculated by discounting the modified contractual payments at the original effective interest rate or the credit-risk-adjusted effective interest rate (non-significant modification). Any resulting modification is recognised in the income statement under net interest income (for Level 1 receivables) or in the risk result (for Level 2 or Level 3 receivables or POCI receivables). In subsequent accounting, the resulting modification recognised is amortised over the remaining term of the financial instrument. Amortisation is reported under net interest income.

If the contractual rights to cash flows are modified so that they are de facto deemed to have expired or lapsed, the financial instrument is derecognised and the modified financial instrument is recognised (significant modification). The DKB Group identifies such a significant modification on the basis of qualitative factors such as debtor or product changes or a change in the present value of the contractual rights to cash flows of at least 10%. Any resulting income or expense is recognised in profit or loss in the risk result. In subsequent accounting, the amortised cost of the significantly modified financial instruments is amortised over their remaining term via net interest income.

Determination of fair value

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

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

The relevant market for determining the fair value is, in principle, the market with the highest level of activity to which the DKB Group has access (main market). If there is no main market, the most advantageous market is used. To determine the fair value, the quoted market price (taken over unchanged) for an identical instrument in an active market is used, where possible (Level 1). These include funds and bonds which are traded in highly liquid markets.

If no quoted prices are available, the fair value is determined, where possible, using measurement methods, whose measurement parameters are directly (as prices) or indirectly (derived from prices) observable and do not fall under Level 1 (Level 2). This can include quoted prices in active markets for similar financial instruments, quoted prices in inactive markets, other observable input parameters (such as interest rates and exchange rates) or market-supported input factors. The objective here is to determine the price at which a normal transaction could take place among market participants at the measurement date under current market conditions. These include off-market derivatives and debt securities that are not allocated to Level 1.

If this market-oriented valuation is also not possible, the DKB Group uses valuation techniques that are also based on input factors not observable on the market (Level 3). 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 off-market derivatives, advances to clients and company shares.

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.

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

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

The fair values of interest-bearing financial instruments are determined using the discounted cash flow method. For lending transactions, the credit-risk-adjusted cash flow is discounted in principle using the risk-free yield curve, which has been adjusted by a transaction-specific spread. In addition to a margin to cover costs and profit expectations, this spread includes a premium that the bank pays for its own borrowing on the capital market. In the case of liability transactions, cash flows are discounted using the risk-free yield curve and a liquidity spread that reflects the current creditworthiness of the DKB Group.

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

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

Investments not listed on the capital market are valued using the capitalised earnings method. The valuation-relevant cash flows are derived from the planning of the respective company. These are determined for the entire planning period. In addition, a forecast for the terminal value is prepared. The terminal value is derived from previous planning years and reflects the long-term sustainable assessment of business activity. The cash flows calculated in this way are discounted using the capitalisation rate. The terminal value is considered separately as a growth discount is taken into account here and is instead used for a perpetual annuity. The capitalisation rate is calculated using the Capital Asset Pricing Model (CAPM), which takes into account the risk-free base rate, a market risk premium and a company-specific beta factor that describes the correlation between the fluctuation in value of the company being valued and the fluctuation in value of the market.

The preference shares of Visa Inc. held by DKB AG are valued on the basis of the market price of Visa Inc. ordinary shares, taking into account the expected subscription ratio.

OTC derivatives such as interest rate swaps and forward exchange contracts are valued on the basis of the cash flow structure, taking into account nominal values, residual maturities and the agreed interest payment method. The cash flow structure is determined using the agreed cash flows and forward curves. Discounting takes place using yield curves with matching currencies and maturities and a risk-adequate spread. For publicly available spreads, the data observable on the market is used.

Interest options are measured using the option price models.

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

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.

Hedge accounting

The DKB Group uses the IFRS 9 option of continuing to account for hedging relationships in accordance with IAS 39.

Hedge accounting in the DKB Group is based on risk management decisions to manage the interest rate risks of DKB AG. Further information on the risk strategy and on the management and monitoring of the interest rate risk can be found in the risk report in the combined management report.

As part of interest rate risk management, derivative financial instruments are used to hedge recognised financial assets. The hedging relationships that qualify for hedge accounting within the meaning of IAS 39 are currently exclusively fair value hedges. In this process, a recognised financial asset or a portfolio of financial instruments can be protected against changes in the fair value that arise from the interest rate risk and could have consequences for the result for the period. The DKB Group uses the portfolio hedge in the broader sense to secure the fixed interest rate position from the client loans business.

Within the framework of portfolio hedges in the broader sense, the interest rate risk is managed by the use of interest rate swaps. Calendar time buckets are defined for the portfolio, to which the expected payment flows (interest and repayments) from the receivables are assigned. Thus, the corresponding (partial) cash flows of a portfolio of underlying transactions are assigned to each time bucket. The hedging transactions are assigned to the time buckets in accordance with their due date. After the assignment of the underlying and hedging transactions, the proportion of each underlying transaction that is to be included in the hedging relationship of the time bucket (hedge ratio) is stipulated. When determining the hedge ratio, the terms of the underlying transactions and hedging transactions are taken into account in such a way that interest rate sensitivities are calculated for both sides and compared with each other. The interest rate swaps are fully designated as hedging transactions. The hedge ratio is held constant until the end of the hedging period and is the basis for prospective and retrospective effectiveness tests. The effectiveness is measured monthly per time bucket.

A high level of effectiveness is required here, whereby changes in the fair value of a secured underlying transaction are compensated with respect to the secured risk and hedging derivative in a bandwidth of 80% to 125%. If the effectiveness of the hedging relationship is outside this range, the hedge is ineffective and must be dissolved at the time of the last proven effectiveness.

Possible causes of hedge ineffectiveness during the term are the following:

- value fluctuations of the variable side of the hedging instruments, especially in the last interest period or after the last interest rate fixing,

- multi-curve effects resulting from the measurement of the underlying transaction and hedging instrument with different yield curves, and

- differences between expected and actual payments, for example due to unscheduled repayments of the underlying transactions.

A dynamic hedge strategy is used as part of the portfolio hedge in the broader sense. The predefined hedge period is one month. At the end of this period, the respective hedges are recompiled or adjusted, whereby the adjustment is made primarily on the basis of the varying underlying transaction side. Re-designations and de-designations of hedging instruments take place during the month, in line with the representation of the hedging relationships in risk management. The hedge strategy is documented during designation of the hedging relationship.

Interest rate swaps are measured at fair value; any resultant value changes are recognised through profit or loss in the result of the hedge transactions (hedge accounting). The hedging instruments are reported in the balance sheet item “Positive fair values from derivative financial instruments (hedge accounting)” or “Negative fair values from derivative financial instruments (hedge accounting)”.

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

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

Further information on the development of derivative transactions and hedging relationships (hedge accounting) in the year under review can be found in Note 54.

Derecognition

Financial assets are derecognised when the contractual rights to cash flow from the relevant assets have expired or when the Group has substantially transferred all opportunities and risks.

Financial liabilities are derecognised when the contractual obligations have been discharged, set aside or have expired.

Offsetting

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

(7) Cash reserves

The cash reserves encompass the cash in hand as well as credit balances with central banks. The cash reserves are allocated to the “hold” business model. There are no SPPI-harming agreements. They are recognised at nominal value on the basis of the AAC category.

(8) Loans and advances to banks and clients

The loans and advances to banks and clients are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and are not held for trading purposes.

Loans and advances to banks and clients are largely allocated to the “hold” business model and have only negligible SPPI-harming contractual components. Most of them are therefore in the AAC category. Premiums and discounts are distributed over the term in accordance with the effective interest method and included through profit or loss in the net interest income.

Due to the “hold and sell” business model, a small portion of receivables is allocated to the FVOCIM category and measured at fair value with no effect on income. The interest-rate-induced measurement result is recognised in the revaluation reserve. Credit-rating-related fair value adjustments are recognised in the income statement under provisions for losses on loans and advances in the statement of comprehensive income.

A further small portion of receivables is allocated to the FVPLM category due to SPPI-harming contractual agreements and measured at fair value through profit or loss. The measurement result is reported under the result from fair value measurement in the statement of comprehensive income.

Loans and advances to banks and clients also include financial instruments with a credit rating impaired at the time of acquisition (POCI).

(9) Impairments

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.

Impairments due to changes in creditworthiness are shown in the balance sheet as follows:

- AAC-category receivables:
  reported under the asset item risk provisioning,

- FVOCIM-category receivables:
  reported within equity and liabilities, and

- Financial guarantees and loan commitments:
  reported under provisions in the lending business.

Expenses for additions to loan loss provisions, income from the reversal of loan loss provisions and recoveries on loans written off are shown in the risk result in the statement of comprehensive income.

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 impaired creditworthiness ("credit-impaired"), the valuation allowances are measured at the amount of the expected 12-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 sub-module, 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. Since the year under review, the loan has also been allocated to Level 2 if it is assigned to non-performing loan processing. As a result of this change in estimate, risk provisions increased by EUR 4.7 million in the year under review. It is not possible to estimate the effect on subsequent periods.

  A reclassification of a financial instrument from Level 2 to Level 1 is made if, at the balance sheet date, the default risk is no longer significantly higher compared to initial recognition and there is no more than 30 days' delay in payment. The procedure with regard to transfer between levels applies analogously to non-significantly amended financial instruments.

- **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 individual loan commitments with a gross exposure of over EUR 750 thousand (significant receivables), risk provisions are calculated on the basis of expert estimates of expected recoveries, taking into account at least two possible scenarios and their probability of occurrence (discounted cash flow method). For non-significant receivables (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. The DKB Group has defined the following indicators (impairment triggers):

- significant financial difficulties of the debtor,
- breaches of contract such as interest or principal defaults or default,
- granting of (contractual) concessions to a debtor, such as deferrals, restructurings or waivers of claims,
- possible insolvency or financial reorganisation of the debtor,
- the disappearance of an active market for the financial asset due to financial difficulties of the debtor, and
- purchase of a financial asset at a high discount (deep discount) due to credit defaults.

In addition to these indicators, a credit exposure is considered impaired if contractually agreed payments of a significant amount are more than 90 days past due.

These criteria are also used for internal credit risk management and are based on the regulatory definition of a defaulted loan pursuant to Art. 178 (1) CRR.

As soon as the default criterion is no longer met, the financial instrument is reassigned to Level 1 or 2. The allocation to Level 1 is made if the default risk is no longer significantly increased compared to the initial recognition on the balance sheet date. The procedure with regard to transfer between levels applies analogously to non-significantly amended financial instruments.

In the case of financial instruments with a credit rating impaired at the time of initial recognition (POCI), impairment losses are recognised for changes in expected credit losses over the term of the instrument since initial recognition. The risk-adjusted effective interest rate (CAEIR) is used as the discount rate when calculating expected credit losses.

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
- anticipated exposure at default (EaD).

One-year PDs are used to calculate the expected 12-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). 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. The PD profiles of 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.

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 parameters used by DKB are regularly validated and quality assured by our own verifications of representativeness.

Future-oriented information is taken into account when calculating the expected credit loss. For each individual financial instrument, forward-looking information – provided it has a relevant impact on the respective financial instrument or the associated client – is first included in the determination of the various credit risk parameters (in particular PD and LGD). This also applies to relevant macroeconomic variables such as the expected development of interest rates and the inflation rate as well as future developments in the respective market (such as purchase price and rental price developments). For LGDs, forward-looking macroeconomic scenarios are also taken into account in order to reflect long-term price and value developments. In addition, prior to the balance sheet date, the long-term expected PD development determined at the level of the financial instruments and aggregated at the (sub-)portfolio level is compared with corresponding PD developments simulated on the basis of various macroeconomic scenarios for upcoming years. In the event of a relevant deviation within one or more (sub-)portfolios, the resulting effects on the expected credit loss are approximated and taken into account.

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.

The expected credit loss is discounted using the original effective interest rate or an approximation thereof.

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

In the year under review, improvements were made to the DKB Group's risk provisioning model. This involved updating the conditional PD profiles and the level demarcation profiles.

(10) Portfolio hedge adjustment attributable to assets

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

(11) Assets held for trading

Assets held for trading include derivatives concluded with our clients and derivative financial instruments with positive fair values concluded for hedging purposes which are not designated as hedging instruments within the framework of hedge accounting in accordance with IAS 39. Measurement is at fair value in accordance with the FVPLM category.

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

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

(13) Financial investments

Financial investments consist mainly of debt securities and other fixed-income securities that are part of the "hold and sell" business model and do not have SPPI-harming characteristics. The bonds and other fixed-income securities are therefore categorised as FVOCIM. The interest-rate-induced measurement result is recognised in the revaluation reserve. Credit-rating-related fair value adjustments are recognised in the income statement under provisions for losses on loans and advances in the statement of comprehensive income. Premiums and discounts are amortised through profit or loss in the net interest income.

In addition, fund units that are categorised as FVPLM due to their SPPI-harmfulness are reported under financial investments. Other financial investments are also allocated to the FVPLM category if they relate to equity investments in companies. The measurement result is reported under the result from fair value measurement in the statement of comprehensive income. Other financial investments representing liabilities are allocated to the AAC category.

(14) Securities lending and repurchase transactions

Securities borrowed through securities lending transactions and securities purchased through repurchase agreements are not recognised in the balance sheet if beneficial ownership remains with the lender/repo seller of the securities. Instead, a corresponding receivable from the pension provider was recognised.

Securities lent or sold as part of a genuine securities repurchase agreement are reported in the securities portfolio and measured in line with the assigned portfolio. A corresponding liability to the pension recipient is reported.

Income and expenses resulting from these transactions are taken into consideration in the statement of income under the net commission income.

(15) Property, plant and equipment

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

Initial recognition is at cost.

It is measured at amortised acquisition or manufacturing costs, i.e. the acquisition and manufacturing costs are reduced, in the case of depreciable assets, by scheduled, linear depreciations in accordance with their useful life.

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

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

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

(16) Intangible assets

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

Acquired intangible assets are initially recognised at their acquisition cost.

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

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

(17) Other assets

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

(18) Liabilities

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

(19) Trading liabilities

Trading liabilities include derivatives entered into with our clients as well as derivative financial instruments with negative fair values entered into for hedging purposes, which are not designated as hedging instruments within the framework of hedge accounting in accordance with IAS 39. Measurement is at fair value in accordance with the FVPLM category.

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

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

(21) Provisions

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

Where the possibility of an outflow of resources on fulfilment is not unlikely (likelihood of occurrence less than 50%), we refer to the notes on contingent liabilities (Note 49 "Contingent liabilities and other obligations").

Provisions for pension obligations and long-term employee benefits

The defined-benefit obligations of the DKB Group include the following retirement benefit plans:

All active employees of DKB AG and all former employees with a starting date as of 2 April 1995 receive an age-based modular plan as a capital commitment. The sum total of the capital modules acquired in the individual calendar years yields the pension capital, which is converted into a capital payment when benefits become due. Former employees who joined the company before 2 April 1995 are entitled to life-long pension payments.

In addition, members of the Board of Management have been granted life-long pension commitments based on their final salary.

The regulatory framework for pension provision is provided by the pension schemes concluded on the basis of works agreements as well as the German Act on Company Pension Plans (BetrAVG).

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

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

The following assumptions underlie the calculation:

Actuarial interest rate	1.4% (previous year: 2.0%)
Duration	16.4 years (previous year: 15.2 years)
Salary progression	2.25% to 2.5% (previous year: 2.25% to 2.5%)
Pension progression	2.0% (previous year: 2.0%)
Retirement age	63 years of age (previous year: 63 years of age)
Staff turnover	3.0% to 7% (2.5% to 5%)
Calculation base	"2018 G actuarial tables" of Prof. Klaus Heubeck

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

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

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

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

- Inflation risks: inflation risks can lead to an increase in defined-benefit obligations due to the direct or indirect influence of rate of salary increase and rate of pension progression.

- Interest rate risks: the amount of the net obligation is materially influenced by the level of the discounting interest rates.

Provisions in the lending business

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

Provisions for legal expenses

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

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

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

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

(22) Other liabilities

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

(23) Subordinated capital

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

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

(24) Lease transactions

Lessees

Under IFRS 16, lessees must account for rights of use from leases entered into as assets from a right-of-use asset.

At the DKB Group, the right of use to be recognised is capitalised in the amount of the expected cash flows from the right of use discounted at the marginal interest rate. On the liabilities side of the balance sheet, the right of use is matched by a lease liability which corresponds to the capitalised right of use in the initial recognition.

The obligations from lessee relationships existing in the DKB Group relate in particular to lease agreements for office buildings, some of which have extension options of up to 15 years. The extension options are taken into account in line with the respective estimates.

The capitalised rights of use are reported under property, plant and equipment, and the lease liabilities under other liabilities.

The DKB Group makes use of both the accounting option not to capitalise lease agreements for low-value assets (up to EUR 5,000) and the accounting option not to capitalise short-term contractual relationships (up to 12-month terms) as leases.

Lessors

Lessors must – as under IAS 17 – continue to distinguish between finance leases and operating leases. Leases are classified as finance leases if they substantially transfer all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Currently there are no operating or finance lease agreements for which the DKB Group acts as the lessor.

(25) Revenue from contracts with clients

The DKB Group generates income from contracts with clients from a wide range of services. Revenue from time-based service obligations is recognised when the service is rendered. Time-based benefit obligations are recognised in accordance with the stage of completion. This is determined using the contractual basis, according to which a uniform stage of completion is generally achieved over the period of performance. The amount of revenue recognised corresponds to the consideration contractually agreed by the client for the transfer of the services. As a rule, the promised consideration can be clearly allocated to the individual performance obligations contained in the contract.

The DKB Group generates commissions and fees primarily from the following services:

- In **the credit card business**, revenue from the issue of credit cards and services associated with credit cards is recognised. The DKB Group charges both time-based fees, such as foreign deployment fees and cash service fees, as well as period-based fees, such as cardholder fees. The DKB Group acts in part as an agent for the brokerage of insurance benefits and other ancillary services in the credit card business. In these cases, the revenue is not recognised by the DKB Group.

  In **the lending business**, proceeds are primarily received from the provision of guarantee credits and from the processing and administration of loans. To the extent that the fees in the lending business are not subject to the provisions of IFRS 9, processing and brokerage fees are recognised on a time-related basis and income from recurring services, such as the provision of guarantees, is recognised on a period-related basis.

- In **payment transactions**, income is mainly recognised from account management, the processing of bank transfers and the collection and redemption of direct debits. Account management fees are shown periodically, payment transaction services for a given date.

Revenues from contracts with clients represent commission income and are presented in Note 30.

The commissions and fees received by the DKB Group within the framework of IFRS 15 are either time-based or have a maximum performance period of one year. Disclosures on the transaction prices of remaining performance obligations in accordance with IFRS 15.120 are therefore not required due to IFRS 15.121 (a).

Costs incurred in initiating contracts are not capitalised by the DKB Group, but recognised as an expense in accordance with IFRS 15.94.

(26) Taxes

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

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

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

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

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

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

Segment reporting

(27) Segment reporting

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

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 Germany. The Group has therefore not opted to undertake any regional differentiation.

The segment reporting is divided into five segments explained below:

- DKB's business involving retail clients and individual clients is combined in the retail 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 this 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 customers in the local authorities and social infrastructure, energy and utilities, housing and administrators sectors. This segment also includes the lending and deposit banking business with strategic Group subsidiaries. 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 customers from the areas of environmental technology, food and agriculture, and tourism. The segment also focuses on the Centre of Competence for Renewable Energies. The leasing and syndicate business is also included in this segment. The key products are loans, pass-through loans, term loans and current account overdrafts, guarantees, deposit business and the management of business accounts, including payment services. The subsidiaries DKB Finance GmbH and MVC Unternehmensbeteiligungs GmbH, which support client groups through corporate and venture capital investments and via property investments as part of the development of commercial real estate, are also assigned to this segment.

- The financial markets segment comprises DKB AG's Treasury. Essentially, this includes funding, including managing interest rate risk, deposit business with institutional clients, passing on client deposits to BayernLB as part of the intra-Group funding system and internal transactions with BayernLB to manage liquidity. The activities within the custody account-A business are also assigned to this segment. This primarily involves management of the securities portfolio needed for core business (including the liquidity portfolio required by supervisory legislation) and business involving the DKB retail fund. In addition, the gains or losses on DKB AG's hedging transactions are 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 AG'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 76.2 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.

In line with IFRS accounting, net commission income was allocated to the segments in accordance with the origin of the business.

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) and allocations of overhead costs.

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 129.2 million (2018: EUR 99.3 million) and the risk provisions holding on receivables of DKB AG amounting to –EUR 408.5 million (2018: –EUR 418.5 million) are included in the reconciliation column.

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

The return on equity (ROE) is determined as the ratio between profit/loss before taxes and the allocated average equity. The cost/income ratio (CIR) represents the ratio of administrative expenses to 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.

	2019						
EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Net interest income	381.8	359.6	183.1	26.3	24.6	–25.0	**950.5**
Risk result	12.7	–7.2	–64.9	0.0	3.5	–	**–55.9**
Net commission income	–51.9	4.5	17.7	–3.7	–17.0	15.9	**–34.5**
Gains or losses on fair value measurement	–	–	–0.2	28.9	21.0	–	**49.7**
Gains or losses on hedging transactions	–	–	–	–4.4	–	–	**–4.4**
Gains or losses on financial investments	–	–	–	0.1	–	-	**0.1**
Administrative expenses	–270.8	–152.4	–76.8	–12.7	–214.7	186.0	**–541.4**
Expenses from bank levies, deposit guarantee scheme and banking supervision	–	–	–	–	–51.8	–	**–51.8**
Other income and expenses	–4.1	–	–1.7	–	190.9	–199.6	**–14.5**
Gains or losses on restructuring	–	–	–	–	–	–	**–**
Profit/loss before taxes	**67.7**	**204.5**	**57.2**	**34.4**	**–43.4**	**–22.7**	**297.8**
Segment assets	12,415.2	40,150.6	13,222.3	9,672.0	5,290.1	3,004.1	**83,754.4**
Risk positions	7,865.2	13,770.1	12,570.8	284.2	250.0	–	**34,740.3**
Average commercial equity	710.4	1,224.5	1,128.6	25.8	39.6	–	**3,128.9**
Return on equity (ROE)	9.5%	16.7%	5.1%	>100%			**9.5%**
Cost/income ratio (CIR)	82.5%	42.0%	38.7%	26.9%			**56.7%**

EUR millions	2018 Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Net interest income	424.1	349.0	190.1	–26.3[1]	25.9	–17.7	**945.1**[1]
Risk result	–25.8	–7.2	–68.6	–	–10.2	–	**–111.8**
Net commission income	–53.4	7.1	15.4	–3.1	–16.7	17.0	**–33.7**
Gains or losses on fair value measurement	–	–	0.4	–3.0	5.4	–	**2.8**
Gains or losses on hedging transactions	–	–	–	–11.9[1]	–	–	**–11.9**[1]
Gains or losses on financial investments	–	–	–	0.4	–	–	**0.4**
Administrative expenses	–224.3	–135.0	–72.1	–12.6	–186.3	155.6	**–474.7**
Expenses from bank levies, deposit guarantee scheme and banking supervision	–	–	–	–	–40.3	–	**–40.3**
Other income and expenses	–2.9	1.5	8.9	–	191.5	–173.8	**25.2**
Gains or losses on restructuring	–	–	–	–	0.0	–	**0.0**
Profit/loss before taxes	**117.7**	**215.4**	**74.1**	**–56.5**	**–30.7**	**–18.8**	**301.2**
Segment assets	12,414.4	40,150.6	13,220.1	10,384.8	1,799.8	–582.1	**77,387.6**
Risk positions	7,599.5	12,518.0	11,989.4	249.8	488.8	–	**32,845.5**
Average commercial equity	684.7	1,101.3	1,098.9	23.9	39.7	–	**2,948.5**
Return on equity (ROE)	17.2%	19.6%	6.7%	<–100%			**10.2%**
Cost/income ratio (CIR)	60.3%	37.7%	33.5%	<0%			**51.5%**

[1] Adjustment of previous year's figure due to change in presentation (Notes (2)).

Notes to the consolidated statement of comprehensive income

(28) Net interest income

Interest from financial instruments calculated using the effective interest method

EUR millions	2019	2018[1]
Interest income	**1,613.8**	**1,712.4**
Interest income from lending and money market transactions	1,594.2	1,691.2
Interest income from bonds and other fixed-income securities	17.6	19.8
Other interest income	1.9	1.4
Positive interest expenses	**7.5**	**6.7**
Interest expenses	**–618.9**	**–729.0**
Interest expenses for liabilities to banks and clients	–349.6	–456.4
Interest expenses for hedge accounting derivatives	–181.8	–169.9
Interest expenses for securitised liabilities	–42.5	–39.7
Interest expenses for subordinated capital	–34.4	–26.9
Other interest expenses	–10.7	–36.0
Negative interest income	**–49.2**	**–40.0**
Total	**953.2**	**950.1**

[1] Adjustment of previous year's figure due to change in presentation (Notes (2)).

The interest income from lending and money market transactions includes income from impaired receivables (unwinding effect) of EUR 9.1 million (previous year: EUR 9.8 million).

Other interest expenses include expenses from the amortisation of the portfolio hedge adjustment of EUR 174.3 million (previous year: EUR 156.0 million) and income from the pull-to-par effect of the hedging instruments of EUR 167.5 million (previous year: EUR 124.5 million).

Other interest

EUR millions	2019	2018[1]
Interest income	**5.6**	**3.4**
Interest income from lending and money market transactions	0.7	1.8
Other interest income	4.8	1.6
Positive interest expenses	**0.0**	**0.0**
Interest expenses	**–8.0**	**–8.0**
Interest expenses for derivatives in commercial hedging relationships	–2.1	–5.8
Other interest expenses	–5.9	–2.2
Negative interest income	**–0.2**	**–0.4**
Total	**–2.7**	**–5.0**

[1] Adjustment of previous year's figure due to change in presentation (Note (2)).

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

(29) 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	2019	2018
Risk provisions result	**–63.7**	**–104.8**
Income from the reversal of balance sheet and off-balance-sheet risk provisions	503.3	525.6
Expenses from the addition of balance sheet and off-balance-sheet risk provisions	–573.3	–616.8
Expenses from direct write-offs	–13.6	–23.6
Income from receipts on receivables written off	20.3	10.7
Result from non-significant credit-rating-induced modifications	–0.4	–0.7
Result from the disposal of AAC-category financial instruments	**7.8**	**–7.0**
Modification income from significant modifications	10.3	8.7
Modification expenses from significant modifications	–4.0	–16.6
Disposal gains	1.4	0.8
Disposal expenses	–	–
Total	**–55.9**	**–111.8**

The risk result is allocated to the segments of the DKB Group as follows:

	2019						
EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Risk provisions result	10.1	–6.3	–64.5	–	–3.0	–	**–63.7**
Result from the disposal of AAC-category financial instruments	2.6	–1.0	–0.4	–	6.5	–	**7.8**
Total	**12.7**	**–7.2**	**–64.9**	**–**	**3.5**	**–**	**–55.9**

	2018						
EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Risk provisions result	–30.1	–7.9	–68.8	–	2.0	–	**–104.8**
Result from the disposal of AAC-category financial instruments	4.3	0.7	0.2	–	–12.2	–	**–7.0**
Total	**–25.8**	**–7.2**	**–68.6**	**–**	**–10.2**	**–**	**–111.8**

(30) Net commission income

	Income		Expenses		Result	
EUR millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Credit card business	179.2	173.3	–156.0	–150.5	23.2	22.8
Lending business	35.3	34.9	–56.5	–51.9	–21.2	–17.0
Payments	21.6	18.6	–70.3	–65.0	–48.7	–46.4
Other net commission income	35.9	30.3	–23.7	–23.4	12.2	6.9
Total	**272.1**	**257.2**	**–306.5**	**–290.9**	**–34.5**	**–33.7**

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

	2019						
EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Credit card business	179.2	–	–	–	–	–	**179.2**
Lending business	22.9	8.1	11.5	–1.6	0.2	–5.7	**35.3**
Payments	8.9	6.2	6.5	-	0.1	-	**21.6**
Other net commission income	30.9	0.9	0.9	1.0	24.5	–22.2	**35.9**
Total	**241.8**	**15.1**	**18.9**	**–0.6**	**24.7**	**–27.9**	**272.1**

	2018						
EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Credit card business	173.3	–	–	–	–	–	**173.3**
Lending business	22.4	8.1	10.4	–	0.3	–6.3	**34.9**
Payments	7.8	5.9	4.8	–	0.2	–	**18.6**
Other net commission income	27.0	0.9	0.7	1.1	19.7	–19.1	**30.3**
Total	**230.5**	**14.9**	**15.9**	**1.1**	**20.2**	**–25.4**	**257.2**

(31) Gains or losses on fair value measurement

EUR millions	2019	2018
Net trading income	**2.7**	**5.8**
Interest-related transactions	1.2	4.7
Currency-related transactions	1.5	1.1
Fair value result from FVPLM financial instruments	**47.0**	**–3.0**
Total	**49.7**	**2.8**

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

Fair value gains or losses from FVPLM financial instruments are primarily due to the performance of the investment funds held by the DKB Group of EUR 26.2 million (previous year: –EUR 9.2 million) and the investment in Visa Inc. of EUR 13.9 million (previous year: EUR 5.4 million).

(32) 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.

(33) Administrative expenses

EUR millions	2019	2018
Staff costs	**–280.6**	**–247.3**
Wages and salaries	–226.0	–198.9
Social security contributions	–38.5	–32.9
of which employer share for statutory pension insurance	–18.5	–11.5
Expenses for pension scheme and support	–16.0	–15.4
of which expenses for defined-benefit plans	–7.6	–7.1
Other administrative expenses	**–233.9**	**–218.6**
IT costs	–103.0	–91.2
Contributions, legal and consultancy costs	–46.3	–39.5
Advertising	–29.6	–23.5
Building costs (non-investment properties)	–8.8	–22.3
Communication and other selling costs	–20.0	–19.8
Miscellaneous administrative expenses	–26.2	–22.3
Depreciation and impairments on property, plant and equipment and intangible assets	**–26.9**	**–8.8**
Total	**–541.4**	**–474.7**

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

EUR millions	2019	2018
Bank levy	–21.8	–22.1
Deposit guarantee scheme	–25.5	–15.1
Banking supervision	–4.6	–3.1
Total	**–51.8**	**–40.3**

(35) Other income and expenses

EUR millions	2019	2018
Other income	**31.2**	**59.9**
Income from the reversal of provisions	2.7	22.9
Miscellaneous other income	28.4	37.0
Other expenses	**–45.7**	**–34.7**
Expenses from the formation of provisions	–	–0.2
Miscellaneous other expenses	–45.7	–34.5
Total	**–14.5**	**25.2**

Notes to the consolidated balance sheet

(36) Cash reserves

EUR millions	31/12/2019	31/12/2018
Cash in hand	14.2	11.2
Credit balances with central banks	4,418.2	1,035.0
Total	**4,432.5**	**1,046.2**

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

The cash reserves consist exclusively of financial instruments in the AAC category.

(37) Loans and advances to banks

EUR millions	31/12/2019	31/12/2018
Loans and advances to domestic banks	2,610.2	3,687.8
Loans and advances to foreign banks	–	–
Total	**2,610.2**	**3,687.8**

Loans and advances to banks are broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
On demand	2,138.5	2,962.2
With agreed maturities		
Up to 3 months	450.0	500.2
From 3 months to 1 year	3.7	203.7
From 1 to 5 years	12.2	13.2
More than 5 years	5.7	8.5
Total	**2,610.2**	**3,687.8**

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

The risk provisions for loans and advances to banks are allocated exclusively to Level 1 and amounted to EUR 1 thousand as of the balance sheet date (previous year: EUR 1 thousand). There were no transfers between levels in the reporting year.

Loans and advances to banks did not contain any financial instruments with impaired creditworthiness (POCI) at the time of acquisition, nor any receivables that had not been significantly modified.

(38) Loans and advances to clients

EUR millions	31/12/2019	31/12/2018
Loans and advances to domestic clients	68,863.8	65,314.6
Loans and advances to foreign clients	662.5	617.9
Total	**69,526.3**	**65,932.5**

There are currently no receivables from finance lease agreements.

Loans and advances to clients are broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
With agreed maturities		
Up to 3 months	4,262.4	4,108.5
From 3 months to 1 year	4,624.2	4,308.7
From 1 to 5 years	18,744.9	17,900.6
More than 5 years	41,568.4	39,006.8
Indefinite maturities	326.2	607.8
Total	**69,526.3**	**65,932.5**

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

EUR millions	31/12/2019	31/12/2018
AAC-category receivables	69,513.5	65,919.8
FVPLM-category receivables	11.3	10.5
FVOCIM-category receivables	1.4	2.2
Total	**69,526.3**	**65,932.5**

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

	2019				
EUR millions	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**
As at 1 Jan.	**–38.4**	**–115.4**	**–261.8**	**–5.0**	**–420.7**
Additions from lending/purchases	–16.6	–6.6	–82.7	–8.2	–114.0
Reversals from disposal/repayment/sale	15.1	102.4	113.1	9.8	240.4
Credit-rating-related changes	–6.2	–99.8	–107.8	–11.3	–225.1
Usage/depreciation	0.0	0.1	92.8	8.2	101.0
Reallocation to Level 1	–23.0	23.0	–	–	–
Reallocation to Level 2	3.8	–20.9	17.1	–	–
Reallocation to Level 3	11.3	34.6	–45.9	–	–
Unwinding	–	–	8.1	0.3	8.4
As at 31 Dec.	**–54.0**	**–82.7**	**–267.1**	**–6.3**	**–410.0**

	2018				
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	–18.2	–9.1	–61.1	–6.0	–94.4
Reversals from disposal/repayment/sale	14.3	93.1	128.1	14.1	249.5
Credit-rating-related changes	–1.2	–101.9	–153.0	–12.2	–268.4
Usage/depreciation	0.0	0.0	107.3	0.0	107.4
Reallocation to Level 1	–10.0	10.0	–	–	0.0
Reallocation to Level 2	14.0	–20.7	6.7	–	0.0
Reallocation to Level 3	4.4	28.6	–33.0	–	0.0
Unwinding	–	–	8.7	0.0	8.6
As at 31 Dec.	**–38.4**	**–115.4**	**–261.8**	**–5.0**	**–420.7**

The gross carrying amount of loans and advances to AAC clients comprises the following:

	2019				
EUR millions	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**
As at 1 Jan.	**62,400.4**	**2,692.4**	**739.9**	**87.0**	**65,919.8**
Lending/purchases	19,297.5	337.3	80.5	34.5	19,749.8
Disposal/repayment/sale	–15,065.6	–656.8	–353.1	–38.1	–16,113.6
Usage of risk provisions/depreciation	–	–0.1	–31.3	–11.4	–42.8
Non-significant modifications	6.4	0.6	1.4	–	8.4
Reallocation to Level 1	4,276.0	–4,252.7	–23.3	–	–
Reallocation to Level 2	–4,378.9	4,435.0	–56.1	–	–
Reallocation to Level 3	–48.8	–264.5	313.3	–	–
Other changes	–8.1	–0.6	–0.3	0.9	–8.1
As at 31 Dec.	**66,479.0**	**2,290.7**	**671.0**	**72.9**	**69,513.5**

	2018				
EUR millions	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**
As at 1 Jan.	**61,137.2**	**2,569.9**	**781.9**	**35.8**	**64,524.8**
Lending/purchases	13,500.0	147.5	79.5	104.5	13,831.4
Disposal/repayment/sale	–11,337.7	–637.7	–298.4	–53.4	–12,327.2
Usage of risk provisions/depreciation	–0.1	–0.2	–104.0	0.0	–104.3
Non-significant modifications	–1.5	–0.4	–0.3	–	–2.2
Reallocation to Level 1	1,667.2	–1,645.3	–21.8	–	0.0
Reallocation to Level 2	–2,431.3	2,454.8	–23.5	–	0.0
Reallocation to Level 3	–130.5	–196.1	326.6	–	0.0
Other changes	–2.8	–0.2	0.1	0.1	–2.7
As at 31 Dec.	**62,400.4**	**2,692.4**	**739.9**	**87.0**	**65,919.8**

The impairment losses on loans and advances to clients in the FVOCIM category relate exclusively to financial instruments with impaired credit ratings (POCI) at the time of acquisition and amounted to –EUR 0.8 million as at the balance sheet date (previous year: –EUR 0.8 million). There were no transfers between levels in the reporting year.

In the reporting year, the total amount of undiscounted expected credit losses in the initial recognition of financial instruments with impaired credit ratings (POCI) amounted to EUR 20.0 million (previous year: EUR 21.9 million).

For financial instruments for which the contractually agreed cash flows were modified in the year under review and whose value adjustment was measured in the amount of the expected credit losses over the term, the amortised cost before modification amounted to EUR 117.4 million (previous year: EUR 122.4 million).

The European Money Markets Institute announced at the end of November that the transition of the Euribor has been completed. As at 31 October 2019, loans with a carrying amount of EUR 2.4 billion had a Euribor reference rate.

The gross carrying amount of financial instruments that were modified at a time when the value adjustment was measured at the amount of the expected credit loss over the life of the financial instrument and for which the allowance was adjusted to the amount of the expected 12-month credit loss in the year under review was EUR 30.3 million at the balance sheet date (previous year: EUR 9.8 million).

(39) Risk provisions

EUR millions	31/12/2019	31/12/2018
Level 1	–54.0	–38.4
Level 2	–82.7	–115.4
Level 3	–267.1	–261.8
POCI	–6.3	–5.0
Total	**–410.0**	**–420.7**

The development of the risk provisions in the reporting year is shown under loans and advances to banks (Note 37) and loans and advances to clients (Note 38).

(40) Assets held for trading

At EUR 6.6 million, (previous year: none) assets held for trading included positive fair values from derivatives concluded with our clients and, at EUR 3.1 million (previous year: EUR 3.2 million), positive fair values from domestic derivative financial instruments concluded for hedging purposes that are not designated as hedging instruments within the scope of hedge accounting in accordance with IAS 39.

These are exclusively interest-related transactions.

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

Assets held for trading are broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
With agreed maturities		
Up to 3 months	–	–
From 3 months to 1 year	–	–
From 1 to 5 years	3.0	–
More than 5 years	6.7	3.2
Total	**9.8**	**3.2**

(41) Financial investments

EUR millions	31/12/2019	31/12/2018
Bonds and other fixed-income securities	5,950.9	6,168.0
Equities and other non-fixed-income securities	153.8	129.1
Other financial investments	91.7	65.1
Total	**6,196.4**	**6,362.3**

Financial investments include shares in non-consolidated subsidiaries of EUR 12.5 million (previous year: EUR 10.7 million).

The debt instruments and other fixed-income securities exclusively include bonds and debt instruments. Of this amount, EUR 5,950.9 million (previous year: EUR 6,168.0 million) is eligible as collateral with central banks and EUR 998.4 million (previous year: EUR 895.1 million) is due in the following year (including accrued interest).

As in the previous year, equities and other non-fixed-income securities consist exclusively of investment fund shares.

Financial investments consist of financial instruments in the following categories:

EUR millions	31/12/2019	31/12/2018
FVOCIM-category financial investments	5,950.9	6,168.0
FVPLM-category financial investments	245.4	174.3
AAC-category financial investments	–	20.0
Total	**6,196.4**	**6,362.3**

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

The European Money Markets Institute announced at the end of November that the transition of the Euribor has been completed. As at 31 October 2019, debt securities with a carrying amount of EUR 1.9 billion had a Euribor reference rate.

In the reporting year, financial investments did not contain any financial instruments with impaired creditworthiness (POCI) at the time of acquisition, nor any receivables not significantly modified.

Financial investments include the following marketable securities:

EUR millions	**31/12/2019**	**31/12/2018**
Bonds and other fixed-income securities	5,950.9	6,168.0
Equities and other non-fixed-income securities	150.9	124.9
Other financial investments	–	–
Total	**6,101.8**	**6,293.0**

Financial investments are broken down by maturity as follows:

EUR millions	**31/12/2019**	**31/12/2018**
With agreed maturities		
Up to 3 months	388.7	200.5
From 3 months to 1 year	609.7	694.7
From 1 to 5 years	3,714.9	3,541.0
More than 5 years	1,266.9	1,754.4
Indefinite maturities	216.2	171.7
Total	**6,196.4**	**6,362.3**

(42) Liabilities to banks

EUR millions	31/12/2019	31/12/2018
Liabilities to domestic banks	12,561.3	13,239.8
Liabilities to foreign banks	540.4	573.5
Total	**13,101.7**	**13,813.3**

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

Liabilities to banks are broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
On demand	144.4	201.4
With agreed maturities		
Up to 3 months	268.5	912.3
From 3 months to 1 year	775.0	768.1
From 1 to 5 years	4,215.9	4,016.9
More than 5 years	7,697.9	7,914.7
Total	**13,101.7**	**13,813.3**

(43) Liabilities to clients

EUR millions	31/12/2019	31/12/2018
Savings deposits	**295.9**	**346.9**
With agreed notice period of 3 months	295.9	346.9
Other liabilities	**60,470.6**	**54,019.2**
On demand	52,763.8	45,704.4
With agreed term or notice period	7,706.8	8,314.7
Total	**60,766.5**	**54,366.1**

EUR millions	31/12/2019	31/12/2018
Liabilities to domestic clients	59,598.1	53,301.7
Liabilities to foreign clients	1,168.4	1,064.4
Total	**60,766.5**	**54,366.1**

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

Liabilities to clients are broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
On demand	52,763.8	45,704.4
With agreed maturities		
Up to 3 months	2,780.8	2,633.8
From 3 months to 1 year	595.7	990.2
From 1 to 5 years	2,354.8	2,575.0
More than 5 years	2,271.3	2,462.6
Total	**60,766.5**	**54,366.1**

(44) Securitised liabilities

EUR millions	31/12/2019	31/12/2018
Bonds and notes issued		
Mortgage Pfandbriefs	2,189.9	2,220.9
Public-sector Pfandbriefs	1,655.6	1,403.3
Other bonds and notes	999.2	998.2
Total	**4,844.8**	**4,622.3**

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

In the reporting year, public Pfandbriefs and mortgage Pfandbriefs were issued in the nominal amount of EUR 506.8 million (previous year: EUR 500.0 million) and a nominal amount of EUR 280.0 million (previous year: EUR 592.5) was repaid. Bearer bonds were not issued (previous year: EUR 0.0 million).

Securitised liabilities are broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
With agreed maturities		
Up to 3 months	32.4	282.5
From 3 months to 1 year	20.0	20.0
From 1 to 5 years	3,122.5	1,733.7
More than 5 years	1,669.9	2,586.1
Total	**4,844.8**	**4,622.3**

(45) Trading liabilities

At EUR 0.1 million (previous year: none), trading liabilities included negative fair values from derivatives concluded with our clients and, at EUR 7.4 million (previous year: EUR 1.2 million), negative fair values from domestic derivative financial instruments concluded for hedging purposes that are not designated as hedging instruments within the scope of hedge accounting in accordance with IAS 39, and are divided between interest-related transactions of EUR 7.4 million (previous year: EUR 1.0 million) and currency-related transactions of EUR 0.1 million (previous year: EUR 0.2 million).

Trading liabilities consist exclusively of financial instruments in the FVPLM category.

Trading liabilities are broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
With agreed maturities		
Up to 3 months	0.1	0.6
From 3 months to 1 year	0.0	0.1
From 1 to 5 years	0.0	–
More than 5 years	7.4	0.5
Total	**7.5**	**1.2**

(46) Provisions

EUR millions	31/12/2019	31/12/2018
Provisions for pensions and similar obligations	**98.9**	**85.2**
Other provisions	**112.4**	**95.2**
Provisions in the credit business	44.5	48.9
Miscellaneous provisions	67.9	46.3
Total	**211.4**	**180.4**

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations include the obligations to provide retirement benefits. The DKB Group uses the implementation method of direct commitment (unfunded plan). The defined-benefit obligation (DBO) was determined as the present value of all retirement benefits as at the balance sheet reporting day, already proportionately earned as at the reporting day.

The carrying amount (which also corresponds to the present value) of the pension obligations developed as follows:

EUR millions	31/12/2019	31/12/2018
As at 1 Jan.	**85.2**	**80.6**
Changes in the group of consolidated companies	–	–
Current service cost	4.8	3.3
Interest expense	1.7	1.5
Changes from the revaluation	9.5	1.3
Employee contributions to the plan	–	0.1
Paid benefits	–2.2	–1.7
Past service cost	–	–
Plan compensation	–	–
As at 31 Dec.	**98.9**	**85.2**

The changes from the revaluation encompass the actuarial gains/losses from the change in the present value of the pension obligations. The changes from the revaluation are recognised without an impact on profit or loss in equity under the retained earnings.

The main measurement parameters have the following sensitivities:

EUR millions	Increase by 0.5 percentage points	Decline by 0.5 percentage points
Discounting interest rate	–7.5	8.5
Salary increases	0.8	–0.7
Pension progression	3.9	–3.5

The extension of life expectancy (biometry) by one year would cause an effect of EUR 2.2 million.

The DKB Group is not reporting any plan assets in the reporting year.

In the reporting year, the following expenses were recognised in the income statement for pension obligations:

EUR millions	31/12/2019	31/12/2018
Current service cost (administrative expense)	4.8	3.3
Net interest cost from pension provisions (interest expense)	1.7	1.5
Total	**6.5**	**4.8**

For the 2020 financial year, the expected contribution payments for the pension plans at the DKB Group are estimated at EUR 2.4 million.

Other provisions

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

EUR millions	31/12/2019	31/12/2018
Provisions for loan commitments and financial guarantees in accordance with IFRS 9	**37.7**	**42.3**
Provisions for Level 1 loan commitments and financial guarantees	5.3	5.6
Provisions for Level 2 loan commitments and financial guarantees	5.1	8.6
Provisions for Level 3 loan commitments and financial guarantees	26.7	26.1
Provisions for POCI loan commitments and financial guarantees	0.6	2.1
Provisions for other contingent liabilities in accordance with IAS 37	**6.8**	**6.6**
Total	**44.5**	**48.9**

The development of provisions for loan commitments and financial guarantees in accordance with IFRS 9 in the reporting year is presented under contingent liabilities and other commitments (Note 49).

Other provisions developed as follows:

EUR millions	01/01/2019	Utilisation	Additions	Reversals	Rebookings	31/12/2019
Provisions for litigation expenses and legal risks	17.4	–2.8	0.9	–2.2	–	13.3
Human resources	14.6	–6.5	9.5	–0.1	0.3	17.8
Restructuring	4.1	–	–	–	–4.1	–
Archiving costs	3.5	–0.6	0.8	–	–	3.7
Other	6.7	–0.8	23.7	–0.5	4.1	33.2
Total	**46.3**	**–10.7**	**34.8**	**–2.7**	**0.3**	**68.0**

EUR millions	31/12/2017	Utilisation	Additions	Reversals	Rebookings	31/12/2018
Provisions for litigation expenses and legal risks	35.2	–17.0	14.2	–15.0	–	17.4
Human resources	14.6	–5.9	7.5	–0.5	–1.1	14.6
Restructuring	4.3	–0.2	–	–	–	4.1
Archiving costs	3.5	–0.6	0.6	–	–	3.5
Other	10.9	–0.1	3.3	–7.4	–	6.7
Total	**68.5**	**–23.8**	**25.6**	**–22.9**	**–1.1**	**46.3**

Discounted provisions were compounded in the financial year by EUR 0.9 million (previous year: EUR 0.7 million). The change in the discounting rate led to a provision reduction of EUR 3.3 million (previous year: reduction of EUR 0.5 million).

Of the other provisions, EUR 23.8 million (previous year: EUR 23.5 million) fall due after more than 12 months.

(47) Subordinated capital

EUR millions	31/12/2019	31/12/2018
Subordinated liabilities	747.1	652.9
Additional regulatory core capital	103.3	100.0
Profit participation certificates	28.6	28.7
Total	**879.0**	**781.7**

The subordinated capital consists exclusively of financial instruments in the LAC category. The subordinated liabilities must be arranged contractually such that, in the event of insolvency or the liquidation of DKB, a reimbursement does not take place until all non-subordinate creditors are first satisfied. A premature repayment obligation at the creditor's request cannot arise. The prerequisites for attribution to the regulatory equity in accordance with Section 62 CRR are fulfilled at DKB for a portfolio of nominally EUR 733.0 million.

The interest expense for subordinated capital is broken down as follows:

EUR millions	31/12/2019	31/12/2018
Subordinated liabilities	25.9	24.7
Additional regulatory core capital	7.3	1.1
Profit participation certificates	1.1	1.1
Total	**34.4**	**26.9**

The subordinated liabilities include pro rata interest of EUR 14.2 million (previous year: EUR 14.0 million).

Of the subordinated liabilities, EUR 133.0 million (previous year: EUR 96.0 million) fall due before two years have lapsed.

An unsecured subordinated registered bond in the amount of EUR 100 million was issued during the financial year. This instrument qualifies as additional core capital under Article 62 CRR.

Profit participation capital is also eligible for inclusion in regulatory capital in accordance with Article 62 CRR. In the financial year, EUR 0.2 million of company-own profit participation rights were repurchased and no profit participation rights were issued.

Subordinated capital is broken down by maturity as follows:

EUR millions	31/12/2019	31/12/2018
With agreed maturities		
Up to 3 months	72.5	14.0
From 3 months to 1 year	35.0	6.0
From 1 to 5 years	143.0	132.9
More than 5 years	500.0	500.0
With indefinite maturity	128.6	128.8
Total	**879.0**	**781.7**

(48) Equity

EUR millions	31/12/2019	31/12/2018
Subscribed capital	**339.3**	**339.3**
Statutory nominal capital	339.3	339.3
Capital reserve	**1,414.4**	**1,414.4**
Retained earnings	**1,499.5**	**1,303.8**
Statutory reserve	242.4	242.4
Reserve from the revaluation of defined-benefit pension plans	–38.7	–29.3
Other retained earnings	1,295.8	1,090.6
Revaluation surplus	**88.5**	**59.9**
Consolidated net retained profits/net accumulated losses	**85.0**	**223.0**
Total	**3,426.7**	**3,340.4**

The subscribed capital represents the share capital of DKB AG in accordance with its Articles of Association and is divided into 130.5 million no-par value shares, all of which are held by BayernLB.

The payments made by shareholders into equity are included in the capital reserve.

The amounts that were assigned mainly to the reserves from the profits of previous years and from the profit of the current year are reported under retained earnings. They are broken down into the statutory reserve and other retained earnings.

The reserve from the revaluation of defined-benefit pension plans contains the valuation results from the revaluation of defined-benefit pension plans not affecting net income.

Retained earnings increased by EUR 195.7 million in particular due to the allocation of the consolidated balance sheet profit from the previous year.

The revaluation reserve of EUR 28.6 million mainly results from the fair value measurement of FVOCIM financial instruments.

The impairments for FVOCIM financial instruments shown in the revaluation reserve in addition to the fair value measurement are shown under loans and advances to clients (Note 38) and financial investments (Note 41).

(49) Contingent liabilities and other obligations

EUR millions	31/12/2019	31/12/2018[1]
Contingent liabilities	**765.4**	**646.3**
Financial guarantees in accordance with IFRS 9	101.5	104.7
Other liabilities from guarantees and indemnity agreements	663.0	539.6
Contingent liabilities from legal disputes	0.9	2.0
Other liabilities	**20,961.3**	**19,512.4**
Irrevocable loan commitments	4,409.6	3,845.9
Revocable loan commitments	16,551.7	15,666.5
Total	**21,726.7**	**20,158.8**

[1] Adjusted previous year's figures.

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

	2019				
EUR millions	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**
As at 1 Jan.	**5.6**	**8.6**	**26.1**	**2.1**	**42.3**
Additions from lending/purchases	9.8	3.2	16.4	1.2	30.5
Reversals from disposal/repayment/sale	–8.4	–25.1	–36.2	–2.7	–72.4
Credit-rating-related changes	–1.6	19.1	20.4	0.1	37.9
Reallocation to Level 1	0.9	–0.9	–	–	–
Reallocation to Level 2	–1.0	1.0	–	–	–
Reallocation to Level 3	–	–0.8	0.8	–	–
Unwinding	–	–	–0.7	–	–0.7
As at 31 Dec.	**5.3**	**5.1**	**26.7**	**0.6**	**37.7**

	2018				
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	12.7	5.0	28.8	6.2	52.7
Reversals from disposal/repayment/sale	–10.4	–25.5	–25.7	–3.7	–65.3
Credit-rating-related changes	–2.1	17.8	13.0	–0.4	28.4
Reallocation to Level 1	1.0	–1.0	–	–	0.0
Reallocation to Level 2	–0.7	1.0	–0.3	–	0.0
Reallocation to Level 3	–0.3	–0.5	0.8	–	0.0
Unwinding	–	–	–1.0	–0.1	–1.1
As at 31 Dec.	**5.6**	**8.6**	**26.1**	**2.1**	**42.3**

In the reporting year, the total amount of undiscounted expected credit losses in the initial recognition of financial instruments with impaired credit ratings (POCI) amounted to EUR 0.1 million (previous year: EUR 0.8 million).

The exposure of loan commitments and financial guarantees comprises the following:

	2019				
EUR millions	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**
As at 1 Jan.	**19,261.7**	**301.2**	**52.0**	**2.2**	**19,617.1**
Lending/purchases	18,389.6	302.7	64.7	4.5	18,761.5
Disposal/repayment/sale	–16,719.4	–549.6	–44.9	–6.5	–17,320.3
Reallocation to Level 1	779.8	–757.2	–22.5	–	–
Reallocation to Level 2	–946.1	946.8	–0.6	–	–
Reallocation to Level 3	–5.7	–20.8	26.4	–	–
Other changes	4.5	–	–0.5	0.5	4.5
As at 31 Dec.	**20,764.3**	**223.0**	**74.6**	**0.8**	**21,062.8**

	2018				
EUR millions	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**
As at 1 Jan.	**17,654.2**	**454.3**	**53.0**	**–**	**18,161.5**
Lending/purchases	12,515.6	105.4	16.8	6.1	12,643.9
Disposal/repayment/sale	–10,948.6	–200.6	–35.1	–4.1	–11,188.3
Reallocation to Level 1	469.4	–469.2	–0.3	–	0.0
Reallocation to Level 2	–416.4	416.7	–0.3	–	0.0
Reallocation to Level 3	–12.7	–5.5	18.1	–	0.0
Other changes	–	–	–0.2	0.2	0.0
As at 31 Dec.	**19,261.7**	**301.2**	**52.0**	**2.2**	**19,617.1**

Disclosures relating to financial instruments

With respect to the notes on the risks arising from financial instruments in accordance with IFRS 7, please also refer to the risk report in the management report of the DKB Group, in addition to the following statements.

(50) Fair value and measurement hierarchies of financial instruments

Fair value of financial instruments[1]

	Fair value		Carrying amount	
EUR millions	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Assets				
Cash reserves	4,432.5	1,046.2	4,432.5	1,046.2
Loans and advances to banks	2,610.8	3,688.6	2,610.2	3,687.8
Loans and advances to clients[2]	71,401.1	67,849.4	70,291.6	66,339.6
Assets held for trading	9.8	3.2	9.8	3.2
Positive fair values from derivative financial instruments (hedge accounting)	–	0.0	–	0.0
Financial investments	6,196.4	6,362.3	6,196.4	6,368.4
Total	**84,650.6**	**78,949.8**	**83,540.5**	**77,445.2**
Liabilities				
Liabilities to banks	14,033.4	14,585.5	13,101.7	13,813.3
Liabilities to clients	61,582.1	55,014.9	60,766.5	54,366.1
Securitised liabilities	4,993.0	4,721.0	4,844.8	4,622.3
Trading liabilities	7.5	1.2	7.5	1.2
Negative fair values from derivative financial instruments (hedge accounting)	26.0	17.0	26.0	17.0
Subordinated capital	1,019.7	902.9	879.0	781.7
Total	**–81,661.6**	**–75,242.6**	**–79,625.6**	**–73,601.6**

[1] For current financial instruments, the book value regularly corresponds to the fair value.
[2] The carrying amounts stated include the portfolio hedge adjustment on the assets side.

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

Financial instruments measured at fair value
Over the course of the reporting year, transfers took place between the hierarchy levels for the financial instruments that were measured at fair value. The end of the reporting year is used as the transfer date.

	31/12/2019			
EUR millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and advances to clients	–	–	12.8	**12.8**
Assets held for trading	–	8.0	1.8	**9.8**
Positive fair values from derivatives (hedge accounting)	–	–	–	**–**
Financial investments (debt instruments)	5,074.2	1,030.6	29.3	**6,134.0**
Financial investments (equity instruments)	–	–	62.4	**62.4**
Total	**5,074.2**	**1,038.5**	**106.2**	**6,218.9**
Liabilities				
Trading liabilities	–	7.5	0.0	**7.5**
Negative fair values from derivatives (hedge accounting)	–	26.0	–	**26.0**
Total	**0.0**	**33.5**	**0.0**	**33.5**

EUR millions	31/12/2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Loans and advances to clients	–	–	12.7	**12.7**
Assets held for trading	–	3.2	–	**3.2**
Positive fair values from derivatives (hedge accounting)	–	0.0	–	**0.0**
Financial investments (debt instruments)[1]	5,045.8	1,251.3	2.6	**6,299.7**
Financial investments (equity instruments)[1]	–	–	42.6	**42.6**
Total	**5,045.8**	**1,254.6**	**57.8**	**6,358.2**
Liabilities				
Trading liabilities	–	1.2	–	**1.2**
Negative fair values from derivatives (hedge accounting)	–	17.0	–	**17.0**
Total	**0.0**	**18.2**	**0.0**	**18.2**

[1] Previous year's figures have been adjusted (reclassification of EUR 129.1 million from equity to debt instruments in Level 1 and addition to disclosures on Level 3).

Based on the review of the Level 1 allocation as at 31 December 2019 with regard to the parameters to be met cumulatively (such as number of price determinations), bonds amounting to EUR 177.6 million (previous year: EUR 230.5 million) were reclassified from Level 1 to Level 2 and bonds of EUR 616.8 million (previous year: EUR 1,184.4 million) were reclassified from Level 2 to Level 1.

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

EUR millions	Financial investments 2019	Financial investments 2018	Loans and advances to clients 2019	Loans and advances to clients 2018	Total 2019	Total 2018
As at 1 Jan.	**45.1**	**36.0**	**12.7**	**14.0**	**57.8**	**50.0**
Change in classification[1]	20.0	–	–	–	20.0	–
Effects recognised through profit or loss	21.1	5.9	–0.3	–0.2	20.8	5.7
of which other income and expenses	–	–	–	–	–	–
of which gains or losses on fair value measurement	–	5.9	–	0.3	–	6.2
of which risk provisions	–	–	–	–0.4	–	–0.4
Change in the revaluation reserve	–	–	–0.1	–0.3	–0.1	–0.3
Purchases	5.5	3.2	2.0	0.1	7.5	3.3
Sales	–	–	–	–0.2	–	–0.2
Settlements	–	–	–1.5	–0.8	–1.5	–0.8
As at 31 Dec.	**91.7**	**45.1**	**12.8**	**12.7**	**104.4**	**57.8**
Effects recognised through profit or loss for financial instruments in the portfolio on 31 Dec.	21.1	5.9	–0.2	–0.2	20.8	5.7
of which other income and expenses	–	–	–	–	–	–
of which gains or losses on fair value measurement	–	5.9	–	0.3	–	6.2
of which risk provisions	–	–	–	–0.4	–	–0.4

[11] Due to a change in estimates regarding the classification of the SPPI characteristic in accordance with IFRS 9.B.4.1.18, a silent participation was reclassified to the FVPLM category.

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

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

Significant non-observable parameters	Bandwidth (average)	Change in parameters	Change affecting net income	Change not recognised in equity
Realisation value	EUR 0 thousand to EUR 351 thousand (EUR 36 thousand)	+5.0% –5.0%	+EUR 69.4 thousand –EUR 69.4 thousand	EUR 0.0 thousand EUR 0.0 thousand
Realisation period	1 month to 36 months (8 months)	+6 months –6 months	+EUR 1.8 thousand –EUR 1.7 thousand	EUR 0.0 thousand EUR 0.0 thousand
Interest rate	–0.46% to –0.30% (–0.38%)	+0.05% –0.05%	–EUR 0.4 thousand +EUR 0.4 thousand	EUR 0.0 thousand EUR 0.0 thousand

Loans and advances to clients
(loans measured at fair value (category: FVPLM))

Significant non-observable parameters	Bandwidth (average)	Change in parameters	Change affecting net income	Change not recognised in equity
Valuation spread	–0.02% to 0.88% (–0.27%)	+10 BP –10 BP	–EUR 23.6 thousand +EUR 23.7 thousand	EUR 0.0 thousand EUR 0.0 thousand

Financial investments
(shares in Visa Inc.)

Significant non-observable parameters	weighted average	Change in parameters	Change affecting net income	Change not recognised in equity
Subscription ratio of the Visa Inc. ordinary shares	49.80%	+10.0% –10.0%	+EUR 8,891.0 thousand –EUR 8,891.0 thousand	EUR 0.0 thousand EUR 0.0 thousand

Financial investments
(other equity interests in companies)

Significant non-observable parameters	weighted average	Change in parameters	Change affecting net income	Change not recognised in equity
Company-specific market risk premium	7.50%	+25 BP –25 BP	–EUR 219.0 thousand +EUR 239.2 thousand	EUR 0.0 thousand EUR 0.0 thousand

Financial investments
(other outside equity interests in companies)

Significant non-observable parameters	weighted average	Change in parameters	Change affecting net income	Change not recognised in equity
Company-specific market risk premium	0.02%	+ 25 BP –25 BP	–EUR 64.7 thousand +EUR 64.7 thousand	EUR 0.0 thousand EUR 0.0 thousand

Derivatives

Significant non-observable parameters	Bandwidth (average)	Change in parameters	Change affecting net income	Change not recognised in equity
Default risk	0.04% to 3.41% (1.39%)	+0.1% –0.1%	+EUR 15.9 thousand –EUR 15.4 thousand	EUR 0.0 thousand EUR 0.0 thousand
Loss given default	27.51% to 43.52% (35.35%)	+0.1% –0.1%	+EUR 7.1 thousand –EUR 7.1 thousand	EUR 0.0 thousand EUR 0.0 thousand

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

Financial instruments measured at amortised acquisition costs

	31/12/2019			
EUR millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash reserves	–	–	4,432.5	4,432.5
Loans and advances to banks	–	–	2,610.8	2,610.8
Loans and advances to clients	–	–	71,388.4	71,388.4
Total	**–**	**–**	**78,431.7**	**78,431.7**
Liabilities				
Liabilities to banks	–	–	14,033.4	14,033.4
Liabilities to clients	–	–	61,582.1	61,582.1
Securitised liabilities	3,446.0	1,546.8	0.2	4,993.0
Subordinated capital	–	–	1,019.7	1,019.7
Total	**3,446.0**	**1,546.8**	**76,635.3**	**81,628.1**

	31/12/2018			
EUR millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash reserves	–	–	1,046.2	1,046.2
Loans and advances to banks	0.0	–	3,688.6	3,688.6
Loans and advances to clients	–	–	67,836.7	67,836.7
Financial investments[1]	–	–	26.1	26.1
Total	**0.0**	**–**	**72,597.7**	**72,597.7**
Liabilities				
Liabilities to banks	–	–	14,585.5	14,585.5
Liabilities to clients	–	–	55,014.9	55,014.9
Securitised liabilities	–	4,720.9	0.2	4,721.0
Subordinated capital[1]	–	–	902.9	902.9
Total	**0.0**	**4,720.9**	**70,503.6**	**75,224.4**

[1] Previous year's figures have been adjusted (addition to Level 3 disclosures).

(51) Reclassification of financial assets

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

(52) Financial instrument measurement category

EUR millions	31/12/2019	31/12/2018
Assets		
Financial assets measured at fair value through profit or loss (FVPLM)	**266.5**	**188.0**
Loans and advances to clients	11.3	10.5
Assets held for trading	9.8	3.2
Financial investments	245.4	174.3
Financial assets measured at fair value directly in equity (FVOCIM)	**5,952.4**	**6,170.2**
Loans and advances to clients	1.4	2.2
Financial investments	5,950.9	6,168.0
Financial assets measured at amortised cost (AAC)	**76,556.2**	**70,673.8**
Cash reserves	4,432.5	1,046.2
Loans and advances to banks	2,610.2	3,687.8
Loans and advances to clients	69,513.5	65,919.8
Financial investments	–	20.0
Positive fair values from derivative financial instruments (hedge accounting)	**–**	**0.0**
Liabilities		
Financial liabilities measured at fair value through profit or loss (FVPLM)	**7.5**	**1.2**
Trading liabilities	7.5	1.2
Financial liabilities measured at amortised cost (LAC)	**79,592.0**	**73,583.4**
Liabilities to banks	13,101.7	13,813.3
Liabilities to clients	60,766.5	54,366.1
Securitised liabilities	4,844.8	4,622.3
Subordinated capital	879.0	781.7
Negative fair values from derivative financial instruments (hedge accounting)	**26.0**	**17.0**

(53) Net results of financial instruments

EUR millions	2019	2018[1]
Financial assets measured at fair value through profit or loss or financial liabilities (FVPLM)	**52.7**	**–0.2**
Net interest income	3.0	–3.0
Gains or losses on fair value measurement	49.7	2.8
Financial assets measured at fair value directly in equity or financial liabilities (FVOCIM)	**46.2**	**–3.7**
Net interest income	17.6	18.1
Risk result	–0.1	–0.5
Gains or losses on financial investments	0.1	0.4
Changes in the revaluation surplus	28.5	–21.7
Financial assets measured at amortised cost (AAC)	**1,841.9**	**1,520.0**
Net interest income	1,397.0	1,516.2
Gains or losses on hedging transactions (hedge accounting)	532.6	107.8
Risk result	–87.7	–104.0
Financial liabilities measured at amortised cost (LAC)	**–418.9**	**–516.4**
Net interest income	–418.9	–516.4
Derivative financial instruments in hedging relationships (hedge accounting)	**–579.5**	**–187.5**
Net interest income	–42.5	–67.8
Gains or losses on hedging transactions (hedge accounting)	–537.0	–119.7

[1] Previous year's figures have been adjusted due to the reclassification of the table.

(54) Hedging relationships (hedge accounting)

Underlying and hedging transactions

Information on the hedging relationships of the DKB Group is provided below. This includes information on portfolio hedges in the broader sense, hedged items and hedging instruments.

In the portfolio hedge in the broader sense, client loans are designated at their repayment cash flows of EUR 9,839.8 million (previous year: EUR 8,485.2 million). The hedged items are reported under loans and advances to clients.

The hedge adjustment of interest-rate-hedged loans and advances in the fair value hedge portfolio amounted to EUR 765.4 million (previous year: EUR 407.1 million). Of this amount, EUR 756.2 million (previous year: EUR 406.1 million) relates to hedging relationships still in existence at the balance sheet date and EUR 9.2 million (previous year: EUR 1.0 million) to hedging relationships already terminated. The hedge adjustment is reported under the balance sheet item "Portfolio hedge adjustment attributable to assets".

Hedge adjustments are offset on the liabilities side by negative fair values from derivative financial instruments (hedge accounting) and on the assets side by positive fair values from derivative financial instruments (hedge accounting):

EUR millions	31/12/2019	31/12/2018
Positive fair values from fair value hedges (portfolio hedges)	–	0.0
Negative fair values from fair value hedges (portfolio hedges)	26.0	17.0
Total	**26.0**	**17.0**

Derivatives are broken down by maturity as follows:

	Nominal value		Positive fair value		Negative fair value	
EUR millions	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
With agreed maturities						
Up to 3 months	5.0	–	–	–	0.2	–
From 3 months to 1 year	1,060.0	10.0	–	–	3.6	0.0
From 1 to 5 years	2,460.0	3,505.0	–	–	1.4	9.2
More than 5 years	6,760.0	5,280.0	–	0.0	20.7	7.7
Total	**10,285.0**	**8,795.0**	**–**	**0.0**	**26.0**	**17.0**

Gains or losses on hedging transactions (hedge accounting)

EUR millions	31/12/2019	31/12/2018[1]
Measurement gains/losses from fair value hedges (portfolio hedges)		
Underlying transactions	532.6	107.8
Hedging instruments	–536.7	–119.6
Hedge ineffectiveness	**–4.1**	**–11.8**
Measurement of fair value adjustments	–0.3	–0.1
Total	**–4.4**	**–11.9**

[1] Adjustment of previous year's figures according to Note (2).

(55) Derivative transactions

The following tables present the as-yet-unsettled interest-rate-related and foreign-currency-related derivatives and the other forward transactions. The derivative transactions predominantly comprise interest rate swaps, which are used to manage the interest rate risk.

	Nominal value		Positive fair value		Negative fair value	
EUR millions	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Interest rate risks	**10,836.9**	**8,970.0**	**9.8**	**5.1**	**896.2**	**512.9**
Interest rate swaps	10,816.9	8,950.0	9.8	5.1	896.2	512.4
of which client business	205.9	-	6.6	-	0.1	-
of which management of interest rate risk	10,611.0	8,950.0	3.2	5.1	896.1	512.4
Options on interest rate swaps	20.0	20.0	–	–	0.0	0.5
Currency risks	**24.3**	**23.6**	**–**	**–**	**0.1**	**0.2**
Forward exchange transactions	24.3	23.6	–	–	0.1	0.2
Total	**10,861.2**	**8,993.6**	**9.8**	**5.1**	**896.3**	**513.0**

In accordance with the European Market Infrastructure Regulation (EMIR), derivatives subject to clearing requirements with negative fair values of EUR 877.9 million (previous year: EUR 494.9 million) and positive fair values of EUR 0.0 million (previous year: EUR 1.9 million) were offset against cash collateral deposited or received.

The derivatives for the management of the interest rate risk are attributable in their entirety to banks in the OECD.

Derivatives are broken down by maturity as follows:

	Nominal value			
EUR millions	**Interest rate risks**		**Currency risks**	
Residual maturities	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Up to 3 months	5.0	10.0	6.3	6.2
From 3 months to 1 year	1,160.0	135.0	18.1	17.4
From 1 to 5 years	2,500.0	3,505.0	–	–
More than 5 years	7,171.9	5,320.0	–	–
Total	**10,836.9**	**8,970.0**	**24.3**	**23.6**

(56) Offsetting of financial assets and liabilities

The DKB Group concludes framework agreements with its business partners as part of its activities in specific types of business. Netting arrangements for mutual claims and liabilities can be part of these framework agreements. Examples of such framework agreements include the German framework agreement for futures contracts and the German framework agreement for securities repurchase transactions. The clearing conditions of Eurex Clearing AG are also agreements with netting arrangements. In addition to the framework agreements, collateral agreements are concluded with the business partners to secure the net claim or liability resulting after netting.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if the DKB Group has a current legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. This relates to the netting of current accounts in accordance with § 10 RechKredV and the netting of the fair value and associated collateral of derivatives that are settled via a central counterparty (clearing).

The DKB Group has also entered into agreements which do not meet the netting criteria, but which allow the amounts concerned to be offset under certain circumstances. This relates to derivative transactions with banks not included in the clearing and a netting arrangement with BayernLB, which, under certain conditions, provides for the offsetting of all balance sheet receivables and liabilities, including the fair values from derivative transactions.

A reconciliation of the gross amounts before netting with the net amounts after netting is given below. The reconciliation contains information on the effects of netting on the consolidated balance sheet and on possible effects from legally enforceable master netting agreements or similar arrangements (assets or liabilities eligible for netting, collateral).

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

	2019					
EUR millions	Gross amount before netting	Offset amount	Balance sheet disclosure	Liabilities that can be netted	Collateral	Net amount
Other financial instruments	**597.2**	**52.7**	**544.5**	**248.3**	**–**	**296.2**
Loans and advances to banks	538.3	–	538.3	248.3	–	290.0
Loans and advances to clients	58.9	52.7	6.2	–	–	6.2
Derivative transactions	**9.8**	**–**	**9.8**	**3.1**	**–**	**6.6**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	9.8	–	9.8	3.1	–	6.6
Total	**607.0**	**52.7**	**554.3**	**251.4**	**–**	**302.8**

	2018					
EUR millions	Gross amount before netting	Offset amount	Balance sheet disclosure	Liabilities that can be netted	Collateral	Net amount
Other financial instruments	**931.9**	**67.2**	**864.7**	**383.5**	**–**	**481.2**
Loans and advances to banks	861.9	–	861.9	383.5	–	478.4
Loans and advances to clients	70.0	67.2	2.8	–	–	2.8
Derivative transactions	**5.1**	**1.9**	**3.2**	**3.2**	**–**	**–**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	5.1	1.9	3.2	3.2	–	–
Total	**937.0**	**69.1**	**867.9**	**386.8**	**–**	**481.2**

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

EUR millions	2019 Gross amount before netting	Offset amount	Balance sheet disclosure	Liabilities that can be netted	Collateral	Net amount
Other financial instruments	**343.6**	**52.7**	**290.9**	**248.3**	**–**	**42.6**
Liabilities to banks	248.3	–	248.3	248.3	–	-
Liabilities to clients	95.3	52.7	42.6	–	–	42.6
Derivative transactions	**896.3**	**862.7**	**33.5**	**3.1**	**19.4**	**11.0**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	896.3	862.7	33.5	3.1	19.4	11.0
Total	**1,239.9**	**915.5**	**324.4**	**251.4**	**19.4**	**53.6**

EUR millions	2018 Gross amount before netting	Offset amount	Balance sheet disclosure	Liabilities that can be netted	Collateral	Net amount
Other financial instruments	**500.4**	**67.2**	**433.2**	**382.4**	**–**	**50.8**
Liabilities to banks	382.4	–	382.4	382.4	–	–
Liabilities to clients	118.0	67.2	50.8	–	–	50.8
Derivative transactions	**513.0**	**494.9**	**18.1**	**4.4**	**–**	**13.7**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	513.0	494.9	18.1	4.4	–	13.7
Total	**1,013.4**	**562.1**	**451.3**	**386.8**	**–**	**64.5**

(57) Financial assets transferred to third parties as collateral as well as other transferred financial assets without derecognition

The collateral for liabilities or contingent liabilities was provided within the framework of open-market transactions with the European System of Central Banks, through refinancing loans from investment and development banks, through Pfandbrief issues as well as through securities repurchase transactions. In principle, all the opportunities and risks associated with ownership of the transferred assets remain with the DKB Group.

The carrying amounts of the assets transferred to third parties as collateral and of the other financial assets transferred without derecognition are allocated to:

EUR millions	31/12/2019	31/12/2019
Financial assets pledged as collateral to third parties	**34,371.5**	**33,203.2**
Loans and advances to clients	28,611.7	27,882.9
Financial investments	5,759.8	5,320.3
Other financial assets transferred	**0.0**	**502.3**
Financial investments	–	502.3
Total	**34,371.5**	**33,705.5**

These transactions are performed at customary market conditions.

The transferred financial assets are offset by liabilities in the amount of EUR 8,538.9 million (previous year: EUR 9,047.4 million).

(58) Collateral received which can be re-sold or re-pledged

In the DKB Group, no assets are held as collateral which may be re-sold or re-pledged even if the party furnishing the collateral does not default.

(59) Assets and liabilities in foreign currency

EUR millions	31/12/2019	31/12/2018
Foreign currency assets	**136.8**	**242.1**
USD	95.5	201.3
CHF	27.5	27.0
Other currencies	13.7	13.8
Foreign currency liabilities	**51.1**	**172.2**
USD	50.4	171.4
Other currencies	**0.6**	**0.8**

(60) Subordinated assets

The subordinated assets in the amount of EUR 17.6 million (previous year: EUR 24.4 million) are included in full in the loans and advances to clients.

(61) Risks from financial instruments

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

Default risk

The maximum default risk[1] is broken down as follows:

EUR millions	31/12/2019	31/12/2018
Cash reserves	4,432.5	1,046.2
Loans and advances to banks	2,610.2	3,687.8
Loans and advances to clients	69,116.3	65,511.8
Financial investments	6,104.7	6,297.2
Derivatives	9.8	3.2
Loan commitments and financial guarantees	21,062.8	19,617.1
Total	**103,336.2**	**96,163.3**

[1] For balance sheet assets the gross carrying amount is given, for off-balance-sheet items the exposure.

Collateral is held in the DKB Group to reduce default risks. The main principles governing the individual types of collateral are set out in a guideline on collateral policy in the lending business.

The main collateral in the DKB Group consists of mortgages – primarily on domestic residential real estate. In addition, declarations of obligations under the law of obligations are also used as collateral, primarily including guarantees and assignments, cessions and liens. The extent to which collateral is required for loans granted depends on the economic circumstances of the debtor and their commercial and entrepreneurial skills. The duration of the loan, the structure of the transaction, the general economic situation and the sector situation also play a role. Collateral is not valued under going-concern aspects, but always on the basis of the liquidation value, which corresponds to the expected proceeds of collateral within the framework of an orderly realisation. The liquidation value is determined taking into account the fair value of the collateral and an expected recovery rate specific to each type of collateral.

There were no significant changes in the quality of the collateral held by the DKB Group as a result of a deterioration or changes in the collateral policy in the year under review.

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

	Maximum default risk		Valuation adjustments		Eligible collateral	
EUR millions	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Loans and advances to clients	745.3	829.1	273.4	266.8	238.8	131.7
Loan commitments and financial guarantees	75.5	54.2	27.4	28.1[1]	0.4	16.3
Total	**820.8**	**883.4**	**300.7**	**295.0**[1]	**239.2**	**148.1**

[1] Adjusted previous year's figures.

As at the balance sheet date, the DKB Group held receivables in the amount of EUR 27.2 billion (previous year: EUR 25.8 billion) for which no value adjustment was recognised due to collateral.

For financial instruments that were written down in the reporting year but were still subject to a levy of execution, the amount outstanding under contract law amounted to EUR 18.7 million at the balance sheet date (previous year: EUR 7.5 million).

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

EUR millions	31/12/2019	31/12/2018
Rating 16	**40.9**	**14.0**
Level 3	39.4	13.4
POCI	1.5	0.6
Rating 17	**568.8**	**532.5**
Level 3	530.4	464.2
POCI	38.4	68.3
Rating 18	**179.1**	**293.1**
Level 3	175.8	281.6
POCI	3.4	11.5
Total	**788.8**	**839.6**

Forborne exposure

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

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

The forborne exposure has developed as follows:

in EUR million	31/12/2019	31/12/2018
Loans and advances to clients	444.9	763.4
Contingent liabilities	9.2	14.0
Commitments	37.7	47.5
Total	**491.8**	**825.0**

Market price risk

The DKB Group divides market risks for the bank as a whole (banking book and custody account-A) into the risk factors: interest, equities, credit spread, foreign currency and volatility. The risk capital requirement for the bank as a whole developed as follows:

	12-month comparison 2019			12-month comparison 2018		
EUR millions	**31/12/2019**	**Maximum**	**Minimum**	**31/12/2018**	**Maximum**	**Minimum**
Interest	435.6	460.1	94.9	297.4	394.1	163.1
Equities	60.1	60.5	43.6	47.7	52.3	34.2
Credit spread	13.2	22.9	12.1	22.9	25.2	11.9
Foreign currency	6.2	7.6	5.8	7.1	7.6	6.1
Volatility	0.0	0.0	0.0	0.0	0.0	0.0
Correlated overall risk	**472.5**	**500.7**	**153.7**	**318.3**	**428.6**	**180.6**

The securities portfolio has the following structure:

Fair value in EUR million	Banks		Non-banks		Public-sector issuers		Total	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Bonds	2,185.0	2,124.4	74.0	332.6	3,692.0	3,711.1	**5,950.9**	**6,168.0**
Funds	–	–	153.8	129.1	–	–	**153.8**	**129.1**
Equities	–	–	–	–	–	–	**–**	**–**
Total	**2,185.0**	**2,124.4**	**227.8**	**461.7**	**3,692.0**	**3,711.1**	**6,104.7**	**6,297.2**

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

	31/12/2019		31/12/2018	
	EUR million	**%**	**EUR million**	**%**
Germany	4,095.5	67.1	4,333.6	68.8
Europe/EU	1,785.8	29.3	1,708.6	27.1
Europe/Non-EU	163.9	2.7	175.8	2.8
USA	–	–	–	–
Other	59.6	1.0	79.3	1.3
Total	**6,104.7**	**100.0**	**6,297.2**	**100.0**

Liquidity risk

The breakdown of liabilities and off-balance-sheet items of the DKB Group by contractual maturity is as follows:

EUR millions	31/12/2019	31/12/2018[1]
On demand	52,909.6	**45,905.8**
Liabilities to banks	144.4	201.4
Liabilities to clients	52,763.8	45,704.4
Other liabilities	1.4	–
Up to 3 months	**3,293.2**	**3,988.3**
Liabilities to banks	270.5	915.0
Liabilities to clients	2,833.7	2,705.5
Securitised liabilities	43.7	294.0
Derivatives	60.1	49.9
Other liabilities	2.8	–
Subordinated capital	82.4	23.9
More than 3 months up to 1 year	**1,744.1**	**2,120.7**
Liabilities to banks	778.1	771.4
Liabilities to clients	722.5	1,127.3
Securitised liabilities	49.7	49.7
Derivatives	123.5	146.6
Other liabilities	12.3	–
Subordinated capital	58.0	25.7
From 1 to 5 years	**10,987.1**	**9,753.1**
Liabilities to banks	4,235.3	4,039.8
Liabilities to clients	2,916.2	3,240.0
Securitised liabilities	3,246.0	1,872.7
Derivatives	285.2	362.5
Other liabilities	56.4	–
Subordinated capital	248.0	238.0

EUR millions	31/12/2019	31/12/2018[1]
More than 5 years	**13,560.5**	**14,943.7**
Liabilities to banks	7,726.2	7,946.0
Liabilities to clients	3,174.4	3,462.2
Securitised liabilities	1,699.6	2,640.4
Derivatives	148.9	141.6
Other liabilities	72.8	–
Subordinated capital	738.6	753.6
Indefinite maturity	**22,172.6**	**20,470.2**
Subordinated capital	128.6	128.7
Other liabilities	236.0	98.9
Contingent liabilities	765.3	672.7
Irrevocable commitments	4,412.6	3,848.9
Revocable commitments	16,630.1	15,721.0
Total	**104,667.1**	**97,181.9**

[1] Previous year's figures have been adjusted (the previous presentation based on carrying amounts has been changed to a cash-flow-based presentation).

Other disclosures

(62) Fiduciary transactions

Fiduciary transactions break down as follows:

EUR millions	31/12/2019	31/12/2018
Trust assets	**9.4**	**10.8**
Loans and advances to clients	9.4	10.7
Other	0.0	0.0
Fiduciary exposures	**9.4**	**10.8**
Liabilities to banks	9.4	10.7
Other	0.0	0.0

(63) Other financial obligations

In the DKB Group, there are obligations arising from maintenance contracts, which relate particularly to the areas of IT operations and facility management.

In addition, other financial obligations in the DKB Group result from the joint liability for loans of EUR 0.3 million (previous year: EUR 1.2 million), of which EUR 0.3 million result from non-consolidated companies (previous year: EUR 1.2 million).

DKB Finance GmbH is a limited partner in TEGES Grundstücksvermietungsgesellschaft mbH & Co. Objekt Berlin KG. The limited partnership contribution in the amount of EUR 2.2 million (previous year: EUR 2.2 million) is outstanding and must be paid in cash at the request of TEGES GmbH. The outstanding limited partnership contribution was not requested in 2019.

There are also other financial obligations in the form of secured payment claims from the collection of contributions for the bank levy of EUR 19.6 million (previous year: EUR 15.8 million) and from the collection of contributions to the deposit guarantee fund of the Association of German Public-Law Banks (VÖB) of EUR 19.5 million (previous year: EUR 12.9 million).

(64) Other guarantees and other commitments

The DKB Group has, in accordance with Section 10 (5) of the articles of association of the deposit guarantee fund of the Association of German Public-Law Banks, Berlin, undertaken to provide additional contributions in the event of default, if required. The additional contribution obligation is limited, for every member, and for the entire duration of the fund, as well as for all cases of default, in total to the share of the total volume of the fund stipulated in Section 8 (1) of the articles of association attributable to the member, reduced by all the contributions already made by it.

(65) Shareholdings

Notes regarding Sections 285 No. 11 and 313 HGB or in accordance with IFRS 12.2 (b), 12.4 in conjunction with IFRS 12.B4 and B6 and 12.10 (a) in conjunction with 12.12 for the consolidated financial statements

As at 31 December 2019, DKB has the following associated companies:

Subsidiaries included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
DKB Finance GmbH, Berlin [1,2]	100.0	18.4	7.4
DKB Grund GmbH, Berlin [1,2]	100.0	0.0	6.8
DKB Service GmbH, Potsdam [1,2]	100.0	4.5	0.3
FMP Forderungsmanagement Potsdam GmbH, Potsdam [1,2]	100.0	12.7	10.5
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin [2]	100.0	3.2	0.0
PROGES EINS GmbH, Berlin [2,3]	100.0	0.5	–2.6

[1] Profit transfer agreement and controlling agreement
[2] Preliminary annual financial statements/IFRS package 31/12/2019
[3] Profit transfer agreement

Subsidiaries not included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich [1,3,4]	94.5	–2.7	0.0
DKB Campus GmbH, Berlin [1,8]	100.0	0.5	0.0
DKB Code Factory GmbH, Berlin [1,2]	100.0	0.8	0.0
DKB Immobilien Beteiligungs GmbH, Potsdam [3]	100.0	2.2	0.2
DKB Wohnen GmbH, Berlin [1,3]	94.5	0.0	0.0
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin [1,3]	100.0	2.5	0.0
GbR Olympisches Dorf, Potsdam [3]	99.7	5.0	5.0
Melhoria Immobiliengesellschaft mbH, Potsdam [1,3]	100.0	3.1	0.0
Oberhachinger Bauland GmbH Wohnbau- und Erschließungs-gesellschaft, München [3]	100.0	–0.4	1.0
Potsdamer Immobiliengesellschaft mbH, Potsdam [3]	100.0	0.1	0.0
PROGES DREI GmbH, Berlin [3]	100.0	1.3	0.6
PROGES ENERGY GmbH, Berlin [3]	100.0	0.8	0.1
PROGES Sparingberg GmbH, Berlin [3]	100.0	1.2	1.1
PROGES VIER GmbH, Berlin [3]	100.0	0.1	–0.1
PROGES ZWEI GmbH, Berlin [3]	100.0	3.0	0.0
DKB Stiftung Liebenberg gGmbH, Löwenberger Land OT Liebenberg [5,6]	–	0.4	0.2
DKB Stiftung Schloss Liebenberg GmbH, Fürth [5,7]	–	0.0	0.0
DKB STIFTUNG Jugenddörfer gemeinnützige GmbH, Fürth [5,6]	–	0.1	0.1

[1] Profit transfer agreement and controlling agreement
[2] Preliminary annual financial statements/IFRS package 31/12/2019
[3] Adopted annual financial statements 31/12/2018
[4] No actual negative assets are present.
[5] Control exercised by structured company of the Group
[6] Adopted annual financial statements 31/12/2017
[7] Adopted annual financial statements 31/12/2016
[8] Established in 2019, preliminary data

Other joint ventures

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
AKG ImmoPlus GmbH, Berlin [1]	50.0	0.2	–0.3
German Biofuels GmbH, Pritzwalk [1]	19.9	–1.1	8.0
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin [1]	50.0	0.0	0.0
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin [1]	47.0	–6.6	0.1

[1] Adopted annual financial statements 31/12/2018

Other shareholdings

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
Bau-Partner GmbH i. L., Halle (Saale) [2]	49.7	0.2	–0.6
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam [1]	5.1	36.7	2.3
FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, Munich [3]	14.0	5.3	0.6
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH i. L., Jena [4]	43.1	–0.4	0.0
JFA Verwaltung GmbH, Leipzig [6]	10.7	–12.8	–0.1
LEG Kiefernsiedlung Grundstücksgesellschaft b. R., Berlin [1]	6.4	–2.5	0.4
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b. R., Berlin [1]	7.5	–4.3	0.8
LEG Wohnpark Heroldplatz Grundstücksgesellschaft b. R., Berlin [6]	7.7	–1.4	0.1
Neue Novel Ferm Verwaltungs GmbH, Berlin [6]	49.0	0.0	0.0
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin [6]	49.0	4.0	0.0
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Hamburg [1]	5.2	15	3.3
Swiss Fintech AG, Zurich (CH) [7]	3.9	4.0	–1.9
Visa Inc., USA [5]	>1.0	34,684.0	12,080.0

[1] Adopted annual financial statements 31/12/2018
[2] Prepared annual financial statements 31/12/2010
[3] Adopted annual financial statements 30/06/2019
[4] Adopted annual financial statements 31/12/2012
[5] Adopted annual financial statements 30/09/2019 (in USD)
[6] Adopted annual financial statements 31/12/2017
[7] Annual financial statements 31/12/2018 in CHF

Associated companies

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
DKB BayernImmo Beteiligungs GmbH & Co. KG, Munich [1]	50.0	4.6	–0.1

[1] Adopted annual financial statements 31/12/2018

Structured companies not included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity/fund assets in EUR millions	Gains/losses in EUR millions
DKB Nachhaltigkeitsfonds Europa AL, Luxembourg [2]	84.1	77.1	1.1
DKB Nachhaltigkeit Klimaschutz AL, Luxembourg [2]	83.1	50.8	4.4
DKB Nachhaltigkeit SDG, Luxembourg [2]	71.6	44.0	7.3
BGV III FEEDER1 S.C.S. SICAV-FIS, Luxembourg [3,4]	16.7	17.3	0.2
DKB Stiftung für gesellschaftliches Engagement, Löwenberger Land OT Liebenberg [1]	–	16.6	0.0

[1] Adopted annual financial statements 31/12/2018
[2] Audited annual report 31/03/2019
[3] Annual financial statements 31/12/2018
[4] Capital share and fund assets 31/12/2019

Remarks:
The voting share of DKB corresponds to the capital share, unless otherwise specified. Unless otherwise specified, third parties hold the remaining voting share.

The capital share of the subsidiaries included in the consolidated financial statements in the DKB Group corresponds to the previous year's value.

(66) Related parties

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

– Sole shareholder (BayernLB)

– Non-consolidated subsidiaries

– Joint ventures

– Associated companies

– Other related parties – this includes the subsidiaries, joint ventures and associates of the BayernLB Group, the Free State of Bavaria and companies controlled by the Free State of Bavaria or which the latter jointly manages or over which it has significant influence, as well as the Sparkassenverband Bayern and companies controlled by the Sparkassenverband Bayern or which the latter jointly manages.

– Members of the Board of Management and the Supervisory Board of DKB as well as of the Board of Management and the Supervisory Board of BayernLB, and their close family members.

The DKB Group maintains a range of commercial relations with related parties. Essentially, these relationships include typical bank services, for example in the deposit, lending and money market business.

Business dealings with related companies and persons are concluded within the framework of normal business activities and are subject to fair market conditions, terms and collateralisation.

The scope of transactions with related parties (excluding consolidated transactions) is shown below:

EUR millions	31/12/2019	31/12/2018
Loans and advances to banks	**538.3**	**861.9**
Parent company	538.3	861.9
Loans and advances to clients	**87.6**	**92.3**
Non-consolidated subsidiaries	55.9	59.0
Joint ventures	31.1	29.2
Other related companies	0.6	4.2
Risk provisions	**11.6**	**7.5**
Non-consolidated subsidiaries	0.4	0.2
Joint ventures	11.2	7.3
Assets held for trading	**3.1**	**3.2**
Parent company	3.1	3.2
Positive fair values from derivative financial instruments (hedge accounting)	**–**	**0.0**
Parent company	–	0.0
Financial investments	**30.0**	**30.1**
Other related companies	30.0	30.1
Other assets	**308.0**	**193.1**
Parent company	304.8	192.5
Non-consolidated subsidiaries	2.9	0.4
Joint ventures	0.0	0.0
Other related companies	0.3	0.1
Liabilities to banks	**459.1**	**613.4**
Parent company	248.3	382.4
Other related companies	210.8	231.0

EUR millions	31/12/2019	31/12/2018
Liabilities to clients	**84.5**	**88.1**
Non-consolidated subsidiaries	23.8	26.9
Associated companies	0.0	1.5
Joint ventures	1.7	0.7
Other related companies	59.0	59.0
Securitised liabilities	**52.1**	**39.9**
Parent company	10.7	0.7
Other related companies	41.4	39.2
Trading liabilities	**7.4**	**0.7**
Parent company	7.4	0.7
Negative fair values from derivative financial instruments (hedge accounting)	**15.1**	**3.7**
Parent company	15.1	3.7
Provisions	**1.9**	**1.5**
Non-consolidated subsidiaries	0.0	0.0
Joint ventures	1.8	1.5
Other related companies	0.0	0.0
Other liabilities	**8.0**	**9.1**
Parent company	1.3	3.9
Non-consolidated subsidiaries	4.1	0.9
Joint ventures	0.0	0.0
Other related companies	2.6	4.4
Subordinated capital	**764.8**	**661.3**
Parent company	764.8	661.3
Contingent liabilities	**0.7**	**0.8**
Non-consolidated subsidiaries	0.7	0.8
Other related companies	0.0	0.0
Other liabilities	**1.6**	**4.6**
Non-consolidated subsidiaries	1.6	1.0
Other related companies	–	3.6

Other commitments only contain credit commitments.

Loans, advances and deposits

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

EUR millions	31/12/2019	31/12/2018
Loans and advances [1, 2]		
Members of the Board of Management of DKB	2.0	1.7
Members of the Supervisory Board of DKB	1.9	0.8
Members of the Board of Management of BayernLB	1.1	0.3
Members of the Supervisory Board of BayernLB	0.0	0.2

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

EUR millions	31/12/2019	31/12/2018
Contributions [1]		
Members of the Board of Management of DKB	1.7	1.9
Members of the Supervisory Board of DKB	2.2	2.0
Members of the Board of Management of BayernLB	1.8	2.1
Members of the Supervisory Board of BayernLB	0.2	0.1

[1] Multiple entries are possible.

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

EUR millions	31/12/2019	31/12/2018
Members of the Board of Management of DKB	**3.5**	**3.5**
Current employee benefits	2.7	2.8
Other non-current employee benefits	0.8	0.7
Benefits after the working relationship has ended	–	–
Members of the Supervisory Board of DKB	**0.6**	**0.5**
Current employee benefits	0.6	0.5
Former members of the Board of Management of DKB and their surviving dependants	**1.2**	**0.9**
Pension reserves formed for members of the Board of Management of DKB	**19.0**	**13.7**
Pension reserves formed for former members of the Board of Management of DKB and their surviving dependants	**27.6**	**26.0**

The variable remuneration of EUR 1.0 million taken into account for the members of the Board of Management for the financial year is subject to the approval of the Supervisory Board at the time the annual financial statements are prepared.

A regular salary was furthermore due to the employee representatives in the Supervisory Board within the framework of their employment contract. This is based on the collective agreement or results from an individual agreement and corresponds to a remuneration that is commensurate with the respective role or activity in the company.

Close family members of the Board of Management and of the Supervisory Board have no influence on the business decisions of the DKB Group.

(67) Non-consolidated structured companies

The DKB Group maintains business relationships with structured companies. These involve contractual and non-contractual business relationships with companies that are arranged such that these are not controlled by voting rights or similar rights; instead the voting rights only relate to administrative tasks. The actual relevant activities of the structured companies are controlled by contractual agreements.

Investment funds

The DKB Group invests in funds that are launched by capital investment companies. The purpose of the funds is essentially to participate in the development of equity markets. The investment funds are financed by the issuing of share certificates, by way of credit financing or by issuing debt and equity instruments. The financing is matched by the assets of the fund. The scope of the investment funds with which the DKB Group maintains business relationships is determined by their fund assets. The fund assets of the four funds amounted to between EUR 17.3 million and EUR 84.4 million as at 31/12/2019.

Other financing

The DKB Group provides financing funds for a structured company, which maintains a number of different assets. This structured company was established as a foundation. The purpose of the foundation is to promote the preservation of historical monuments, art and culture and to support education projects. The financing is offset by the assets held. The total assets of the structured company amount to EUR 26.6 million.

Balance sheet assets and liabilities from shares in non-consolidated structured companies

	Investment funds		Other financing		Total	
EUR millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Assets						
Loans and advances to clients	–	–	10.0	9.7	**10.0**	9.7
Risk provisions	–	–	–0.4	–0.3	**–0.4**	–0.3
Financial investments	153.8	129.1	–	–	**153.8**	129.1
Total	**153.8**	**129.1**	**9.6**	**9.4**	**163.4**	**138.5**
Liabilities						
Liabilities to clients	–	–	0.4	0.5	**0.4**	0.5
Provisions	–	–	0.0	0.0	**0.0**	0.0
Total	**–**	**–**	**0.4**	**0.5**	**0.4**	**0.5**

The maximum risk of loss, to which the DKB Group is exposed through its business activities with structured companies, is determined by the lending business for receivables and, for financial investments, from their balance sheet book value. These book values do not reflect the economic risk of the DKB Group from these shares, as they do not take account of collateral or hedging relationships.

Other obligations from shares in non-consolidated structured companies

	Investment funds		Other financing		Total	
EUR millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Loan commitments	–	–	0.3	1.0	**0.3**	1.0
Total	**–**	**–**	**0.3**	**1.0**	**0.3**	**1.0**

The maximum risk of loss from off-balance-sheet transactions is represented by their nominal value. These nominal values do not represent the economic risk, as neither the effects of collateralisation, nor the probability of losses that may have occurred, are taken into account.

Obligations from shares in non-consolidated structured companies

	Investment funds		Other financing		Total	
EUR millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net interest income	0.5	1.0	0.3	0.3	**0.8**	1.3
Risk result	–	–	–0.1	–0.2	**–0.1**	–0.2
Total	**0.5**	**1.0**	**0.2**	**0.1**	**0.7**	**1.1**

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

As at the balance sheet reporting date, 31 December 2019, the following mandates were held by members of the Board of Management and by employees of DKB on statutory supervisory bodies of major corporations, including financial institutions:

Stefan Unterlandstättner
Bayern Card-Services GmbH, Munich
VÖB Service GmbH, Bonn

Alexander von Dobschütz
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main

(69) Auditor's fee

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

EUR millions	2019[1]
Audit services for the financial statements	2.5
Other auditing services	0.2
Tax consultancy services	–
Other services	0.5
Total	**3.2**

[1] Excluding VAT (net).

The auditor's fee includes, in particular, the audit of the consolidated financial statements and the annual financial statements of DKB, as well as the annual financial statements of other Group companies, including statutory contract extensions and auditing focal points agreed with the Supervisory Board. In addition, the review of the half-yearly financial report was carried out in conjunction with the audit. The other confirmation services relate to the audit pursuant to section 89 WpHG. Other services relate to quality assurance support services for internal DKB projects to implement legal and regulatory requirements.

(70) Employees

Average employee capacities during the financial year:

	2019	2018
Full-time staff (excluding apprentices)	**2,948**	**2,584**
Female	1.392	1.219
Male	1.556	1.366
Part-time staff (excluding apprentices)	**743**	**692**
Female	609	581
Male	134	111
Apprentices	**13**	**16**
Female	8	8
Male	5	8
Total	**3,704**	**3,292**

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

(71) Shareholders

DKB is a wholly owned subsidiary of BayernLB with its headquarters in Munich. BayernLB is an institution established under public law. It is owned (indirectly via BayernLB Holding AG) by the Free State of Bavaria and the Association of Bavarian Savings Banks. The BayernLB notification was issued to DKB in accordance with Section 20 (4) AktG.

The DKB Group is included in the consolidated financial statements of BayernLB. The consolidated financial statements of BayernLB will be published, as will the consolidated financial statements of DKB, in the electronic Federal Gazette.

(72) Events after the balance sheet date

There were no events of particular significance for the DKB Group after 31 December 2019.

Time of release for publication

The Board of Management of Deutsche Kreditbank AG prepared the consolidated financial statements on 25 February 2020 and released them for submission to the Supervisory Board. The Supervisory Board has the task of auditing the consolidated financial statements and of declaring whether it approves the consolidated financial statements.

Berlin, 25 February 2020

Deutsche Kreditbank AG
The Board of Management

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

Alexander von Dobschütz **Jan Walther**

Additional information

Responsibility statement by the Board of Management

We declare that, to the best of our knowledge and in accordance with the applicable accounting principles, these consolidated financial statements, in accordance with generally accepted accounting principles, provide a true representation of the Group's net assets, financial position and performance, and that, in the combined management report, the business result including the gains/losses and the position of the Group are represented such as to provide a true picture of the actual situation, and that the material opportunities and risks of the expected development of the Group are described.

Berlin, 25 February 2020

Deutsche Kreditbank AG
The Board of Management

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

Alexander von Dobschütz **Jan Walther**

Independent auditor's report

For Deutsche Kreditbank AG, Berlin

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

Audit opinions

We have audited the consolidated financial statements of Deutsche Kreditbank AG, Berlin, and its subsidiaries (the Group) – comprising the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2019 and the Notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Deutsche Kreditbank AG, which is combined with the company's management report, for the financial year from 1 January to 31 December 2019. In accordance with German law, we have not audited the content of the corporate governance statement pursuant to Section 289 (f) (4) HGB (information on the representation of women).

In our opinion based on the findings of our audit

- the enclosed consolidated annual financial statements are in all material respects in compliance with IFRS as applicable in the EU and the supplementary provisions under commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group as at 31 December 2019 and its earnings situation for the financial year from 1 January until the end of 31 December 2019 in accordance with these requirements and

- the Group management report provides a suitable understanding of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development. Our audit opinion on the Group management report does not extend to the contents of the above-mentioned corporate governance statement.

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

Basis for the audit opinions

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

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

Particularly significant audit issues are those which, in our opinion and due discretion, were most significant to our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These issues have been considered in connection with our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these issues.

In our opinion, the following aspect was most significant in our audit:

– Risk provisions in the lending business

We have structured our presentation of this particularly important audit aspect as follows:

- Facts and problem definition
- Audit procedure and findings
- Reference to further information

We present below the most important aspects of the audit:

– Risk provisions in the lending business

- In the company's consolidated financial statements, loan receivables amounting to EUR 69,526.3 million (83% of net assets) are reported under the balance sheet item "Loans and advances to clients". As at 31 December 2019, on-balance-sheet risk provisions for the loan portfolio consist of individual and portfolio allowances. The measurement of risk provisions in the lending business is determined in particular by the estimates of the legal representatives with regard to future loan defaults, the structure and quality of the loan portfolios and macroeconomic factors. The amount of specific valuation allowances for client receivables is the difference between the outstanding loan amount and the lower value to be attributed to it as at the balance sheet date. Existing collateral is taken into account. The valuation allowances for the lending business are of great significance for the company's net assets and results of operations in terms of the amounts involved, on the one hand, and involve considerable discretion on the part of legal representatives, on the other. In addition, the measurement parameters applied, which are subject to significant uncertainties, have a material effect on the creation or amount of any necessary valuation allowances. Given the aforementioned, this aspect was of significant importance within the scope of our audit.

- As part of our audit, we first assessed the appropriateness of the design of the controls in the relevant internal control system of the company, taking into account our understanding of the business organisation, the IT systems set up and the valuation models used, and tested the functionality of the controls. In addition, we assessed the calculation methods used by the company as well as the underlying assumptions and parameters in order to evaluate the individual and portfolio valuation allowances applied. Furthermore, we assessed the measurement of client receivables, including the appropriateness of estimated amounts, based on random samples of loan exposures. In doing so, we assessed, among other things, the documents available to the company with regard to the economic circumstances and the intrinsic value of the corresponding collateral. In the case of property collateral for which the company furnished us with value appraisals, we gained an understanding of the underlying data, the measurement parameters applied and the assumptions made, critically evaluated these and assessed whether they fell within a reasonable bandwidth. Overall, based on our audit procedures, we were able to satisfy ourselves as to the appropriateness of the assumptions made and parameters used by the legal representatives in the impairment test of the loan portfolio and the appropriateness and effectiveness of the processes implemented by the company.

- The company's disclosures on the risk provisions in the lending business can be found in sections "Note 9" and "Note 39" of the Notes.

Miscellaneous information

The legal representatives are responsible for the miscellaneous information. Other information includes the corporate governance statement in accordance with Section 289f (4) HGB (information on the representation of women).

Other information also includes the remaining parts of the Annual Report – without further cross-references to external information – with the exception of the audited consolidated financial statements, the audited combined management report and our audit opinion.

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

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

- is materially inconsistent with the consolidated financial statements, Group management report or the findings of our audit, or

- otherwise appears materially misrepresented.

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

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

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

The legal representatives are responsible for the preparation of the Group management report, which as a whole provides a suitable view of the Group’s position, is consistent in all material respects with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (and such systems) which they have deemed necessary to enable the preparation of a Group management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the Group management report. The Supervisory Board is responsible for monitoring the Group’s accounting process for the preparation of the consolidated financial statements and the Group management report.

Responsibility of the auditor for the audit of the consolidated financial statements and Group management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether intended or not, and whether the Group management report as a whole provides a suitable view of the Group’s position and is in accordance, in all material respects, with the consolidated financial statements and the findings of our audit, complies with the requirements of the German legal regulations and suitably presents the opportunities and risks of future development, and to issue an audit report that includes our audit opinions on the consolidated financial statements and Group management report.

Sufficient assurance is a high degree of certainty, but no guarantee that an audit conducted in accordance with Section 317 HGB and EU-APrVO in accordance with the generally accepted standards for the audit of financial statements laid down by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements may result from infringements or inaccuracies and are considered material if it could reasonably be expected that they will influence the financial decisions of the users of these financial statements, made individually or collectively on the basis of these consolidated financial statements and Group management report.

During the audit, we exercise due discretion and maintain a critical attitude. In addition:

- we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and Group management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the precautions and measures relevant to the audit of the Group management report for planning audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- we assess the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values and related disclosures presented by the legal representatives.

- we draw conclusions about the appropriateness of the going-concern accounting principle applied by the legal representatives and, based on the evidence obtained, whether there is a material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue its activities as a going concern. If we conclude that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the Group management report in our audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of evidence obtained by the date of our audit opinion. However, future events or circumstances may prevent the Group from continuing its business activities.

- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying business transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB.

- we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the management, supervision and execution of the audit of the consolidated financial statements. We bear the sole responsibility for our audit opinions.

- we assess the consistency of the Group management report with the consolidated financial statements, its compliance with the law and the picture it conveys of the Group's position.

- we perform audit procedures on the forward-looking statements presented by the legal representatives in the Group management report. On the basis of sufficient suitable audit evidence, we follow up on the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not express an independent opinion on these forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system which we identify during our audit.

We make a statement to those responsible for the monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other matters that can reasonably be expected to affect our independence and the safeguards taken to that end. From the matters that we have discussed with those responsible for supervision, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions exclude public disclosure of the facts.

Miscellaneous legal and other legal requirements

Other disclosures in accordance with Article 10 of EU-APrVO

We were elected as Group auditors by the Annual General Meeting on 13 September 2017. We were appointed by the Supervisory Board on 23 November 2018. We have acted as the auditors of the consolidated financial statements of Deutsche Kreditbank AG without interruption since the 2019 financial year.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee under Article 11 of EU-APrVO (Audit Report).

Responsible auditor

The auditor responsible for the audit is Mark Maternus.

Berlin, on 25 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft [audit firm]

Signed Mark Maternus
German Public Auditor

Signed Michael Quade
German Public Auditor

Multi-year overview

Earnings indicators

EUR millions	2019	2018	2017	2016	2015
Net interest income	950.5	945.1	935.2	795.1	790.4
Risk result[1]	55.9	111.8	127.3	128.7	143.8
Net commission income	–34.5	–33.7	–39.2	6.9	–1.3
Administrative expenses	541.4	474.7	446.3	417.0	376.8
Profit/loss before taxes	297.8	301.2	264.7	331.2	236.0
Cost/income ratio (CIR) in %	56.7	51.5	50.8	45.8	48.0
Return on equity (ROE) in %	9.5	10.2	9.6	12.4	9.6

Balance sheet figures

EUR millions	2019	2018	2017	2016	2015
Total assets	83,754.4	77,387.6	77,322.9	76,522.3	73,428.8
Equity	3,426.7	3,340.4	3,255.5	3,019.1	2,945.7
CET1 ratio in %[2]	9.05	9.7	9.4	8.9	8.2
Client receivables	69,526.3	65,932.5	64,552.2	63,228.3	61,582.1
Customer deposits	60,766.5	54,366.1	53,931.0	53,438.0	48,558.2

Client figures

	2019	2018	2017	2016	2015
Number of clients	4,367,494	4,073,875	3,761,498	3,518,055	3,250,968
Number of retail current accounts (DKB-Cash)	3,248,569	2,980,293	2,746,526	2,501,689	2,214,771

Employee figures

	2019	2018	2017	2016	2015
Average FTEs | headcount	3,704 | 4,016	3,271 | 3,564	3,049 | 3,331	2,992 | 3,273	2,900 | 3,179
FTEs | headcount as at 31 Dec.	3,839 | 4,148	3,431 | 3,731	3,084 | 3,379	3,032 | 3,316	2,937 | 3,220
Average age in years	42.7	42.9	43.1	42.8	42.5
Average length of service in years	8.1	8.4	8.5	8.2	7.9
Gender breakdown m | f in %	44.6 | 55.4	43.8 | 56.2	43.3 | 56.7	41.7 | 58.3	40.5 | 59.5
Gender breakdown by management position m | f in %	64.2 | 35.8	62.4 | 37.6	60.5 | 39.5	61.1 | 38.9	62.5 | 37.5
Workforce availability in %	95.3	95.1	95.1	95	95.3
Training days/employee	4.0	3.8	3.4	3.4	2.4

[1] Risk provisions until 2017
[2] After adoption of the annual financial statements

Contact and legal notice

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Additional information
Further information on our company can be found at www.dkb.de.

Notice
This Annual Report published by Deutsche Kreditbank AG contains forward-looking statements. These statements reflect the current views of the company's management and are thus based on estimates and expectations. They are therefore not to be regarded as guarantees that these expectations will also be met.

The information provided in the Annual Report was carefully selected and originates from credible sources, although we did not check the veracity of the information. The DKB Annual Report 2019 is also available in German. In the event of any discrepancy, the German version shall prevail.

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

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