Half-Year Financial Report 2019

DKB

Deutsche Kreditbank AG

Performance indicators

in EUR million	30 June 2019	30 June 2018
Net interest income	479.0	510.5
Risk result	– 40.4	– 28.9
Net commission income	– 12.1	– 11.3
Administrative expenses	– 269.9	– 231.8
Profit/loss before taxes	155.0	191.8
Cost/income ratio (CIR) in%	53.30%	48.60%
Return on equity (RoE) in%	10.00%	13.20%

Balance sheet figures

in EUR million	30 June 2019	31 Dec. 2018
Total assets	80,111.40	77,387.60
Equity	3,548.00	3,340.40
Client receivables	67,482.10	65,932.50
Client deposits	56,809.70	54,366.10
Client receivables as a share of balance sheet total in%	~ 84%	~ 85%

Contents

Group interim management report

Basic principles

Deutsche Kreditbank (DKB), headquartered in Berlin, is one of Germany's largest banks. Our company is a wholly owned subsidiary of BayernLB. We use approximately 84% of our total assets for loans.

Entrepreneurial and sustainable action are of importance to us in equal measure. When granting loans we look at compliance with environmental and social standards. We therefore finance, for example, the construction of housing adapted to the needs of the elderly and families, energy-efficient real estate as well as inpatient and outpatient healthcare facilities, the construction of agricultural holdings and building projects in schools and day-care facilities in Germany. In addition, we have been providing loans for a large number of renewable energy projects in the wind, solar, bioenergy and hydropower sector since 1996. Using the latest technologies, our more than 4 million retail clients can conduct their banking transactions conveniently and securely online. At the same time, thanks to their deposits, they become funders of green and social projects and thereby #moneyoptimisers.

Our goal is to remain at the forefront of sustainable banking and to thereby offer our retail and business clients real added value. Our 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.

We split our Group activities into three market segments – retail clients, infrastructure and corporate clients – as well as the financial markets, which includes the Treasury division of DKB, and the "other" segment. Deutsche Kreditbank AG, Berlin, is the parent company for the Deutsche Kreditbank Group, Berlin. Further information on the basic principles of the Group can be found in the 2018 Annual Report (p. 12 et seq.). The statements contained therein still apply.

The interim management report for the first half of 2019 and the half-year financial statements for 2019 have been drawn up pursuant to section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz: WpHG) in accordance with section 315e, paragraph 1 of the German Commercial Code (Handelsgesetzbuch: HGB) and (EC) Regulation no. 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 and other regulations on the adoption of specific international accounting standards on the basis of the International Financial Reporting Standards (IFRSs) adopted and published by the International Accounting Standards Board (IASB), as well as the supplementary commercial law provisions pursuant to section 315e, paragraph 1 HGB. The statements are also based on the requirements of GAS 16 of the Accounting Standards Committee of Germany (ASCG) in the version amended by GAAS 8 on 22 September 2017.

Report on the economic position

Economic environment

Macroeconomic environment: the German economy contracted slightly

Overall economic activity in Germany was restrained in the first quarter of 2019. Economic performance increased compared to the previous quarter (seasonally and calendar-adjusted) by 0.4% and was thus rather solid. However, this growth was largely based on catch-up effects from the automobile industry as well as on fiscal measures. The underlying economic trend, measured among other things by order intake, was downward during the first quarter. In the second quarter, GDP growth even declined slightly. Declining industrial activity was offset by strong construction activity and moderately expanding value added by service providers.

The inflation rate in Germany was 1.6% in June. It was thus slightly higher compared with the previous month of May (1.4%). The main drivers were energy and services, including residential rents in particular.

Financial markets: political uncertainties continue to exert an increasing influence

The international financial markets remained under the influence of numerous areas of political conflict in the first half of 2019. These include the smouldering trade dispute between the USA and China and the escalating nuclear conflict between the USA and Iran. In Europe, the unresolved Brexit question continued to dominate political events. At the same time, the budget deficit dispute between Italy and the EU once again came to the fore.

In June, the US Federal Reserve decided to leave the key interest rate in the range of 2.25% to 2.5% for the time being. At the end of July, it then lowered the key interest rate by 0.25 percentage points to between 2% and 2.25% and signalled further possible rate cuts if these were necessary to maintain the economic upswing in the USA. The Fed thus moved away from its previous unconditional path of interest rate hikes. The ECB also maintained its zero interest rate course. The main refinancing rate remained at 0% and the deposit rate at – 0.40%.

As a result of the Fed's about-face, yields on German government bonds fell sharply and in some cases into negative territory again. For example, the yield on a ten-year government bond fell from 0.25% to – 0.33% in the first half of the year.

On the stock markets, the prospect of further central bank stimuli and lower capital market interest rates contributed to strong price increases, despite the economic uncertainty. The benchmark DAX index rose by 18.5% to 12,398 points in the first half of the year.

The exchange rate of the euro against the US dollar showed a gradual downward trend in the first half of the year, falling from USD 1.14 to USD 1.12.

Business performance

Overall performance: figures in line with expectations

The DKB Group met its targets and expectations in the first half of 2019.

Thanks to our client-focused product and service portfolio, we were able to further expand our market position and increase our client receivables by EUR 1.5 billion (+ 2.4%) to EUR 67.5 billion. Client deposits rose by EUR 2.4 billion (+ 4.5%) to EUR 56.8 billion. As a result of this positive development, total assets rose by EUR 2.7 billion (+ 3.5%) to EUR 80.1 billion, thus exceeding EUR 80 billion for the first time.

As in the previous year, we also made extensive investments in our digital infrastructure and staffing to further improve the attractiveness and security of our services. These measures were associated with an increase in administrative expenses of EUR 38.1 million (+ 16.5%) to EUR 269.9 billion.

In the corporate clients segment, 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.

In January of this year, we also acquired a stake in the Swiss fintech company Loanboox. The acquisition further strengthened our 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, 330 cities, municipalities, administrative districts and municipal utilities are already active on the credit platform.

The net interest income after risk result fell by EUR 43.0 million (8.9%) year-on-year to EUR 438.6 million due to the continuing low interest rate environment.

Due to the positive development on the financial markets, fair value gains/losses improved by EUR 19.5 million to EUR 30.5 million.

Overall, the DKB Group achieved a pre-tax profit of EUR 155.0 million, in line with our expectations (first half of the previous year: EUR 191.8 million).

The change in the key ratios for return on capital and profitability over the first half of the year was as follows: the return on equity (RoE) reached 10.0%, down 3.2 percentage points on the previous year (mid-2018: 13.2%). The cost/income ratio (CIR) stood at 53.3%, which was higher compared to the previous year (mid-year 2018: 48.6%).

Retail clients segment: successful expansion of services and number of clients

The upheaval in the banking market continued in the first half of 2019: driven by digitalisation, new business models and competitors continuing to establish themselves on the market. A trend towards setting up their own banking platforms can be seen among large technology companies.

On the whole, it is evident that banking is being increasingly associated with the activities of large technology companies. Bigtechs are successively pulling new banking use cases into their ecosystems. These include mobile payment (for example with Google Pay and Apple Pay) in their payment structures, offering their own instalment credits when shopping via Amazon and offering their own credit cards (Apple and PayPal Working Capital).

At the same time, the low interest rate phase is continuing and the regulatory requirements with regard to capital requirements, liquidity requirements, risk management and IT infrastructure/security are also increasing. In this context, we have been making our sandbox available to third-party providers since March 2019 as part of the PSD2, an extension of the PSD1 EU directive on the regulation of payment services and payment service providers.

In this environment, we focused our retail client business on maintaining our market leadership in current accounts and credit cards. For our credit cards, we developed value-added services such as Card Control and 3D Secure, and focused increasingly on the area of 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 messages. In addition, they can block individual types of transactions or permanently block their credit cards in the event of an emergency. 3D 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.

At the same time, we continued to pursue our no-cash strategy and introduced Google Pay and Apple Pay as mobile payment methods in the first half of the year. This enabled us to achieve a further increase in card usage for payments. We also continued to expand our product range through cooperation agreements. For example, we expanded the services offered with the Lufthansa Miles & More credit card by offering individualised additional services for collecting miles or additional insurance packages.

We also strengthened our positioning as a bank by providing sustainable investment opportunities: in May, we successfully issued our first social bond for retail clients and, together with BayernInvest, we launched three sustainable funds in June that include the United Nations' Sustainable Development Goals (SDGs) in their investment approach.

With 198,000 new clients, we were able to further expand our client base as planned (same period of the previous year: 193,000); the number of private current accounts with our anchor product DKB Cash rose by 111,000 (same period of the previous year: 110,000). In the securities business, too, the number of custody accounts increased from 249,000 to 289,000 as of the balance sheet date.

Individual client business with doctors and pharmacists as well as lawyers and tax advisors continued to develop positively. Compared to the same period of the previous year, sales performance significantly increased, in particular with regard to the granting of loans. A net total of 1,365 new clients were acquired in the first half of the year.

In the retail clients segment, we served a total of 4.15 million clients as of the half-year reporting date, which continues to make us the second-largest direct bank in Germany.

The deposit volume in the retail clients segment rose by EUR 2.7 billion to EUR 37.7 billion as the growth in new clients increased. The volume of receivables (nominal) increased by EUR 0.1 billion to EUR 12.4 billion year-on-year.

Infrastructure segment: receivables volume slightly higher

In the infrastructure segment, the positive conditions for the lending business continued in the face of persistently strong competition. This was reflected in continued high demand for financing across all client groups. Despite higher repayment ratios, the volume of receivables as at the reporting date was EUR 1.4 billion higher at EUR 41.6 billion. A pleasing development was that new lending business was significantly higher than the corresponding figure for the previous year. The volume of deposits remained virtually constant over the course of the year and amounted to EUR 13.1 billion (previous year: EUR 13.3 billion).

Competitive pressure and pressure on margins also remained high in the **local authorities and social infrastructure** client group. The market situation continued to benefit from high investment requirements in the public infrastructure and healthcare sectors. In the first few months of the year, public-sector demand for credit increased again, despite an improved budget situation and the support of financially weak local authorities by individual federal states, such as through the "Starke Heimat Hessen" [Hessen, a strong homeland] programme. With 11,510 clients, the client base was at the same level as on the balance sheet date (31 December 2018: 11,590 clients).

In the **energy and utilities** client group, the lending business continued to develop at a stable, good level with a slight increase in momentum. The division achieved slight growth in the first half of the year despite fierce competition and high pressure on margins. The high demand for long maturities continued. A trend towards investments in Smart City, digitalisation and broadband networks was increasingly discernible in the municipal utilities.

Due to the current interest rate level and investment-friendly conditions, demand for loans in the **residential** client group remained high in the first half of 2019. New business developed positively in line with expectations. A large part of investments continued to be made in new construction and energy-related measures. At the same time, the housing companies are continuing their debt reduction strategy, particularly in the demographically weaker regions. At the end of the first half of the year, the market penetration of housing companies was 80.5% and thus at the level of the turn of the year (31 December 2018: 80%).

The **management business** continued to develop very positively. In the first half of 2019, numerous new clients were acquired. The deposit volume in this client group increased to EUR 4.2 billion. As of the reporting date, around 10,620 commercial residential property managers (31 December 2018: 10,100) managed the portfolios of more than 58,900 condominium owners associations (31 December 2018: 55,700) with DKB AG.

As expected, the **civic participation** segment developed stably in the first half of 2019, despite a noticeable decline in enquiries in the wind segment, whose projects are subject to protracted approval processes. On the other hand, business activities in the cooperative sector were significantly expanded. Many cooperatives are discovering the field of energy system transformation for themselves and are increasingly turning their attention to renewable energies, e-mobility, electricity marketing and the sharing economy. The strong demand for communal housing projects also developed positively. The number of DKB civic participation projects rose to a total of 123.

The volume of receivables from Group subsidiaries has been reported in the infrastructure segment since 1 January 2019 (previously corporate clients). The comparative figures from the previous year were adjusted in both segments.

Corporate clients segment: volume of receivables also increases

Business in the corporate clients segment grew slightly in the first half of 2019. The volume of receivables as at the reporting date was EUR 0.1 billion higher at EUR 13.2 billion. New business was supported by contributions from all client groups, with a particular focus on financing in the nutrition, photovoltaics and leisure hotel segments. Overall, an increasing contribution to growth can be observed from the progressive market penetration of western markets and from new sub-segments such as energy solutions. The deposit volume remained stable at EUR 2.2 billion.

In the **environmental technology** client group, developments in the wind energy segment fell short of expectations. The existing tender quotas were only partially in demand by the market players. The reasons for this continue to be the difficult approval situation and the high pressure to file suit against new wind turbine plants. With our adjusted financing parameters, however, we believe that we remain well positioned in this respect. The demand for photovoltaic financing, especially for ground-mounted systems, remains good. In addition to systems with legally regulated subsidies, we are increasingly financing new photovoltaic projects that want to sell the generated electricity freely on the market. We are developing suitable financing standards for this new business model. The volume of receivables and deposits remained stable in the first half of the year.

In the **agriculture and nutrition** client group, arable farming and dairy farms suffered from the consequences of the pronounced drought of the previous year, with the result that demand for working capital financing increased at some farms. Improved producer prices for cereals offset some of the decline in earnings. Milk producer prices stabilised at an adequate level, enabling production to cover costs. For pig farms, producer prices have improved significantly, thus improving profitability. The propensity to invest in stable construction is picking up again slightly after very restrained previous years. Measures to make biogas plants more flexible are currently being implemented in the bioenergy sector. However, the propensity to invest remains subdued due to the specific legal structure that is still outstanding. The volume of receivables and deposits in the client group remained stable in the first half of the year.

In the **tourism** client group, rising demand from investors for leisure hotels and increased interest from professional operators in this segment led to solid new business, which compensated for the unscheduled repayments from property sales. The volume of receivables remained largely constant. The volume of liabilities remained stable.

The **syndicated business, leasing and factoring** segments, which were included in the corporate clients segment as a result of internal restructuring, developed satisfactorily. DKB supports selected leasing companies with the aim of purchasing leasing receivables within the framework of forfaiting in the target client industries. Falling forfaiting ratios have been noticed on the market. Nevertheless, the forfaiting business expanded compared with the previous half-year.

Financial markets segment: liquidity increased

Market developments led to a significant increase in the revaluation reserve in DKB's liquidity portfolio.

The portfolio of highly liquid securities (as defined by supervisory law) in the liquidity buffer was increased by EUR 53 billion (net) in the first half of 2019 (maturities: EUR 490 million).

Client deposits grew by a total of approximately EUR 2.4 billion in the first half of 2019. Large-volume capital market issues were dispensed with as a result of the bank's continued extensive liquidity resources.

In May, we issued our first social Pfandbrief with a 1000-euro denomination for retail investors. In addition, long-term registered Pfandbriefs with a volume of EUR 108 million were issued and placed with institutional investors.

In the first half of the year, the volume of new programme lending business amounted to EUR 642 million (30 June 2018: EUR 640 million). The portfolio volume from programme loans and global loans of the development banks amounted to EUR 12.4 billion as at the middle of the year (mid-year 2018: EUR 13 billion).

Results of operations

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Net interest income	479.0	510.5	– 31.5	– 6.2
Risk result	– 40.4	– 28.9	– 11.5	– 39.9
Net interest income after risk result	**438.6**	**481.6**	**– 43.0**	**– 8.9**
Net commission income	– 12.1	– 11.3	– 0.9	– 7.7
Gains/losses on fair value measurement	30.5	11.0	19.5	>100.0
Gains/losses on hedging transactions	– 4.4	– 34.2	29.8	87.0
Gains/losses on financial investments	0.1	0.4	– 0.3	– 78.7
Administrative expenses	– 269.9	– 231.8	– 38.1	– 16.5
Expenses from bank levies, deposit protection and banking supervision	– 33.8	– 30.7	– 3.1	– 10.0
Other income and expenses	6.1	6.7	– 0.6	– 8.5
Gains/losses on restructuring	–	0.1	– 0.1	>– 100.0
Profit/loss before taxes	**155.0**	**191.8**	**– 36.8**	**– 19.2**
Income taxes	0.0	– 1.4	1.4	>100.0
Consolidated profit/loss	**155.0**	**190.4**	**– 35.4**	**– 18.6**

The Group result decreased primarily due to the continued low interest rate environment and the increased investments in digital infrastructure as well as the staffing of the DKB Group.

Net interest income

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Interest income and positive interest expenses	815.2	886.2	– 71.0	– 8.0
Interest expenses and negative interest income	– 336.2	– 375.7	39.5	10.5
Net interest income	**479.0**	**510.5**	**– 31.5**	**– 6.2**

Risk result

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Risk provision result	– 47.4	– 22.6	– 24.7	>– 100.0
Result from the disposal of AAC-category financial instruments	7.0	– 6.2	13.2	>100.0
Risk result	**– 40.4**	**– 28.9**	**– 11.5**	**– 39.9**

Net commission income

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Credit card business	15.4	12.2	3.2	26.4
Lending business	– 8.9	– 7.6	– 1.3	– 16.8
Payments	– 23.8	– 22.8	– 0.9	– 4.2
Other net commission income	5.1	6.9	– 1.9	– 26.5
Net commission income	**– 12.1**	**– 11.3**	**– 0.9**	**– 7.7**

Gains/losses on fair value measurement

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Result from derivatives in commercial hedging relationships	0.6	6.2	– 5.6	– 90.3
Fair value result from FVPLM financial instruments	29.9	4.8	25.1	>100.0
Gains/losses on fair value measurement	**30.5**	**11.0**	**19.5**	**>100.0**

Gains/losses on hedging transactions

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

Gains/losses on financial investments

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

Administrative expenses

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Staff costs	– 138.7	– 122.7	– 16.1	– 13.1
Other administrative expenses	– 118.6	– 105.2	– 13.4	– 12.8
Depreciation and impairments on property, plant and equipment and intangible assets	– 12.6	– 4.0	– 8.6	>– 100.0
Administrative expenses	**– 269.9**	**– 231.8**	**– 38.1**	**– 16.5**

Expenses from bank levies, deposit protection and banking supervision

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Bank levy	– 21.8	– 22.1	0.3	1.6
Deposit guarantee scheme	– 9.8	– 7.0	– 2.8	– 40.2
Banking supervision	– 2.3	– 1.7	– 0.6	– 37.4
Expenses from bank levies, deposit protection and banking supervision	**– 33.8**	**– 30.7**	**– 3.1**	**– 10.0**

Other income and expenses

	1st HY 2019 in EUR million	1st HY 2018 in EUR million	Change in EUR million	Change in%
Other income	11.3	28.3	– 17.0	– 60.0
Other expenses	– 5.2	– 21.6	16.4	76.0
Other income and expenses	**6.1**	**6.7**	**– 0.6**	**– 8.5**

Net assets

Assets

	30 June 2019 in EUR million	31 Dec. 2018 in EUR million	Change in EUR million	Change in%
Cash reserves	4,753.3	1,046.2	3,707.0	>100.0
Loans and advances to banks	354.6	3,687.8	– 3,333.2	– 90.4
Loans and advances to clients	67,482.1	65,932.5	1,549.6	2.4
Risk provisions	– 444.4	– 420.7	– 23.7	– 5.6
Portfolio hedge adjustment	842.6	407.1	435.5	>100.0
Assets held for trading	5.4	3.2	2.1	66.5
Positive fair values from derivative financial instruments	–	0.0	0.0	– 100.0
Financial investments	6,521.0	6,362.3	158.7	2.5
Other assets	597.0	369.1	227.9	61.7
Total assets	**80,111.4**	**77,387.6**	**2,723.9**	**3.5**

Liabilities

	30 June 2019 in EUR million	31 Dec. 2018 in EUR million	Change in EUR million	Change in%
Liabilities to banks	14,092.1	13,813.3	278.7	2.0
Liabilities to clients	56,809.7	54,366.1	2,443.6	4.5
Securitised liabilities	4,361.7	4,622.3	– 260.6	– 5.6
Trading liabilities	3.1	1.2	2.0	>100.0
Negative fair values from derivative financial instruments	17.1	17.0	0.1	0.9
Provisions	198.8	180.4	18.4	10.2
Other liabilities	304.4	265.2	39.2	14.8
Subordinated capital	776.6	781.7	– 5.1	– 0.7
Equity	3,548.0	3,340.4	207.6	6.2
Total assets	**80,111.4**	**77,387.6**	**2,723.9**	**3.5**

Reported equity consists of the following:

	30 June 2019 in EUR million	31 Dec. 2018 in EUR million	Change in EUR million	Change in%
Subscribed capital	339.3	339.3	–	–
Capital surplus	1,414.4	1,414.4	–	–
Retained earnings	1,498.7	1,303.8	194.9	15.0
Revaluation surplus	122.3	59.9	62.4	>100.0
Consolidated net retained profits/net accumulated losses	173.3	223.0	–49.7	–22.3
Equity	**3,548.0**	**3,340.4**	**207.6**	**6.2**

Financial position

Liquidity management is based on the principles derived from the Capital Requirements Regulation (CRR) which are explained in the risk report. Reference is therefore made at this point to the disclosures in the risk report and to the cash flow statement.

Report on opportunities and risks

Risk report

The DKB Group maintained its conservative risk policy in the first half of 2019. The disclosures in the risk report of the half-year financial report therefore refer only to major developments in the reporting period. The risk management of the DKB Group, the corresponding structural and procedural organisation and the procedures and methods implemented for risk measurement and monitoring are also described in detail in the risk report in the Annual Report for 2018, including the internal control and risk management system for ensuring the correctness and reliability of the accounts.

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

Significant developments in the reporting period

Complying with the regulatory capital requirements and securing risk-bearing capacity are key elements in the management of the DKB Group. In the period under review, the DKB Group met 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, at all times. 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 document for the bank's internal capital adequacy process (ICAAP) (hereinafter referred to as the ECB's guidance document). Significant changes resulting from the implementation of the ECB's 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. 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.

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

Risk-bearing capacity and stress testing

Risk-bearing capacity

The risk-bearing capacity analysis within the framework of the internal capital adequacy assessment process (ICAAP) is an integral part of overall bank management. Risk-bearing capacity is established if the available cover pool is sufficient to cover the risks arising from the underlying transactions. By actively managing the economic and normative capital adequacy based on the validated risk measurement methods, the bank ensures that the risks it is exposed to, or the planned risks, are at all times in line with the bank's capital resources. 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 sufficient safety buffer is maintained for the occurrence of events not yet considered.

The aim is to ensure strict and permanent compliance with the capital ratios prescribed by supervisory law (normative perspective) as well as constant compliance with the economic risk-bearing capacity.

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

in EUR million	30 June 2019	31 Dec. 2018[1]
Counterparty default risks	476	489
of which client receivables	472	477
of which Group-internal receivables from BayernLB	4	12
Market price risks	214	299
Investment risks	8	6
Operational risks	125	120
Rise in the cost of liquidity risks	107	103
Business risks	0	0
Total risk capital requirement	**930**	**1,017**
Available cover funds	**3,745**	**3,470**
of which allocated as limits	1,655	1,775

[1] Comparative figure adjusted due to changes in the ECB's guidance document (confidence level 99.9%, non-recognition of subordinated capital)

As of the reporting date, the risk capital requirement fell by a total of EUR 87 million compared with 31 December 2018, primarily due to declines in market price risks. The reduction in market price risks is mainly attributable to the conclusion of interest rate hedges, model maintenance and inflows of client deposits.

The overall limit was updated as part of the annual risk capital planning. As cover for the operating business, a total of EUR 1.655 billion of available cover funds were allocated to limit the individual risk types. The remaining portion is held to cover the scenario loss calculated in the review of the Group-wide standard "severe economic downturn" scenario.

As at the reporting date, 56% of the overall ICAAP limit was utilised (31 December 2018: 57%); this metric therefore remains at a comfortable level. The risk-bearing capacity was assured at all times in the reporting period. Likewise, the limits for the economic capital requirement of individual risk types were adhered to throughout the reporting period.

The economic perspective is supplemented by the normative perspective and closely meshed with it. The normative perspective also takes into account the significant risks of the DKB Group. In addition to compliance with the regulatory capital ratios in the base scenario, the impact of the relevant risks on the capital ratios is estimated in adverse scenarios. The multi-year plan provides a solid capital plan that is consistent with the business and risk strategy and takes into account risk appetite and capital resources.

In the normative perspective, this ensures that business operations can be continued for several years in compliance with the minimum capital requirements under banking supervisory law.

In a year-on-year comparison, the overall ratio rose to 11.3% (31 December 2018: 11.1%), the hard core capital ratio (CET1 ratio) stood at 9.4% as of the reporting date.

Regulatory capital ratios as of the current reporting date:

in EUR million	30 June 2019	31 Dec. 2018
Overall ratio	11.3%	11.1%
Core capital ratio	9.6%	9.4%
CET1 ratio	9.4%	9.1%

On 30 June 2019, risk-bearing capacity was also guaranteed in the normative perspective. All capital ratios meet the regulatory requirements.

Stress testing

Supplementing the risk-bearing capacity calculation, the DKB Group analyses in stress testing and scenario analyses the impact of exceptional, but plausible, events, taking into account all relevant portfolios. Stress scenarios are employed here that take into account the impact on the capital situation in addition to observing the economic impact. Based on the methodology used in the BayernLB Group, a standard stress scenario is observed and the analyses are supplemented by additional DKB-specific scenarios and sensitivity analyses.

The standard BayernLB Group scenario "severe economic downturn" examines whether the bank's risk-bearing capacity is maintained even in the event of a severe recession. The reduction in market price risks in particular reduced the risk capital requirement for this scenario by EUR 0.2 billion to EUR 2.4 billion compared with 31 December 2018. This is fully covered by the cover funds of EUR 3.4 billion available as at the reporting date.

In addition to the uniform stress tests prescribed by the BayernLB Group, the DKB Group implemented bank-specific stress tests so that the requirements of MaRisk are considered in an individualised risk assessment even for extreme stress situations.

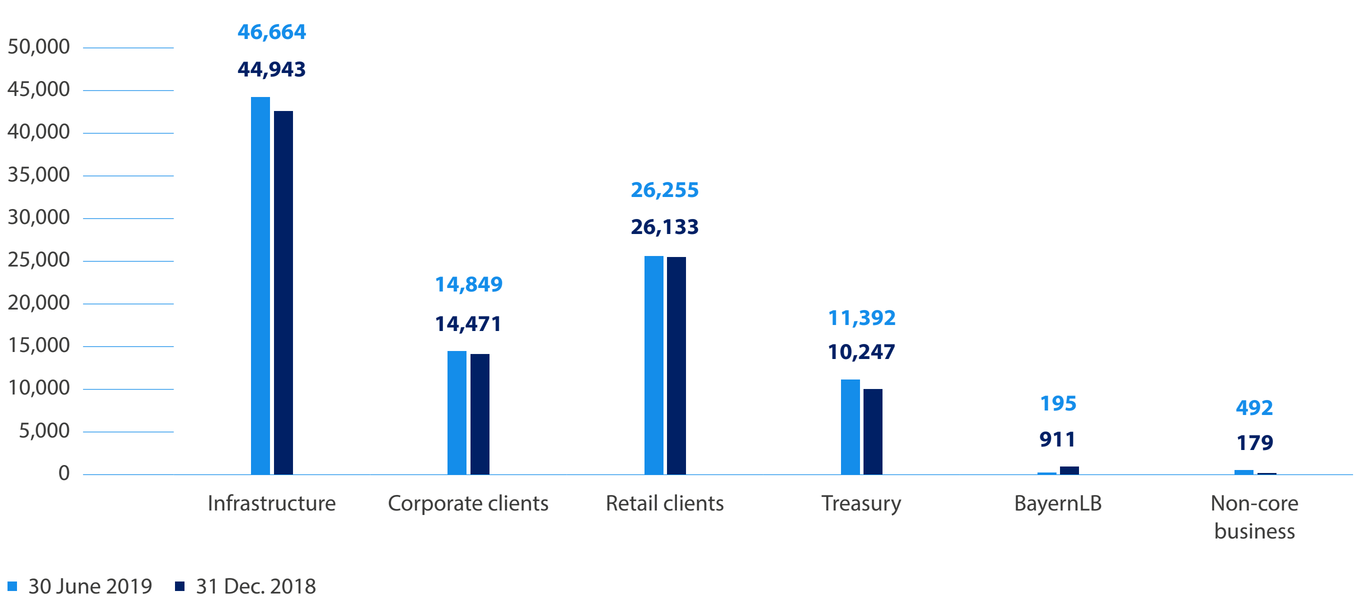
In the reporting period, the bank-specific stress scenarios had sufficient capital backing on all reference dates.

Changes in counterparty risks

Credit exposure increased slightly in the first half of 2019 by EUR 2.9 billion to EUR 99.9 billion (31 December 2018: 97.0 billion) with roughly equal distribution among the client groups (see chart below).

Credit exposure

in EUR million



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

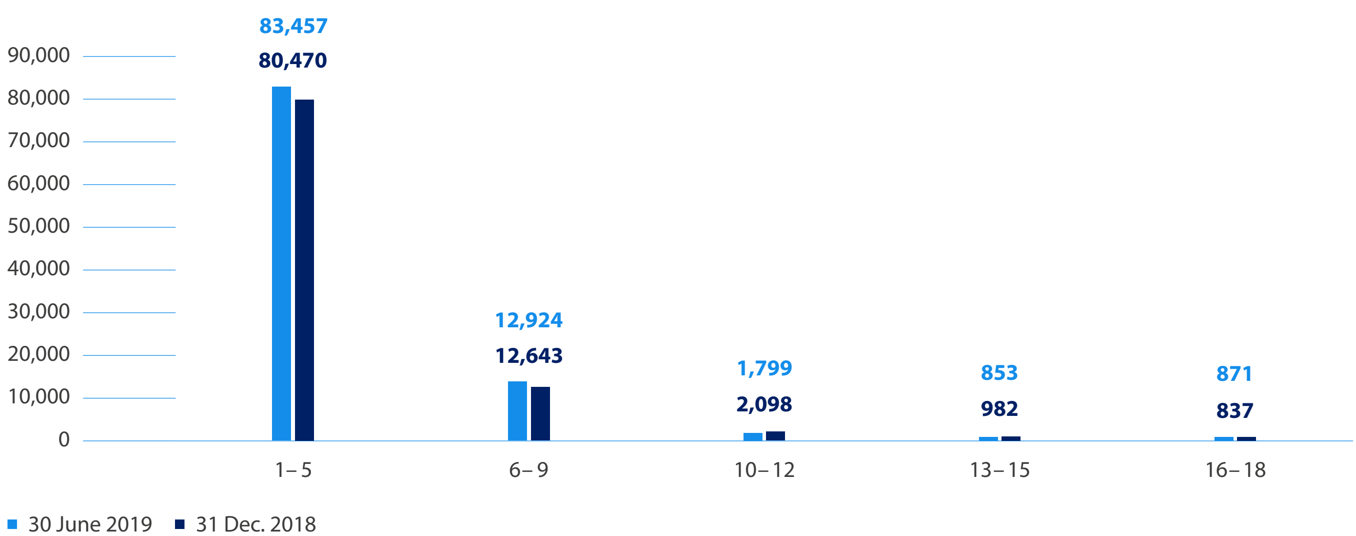
The Treasury segment mainly comprises DKB's liquidity reserve held as securities or in central bank accounts and business with institutional clients. The increase in exposure is mainly attributable to the growth in the liquidity portfolio.

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

As at 30 June 2019, open securities positions in the peripheral countries of the eurozone had a nominal value of EUR 90 million and were therefore unchanged on 31 December 2018. These positions exclusively comprise Italian government bonds. The Group's internal exposure to BayernLB decreased further as planned in the reporting period as part of funding within the BayernLB Group due to the repayment of promissory note loans. As at 30 June 2019, receivables from BayernLB totalled EUR 0.5 billion (31 December 2018: EUR 0.9 billion). The development of the overall portfolio by rating class is shown in the following chart:

Gross exposure by rating class

in EUR million



The average probability of default in the portfolio reduced to 0.44% (31 December 2018: 0.48%). The average rating category of the overall portfolio therefore improved to 5. The share of investment grade, i.e. the proportion of positions with a rating in categories 1 to 5, increased to 84% (31 December 2018: 83%). The share of exposures in default (rating categories 16–18) was almost unchanged at 0.9% of the overall credit exposure as at 30 June 2019.

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 does not engage in such products.

As at 30 June 2019, 27 groups of connected clients pursuant to Article 4, paragraph 1, no. 39 CRR were identified as cluster exposures (31 December 2018: 29).

Change in market risks

Change in market price risks at the banking book level

The interest rate risk in the event of a sudden and unexpected change in interest rates (interest rate shift of +/- 200 basis points) amounted to EUR 576 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 15.1% (31 December 2018: 10.7%). The relevant net present value loss is the greater of the two values resulting from an assumed sudden rise or fall in interest rates. Due to the strong new loan business, the relevant net present value loss in the simulation increased significantly by EUR 184 million compared to 31 December 2018. The lowest relevant cash value loss was EUR 359 million as at 30 June 2019 and the highest EUR 576 million in June.

Taking into account the changes in the ECB/ICAAP guidance document, the risk capital requirement for the total market price risk decreased by EUR 85 million to EUR 214 million compared with 31 December 2018 (EUR 299 million). The risk-increasing effect of the long-term new loan business was partially offset by the conclusion of payer swaps and the inflow of client deposits. In addition, the less volatile interest rate environment relevant in the past leads to lower effects in the VaR scenarios and thus also contributes to a reduction in risk. The highest risk capital requirement of EUR 362 million was reached in January 2019 and the lowest value of EUR 160 million in June 2019.

Market price risks from the securities business

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

The nominal bond portfolio of the DKB Group (excluding own issues) remained unchanged compared with 31 December 2018 and amounts to EUR 6.1 billion. The securities portfolio primarily relates to liquidity holdings required by the regulator, which ensures that securities that are eligible for rediscount with the central bank and securities that are quickly realisable on private markets immediately and without value losses are available at all times.

Compared to 31 December 2018, the risk capital requirement for custody account A decreased significantly from EUR 251 million to EUR 161 million as at 30 June 2019. Quieter interest rate markets had a risk-relieving effect on this ratio.

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

Refinancing

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

The DKB Group refinances itself primarily from client deposits, the development banking business and the issue of capital market products. Client deposits represent more than half of the refinancing base and, due to the high number of clients, in particular in the retail clients and infrastructure segments, are very granular. Client deposits increased by EUR 2.4 billion in the first half of 2019. The total volume of client deposits now amounts to EUR 56.8 billion (31 December 2018: EUR 54.4 billion). The high proportion of deposit business makes the DKB Group significantly less sensitive to disruptions on the money and capital markets.

By 30 June 2019, new programme loans with a volume of EUR 642 million (30 June 2018: EUR 640 million) were agreed. Total transit and global loans amounted to approximately EUR 12.4 billion as at mid-year (31 December 2018: EUR 13.0 billion).

DKB AG issues public Pfandbriefs and mortgage Pfandbriefs in benchmark and private placement formats to strengthen its medium- and long-term refinancing funds. The capital market issues have a diversifying effect on the refinancing structure and demonstrate access to the capital market at all times. Due to the high level of liquidity holdings, the issue volume is low on the whole. In the half-year under review, Pfandbriefs with a volume of EUR 115 million were placed, including the first retail-capable social Pfandbrief with a volume of around EUR 7 million. The rating agency Moody's continued to rate DKB AG's public-sector and mortgage Pfandbriefs at "Aaa". The unsecured bonds of DKB AG were rated at "A2".

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

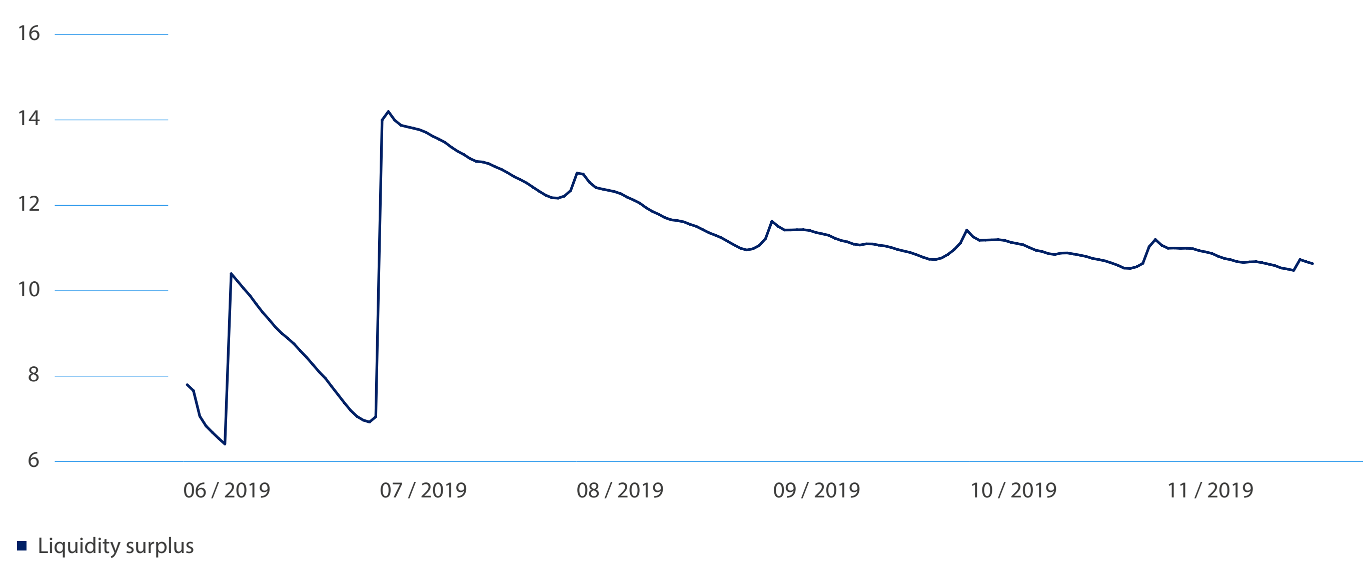
During the reporting year, the DKB Group was able to meet all its liabilities by the due dates.

Changes in liquidity risks

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

As at 30 June 2019, DKB AG's liquidity overview had the following structure for the next 180 days:

in EUR billion



Strategic liquidity management is based on a daily liquidity risk calculation. 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 7.2 billion as at the reporting date. DKB AG thus has sufficient liquidity.

In addition, DKB AG considers the additional observation periods of one week and one month required by BTR 3.2 MaRisk for several stress scenarios. In addition to the effects of a market liquidity crisis, the rapid outflow of funds in the retail clients and infrastructure segments, as well as combinations of stress events, are considered in other scenarios. The minimum liquidity surplus using the entire liquidity coverage potential was EUR 5.3 billion for the observation period of the next 180 days in the worst scenario (combination of market and retail client stress).

The regulatory key figures in accordance with LCR were complied with throughout the first half of 2019. As at 30 June 2019, the LCR was 145% (31 December 2018: 162%), well above the minimum regulatory requirement of 100%. The decline is the result of the deliberate separating out of non-granular deposits.

Change in operational risks

The risk profile is characterised by the Internet-based processes in the retail clients segments. In the first instance, operational risks exist in terms of system availability for seamless settlement of all transactions, disruption of the bank's Internet portal due to external influences, the security of data from unauthorised access, account opening or credit fraud with falsified documents and fraud with electronic payment means. As a primary risk type, operational risks can also be the cause of reputational risks and lead to a negative perception on the part of stakeholders, triggered for example by the limited availability of systems or the impairment of the bank's Internet portal. The bank has implemented a reputation risk management process to identify and manage reputational risks. The aim is to avoid or reduce reputational damage. In addition, operational risks have in previous years been strongly influenced by decisions of the Federal Court of Justice for retail and corporate clients, which leads to increased legal risks, for instance.

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

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

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

The losses incurred in the first half of 2019 due to operational risks, after implementation of measures to reduce losses, decreased slightly compared to the previous year (EUR 10.7 million) by EUR 7.7 million to EUR 3.0 million. The majority of the losses are attributable to external fraud in connection with credit cards.

Opportunities report

The statements on the opportunity profile, opportunity management and opportunity risk situation in financial year 2019 made in the 2018 Annual Report continue to apply. The DKB Group can react swiftly even to short-term developments.

Report on expected developments

Changes in conditions: economic situation slows temporarily

In view of the economic slowdown that began earlier than expected in the first half of the year, the economic institutes are lowering their growth forecasts for 2019 slightly as a whole compared with their estimates at the beginning of the year. According to the Bundesbank, the domestic economic upswing is still intact, but the underlying economic trend is only moderate. Two decisive factors are the downturn in industry and the sluggish development of exports. Private consumption and investment are expected to develop solidly. Against this backdrop, the Bundesbank expects real gross domestic product (GDP) in calendar-adjusted terms to increase by only 0.6% in the current year.

According to Bundesbank estimates, the rate of inflation measured by the Harmonized Index of Consumer Prices (HICP) is likely to weaken significantly in the current year from 1.9% in 2018 to 1.4%.

The further development on the financial markets will continue to depend strongly on political events (trade dispute and Brexit) and the resulting economic development in Europe and the USA. We therefore expect the volatility to remain high and interest rates to remain low.

Brexit

In a referendum held in June 2016, the United Kingdom decided to withdraw from the European Union (Brexit). As things stand at present, British EU membership will end on 31 October 2019, unless the EU decides to further extend the deadline in agreement with the United Kingdom. The appointment of Boris Johnson as British Prime Minister has increased the likelihood of a disorderly exit ("no-deal Brexit"), i.e. a withdrawal without a negotiated exit agreement between the EU and the United Kingdom. The DKB Group has examined the effects of a possible no-deal Brexit and sees only minor further effects on the risk and earnings situation of the DKB Group, primarily due to the concentration of its business activities in Germany, the focus on cyclically independent and sustainably oriented target sectors and the strong diversification of its loan portfolio.

Growth within the Group: business stabilises at a high level

Following development in line with our expectations, we confirm the forecast made in our 2018 Annual Report for the first half of 2019. Accordingly, we expect both net interest income and earnings before taxes to decline slightly compared with the previous year. The return on equity (RoE) is expected to be between 8% and 10% and thus also slightly lower than in the previous year. The cost/income ratio (CIR) will increase slightly to between 52% and 55% (previous year: 51.5%). We expect stable development overall in all three market segments.

Condensed interim consolidated financial statements of the DKB Group as at 30 June 2019

Consolidated statement of comprehensive income

for the period from 1 January 2019 to 30 June 2019

Income statement

in EUR million	Notes	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Interest from financial instruments calculated using the effective interest method		494.1	527.7
Interest income		807.8	881.1
Positive interest expenses		4.1	3.5
Interest expenses		– 308.1	– 348.5
Negative interest income		– 9.7	– 8.4
Other interest		– 15.1	– 17.2
Interest income		3.3	1.6
Positive interest expenses		0.0	0.0
Interest expenses		– 6.6	– 7.4
Negative interest income		– 11.8	– 11.4
Net interest income	(5)	479.0	510.5
Risk provision result		– 47.4	– 22.6
Result from the disposal of AAC-category financial instruments		7.0	– 6.2
Risk result	(6)	– 40.4	– 28.9
Net interest income after risk result		438.6	481.6
Commission income		144.2	137.3
Commission expenses		– 156.4	– 148.6
Net commission income	(7)	– 12.1	– 11.3
Gains/losses on fair value measurement	(8)	30.5	11.0
Gains/losses on hedging transactions (hedge accounting)		– 4.4	– 34.2
Gains/losses on financial investments	(10)	0.1	0.4
Administrative expenses	(11)	– 269.9	– 231.8
Expenses from bank levies, deposit protection and banking supervision	(12)	– 33.8	– 30.7
Other income and expenses	(13)	6.1	6.7
Gains/losses on restructuring		–	0.1
Profit/loss before taxes		**155.0**	**191.8**
Income taxes		0.0	– 1.4
Consolidated profit/loss		**155.0**	**190.4**
attributable to DKB AG owners		155.0	190.4
Profit transferred to controlling shareholders		–	–
Profit brought forward		18.3	17.5
Withdrawals from retained earnings		–	–
Consolidated net retained profits/net accumulated losses		**173.3**	**207.9**

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

Reconciliation of comprehensive income for the period

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Consolidated profit/loss	**155.0**	**190.4**
Temporary components of other comprehensive income that are not recognised in profit or loss		
Changes in the revaluation surplus from FVOCIM financial instruments	**62.4**	**– 9.9**
Change in measurement	63.2	– 8.3
Change in portfolio due to realisation of profit or loss	– 0.8	– 1.6
Change in deferred taxes	–	–
Changes in the revaluation reserve arising from non-current assets held for sale	**–**	**–**
Change in measurement	–	–
Change in portfolio due to realisation of profit or loss	–	–
Components of other comprehensive income permanently not recognised in profit or loss		
Changes from the revaluation of defined benefit pension plans	**– 9.8**	**1.3**
Change in measurement	– 9.8	1.3
Change in deferred taxes	–	–
Other comprehensive income	**52.5**	**– 8.6**
Total comprehensive income	**207.6**	**181.8**
attributable to DKB AG owners	207.6	181.8

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

Consolidated balance sheet

as at 30 June 2019

Assets

in EUR million	Notes	30 June 2019	31 Dec. 2018
Cash reserves	(14)	4,753.3	1,046.2
Loans and advances to banks	(15)	354.6	3,687.8
Loans and advances to clients	(16)	67,482.1	65,932.5
Risk provisions	(17)	– 444.4	– 420.7
Portfolio hedge adjustment assets	(18)	842.6	407.1
Assets held for trading	(19)	5.4	3.2
Positive fair values from derivative financial instruments (hedge accounting)	(20)	–	0.0
Financial investments	(21)	6,521.0	6,362.3
Property, plant and equipment		196.7	54.1
Intangible assets		23.0	14.4
Current income tax assets		0.0	1.6
Deferred income tax assets		–	–
Other assets		377.3	299.1
Total assets		**80,111.4**	**77,387.6**

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

Liabilities

in EUR million	Notes	30 June 2019	31 Dec. 2018
Liabilities to banks	(22)	14,092.1	13,813.3
Liabilities to clients	(23)	56,809.7	54,366.1
Securitised liabilities	(24)	4,361.7	4,622.3
Trading liabilities	(25)	3.1	1.2
Negative fair values from derivative financial instruments (hedge accounting)	(26)	17.1	17.0
Provisions	(27)	198.8	180.4
Current income tax liabilities		–	0.6
Deferred income tax liabilities		–	–
Other liabilities		304.4	264.5
Subordinated capital	(28)	776.6	781.7
Equity	(29)	3,548.0	3,340.4
Equity excluding non-controlling interests		3,548.0	3,340.4
Subscribed capital		339.3	339.3
Capital surplus		1,414.4	1,414.4
Retained earnings		1,498.7	1,303.8
Revaluation surplus		122.3	59.9
Consolidated net retained profits/net accumulated losses		173.3	223.0
Total liabilities		**80,111.4**	**77,387.6**

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

Consolidated statement of changes in equity

in EUR million	Subscribed capital	Hybrid capital	Capital surplus	Retained earnings	Revaluation surplus	Consolidated net retained profits/net accumulated losses	Equity before non-controlling interests	Non-controlling interests	Total equity
As at 31 Dec. 2017	**339.3**	**0.0**	**1,414.4**	**1,093.4**	**133.5**	**274.9**	**3,255.5**	**0.0**	**3,255.5**
IFRS 9 first-time application effect				– 46.2	– 52.3		– 98.5		– 98.5
As at 1 Jan. 2018	**339.3**	**0.0**	**1,414.4**	**1,047.2**	**81.2**	**274.9**	**3,157.0**	**0.0**	**3,157.0**
Changes in the revaluation surplus					– 9.7		– 9.7		– 9.7
Changes from the revaluation of defined benefit pension plans				1.2			1.2		1.2
Other comprehensive income	**0.0**	**0.0**	**0.0**	**1.2**	**– 9.7**	**0.0**	**– 8.5**	**0.0**	**– 8.5**
Consolidated profit/loss						190.4	190.4		190.4
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**1.2**	**– 9.7**	**190.4**	**181.9**	**0.0**	**181.9**
Capital increases/capital reductions							0.0		0.0
Changes in the scope of consolidation and other changes							0.0		0.0
Transfers into/removals from reserves				257.4		– 257.4	0.0		0.0
Profit transferred							0.0		0.0
Distribution							0.0		0.0
As at 30 June 2018	**339.3**	**0.0**	**1,414.4**	**1,305.8**	**71.5**	**207.9**	**3,338.9**	**0.0**	**3,338.9**
Changes in the revaluation surplus					– 11.6		– 11.6		– 11.6
Changes from the revaluation of defined benefit pension plans				– 2.5			– 2.5		– 2.5
Other comprehensive income	**0.0**	**0.0**	**0.0**	**– 2.5**	**– 11.6**	**0.0**	**– 14.1**	**0.0**	**– 14.1**
Consolidated profit/loss						110.7	110.7		110.7
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**– 2.5**	**– 11.6**	**110.7**	**96.6**	**0.0**	**96.6**

in EUR million	Subscribed capital	Hybrid capital	Capital surplus	Retained earnings	Revaluation surplus	Consolidated net retained profits/net accumulated losses	Equity before non-controlling interests	Non-controlling interests	Total equity
Capital increases/capital reductions							0.0		0.0
Changes in the scope of consolidation and other changes							0.0		0.0
Transfers into/removals from reserves				0.5		−0.5	0.0		0.0
Profit transferred						−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					62.4		62.4		62.4
Changes from the revaluation of defined benefit pension plans				−9.8			−9.8		−9.8
Other comprehensive income	**0.0**	**0.0**	**0.0**	**−9.8**	**62.4**	**0.0**	**52.5**	**0.0**	**52.5**
Consolidated profit/loss						155.0	155.0		155.0
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**−9.8**	**62.4**	**155.0**	**207.6**	**0.0**	**207.6**
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				204.7		204.7	0.0		0.0
Profit transferred							0.0		0.0
Distribution							0.0		0.0
As at 30 June 2019	**339.3**	**0.0**	**1,414.4**	**1,498.7**	**122.3**	**173.3**	**3,548.0**	**0.0**	**3,548.0**

Condensed consolidated cash flow statement

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Cash and cash equivalents as at 1 Jan.	**1,046.2**	**1,742.8**
Cash flow from operating activities	3,825.3	1,798.4
Cash flow from investing activities	– 24.2	– 6.6
Cash flow from financing activities	– 94.0	0.0
Cash and cash equivalents as at 30 June	**4,753.3**	**3,525.6**

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

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

Selected explanatory notes to the financial statements (Notes)

Disclosures relating to financial instruments

Other disclosures

General information

(1) Fundamentals of consolidated financial reporting

The interim financial statements of Deutsche Kreditbank AG (DKB AG), Berlin, were prepared in compliance with section 315e, paragraph 1, of the German Commercial Code (Handelsgesetzbuch, HGB) and EC Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as well as other ordinances on the adoption of specific international accounting standards on the basis of the International Financial Reporting Standards (IFRSs) adopted and published by the International Accounting 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 interim financial statements are based on the IFRSs as applicable in the EU. They take particular account of the requirements of IAS 34 on interim reporting.

In the interim financial statements as at 30 June 2019 – with the exception of the changes described below – the same accounting and valuation methods apply as in the consolidated financial statements as at 31 December 2018. The information in these interim financial statements should be read in connection with the information in the published and audited consolidated financial statements as at 31 December 2018.

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

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

The interim management report is published in a separate section of the half-year financial report. Likewise, most of the risk reporting is presented as a component of the risk report in the interim management report. Further details on the risk situation in accordance with IFRS 7 are provided in Note 34.

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 or on the income tax items.

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

IFRSs applied for the first time

IFRS 16 "Leasing" was applied for the first time in the 2019 financial year, which introduces a uniform accounting model, according to which leases are to be recognised in the balance sheet of the lessee. A lessee recognises a right-of-use asset, which represents its right to use the underlying asset, and a debt from the lease, which represents its obligation to make lease payments. There are exceptions for short-term leases and leases for low-value assets. Accounting at the lessor is comparable with the current standard, i.e. the lessor continues to categorise leases as finance or operating leases.

IFRS 16 replaces the existing guidelines on leasing, including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC-15 "Operating leases – incentives" and SIC-27 "Evaluating the substance of transactions involving the legal form of a lease".

Note 2 shows the effects of the first-time application of IFRS 16.

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

IFRSs to be applied in the future

As expected, the amendments to standards currently adopted have no significant impact on the DKB Group.

(2) Changes on the previous year

The changes compared to the previous year result from the first-time application of the new leasing standard and 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 for the first time or as at 30 June 2019. Sale-and-leaseback transactions were also not carried out by the DKB Group in the reporting period.

The obligations from lessee relationships existing in the DKB Group relate in particular to leasing agreements for office buildings, some of which have extension options of up to 15 years.

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

in EUR million	31 Dec. 2018	1 Jan. 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

The lease payments previously reported as rental expenses under administrative expenses are now reported as interest expenses in accordance with IFRS 16 (1st half-year 2019: EUR 0.7 million) and depreciation in administrative expenses (1st half-year 2019: EUR 7.0 million).

In the segment report (Note 4), lease payments are allocated to the "other" segment.

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

in EUR million	31 Dec. 2018 1 Jan. 2019
Gross leasing liabilities as at 31 Dec. 2018	**155.9**
Exemption rule for short-term leasing contracts	– 0.2
Other adjustments[1]	– 1.7
Gross leasing liabilities as at 1 Jan. 2019	**154.0**
Discounting (weighted average incremental borrowing rate: 1.0%)	– 9.5
Net leasing liabilities as at 1 Jan. 2019	**144.5**

[1] The other adjustments result mainly from the reassessment of extension options within the scope of the first-time application of IFRS 16.

(3) Scope of consolidation

In addition to DKB, six subsidiaries are included in the consolidated financial statements as at 30 June 2019 (31 December 2018: six). DKB directly or indirectly holds a 100% capital participation in the consolidated subsidiaries. As at the reporting date, there were no non-controlling interests. The group of fully consolidated companies was determined in accordance with materiality criteria. Companies measured in accordance with the equity method are not included in the consolidated financial statements.

Segment reporting

(4) Segment reporting

Segment reporting is performed in accordance with the regulations of IAS 34 on interim financial reporting in conjunction with IFRS 8 and provides information on the different business areas of the DKB Group.

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

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

The segment reporting is divided into five segments, explained below:

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

– The infrastructure segment contains business with 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, and passing on client deposits to BayernLB as part of the intra-Group funding system, as well as internal transactions with BayernLB to manage liquidity. The activities within the custody account A business are also assigned to this segment. This primarily involves management of the securities portfolio needed for core business (including the liquidity portfolio required by supervisory legislation) and business involving the DKB retail fund. The gains or losses on DKB AG's hedging transactions are also assigned to the financial markets segment.

– 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, and other special effects. The activities of DKB Service GmbH are also presented in this segment. Its key areas of activity are processing back-office tasks for the DKB Group, handling standardised bulk business for DKB products and supplying services for Group companies. 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 a 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 66.9 million, without significant intra-segment earnings. There are no dependencies on major clients as defined in IFRS 8.34.

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

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

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

Segment assets are determined on the basis of balance sheet figures. Clients receivables, which are shown at nominal value, are an exception. The difference of EUR 105.3 million (2018: EUR 99.3 million) and the risk provision holding on receivables of DKB AG of EUR –442.5 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 et seq. 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.

The organisational reclassification of deposit and lending business with strategic Group subsidiaries from the Corporate Client segment to the infrastructure segment took place at the end of 2018 and was implemented in the segment reporting from January 2019. Due to the immateriality of the portfolio in profit/loss before tax, the subsequent reclassification of the portfolio between the segments in the half-year figures for 2018 was waived.

Segment reporting as at 30 June 2019

in EUR million	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Transition/ Consolidation	**Group**
Net interest income	195.2	184.5	89.6	10.4	8.7	– 9.5	**479.0**
Risk provisions	9.1	– 1.0	– 52.7	– 0.0	4.2	–	**– 40.4**
Net commission income	– 19.9	0.7	9.4	– 1.8	– 9.3	8.8	**– 12.1**
Gains/losses on fair value measurement	–	–	– 0.0	14.0	16.5	–	**30.5**
Gains/losses on hedging transactions	–	–	–	– 4.4	–	–	**– 4.4**
Gains/losses on financial investments	–	–	–	0.1	–	–	**0.1**
Administrative expenses	– 127.9	– 75.4	– 38.6	– 7.3	– 105.6	84.8	**– 269.9**
Expenses from bank levies, deposit protection and banking supervision	–	–	–	–	– 33.8	–	**– 33.8**
Other income and expenses	– 2.0	–	0.1	–	104.3	– 96.3	**6.1**
Gains/losses on restructuring	–	–	–	–	–	–	**–**
Profit/loss before taxes	**54.5**	**108.8**	**7.9**	**11.0**	**– 15.0**	**– 12.2**	**155.0**
Segment assets	12,408.9	40,150.6	13,215.4	7,489.2	5,922.0	925.4	**80,111.4**
Risk positions	7,687.8	13,510.4	12,085.4	283.8	304.9	–	**33,872.3**
Average commercial equity	709.5	1,204.1	1,120.3	23.9	48.1	–	**3,105.8**
Return on equity (RoE)	15.4%	18.1%	1.4%	<0%			**10.0%**
Cost/income ratio (CIR)	73.3%	40.9%	38.8%	<0%			**53.3%**

Segment reporting as at 30 June 2018

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

Notes to the consolidated statement of comprehensive income

(5) Net interest income

Interest from financial instruments calculated using the effective interest method

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Interest income	**807.8**	**881.1**
Interest income from lending and money market transactions	797.7	870.0
Interest income from bonds and other fixed-income securities	9.1	10.6
Other interest income	0.9	0.5
Positive interest expenses	**4.1**	**3.5**
Interest expenses	**– 308.1**	**– 348.5**
Interest expenses for liabilities to banks and clients	– 173.4	– 209.8
Interest expenses for hedge accounting derivatives	– 90.0	– 84.5
Interest expenses for securitised liabilities	– 21.0	– 19.5
Interest expenses for subordinated capital	– 17.9	– 14.0
Other interest expenses	– 5.8	– 20.7
Negative interest income	**– 9.7**	**– 8.4**
Total	**494.1**	**527.7**

The interest income from lending and money market transactions includes income from impaired receivables (unwinding effect) of EUR 4.4 million (same period in the previous year: EUR 5.9 million).

Other interest

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Interest income	**3.3**	**1.6**
Interest income from lending and money market transactions	0.3	0.6
Other interest income	3.0	1.0
Positive interest expenses	**0.0**	**0.0**
Interest expenses	**– 6.6**	**– 7.4**
Interest expenses for derivatives in commercial hedging relationships	– 1.7	– 6.0
Other interest expenses	– 4.9	– 1.4
Negative interest income	**– 11.8**	**– 11.4**
Total	**– 15.1**	**– 17.2**

(6) Risk result

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Risk provision result	**– 47.4**	**– 22.7**
Income from the reversal of balance sheet and off-balance-sheet risk provisions	242.5	268.8
Expenses from the addition of balance sheet and off-balance-sheet risk provisions	– 293.7	– 283.4
Expenses from direct write-offs	– 6.9	– 11.8
Income from receipts on receivables written off	10.9	4.3
Result from non-significant modifications[1]	– 0.2	– 0.6
Result from the disposal of AAC-category financial instruments	**7.0**	**– 6.2**
Modification income from significant modifications	7.9	4.0
Modification expenses from significant modifications	– 1.7	– 11.1
Disposal gains	0.8	0.9
Disposal expenses	–	–
Total	**– 40.4**	**– 28.9**

(7) Net commission income

in EUR million			1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
	Income	Expenses	Result	Result
Credit card business	101.5	– 86.1	15.4	12.2
Lending business	17.8	– 26.7	– 8.9	– 7.6
Payments	9.1	– 32.9	– 23.8	– 22.8
Other net commission income	15.8	– 10.6	5.1	6.9
Total	**144.2**	**– 156.4**	**– 12.1**	**– 11.3**

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

1 Jan. – 30 June 2019 in EUR million	Retail clients	Infra-structure	Corporate clients	Financial markets	Transition/	Other Consolidation	Group
Credit card business	101.5	–	–	–	–	–	**101.5**
Lending business	12.0	2.8	5.8	– 0.2	0.1	– 2.7	**17.8**
Payments	4.2	1.7	3.2	–	0.0	–	**9.1**
Other net commission income	14.6	0.3	0.5	0.6	10.7	– 10.9	**15.8**
Total	**132.3**	**4.8**	**9.5**	**0.4**	**10.8**	**– 13.6**	**144.2**

1 Jan. – 30 June 2018 in EUR million	Retail clients	Infra-structure	Corporate clients	Financial markets	Transition/	Other Consolidation	Group
Credit card business	96.4	–	–	–	–	0.0	**96.4**
Lending business	11.9	3.8	4.7	–	0.2	– 2.9	**17.7**
Payments	3.5	2.5	2.1	–	0.1	0.0	**8.2**
Other net commission income	13.5	0.5	0.4	0.5	8.5	– 8.4	**15.0**
Total	**125.3**	**6.8**	**7.2**	**0.5**	**8.8**	**– 11.3**	**137.3**

(8) Gains/losses on fair value measurement

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Net trading income	**0.6**	**6.2**
Interest-related transactions	– 0.2	5.6
Currency-related transactions	0.8	0.6
Fair value result from FVPLM financial instruments	**29.9**	**4.8**
Total	**30.5**	**11.0**

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

(9) Gains/losses on hedging transactions

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Measurement of underlying transactions	510.9	45.1
Measurement of hedging instruments	– 439.9	9.6
Result from the amortisation of the portfolio hedge adjustment	– 75.4	– 88.9
Total	**– 4.4**	**– 34.2**

(10) Gains/losses on financial investments

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

(11) Administrative expenses

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Staff costs	– 138.7	– 122.6
Other administrative expenses	– 118.6	– 105.2
Depreciation and impairments on property, plant and equipment and intangible assets	– 12.6	– 4.0
Total	**– 269.9**	**– 231.8**

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

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Bank levy	– 21.8	– 22.0
Deposit guarantee scheme	– 9.8	– 7.0
Banking supervision	– 2.3	– 1.7
Total	**– 33.8**	**– 30.7**

(13) Other income and expenses

in EUR million	1 Jan. – 30 June 2019	1 Jan. – 30 June 2018
Other income	11.3	28.3
Other expenses	– 5.2	– 21.6
Total	**6.1**	**6.7**

Notes to the consolidated balance sheet

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

(14) Cash reserve

in EUR million	30 June 2019	31 Dec. 2018
Cash in hand	8.6	11.2
Credit balances with central banks	4,744.7	1,035.0
Total	**4,753.3**	**1,046.2**

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

(15) Loans and advances to banks

in EUR million	30 June 2019	31 Dec. 2018
Loans and advances to domestic banks	354.6	3,687.8
Loans and advances to foreign banks	–	–
Total	**354.6**	**3,687.8**

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

The risk provision for loans and advances to banks is allocated exclusively to Level 1 and amounted to EUR 2 thousand as of the balance sheet date (31 December 2018: EUR 1 thousand). There were no transfers between levels in the reporting period.

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

Loans and advances to banks did not contain any financial instruments with impaired creditworthiness (POCI) at the time of acquisition, nor any receivables that had not been significantly modified during the reporting period.

(16) Loans and advances to clients

in EUR million	30 June 2019	31 Dec. 2018
Loans and advances to domestic clients	66,744.9	65,314.6
Loans and advances to foreign clients	737.1	617.9
Total	**67,482.1**	**65,932.5**

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

in EUR million	30 June 2019	31 Dec. 2018
AAC-category receivables	67,470.6	65,919.8
FVPLM-category receivables	10.0	10.5
FVOCIM-category receivables	1.5	2.2
Total	**67,482.1**	**65,932.5**

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

in EUR million	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan. 2019	**–38.4**	**–115.4**	**–261.8**	**–5.0**	**–420.7**
Additions from lending/purchases	–7.7	–5.1	–33.7	–3.2	–49.7
Reversals from disposal/repayment/sale	7.3	55.1	42.7	4.2	109.3
Credit-rating-related changes	2.4	–54.9	–56.5	–10.2	–119.1
Usage/depreciation	0.0	0.0	30.6	1.0	31.6
Reallocation to Level 1	–4.6	4.6	–	–	–
Reallocation to Level 2	6.9	–8.4	1.5	–	–
Reallocation to Level 3	0.1	19.0	–19.1	–	–
Unwinding	–	–	4.2	0.0	4.2
As at 30 June 2019	**–34.0**	**–105.0**	**–292.0**	**–13.3**	**–444.4**

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

in EUR million	30 June 2019	31 Dec. 2018
Gross carrying amount of Level 1 receivables	62,794.4	62,400.4
Gross carrying amount of Level 2 receivables	3,835.3	2,692.4
Gross carrying amount of Level 3 receivables	755.0	739.9
Gross carrying amount of POCI receivables	85.8	87.0
Total	**67,470.6**	**65,919.8**

The impairment losses on receivables from clients in the FVOCIM category relate exclusively to financial instruments with impaired credit ratings (POCI) at the time of acquisition and amounted to EUR 0.9 million as at the balance sheet date (31 December 2018: EUR 0.8 million). There were no transfers between levels in the reporting period.

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

In the reporting period, the total amount of undiscounted expected credit losses in the initial recognition of financial instruments with impaired credit ratings (POCI) amounted to EUR 11.7 million (31 December 2018: EUR 21.9 million).

(17) Risk provision

in EUR million	30 June 2019	31 Dec. 2018
Level 1	– 34.0	– 38.4
Level 2	– 105.0	– 115.4
Level 3	– 292.0	– 261.8
POCI	– 13.3	– 5.0
Total	– 444.4	– 420.7

The development of the risk provision in the reporting period is shown for loans and advances to banks (Note 15) and loans and advances to clients (Note 16).

(18) Portfolio hedge adjustment attributable to assets

The hedge adjustment of interest-rate-hedged loans and advances in the fair value hedge portfolio amounted to EUR 842.6 million (31 December 2018: EUR 407.1 million). It was offset by the fair values of hedging transactions, on the liabilities side under the negative fair values from derivative financial instruments (hedge accounting) item and on the assets side under the positive fair values from derivative financial instruments (hedge accounting) item.

(19) Assets held for trading

Assets held for trading amounted to EUR 5.4 million as of the balance sheet date (31 December 2018: EUR 3.2 million). Assets held for trading exclusively contain positive market 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.

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

This balance sheet item contains derivative financial instruments (interest rate swaps) with positive market values that are included in hedge accounting within the meaning of IAS 39. No positive market values were recorded as of the balance sheet date (31 December 2018: EUR 0.0 million) for derivative financial instruments.

(21) Financial investments

in EUR million	30 June 2019	31 Dec. 2018
Bonds and other fixed-income securities	6,291.6	6,168.0
Equities and other non-fixed-income securities	142.5	129.1
Other financial investments	86.9	65.1
Total	**6,521.0**	**6,362.3**

Financial investments consist of financial instruments in the following categories:

in EUR million	30 June 2019	31 Dec. 2018
FVOCIM-category financial investments	6,291.6	6,168.0
FVPLM-category financial investments	229.4	174.3
AAC-category financial investments	–	20.0
Total	**6,521.0**	**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 (31 December 2018: EUR 0.3 million). There were no transfers between levels in the reporting period.

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

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.

(22) Liabilities to banks

in EUR million	30 June 2019	31 Dec. 2018
Liabilities to domestic banks	13,598.3	13,239.8
Liabilities to foreign banks	493.7	573.5
Total	**14,092.1**	**13,813.3**

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

(23) Liabilities to clients

in EUR million	30 June 2019	31 Dec. 2018
Liabilities to domestic clients	55,701.6	53,301.7
Liabilities to foreign clients	1,108.2	1,064.4
Total	**56,809.7**	**54,366.1**

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

(24) Securitised liabilities

in EUR million	30 June 2019	31 Dec. 2018
Bonds and notes issued		
Mortgage Pfandbriefs	2,198.2	2,220.9
Public-sector Pfandbriefs	1,164.6	1,403.3
Other bonds and notes	999.0	998.2
Total	**4,361.7**	**4,622.3**

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

During the reporting period, mortgage Pfandbriefs of EUR 10.0 million and public Pfandbriefs of EUR 250.0 million were repaid and bearer bonds of EUR 6.8 million were issued.

(25) Liabilities held for trading

Liabilities held for trading exclusively contain negative market 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 into interest-related transactions of EUR 2.8 million (31 December 2018: EUR 1.0 million) and currency-related transactions of EUR 0.3 million (31 December 2018: EUR 0.2 million).

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

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

This balance sheet item contains derivative financial instruments (interest-rate swaps) with negative market values that are included in hedge accounting within the meaning of IAS 39. As of the balance sheet date, negative fair values of derivative financial instruments of EUR 17.1 million (31 December 2018: EUR 17.0 million) were recognised.

(27) Provisions

in EUR million	30 June 2019	31 Dec. 2018
Provisions for pensions and similar obligations	**97.3**	**85.2**
Other provisions	**101.4**	**95.2**
Provisions in the credit business	52.4	48.9
Miscellaneous provisions	49.0	46.3
Total	**198.8**	**180.4**

Other provisions

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

in EUR million	30 June 2019	31 Dec. 2018
Provisions for loan commitments and financial guarantees in accordance with IFRS 9	**40.1**	**42.3**
Provisions for Level 1 loan commitments and financial guarantees	4.7	5.6
Provisions for Level 2 loan commitments and financial guarantees	8.4	8.6
Provisions for Level 3 loan commitments and financial guarantees	25.1	26.1
Provisions for POCI loan commitments and financial guarantees	1.9	2.1
Provisions for other contingent liabilities in accordance with IAS 37	**12.3**	**6.6**
Total	**52.4**	**48.9**

The development of provisions for loan commitments and financial guarantees in accordance with IFRS 9 in the reporting period is presented under contingent liabilities and other liabilities (Note 30).

(28) Subordinated capital

in EUR million	30 June 2018	31 Dec. 2017
Subordinated liabilities	647.0	652.9
Additional regulatory core capital	100.5	100.0
Profit participation certificates	29.1	28.7
Total	**776.6**	**781.7**

The subordinated capital consists exclusively of financial instruments in the LAC category. Profit participation rights of EUR 0.2 million were redeemed in the reporting period.

(29) Equity

in EUR million	30 June 2019	31 Dec. 2018
Subscribed capital	**339.3**	**339.3**
Statutory nominal capital	339.3	339.3
Capital surplus	**1,414.4**	**1,414.4**
Retained earnings	**1,498.7**	**1,303.8**
Statutory reserve	242.4	242.4
Reserve from the revaluation of defined benefit pension plans	– 39.1	– 29.3
Other retained earnings	1,295.3	1,090.6
Revaluation surplus	**123.3**	**59.9**
Consolidated net retained profits/net accumulated losses	**173.3**	**223.0**
Total	**3,548.0**	**3,340.4**

Retained earnings increased by EUR 194.9 million, mainly due to the allocation of the consolidated balance sheet profit from the previous year.

The **revaluation reserve** of EUR 62.4 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 16) and financial investments (Note 21).

(30) Contingent liabilities and other obligations

in EUR million	30 June 2019	31 Dec. 2018[1]
Contingent liabilities	**702.9**	**646.3**
Financial guarantees in accordance with IFRS 9	101.2	104.7
Other liabilities from guarantees and indemnity agreements	600.4	539.6
Contingent liabilities from legal disputes	1.3	2.0
Other commitments	**19,970.9**	**19,512.4**
Irrevocable loan commitments	4,139.2	3,845.9
Revocable loan commitments	15,831.7	15,666.5
Total	**20,673.8**	**20,158.7**

[1] Adjusted previous year's figures.

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

in EUR million	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan. 2019	**5.6**	**8.6**	**26.1**	**2.1**	**42.3**
Additions from lending/purchases	5.2	2.7	12.7	1.1	21.8
Reversals from disposal/repayment/sale	– 4.8	– 12.5	– 18.6	– 1.0	– 36.7
Credit-rating-related changes	– 1.2	10.1	4.4	– 0.3	12.9
Reallocation to Level 1	0.4	– 0.4	–	–	–
Reallocation to Level 2	– 0.5	0.5	0.0	–	–
Reallocation to Level 3	0.0	– 0.6	0.6	–	–
Unwinding	–	–	– 0.2	0.0	– 0.2
As at 30 June 2019	**4.7**	**8.4**	**25.1**	**1.9**	**40.1**

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

The **exposure from loan commitments and financial guarantees** is composed as follows:

in EUR million	30 June 2019	31 Dec. 2018
Exposure from Level 1 loan commitments and financial guarantees	19,445.3	19,261.7
Exposure from Level 2 loan commitments and financial guarantees	557.7	301.2
Exposure from Level 3 loan commitments and financial guarantees	66.1	52.0
Exposure from POCI loan commitments and financial guarantees	3.0	2.2
Total	**20,072.1**	**19,617.1**

Disclosures relating to financial instruments

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

(31) Fair value and measurement hierarchies of financial instruments

Fair value of financial instruments[1]

	Fair value		Carrying amount	
in EUR million	**30 June 2019**	**31 Dec. 2018**	**30 June 2019**	**31 Dec. 2018**
Assets				
Cash reserves	4,753.3	1,046.2	4,753.3	1,046.2
Loans and advances to banks	355.2	3,688.6	354.6	3,687.8
Loans and advances to clients[2]	70,346.6	67,849.4	68,324.6	66,339.6
Assets held for trading	5.4	3.2	5.4	3.2
Positive fair values from derivative financial instruments (hedge accounting)	–	0.0	–	0.0
Financial investments	6,521.0	6,362.3	6,521.0	6,368.4
Total	**81,981.4**	**78,949.8**	**79,958.9**	**77,445.2**
Liabilities				
Liabilities to banks	15,152.1	14,585.5	14,092.1	13,813.3
Liabilities to clients	57,739.4	55,014.9	56,809.7	54,366.1
Securitised liabilities	4,561.9	4,721.0	4,361.7	4,622.3
Trading liabilities	3.1	1.2	3.1	1.2
Negative fair values from derivative financial instruments (hedge accounting)	17.1	17.0	17.1	17.0
Subordinated capital	892.6	902.9	776.6	781.7
Total	**78,366.2**	**75,242.5**	**76,060.3**	**73,601.6**

[1] For current financial instruments, the book value regularly corresponds to the fair value.
[2] Book values including portfolio hedge adjustment on the assets side.

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

Hierarchy of fair values

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

Level 1:

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

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

Level 2:

The fair values are determined by means of measurement methods, where the measurement parameters are observable directly (as prices) or indirectly (derived from prices), and do not come under Level 1. 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, exchange rates) as well as market-supported input factors.

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

Level 3:

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

These include loans and advances to clients and company shares.

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

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

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 provisional recovery period is determined in accordance with the forecast period required to establish delivery capability (depending on the form of recovery, such as foreclosure), plus the period to be calculated for the sale following the assessment of the relevant market situation. In some cases, experience from past transactions is also factored into the assessment of the recovery time (for example, the period between foreclosure acceptance and the time the money is received). Discounting takes place using the risk-free yield curve and a risk-adequate spread.

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 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 preferred 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 measured at fair value

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

				30 June 2019
in EUR million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and advances to clients	–	–	11.5	**11.5**
Assets held for trading	–	5.4	–	**5.4**
Positive fair values from derivatives (hedge accounting)	–	–	–	**–**
Financial investments	5,367.6	1,066.5	86.9	**6,521.0**
Total	**5,367.6**	**1,071.9**	**98.4**	**6,537.9**
Liabilities				
Trading liabilities	**–**	**3.2**	**–**	**3.2**
Negative fair values from derivatives (hedge accounting)	–	17.1	–	**17.1**
Total	**–**	**20.2**	–	**20.2**

				31 Dec. 2018
in EUR million	**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	5,045.8	1,251.3	45.1	**6,342.3**
Total	**5,045.8**	**1,254.5**	**57.8**	**6,358.2**
Liabilities				
Trading liabilities	**–**	**1.2**	**–**	**1.2**
Negative fair values from derivatives (hedge accounting)	–	17.0	–	**17.0**
Total	**–**	18.2	–	**18.2**

Based on the review of the Level 1 allocation as at 30 June 2019 with regard to the parameters to be met cumulatively (such as number of price determinations), bonds amounting to EUR 66.3 million (31 December 2018: EUR 230.5 million) were reclassified from Level 1 to Level 2 and bonds of EUR 450.9 million (31 December 2018: 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)

	Financial investments		Loans and advances to clients		Total	
in EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**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	16.6	5.3	– 0.2	0.1	16.4	5.4
of which other income and expenses	–	–	–	– 0.2	–	– 0.2
of which Gains/losses on fair value measurement	16.6	5.3	– 0.1	0.3	16.5	5.6
of which risk provision	–	–	– 0.1	– 0.1	– 0.1	–
Change in the revaluation reserve	–	–	– 0.1	– 0.1	– 0.1	– 0.1
Purchases	5.2	2.0	–	0.0	5.2	2.1
Sales	–	–	– 0.0	– 0.1	0.0	– 0.1
Settlements	–	–	– 0.9	– 0.4	– 0.9	– 0.4
As at 30 June	**86.9**	**43.3**	**11.5**	**13.5**	**98.4**	**56.8**
Effects for financial instruments, contained in the portfolio as at 30 June 2019, recognised through profit or loss	16.6	5.3	– 0.1	0.1	16.5	5.4
of which other income and expenses	–	–	–	– 0.2	–	– 0.2
of which Gains/losses on fair value measurement	16.6	5.3	– 0.1	0.3	16.5	5.6
of which risk provision	–	–	– 0.0	–	– 0.0	–

[1] 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 through profit or loss
Realisation value	EUR 0 thousand to EUR 161 thousand (EUR 7 thousand)	+ 5.0% – 5.0%	EUR + 75.6 thousand EUR – 75.6 thousand	EUR 0.0 thousand EUR 0.0 thousand
Realisation period	1 month to 17 months (11 months)	+ 6 months – 6 months	EUR + 3.3 thousand EUR – 4.2 thousand	EUR 0.0 thousand EUR 0.0 thousand
Interest rate	– 0.37% to – 0.41% (– 0.39%)	+ 0.05% – 0.05%	EUR – 1.0 thousand EUR + 0.6 thousand	EUR 0.0 thousand EUR 0.0 thousand

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

Significant non-observable parameters	Bandwidth (average)	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Valuation spread	– 0.05% to 0.87% (0.25%)	+ 10 BP – 10 BP	EUR – 26.9 thousand EUR + 27.1 thousand	EUR 0.0 thousand EUR 0.0 thousand

Financial investments (preferred shares in Visa Inc.)

Significant non-observable parameters	Weighted average	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Subscription ratio of the Visa Inc. ordinary shares	49.76%	+ 10.0% – 10.0%	EUR + 8,107.0 thousand EUR – 8,107.0 thousand	EUR 0.0 thousand EUR 0.0 thousand

Financial investments (other equity shares in companies)

Significant non-observable parameters	Weighted average	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Company-specific market risk premium	6.5%	+ 25 BP – 25 BP	EUR – 213.1 thousand EUR + 231.9 thousand	0.0 thousand 0.0 thousand

Financial investments (other debt components in companies)

Significant non-observable parameters	Weighted average	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Company-specific market risk premium	0.02%	+ 25 BP – 25 BP	EUR – 65.3 thousand EUR + 65.3 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.

(32) Reclassification of financial assets

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

(33) Derivative transactions

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

Volumes

	Nominal value		Positive fair value		Negative fair value	
in EUR million	**30 June 2019**	**31 Dec. 2018**	**30 June 2019**	**31 Dec. 2018**	**30 June 2019**	**31 Dec. 2018**
Interest rate risks	**10,003.9**	**8,970.0**	**5.4**	**5.1**	**965.8**	**512.9**
Interest rate swaps	9,983.9	8,950.0	5.4	5.1	965.4	512.4
Options on interest rate swaps	20.0	20.0	–	–	0.4	0.5
Currency risks	**23.8**	**23.6**	**–**	**–**	**0.3**	**0.2**
Forward exchange transactions	23.8	23.6	–	–	0.3	0.2
Total	**10,027.8**	**8,993.6**	**5.4**	**5.1**	**966.1**	**513.0**

The nominal values of the interest rate swaps relate to portfolio hedges at EUR 9,885.0 million (31 December 2018: EUR 8,795.0 million). The rest relates to hedging relationships, which are no longer included in hedge accounting.

(34) Risks from financial instruments

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

Default risk

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

in EUR million	30 June 2019	31 Dec. 2018
Cash reserves	4,753.3	1,046.2
Loans and advances to banks	354.6	3,687.8
Loans and advances to clients	67,037.7	65,511.8
Financial investments	6,434.1	6,297.2
Derivatives	5.4	3.2
Loan commitments and financial guarantees	20,072.1	19,617.1
Total	**98,657.2**	**96,163.3**

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

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

in EUR million	Maximum default risk		Value adjustments		Eligible collateral	
	30 June 2019	31 Dec. 2018	30 June 2019	31 Dec. 2018	30 June 2019	31 Dec. 2018
Loans and advances to clients	842.4	829.1	305.3	266.8	207.2	131.7
Loan commitments and financial guarantees	69.1	54.2	27.0	28.1[1]	5.4	16.3
Total	**911.4**	**883.4**	**332.3**	**295.0**[1]	**212.6**	**148.1**

[1] Adjusted previous year's figures

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

	Default risk	
in EUR million	30 June 2019	31 Dec. 2018
Rating 16	**73.7**	**14.0**
Level 3	72.8	13.4
POCI	0.9	0.6
Rating 17	**557.1**	**532.5**
Level 3	505.7	464.2
POCI	51.4	68.3
Rating 18	**255.6**	**293.1**
Level 3	242.7	281.6
POCI	12.9	11.5
Total	**886.4**	**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 may either be made by modifying existing conditions in favour of the debtor or by granting partial or complete debt restructuring measures. Among others, modifications to the term, interest rate and repayment schedule count as forbearance measures, as do debt waivers or capitalisation of arrears.

The forborne exposure is distributed as follows:

in EUR million	31 Dec. 2019	31 Dec. 2018
Loans and advances to clients	611.8	763.4
Contingent liabilities	11.7	14.0
Commitments	31.3	47.5
Total	**654.8**	**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 economic capital requirements for the bank as a whole changed in the first reporting half-year as follows:

		2019			2018	
in EUR million	**30 June 2019**	**Maximum**	**Minimum**	**30 June 2018**	**Maximum**	**Minimum**
Interest	191.0	335.4	137.3	199.3	334.4	163.1
Equities	56.8	57.6	43.6	47.1	48.6	34.2
Credit spread	18.8	22.9	18.8	24.9	25.2	11.9
Foreign currency	6.7	7.6	5.8	6.1	7.3	6.1
Volatility	–	–	–	–	–	–
Correlated total risk	**214.1**	**362.5**	**159.8**	**205.4**	**365.7**	**180.6**

The securities portfolio had the following structure as at 30 June 2019:

	Banks		Non-banks		Public-sector issuers		Total	
Market value in EUR million	**30 June 2019**	**31 Dec. 2018**	**30 June 2019**	**31 Dec. 2018**	**30 June 2019**	**31 Dec. 2018**	**30 June 2019**	**31 Dec. 2018**
Bonds	2,204.6	2,124.4	353.6	332.6	3,733.4	3,711.1	6,291.6	6,168.0
Funds	–	–	142.5	129.1	–	–	142.5	129.1
Equities	–	–	–	–	–	–	–	–
Total	**2,204.6**	**2,124.4**	**496.1**	**461.7**	**3,733.4**	**3,711.1**	**6,434.1**	**6,297.2**

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

	30 June 2019		31 Dec. 2018	
	in EUR million	**in%**	**in EUR million**	**in%**
Germany	4,414.9	68.6	4,333.6	68.8
Europe/EU	1,794.8	27.9	1,708.6	27.1
Europe/Non-EU	164.6	2.6	175.8	2.8
Other	59.8	0.9	79.3	1.3
Total	**6,434.1**	**100.0**	**6,297.2**	**100.0**

Other disclosures

(35) Executive bodies of Deutsche Kreditbank AG

Board of Management

Stefan Unterlandstättner
Chair of the Board of Management

Tilo Hacke
Member of the Board of Management

Thomas Jebsen
Member of the Board of Management

Alexander von Dobschütz
Member of the Board of Management

Jan Walther
Member of the Board of Management

Supervisory Board

Shareholders' representatives:

Dr Edgar Zoller
From 25 January 2019 Chairman of the Supervisory Board
Deputy Chair of the Board of Management of Bayerische Landesbank (CEO)

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

Michael Huber
Chair of the Board of Management
of Sparkasse Karlsruhe

Dr Ulrich Netzer
From 20 May 2019 member of the Supervisory Board
President of the Sparkassenverband Bayern

Walter Pache
Until 20 May 2019 member of the Supervisory Board
Independent financial expert

Michael Bücker
From 25 January 2019 member of the Board of Management of Bayerische Landesbank

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

Marcus Kramer
Member of the Board of Management
of Bayerische Landesbank

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

Employee representatives:

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

Carsten Birkholz
Employee
Deutsche Kreditbank AG

Jörg Feyerabend
Employee
DKB Service GmbH

Maria Miranow
Employee
Deutsche Kreditbank AG

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

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

Jens Hübler
Executive employee
Deutsche Kreditbank AG

Frank Radtke
Employee
Deutsche Kreditbank AG

Honorary member:

Günther Troppmann

(36) Relationships with related companies and persons

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

– Sole shareholder (BayernLB)

– 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:

in EUR million	30 June 2019	31 Dec. 2018
Loans and advances to banks	**220.4**	**861.9**
Parent company	220.4	861.9
Loans and advances to clients	**93.1**	**92.3**
Non-consolidated subsidiaries	58.9	59.0
Joint ventures	30.0	29.2
Other related companies	4.2	4.2
Risk provisions	**6.8**	**7.5**
Non-consolidated subsidiaries	0.6	0.2
Joint ventures	6.2	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	**30.1**	**30.1**
Other related companies	30.1	30.1
Other assets	**271.3**	**193.1**
Parent company	270.8	192.5
Non-consolidated subsidiaries	0.5	0.4
Joint ventures	–	0.0
Other related companies	0.0	0.1
Liabilities to banks	**840.1**	**613.4**
Parent company	597.3	382.4
Other related companies	242.8	231.0
Liabilities to clients	**84.6**	**88.1**
Non-consolidated subsidiaries	26.4	26.9
Associated companies	0.1	1.5
Joint ventures	2.7	0.7

in EUR million	30 June 2019	31 Dec. 2018
Other related companies	55.4	59.0
Securitised liabilities	**40.3**	**39.9**
Parent company	1.0	0.7
Other related companies	39.3	39.2
Trading liabilities	**3.1**	**0.7**
Parent company	3.1	0.7
Negative fair values from derivative financial instruments (hedge accounting)	**2.4**	**3.7**
Parent company	2.4	3.7
Provisions	**1.2**	**1.5**
Non-consolidated subsidiaries	0.1	0.0
Joint ventures	1.1	1.5
Other related companies	0.0	0.0
Other liabilities	**0.3**	**9.1**
Parent company	0.1	3.9
Non-consolidated subsidiaries	0.1	0.9
Joint ventures	0.1	0.0
Other related companies	–	4.4
Subordinated capital	**655.9**	**661.3**
Parent company	655.9	661.3
Contingent liabilities	**0.7**	**0.8**
Non-consolidated subsidiaries	0.7	0.8
Other related companies	0.0	0.0
Other commitments	**4.7**	**4.6**
Non-consolidated subsidiaries	1.1	1.0
Other related companies	3.6	3.6

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 and their close relatives. Loans were granted at standard market conditions and terms.

in EUR million	30 June 2019	31 Dec. 2018
Loans and advances[1]		
Members of the Board of Management of DKB AG[2]	1.6	1.7
Members of the Supervisory Board of DKB AG[2]	0.6	0.8
Members of the Board of Management of BayernLB[2]	0.0	0.3
Members of the Supervisory Board of BayernLB[2]	0.0	0.2

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

in EUR million	30 June 2019	31 Dec. 2018
Deposits[1]		
Members of the Board of Management of DKB AG	2.1	1.9
Members of the Supervisory Board of DKB AG	2.5	2.0
Members of the Board of Management of BayernLB	2.1	2.1
Members of the Supervisory Board of BayernLB	0.3	0.1

[1] Multiple entries are possible.

(37) Events after the balance sheet date

There were no events of particular significance for the DKB Group after 30 June 2019.

Berlin, 6 August 2019

Deutsche Kreditbank AG

The Board of Management

S. Unterlandstättner **T. Hacke** **T. Jebsen**

A. von Dobschütz **J. Walther**

Responsibility statement by the Board of Management

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

Berlin, 6 August 2019

Deutsche Kreditbank AG

The Board of Management

S. Unterlandstättner **T. Hacke** **T. Jebsen**

A. von Dobschütz **J. Walther**

Review report

For Deutsche Kreditbank AG, Berlin

We have reviewed the condensed interim consolidated financial statements – consisting of the consolidated balance sheet, consolidated statement of comprehensive income, condensed consolidated cash flow statement, consolidated statement of changes in equity and selected explanatory notes – and the Deutsche Kreditbank AG, Berlin, interim Group management report for the period from 1 January 2019 to 30 June 2019, which are part of the half-year financial report pursuant to section 115 of the German Securities Trading Act. Preparation of the condensed interim consolidated financial statements pursuant to the IFRSs applicable to interim financial reporting, as adopted by the EU, and of the interim Group management report in accordance with the provisions of the German Securities Trading Act that apply to interim Group management reports is the responsibility of the company's Board of Management. Our task is to submit a review report for the condensed interim consolidated financial statements and the interim Group management report based on our review.

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

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

Berlin, 6 August 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft [audit firm]

Mark Maternus	ppa. Michael Quade
German Public Auditor	German Public Auditor

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