Deutsche Factoring Bank

Annual Financial Statements and Management Report 2017

Finanzgruppe

Modern receivables management

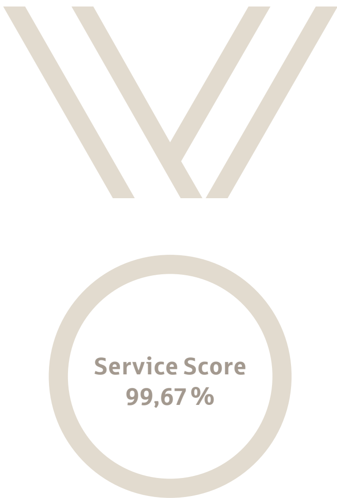
Growth

17.1

Euro billion

The total volume of factoring sales of the Deutsche Factoring Bank increased significantly by an amount of EUR 1.6 billion (+ 10.3%) in 2017 to EUR 17.1 billion (this compares to the value of the previous year of EUR 15.5 billion).

Quality



Received an award for the best world-wide service quality as an Import Factor. In a competition amongst members of the FCI (the global network of some 400 factoring companies in 90 different countries), the Deutsche Factoring Bank was once again able to win the best import factor award.

Competence

1971

Over the last 47 years we have strived, by means of a combination of implementing tailor-made financing solutions and expertise, to enable companies to achieve their liquidity and growth targets.

First-class team

174 employees

At 31st December 2017, the Deutsche Factoring Bank employed a total staff of 174 (83 female and 91 male employees). This figure includes 24 part-time employees as well 5 trainees and 3 employees on parental leave.

Security

10.8 percent

The equity ratio was increased to 10.8% in the reporting year, the figure for the previous year being 10%. It is the policy of the Deutsche Factoring Bank to continuously upgrade its equity base through the retention of earnings in order to hedge against any possible unexpected risks.

Success

59.5

Euro million

The surplus arising from interest and fees amounts to EUR 59.5 million. This represents an increase of EUR 2.3 million compared to the previous year.

Flexibility for the small and medium-sized business sector

In 2017, the German economy recorded the strongest growth in six years. The factoring market also posted growth for the eighth time in succession. This is, of course, a strong indication that the sale of trade receivables and services to a factoring organisation before they are due has, in the meantime, become an established form of financing for companies, no matter whether it is used to exploit growth opportunities or to enhance financial flexibility. The Deutsche Factoring Bank is able to maintain its position as one of the market leaders and as a recognised expert in this highly competitive market. We are, consequently, rightly proud of this and see it as fully confirming all our efforts.

What drives us? Offering our clients bespoke solutions capable of satisfying their highest requirements. We provide our clients with modular service packages offering them the required security in terms of financing, bad debt protection and receivables management. Our first-class service quality provides individual companies with a maximum of entrepreneurial flexibility. All our team efforts are directed towards achieving this goal. This is reflected by the fact that, in 2017, we once again received the world's best import factor award (FCI Import Factor Service Quality Award). In addition, as part of the Deutsche Leasing Gruppe, we are also a strong Sparkassen (savings banks) partner and centre of competence for factoring and receivables management. The federal advisory committee, established last year, will continue to intensify and expand the successful cooperation with the Sparkassen.

Once again, the Deutsche Factoring Bank was able to record a successful financial year, thus underpinning its growth projection. We would like to take this opportunity to thank our employees, the Sparkassen, our clients and our partners for their support.

Shareholders

General partner
Deutsche Factoring Gesellschaft mit beschränkter Haftung, Bremen

Limited partners
Deutsche Sparkassen Leasing AG & Co. KG, Bad Homburg → 53%

Freie Sparkassen Beteiligungsgesellschaft mbH, Bremen → 35%

Landesbank Berlin AG, Berlin → 12%

Membership

Deutscher Factoring-Verband e.V. (DFV), Berlin

Deutscher Sparkassen- und Giroverband, Berlin

Factors Chain International (FCI), Amsterdam, Niederlande

Hanseatischer Sparkassen- und Giroverband (HSGV), Hamburg

Contents

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Development of the Factoring Market

The global factoring market

According to the Factor Chain International's world factoring statistics, the volume of business conducted by factoring institutions increased by 9% to EUR 2,598 billion in 2017 compared to the previous year.

China was the largest single market for the first time posting a significant 34% growth in turnover to EUR 406 billion. The United Kingdom saw turnover decline by 1% to EUR 324 billion, thus falling to second place. The UK was followed by France with EUR 291 billion (+ 8%), Germany with EUR 232 billion (+ 7%) and Italy with EUR 228 billion (+ 9%). The European market, as a whole, recorded a 7% growth to EUR 1,702 billion and represents by far the largest continental region, accounting for 65.5% of the global factoring business. The second largest continent in terms of factoring turnover is the Asia / Pacific region, accounting for 25% of the global factoring business, followed by South America accounting for 4.5%.

The lion's share of factoring turnover was accounted for by domestic factoring, the volume of business amounting to EUR 2,079 billion (a figure representing an 11% growth). This represented 79% of the total volume. International factoring business increased by 2% to EUR 520 billion.

Factors Chain International (FCI)

The world's largest association of factoring providers is represented in 90 countries. In total, some 400 companies are members of Factors Chain International. The volume of business carried out between FCI members amounted to some EUR 18 billion in 2017.

The overall volume of business conducted by all FCI members grew somewhat in 2017 to EUR 1,563 billion. FCI members share of the global factoring market dropped by 4 percentage points to 60% compared to the previous year. In contrast, however, the international factoring business increased by 7% to EUR 458 billion.

Factoring in Germany

In times of negative interest rates and increasing global political turmoil, the German factoring market was able to successfully hold its own in 2017. The 41 members of the Deutsche Factoring Verband e. V. (DFV) achieved a yearly turnover of EUR 232.4 billion.

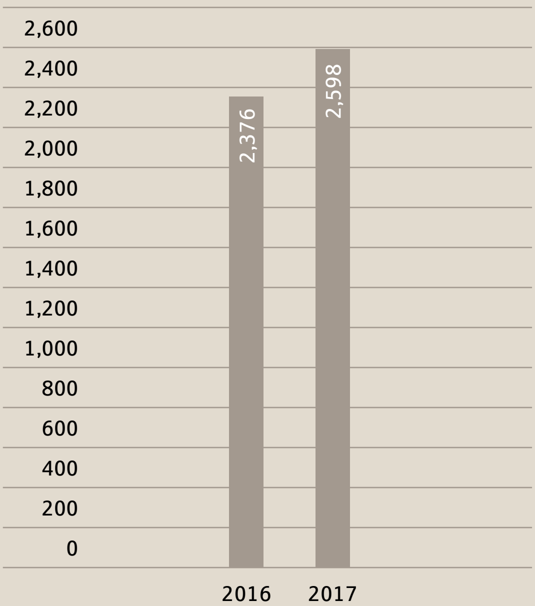
The volume of factoring posted an impressive rise of 7.2% compared to 2016. For the eighth time in succession, the market was able to record significant growth.

The factoring ratio, i.e. the ratio of receivables purchased by factoring institutions to gross domestic product was 7.1%, and thus exceeds for the first time the magic 7% mark.

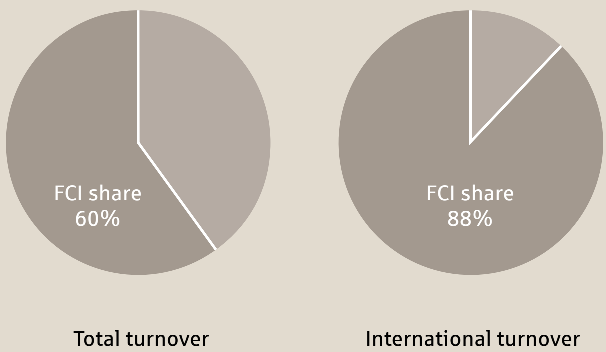
According to the Deutsche Factoring Verband e. V., the main factoring business branches remain stable. The top five branches are once again trade/trade brokerage, manufacture of metal products/mechanical engineering, services, vehicle manufacture as well as the production of chemical products.

The number of clients of all members of the DFV increased to more than 36,000 in 2017. This figure represents an increase of over 33%, thus setting a new record. The international factoring business was also very successful in 2017 with import and export factoring posting a record overall volume of business of EUR 71.8 billion, i.e. 5.6% growth. Of this amount, EUR 68.1 billion was accounted for by export factoring. Import factoring grew by 5.5% to EUR 3.7 billion after suffering a decline in 2016.

Global factoring turnover (EUR bn)



Factors Chain International's (FCI) share in 2017



Management Report

Company profile

Deutsche Factoring Bank GmbH & Co KG (Deutsche Factoring Bank) with registered office in Bremen is the factoring competency center within the Sparkassen-Finanzgruppe (German Savings Banks Finance Group). With over 45 years of experience we offer the highest level of individual problem-solving expertise with regard to receivables management and financing, in particular also for small and medium-sized enterprises in Germany.

We support customers from over 50 sectors with modular-based service packages for financing, bad debt protection and receivables management.

As was the case in prior years, the successful partnership-based cooperation with the Sparkasse banks was again the main pillar promoting new business in the year under review. To strengthen the trust-based collaboration between the Sparkasse banks, Sparkasse associations, Deutsche Sparkassen Leasing AG & CO. KG (Deutsche Leasing) and Deutsche Factoring Bank, Deutsche Factoring Bank set up a federal advisory board for the factoring business in order to facilitate a regular exchange of views.

Deutsche Factoring Bank as an ‘other credit institution’ is subject to the supervision of the German Federal Financial Supervisory Authority (BaFin) and the German Central Bank (Deutsche Bundesbank). Deutsche Factoring GmbH is the general partner. The limited partners of Deutsche Factoring Bank and Deutsche Factoring GmbH are:

– Deutsche Sparkassen Leasing AG & CO. KG with registered offices in Bad Homburg v. d. Höhe holds 53%
– Freie Sparkassen Beteiligungsgesellschaft mbH with registered offices in Bremen holds 35%
– Landesbank Berlin AG with registered offices in Berlin holds 12%.

Development of the factoring market

At the end of 2017, 186 companies offering factoring services (Section 1 (1a) sentence 2 no. 9 of the German Banking Act (KWG)) were registered with the German Federal Financial Supervisory Authority (BaFin).

Revenue of the Factoring-Verband e.V. increased by 7.2% to EUR 232.4 billion in 2017. The factoring rate reached an all-time high of 7.1% (PY: 6.9%) (measured solely in terms of revenue of member firms of the Deutsche Factoring-Verband e.V (German Factoring Association) in relation to gross domestic product). “Factoring has also increased significantly in terms of absolute user numbers: this financing alternative is used in the meantime by over 36,000 customers, an increase of more than 33 percent. The number of debtors also continued to increase to 7.6 million in the meantime” according to the Factoring-Verband e.V. in their 2017 annual report.

Economic and financial report

The economic situation in Germany was characterized by solid and steady growth also in 2017. Based on information from the German Federal Bureau of Statistics, GDP adjusted for inflation (real GDP) rose by an average of 2.2% in 2017 year-on-year. GDP rose by a similar amount in the two preceding years: 2016 by 1.9% and 2015 by 1.7%. Growth

Location Bremen

Location Ratingen

was driven by both strong domestic demand and high demand for German goods internationally.

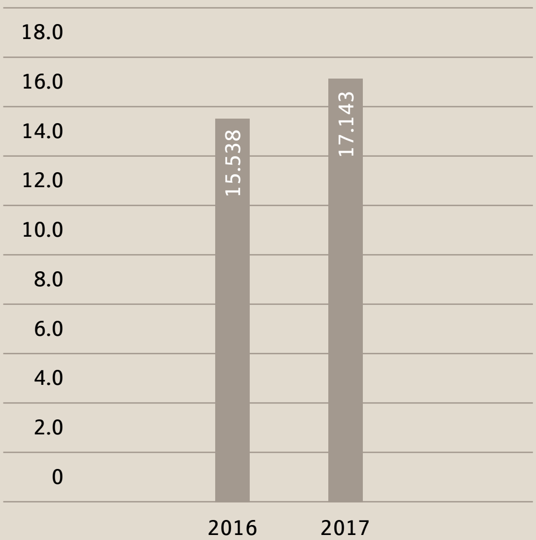
Stimulus for growth in 2017 came largely from the manufacturing industry with the combined services sectors developing somewhat weaker.

The number of company insolvencies declined for the seventh year in a row. German district courts reported 20,093 company insolvencies in 2017. This was 6.6% fewer than in 2016 according to the German Federal Statistical Office. This figure was the lowest since introduction of the German Insolvency Statute in 1999. Relatively easy access to liquidity, a positive earnings position of medium-sized firms and continued economic stability in 2017 allowed for the very satisfactory development of the insolvency rate.

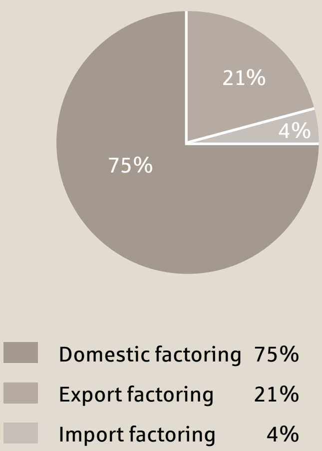
Development of Deutsche Factoring Bank in the 2017 financial year

According to the Management Board, the forecasts of the prior year were met, the projected increase in revenue of Deutsche Factoring Bank was almost reached.

Turnover of Deutsche Factoring Bank (EUR bn)



Share of each branch of business in the turnover of Deutsche Factoring Bank



Deutsche Factoring Bank's economic environment was still characterized by intense competition and pressure on margins in the 2017 financial year. The main reason for this is the continued expansive monetary policy of the ECB with historically low interest rates.

The factoring turnover volume of the Deutsche Factoring Bank increased significantly in 2017 by EUR 1.6 billion (+10.3%) to EUR 17.1 billion (PY: EUR 15.5 billion). The source of this growth was revenue from new customers acquired in the year under review and in the 2016 financial year and the growth of the existing customer base.

Differentiated by type of transaction, revenue performance is as follows:

	2016	2017	
	EUR m	EUR m	in %
Domestic factoring	11,727	13,062	+11.4
Export factoring	3,234	3,339	+3.2
Import factoring	577	742	+28.7

The share of international business declined marginally year-on-year in the reporting year by 0.7 percentage points to 23.8% (PY: 24.5%).

The basis of the import business is the sustainable cooperation with partners from Factors Chain International (FCI). FCI is a global network of leading factoring companies and Deutsche Factoring Bank has been a member since 1971.

In June 2017 Deutsche Factoring Bank received the FCI Import Factor Service Quality Award 2017 for the second time in a row. In addition to the volumes processed and number of correspondents, the award is granted on the basis of a total of 9 service criteria including promptness of decision making, professionalism, processing quality and problem-solving ability. Overall, Deutsche Factoring Bank again increased their 'Service Score' to 99.67%. This award is both recognition and an incentive to further expand the high-quality standards of the import factoring volume and for Deutsche Factoring Bank to assert their leadership position next year in this highly-competitive service market.

Major steps were taken in 2017 to better integrate the Sparkasse factoring competency center with the Sparkasse banks and Deutsche Leasing. Besides setting up the factoring federal advisory board, additional cooperation agreements were concluded with Sparkasse banks and Sparkasse associations.

The share of revenue generated by the factoring business with non-recourse factoring (del credere) increased by 1.1 percentage points to 97.5% (PY: 96.4%).

The number of invoices/open items processed by us remained on a par with the prior year at 7.9 million units.

The industry and credit risks are still widely diversified (see the following risk report). Deutsche Factoring Bank granted a debtor limit of EUR 10.0 billion as of December 31, 2017, to the end customers (customers' customers). Utilization amounted to 17.2%. This low level of utilization is typical for the factoring business. The end customers cannot directly access this facility. This can first be utilized following delivery by the factoring client.

The average term of receivables purchased by the company is still 40 days as in the prior year.

In terms of organization, besides tasks relating to daily operations, Deutsche Factoring Bank focused on the continuation of the zusammenWACHSEN project resulting from the merger in 2016 and the accompanying standardization of IT and business processes.

The Gesellschaft für Bonitätsbeurteilung mbH in Cologne (GBB-Rating) again prepared an external rating for Deutsche Factoring Bank in 2017. GBB-Rating again confirms the good 'AA–' rating (outlook stable) from 2016. This good rating means that Deutsche Factoring Bank is seen as a bank with an above-average credit rating on the refinancing market. The Company still intends to commission an external rating each year.

Deutsche Factoring Bank has a decentralized sales structure with headquarters in Bremen, a location in Ratingen and sales offices in Bad Homburg, Berlin, Bielefeld, Düsseldorf, Frankfurt/Main, Hamburg, Münster, Monheim, Munich, Nuremberg and Stuttgart.

Including 24 part-time employees, 5 trainees and 3 employees on parental leave, Deutsche Factoring Bank had 174 employees as of December 31, 2017, of which 83 were female and 91 male. The trainees (PY: 3 trainees) were all trained to be office administrators (chamber of commerce).

Numerous training measures took place in the financial year.

The Management Board would like to thank and recognize the employees of Deutsche Factoring Bank for their personal engagement and personal commitment, which enabled the business success.

The Management Board's thanks extends to the members of the Supervisory Board for their highly appreciated advice and support.

Our thanks also applies to our business partners, in particular the cooperating members of the Sparkasse Financial Group and our customers for their trust-based cooperation.

Internal management system

Deutsche Factoring Bank has a business and risk strategy in place. Deutsche Factoring Bank defines both budget targets and strategic and medium-term company objectives using selected operating performance indicators.

The financial development of the company is continuously monitored on the basis of various figures and performance indicators. Management uses the following financial performance indicators to manage the bank: the factoring volume (receivables tendered), net income after taxes, the operating risk costs (not taking into account trade credit insurance) as well as the cost-income ratio as a ratio between expenses required for business operations and income from operating business (interest and net commission income). Moreover, a range of other financial and non-financial performance indicators are calculated and monitored, which however are subordinated in respective of their relevance for management. We would like to specifically mention the particularly strong expert knowledge and performance of our employees. Staff turnover did not increase in the financial year under review.

The key performance indicators developed as follows:

	2017	2017	2016
	Actual	Planned	Previous Year
Factoring volume (EUR bn)	17.1	17.2	15.5
Cost-income ratio (%) business management	36.9	32.0	34.7
Net income after taxes (KEUR)	28,280	27,291	24,300
Risk costs (KEUR) business management	1,572	5,651	5,337

Results of operations

The interest and net commission income amounted to EUR 59.5 million. This figure increased by EUR 2.3 million year-on-year, due mainly to the increase in acquired factoring volumes.

Personnel expenses increased in the reporting year by 8.9% to EUR 14.7 million, due in part to the increase in rates effective from October 1, 2016, and the creation of new positions. The other administrative expenses increased in light on the zusammenWACHSEN project by EUR 0.9 million to EUR 6.4 million. In total, general administrative expenses increased by EUR 2.1 million to EUR 21.1 million. The business management cost-income ratio increased year-on-year by 2.2 percentage points to 36.9%.

Earnings before risk provisioning and income taxes remained at an almost constant level of EUR 38.5 million (PY: EUR 38 million) despite the pressure on income and increased costs.

Total risk costs, i.e. the write-downs of receivables, the additions to risk provisions for debtors and factoring customers as well as the expenses for credit insurance declined year-on-year by EUR 4.0 million to EUR 5.5 million due to favorable adjusting events in respect of specific loan loss provisions.

The net income for the year after trade tax amounts to EUR 28.3 million in 2017 (PY: EUR 24.3 million). The capital yield pursuant Section 26a (1) sentence 4 of the German Banking Act (KWG) as a ratio of net income and total assets amounts to 1.7% (PY: 1.5%).

In light of the current market position, management considered the result of operations in 2017 as satisfactory.

Net assets and financial position

Deutsche Factoring Bank's balance sheet is dominated by receivables acquired and the corresponding refinancing.

The structure of assets is characterized by receivables from clients, which relate to approx. 98.2% (PY: 95.7%) of total assets of EUR 1.7 billion. Receivables generally bear interest at a floating rate and are due within three months. Risks for client receivables are largely covered in the course of own credit insurance and the credit insurance of the factoring clients (see the following risk report).

Deutsche Factoring Bank had at all times sufficient refinancing facilities at its disposal. For refinancing there are mostly term deposits from banks with a term of mainly up to three months available to us. In addition there is the blocked and billing accounts of the factoring clients.

Liabilities to banks increased by 3.5% to EUR 784 million. The share of total assets at 46.1% (PY: 47.2%) is the most important item.

Liabilities to clients in relation to the balance sheet total increased by 6.0% to EUR 694.9 million, this amounts to 40.9% (PY: 40.9%) of the balance sheet total. Of this, a share is attributable to the provision of refinancing by Deutsche Leasing.

The balance sheet equity ratio increased to 10.8% in the reporting year (PY: 10.0%). For economic backing of the growth objectives and to safeguard against potential unexpected risks, Deutsche Factoring Bank continues to strengthen their equity base by way of retaining earnings.

The equity and liquidity requirements were met at all times.

Deutsche Factoring Bank's net assets and financial position are in good order. The bank was able to meet its payment obligations at all times.

Risk report

The factoring business has its opportunities and risks. The task of risk management of Deutsche Factoring Bank is to identify, analyze, systematize, quantify and communicate risks in order to ensure that all risks are managed.

Management Board of Deutsche Factoring Bank implemented an appropriate and effective risk management system under its responsibility within the meaning of Section 25 a (1) KWG, so that developments that could endanger Deutsche Factoring Bank's ability to continue as a going concern can be recognized at an early stage. Risk management follows clearly defined principles, which must be applied and the compliance of which will be monitored on an ongoing basis. This process is permanently applied on the level of individual businesses according to defined rules and quarterly on an aggregated basis in the course of risk reporting.

The individual departments are responsible in the course of the work for operational processes and risk controlling for the analyses and ongoing monitoring of the respective risks. The basis for an effective cost and income management system is the regular review of client calculations.

The effectiveness of the risk management system of Deutsche Factoring Bank and its implementation is regularly monitored by Internal Audit.

The overarching framework is the risk strategy derived from the business strategy and which is reviewed and updated annually. In the risk strategy the following risk types were identified as key risk types:

Counterparty risk
Deutsche Factoring Bank differentiates credit risks between client risks and dilution risks on the one hand and the debtor risk on the other. Furthermore, the correspondent risk is assigned to the credit risk.

The risk that a receivable is not legally enforceable is referred to as a client and dilution risk. The risk of fraud by factoring clients is also assigned to the client and dilution risk. The client and dilution risk is Deutsche Factoring Bank's most significant risk.

The client and dilution risk is measured using an internal risk classification procedure taking into account both the credit rating of the factoring clients and the factorability of the receivables provided under the factoring agreement. The commencement or continuation of a cooperation with factoring clients is generally only possible by complying with certain minimum requirements of the result of the risk classification procedure.

The debtor risk refers to the risk that a debtor cannot meet its contractually agreed obligations to the seller of receivables and cannot settle the receivables sold to Deutsche Factoring Bank in the event of insolvency for example.

The debtor risk is measured generally by way of an internal scoring procedure. Moreover, for significant or selected debtor risks there are trade credit insurances policies in place in order to minimize debtor risks.

For import factoring there are correspondent risks mainly from advancing import receivables.

Correspondent risks are measured taking into account reasonable credit rating criteria in commencing and continuing the cooperation with a correspondent and also taking into account country risks.

The risk classification procedures are continuously being developed and reviewed annually. The trend of positive development of risks costs in the past few years was confirmed by the risk classification procedures applied both on the factoring client side as well as debtor side. All identifiable credit risks have been taken into account by way of appropriate provisions.

In the course of risk provisioning, all engagements are subject to regular monitoring and reporting. The risk provision requirement is agreed with and approved by the Management Board of Deutsche Factoring Bank.

Liquidity risks
Liquidity risks for Deutsche Factoring Bank are risks that the present and future payment obligations cannot be met or only be subject to higher costs.

Deutsche Factoring Bank has a differentiated liquidity planning and liquidity management depending on the planning horizon under review.

The framework for this is a multi-year liquidity plan that recognizes a sufficient liquidity margin taking into account the scheduled growth strategy.

The liquidity inflows and outflows are determined each day, the planned settling measures take the form of daily allowance adjustments via existing facilities at banks and partners. The receivables acquired in currencies are also managed and monitored accordingly.

Deutsche Factoring Bank's liquidity management is always being developed in order to take into account the difficulty to predict payment peaks in liquidity planning.

There is a detailed contingency plan in place to ensure the bank's liquidity during crisis situations. The contingency plan provides for convening of the crisis committee with involvement of the Managment Board of Deutsche Factoring Bank. On the basis of an in-depth situation analysis, the crisis committee decides on the introduction of control measures.

Refinancing facilities in the necessary amount were available at all times during the 2017 financial year. Deutsche Factoring Bank was sufficiently liquid at all times.

Operational risks
Risks from internal procedures, people and systems or external influences are grouped together under operational risks and mainly comprises IT risks, client and product risks, personnel risks and legal risks.

The written rules of procedure of the Deutsche Factoring Bank and an effective, efficient and continually updated internal control system serve to minimize operational risks. This also includes a risk management handbook that deals extensively with operational risks.

The operational risks are reviewed and measured in the course of the annual risk inventory. In addition, all significant disruptions or damage events are recorded in a loss database.

Other risks
The following risk types were identified as non-significant risk types:

The market risk is the risk of potential loss due to adverse changes of market prices (interest, foreign exchange rates).

Interest and foreign exchange risks are of minor significance as Deutsche Factoring Bank is refinanced generally with time deposits mainly with a term of up to three months and foreign currency exchange risks are borne by the factoring client in line with the contract. In addition, in order to minimize foreign exchange risks when purchasing receivables in foreign currency, time deposits in the same currency are taken out (natural hedge).

Deutsche Factoring Bank includes reputation risks and strategic risks under business risks. In particular, the monthly or quarterly comparison of actual figures with the budgeted and prior year figures ensures that business risks are identified at an early stage.

Risk-bearing capacity
The risk-bearing capacity concept is based on the going concern approach with a confidence level of 99%.

The calculated hedging potential is available to cover economic risks at most and at the same time limits the total of risk limits that can be determined by Management Board on the basis of a separate decision-making process and reflects the risk appetite of each (significant) risk type as well as serves the management of risks of each risk type.

Economic risks result from additions to risks of the significant risk types. The credit rating and dilution risks, i.e. the most significant risk type, are measured using the unexpected loss method as part of Monte Carlo simulation with a confidence level of 99%. Operational risks are measured using the alternative standard approach. Liquidity risks are simulated applying an interest rate premium. The limits of the risk-bearing capacity prescribed by the Management Board were complied with each quarter.

In addition, the credit rating and dilution risks are subject to a stress test by way of a simulated deterioration in the probability of default, while the liquidity risks are stress tested by applying a higher interest rate premium.

Deutsche Factoring Bank established a future-orientated capital planning process to complement the risk-bearing capacity concept. Looking beyond the one-year planning horizon of the risk-bearing capacity (RBC), planned and expected external and internal changes were taken into account when planning capital requirements in an additional horizon of four years beyond the risk-bearing capacity.

In doing so, changes to own business activities or the strategic objectives were taken into account just like changes to the economic environment and other potential unexpected (adverse) developments. In addition, all areas are obliged to submit an ad-hoc notice to Management Board in the event of serious changes. For example this includes onerous contracts, insolvencies or serious changes in market conditions.

Risk reporting
The results of the risk-bearing capacity calculations are communicated via a quarterly risk report. The report includes statements on the development of factoring risks, concentration risks and foreign risks, on the volume and development of financing facilities (advances to factoring clients), the development of new business, debtor risks, operational risks, the development of risk costs (write-downs of receivables, general and specific provisions), liquidity and refinancing risks as well as on concentration risks.

The calculation of the risk-bearing capacity and the performance of stress tests is carried out at the end of each quarter in the context of risk reporting and ad-hoc notices for serious changes. The methodology is critically reviewed and adjusted on a regular basis.

The member of the Supervisory Board are informed in writing at the end of each quarter of the financial performance of Deutsche Factoring Bank. Management Board promptly informs the members of the Supervisory Board of any significant events, e.g. large insolvencies, serious changes in market conditions etc.

Risks affecting Deutsche Factoring Bank's ability to continue as a going concern are currently not discernible. No negative developments are expected in the coming financial year.

Forecast

Business environment
"The German economy is enjoying a strong economic upswing", according to the German Central Bank in its forecast in early December 2017. 'Driven by lively demand from abroad, the industry is growing strongly and the sharp upturn of commercial investment is continuing' writes the German Central Bank in describing the reasons for this upturn. The German Central Bank forecasts calendar-adjusted economic growth of 2.5% in 2018. The German economy could grow less strongly in 2019 and 2020 at 1.7% and 1.5% respectively according to the German Central Bank.

The positive outlook described could be limited by restrictions on trade connections and questions on migration or worsening of the diesel crisis. In our opinion, friction due to the continued zero interest rate policy of the ECB in 2018 and the change in monetary policy of the FED leads to higher uncertainty. The likely continued expansive monetary policy of the ECB in 2018 and the restrictive monetary policy in the US will probably impact lending conditions that are already undergoing change. Further indicators for potential global instability include the political development in Italy following the election and continued involvement of the NATO member state Turkey in the civil war in Syria as well as further escalation of tension between the West (USA, EU) and Russia. Actual onset and financial consequences are not predictable at this time.

Forecast for the business-related development of Deutsche Factoring Bank
This economic forecast and the integration of the Sparkasse banks with Deutsche Leasing means for Deutsche Factoring Bank's business that the revenue of clients of Deutsche Factoring Bank will increase in total in a similar way as in the prior year. Revenue losses due to insolvencies in the client portfolio or due to contract terminations for other reasons still cannot be ruled out. The driver for the projected growth in 2018 is a continuing successful new business. In this regard, besides further intensification of the cooperation with the Sparkasse banks, Deutsche Factoring Bank is focusing on sales cooperations with Deutsche Leasing, in particular in the mid-market segment, and also on specialist brokers and financial intermediaries for major transactions.

For medium-sized companies, factoring is still an attractive supplement to a company's financing due to the flexibility it offers. Furthermore, we expect significant increases in revenue again in 2018 from the clients acquired in 2017 as these clients only processed a share of their annual revenue via Deutsche Factoring Bank in 2017.

In the course of the envisaged growth path Deutsche Factoring Bank is still focusing on a balance of risks and profitability as the basis of secure business development.

The Management Board: Uwe Müller, Fedor Krüger and Christian Eymery

In this context we expect a continuation of above-average increases in factoring volumes and a moderate increase in profits for 2018. In this regard, we take into account a continuation of the current price competition in the German factoring market as well as a slight increase in cost income ratio due to expenses associated with the zusammenWACHSEN project. With respect to risk costs in 2018 we expect this figure not to exceed the average of recent years.

The earnings expected will make it possible to still meet supervisory capital requirements even as business grows and also ensure an adequate distribution to the partners. In conclusion, management expects a successful financial year again for 2018.

Bremen, March 26, 2018

Deutsche Factoring GmbH

Christian Eymery | Fedor Krüger | Uwe Müller

Report of the Supervisory Board

The Supervisory Board of the Deutsche Factoring Bank GmbH & Co. KG performed the tasks required of it by law and the Articles of Association with the utmost diligence in the 2017 business year.

In accordance with its function and its definition, the Supervisory Board was informed on a continuous basis, in a timely and comprehensive manner about the development of the Bank and about all important business matters. In doing so, all important questions concerning the situation and development of the Bank, strategic and operational planning, risk management and regulatory requirements were discussed in depth. In addition, a regular dialogue took place between the Chairman of the Supervisory Board and the Managing Directors in which current operational issues were discussed and strategic considerations reviewed in advance.

Organization of the Supervisory Board

At 31st December 2017, the Supervisory Board comprised eight members. In order to enhance the efficiency of its work, the Supervisory Board established a Credit Committee. This Committee is tasked with making decisions pertaining to risk exposure that lie above the competence of the The Management Board and discussing issues related to the risk policy of the Bank. At its regular meetings, the Supervisory Board is fully informed about the proceedings and results of the Committee sessions. Records of such Committee meetings also serve to provide the Supervisory Board with detailed information.

Contents of Supervisory Board activity

The four regular meetings of the Supervisory Board were dedicated to dealing in depth with, and discussing, detailed reports pertaining to the Bank's policy as well as the risk management policy, the economic environment, the financial position and earnings situation, as well as Management Board planning. During the reporting period, intensive talks were held with respect to the future strategic orientation of the Bank as well as the integration project "zusammenWACHSEN" (merge). Furthermore, a meeting of the Credit Committee of the Supervisory Board was held in the second quarter of the 2017 business year, during which risk strategy and risk management issues were discussed.

The Supervisory Board was satisfied that the Management Board had conducted the Bank's business in a correct and orderly manner and had made such decisions it was called upon to make in accordance with its statutory responsibilities. The Supervisory Board was involved in all decisions of major importance for the Bank, giving its approval after extensive consultation and examination wherever required. The Supervisory Board discussed with the Management Board, and took note of, the Bank's strategy and the measures proposed to implement its medium and long-term goals.

The annual financial statements and proposal for the appropriation of profits

The annual financial statements of the Deutsche Factoring Bank GmbH & Co. KG at 31st December 2017 and the Management Report for the 2017 business year have been audited, and issued with an unqualified audit certificate, by the appointed auditors KPMG AG Wirtschaftsprüfungsgesellschaft.

After examining, and discussing in detail, the annual financial statements and the Management Report with the appointed auditor, the Supervisory Board took note of the audit results of the auditors and raised no objections. The Supervisory Board approved the submitted financial statements and proposed approval of the annual financial statements by the shareholders' meeting.

The Supervisory Board discussed proposals on the appropriation of the annual net profit and recommended that the shareholders allocate from the 2017 annual net profit of EUR 28,280,000.00 an amount of EUR 22,624,000.00 to the retained earnings.

The Supervisory Board would like to take the opportunity to express its thanks and appreciation to the Managing Directors and all members of the staff for their sustained dedication and performance in the 2017 business year.

Bremen, May 2018

On behalf of the Supervisory Board

Kai Ostermann (Chairman)

Balance sheet as of December 31, 2017, of Deutsche Factoring Bank GmbH & Co. KG

Assets		31.122017	31.12.2016
	EUR	EUR	KEUR
1. Cash reserves			
a) Cash on hand	6,366.02	6,366.02	9
2. Receivables from banks			
a) Due at call	21,188,206.94		26,901
b) Other receivables	3,512,369.88	24,700,576.82	39,388
3. Receivables from customers		1,668,750,845.43	1,535,287
Receivables from customers			
EUR 0,00 (PY: KEUR 0)			
thereof municipal loans:			
EUR 0,00 (PY: KEUR 0)			
4. Investments		2,700.64	3
of which in banks			
EUR 0,00 (PY: KEUR 0)			
of which in financial services institutions:			
EUR 0,00 (PY: KEUR 0)			
5. Intangible fixed assets		160,070.41	101
6. Property, plant and equipment		1,898,397.94	1,999
7. Other assets		3,834,383.40	282
8. Prepaid expenses		129,251.25	140
9. Excess of plan assets over pension liabilities		164,661.01	185
Total assets		**1,699,647,252.92**	1,604,294

Equity and liabilities		31.12.2017	31.12.2016
	EUR	EUR	KEUR
1. Liabilities to banks			
a) Due at call	72,556,191.59		102,807
b) With agreed term or notice period	711,243,512.15	783,799,703.74	654,213
2. Liabilities to customers			
b) Other liabilities			
ba) Due at call	122,692,823.72		102,162
bb) With agreed term or notice period	572,162,918.49	694,855,742.21	553,462
3. Other liabilities		2,473,790.61	2,727
4. Deferred income		901,559.72	952
5. Provisions			
a) Tax provisions	0,00		391
b) Other provisions	7,032,749.65	7,032,749.65	7,019
6. Subordinated liabilities		27,382,844.99	20,781
7. Equity			
a) Subscribed capital	6,435,874.52		6,436
b) Capital reserves	4,696,360.28		4,696
c) Revenue reserves	166,412,627.20		143,789
d) Retained earnings/accumulated deficit	5,656,000.00	183,200,862.00	4,860
Total equity and liabilities		**1,699,647,252.92**	1,604,294

1. Contingent liabilities	0,00	0
2. Other obligations		
thereof irrevocable loan commitments	**13,340,780.26**	14,425

Income statement of Deutsche Factoring Bank GmbH & Co. KG for the period from January 1 to December 31, 2017

Expenses			31.12.017	31.12.2016
	EUR	EUR	EUR	KEUR
1. Interest expenses			2,644,124.14	3,717
thereof negative interest received in euro –351,441,00 (PY: KEUR –91)				
2. Commission expenses			3,981,016.29	3,904
3. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	12,453,960.73			11,391
ab) Social security, pension and other benefits	2,245,779.08	14,699,739.81		2,108
thereof for pensions in euro 345,409,53 (PY: KEUR 272)				
b) Other administrative expenses		6,382,753.92	21,082,493.73	5,526
4. Amortization, depreciation and write-downs of intangible assets and property, plant and equipment			319,839.15	324
5. Other operating expenses			271,073.40	194
6. Amortization and write-downs on receivables and certain securities as well as additions to provisions for loan losses			5,519,434.62	9,590
7. Income taxes			4,652,752.70	4,115
8. Other taxes not included under item 5			53,056.74	51
9. Net income for the year			28,280,000.00	24,300
Total expenses			**66,803,790.77**	65,219

1. Net income for the year		28,280,000.00	24,300
2. Allocations to other revenue reserves		22,624,000.00	19,440
3. Retained earnings/accumulated deficit		5,656,000.00	4,860

Income		2016
	EUR	TEUR
1. Interest income from credit and money market transactions	62,075,041.59	60,723
2. Commission income	4,097,881.12	4,162
3. Other operating income	630,868.06	334
Total income	**66,803,790.77**	65,219

Notes to the Financial Statements for the 2017 Financial Year

General Information

Deutsche Factoring Bank GmbH & Co. KG (Deutsche Factoring Bank) as a bank prepared its financial statements for the financial year ending December 31, 2017, in accordance with German commercial law (Sections 242 et seqq. of the German Commercial Code (HGB)), the supplementary provisions for banks and financial services institutions (Sections 340 et seqq. HGB), and the provisions of the German Regulation on the Accounting of Banks and Financial Services Institutions (RechKredV).

Deutsche Factoring Bank, Bremen, is listed in the Bremen Register Court in the commercial register department A (HRA) with register number 15633.

The Company uses form 1 (annual balance sheet) RechKredV. The account format was used to present the income statement.

In addition to the financial statements – consisting of the income statement, balance sheet and notes to the financial statements – a management report was prepared in accordance with Section 289 HGB. All disclosures which may either be made in the balance sheet, the income statement or the notes to the financial statements are provided in the notes.

General Accounting Policies

The accounting policies have remained unchanged.

The cash reserve and receivables from banks are recognized at nominal value.

Receivables from customers are stated at nominal value. Appropriate specific loan loss provisions have been made for all identifiable credit risks. The latent credit risk (including the risk of potentially non-legally enforceable receivables) is taken into account by recognition of general allowances.

Investments are stated at cost.

Purchased intangible fixed assets and property, plant and equipment were valued at cost and – apart from land and the art works purchased in 1985 – were amortized and depreciated on a straight-line basis.

Other assets are stated at nominal value.

Liabilities are recognized at the settlement amounts.

Pension provisions are recognized at the settlement amount deemed necessary. The Heubeck 2005 G actuarial tables with monthly payment serve as the basis of calculation. The projected unit credit method as found in the International Accounting Standards was used for calculating these provisions. The discount rate applied in the calculation amounted to 3.68% for December 2017 (average of the last 10 years). Future pension growth was assumed at 1.5% or 1.0% p.a. The growth of pension expectancies was estimated. The difference between pension provisions measured using the average market interest rate of the past ten years and past seven years amounts to KEUR +133.

The mandatory offsetting of plan assets with corresponding pension obligations resulted in an ‘excess of plan assets over pension and comparable long-term commitments’ as of December 31, 2017.

Provisions were stated at the settlement amount necessary according to prudent commercial judgment. This includes all discernible risks and contingent liabilities. Long-term provisions with a remaining term of more than one year were discounted.

Shares in Deutsche Factoring Bank were sold in 2016. The profits on disposal are subject to trade tax on the level of the partnership. The shares of the divesting former partners fully exempt Deutsche Factoring Bank, as partial debtors and proportionate in relation to their share of taxes that result based on the transaction (sale and assignment of their shares) up to and including the execution date, from the burden of trade tax. Therefore for 2016 the net presentation option was chosen as the offsetting reimbursement claim reduces the tax liability amount to be recognized as a liability.

The translation of assets and liabilities denominated in foreign currency in the financial statements as well as expenses and income to euro is carried out in line with Section 256a HGB in conjunction with Section 340 HGB according to the contractual arrangements with factoring customers as receivables from or liabilities to customers.

No use was made of the netting options in the income statement pursuant to Section 340f (3) HGB or the balance sheet recognition option in Section 274 (1) sentence 2 HGB.

Notes to the balance sheet and the income statement

Maturities breakdown of balance sheet items (Section 9 RechKredV)

	31.12.17	31.12.16
Assets	KEUR	KEUR
Other receivables from banks **Remaining term**		
up to three months	5,687	39,379
more than three months up to one year	0	10
Receivables from customers **Remaining term**		
up to three months	1,651,097	1,515,657
between three months and one year	17,654	19,619
between one year and five years	0	11
Equity and liabilities		
Liabilities to banks **Remaining term**		
up to three months	659,444	591,413
between three months and one year	51,800	62,800
Other liabilities to customers **Remaining term**		
up to three months	527,866	508,890
between three months and one year	4,293	4,566
more than one year and up to five years	40,004	40,005

Balance sheet items relating to companies in which the bank has a participating interest (Section 3 RechKredV)

	31.12.17	31.12.16
Receivables	KEUR	KEUR
from banks	5	63
of which from partners	0	0
Liabilities		
due to banks	81,241	77,284
thereof to partners	0	0

Receivables from customers are unsecuritized and mainly include customer receivables purchased from factoring clients.

Balance sheet items relating to affiliated companies (Section 3 RechKredV)

	31.12.17	31.12.16
Receivables	KEUR	KEUR
from customers	1,302	3,077
of which from partners	0	0
Liabilities		
to customers	255,293	256,906
thereof to partners	255,293	256,906
Other liabilities	5	6
thereof to partners	0	0
Subordinated liabilities	14,000	4,000
thereof to partners	14,000	4,000

Disclosure of currency items

	31.12.17	31.12.16
	KEUR	KEUR
Total assets denominated in foreign currency were as follows	48,567	47,661
Total liabilities denominated in foreign currency were as follows	48,998	46,223

Fixed assets
Movements in fixed assets are presented in Appendix 2 to these notes. Property, plant and equipment are solely utilized in the course of own activities.

Excess of plan assets over pension liabilities and other long-term commitments
The reinsurance policies serve exclusively the fulfillment of pension provision obligations and are inaccessible to other creditors. They were offset with the underlying obligation in accordance with Section 246 (2) sentence 2 HGB. The fair value of plan assets corresponds to the actuarial reserve demonstrated by the insurer and thus to the cost of KEUR 1,129. The fair value of plan assets exceeding the corresponding pension obligation is recognized in the amount of KEUR 165 in accordance with Section 246 (2) sentence 3 HGB. Income and expenses were offset.

Deferred income
This item mainly consists of deferred factoring fees.

Provisions
This mainly includes provisions for personnel costs, loan loss provision, brokerage fee and litigation costs.

Subordinated liabilities

The subordinate liabilities are broken down as follows

Amount/Currency	Interest rate	Maturity
KEUR	% p.a.	
5,000	4.55	12 March 2024
2,000	4.30	04 April 2024
3,000	4.18	20 June 2024
200	4.18	20 June 2024
500	4.18	20 June 2024
1,800	4.18	20 June 2024
500	4.18	20 June 2024
10,000	4.40	28 December 2027
3,000	4.40	28 December 2027
1,000	4.40	28 December 2027

The creditors are three banks, a financial services institution and six insurance companies.

The conditions of subordination are in line with the rule in Article 63 of the Regulation (EU) No. 575/2013 and are settled at KEUR 27,000. The conversion to capital or another form of debt is not planned. The creditors do not have a right to call in a loan prior to maturity.

For the liabilities recognized in the items, interest expenses of KEUR 635 (PY: KEUR 1,004) were incurred.

Equity

By shareholder resolution dated May 24, 2017, an amount of KEUR 19,440 from the 2016 net income was contributed to revenue reserves.

Following the Supervisory Board's proposal for the appropriation of profits from February 19, 2018, which will be submitted at the partners' meeting on May 14, 2018, for approval to distribute an amount of KEUR 5,656 from the 2017 net income to the partners and to contribute an amount of KEUR 22,624 to revenue reserves.

Explanatory Notes on the Income Statement

Interest income

Interest income is comprised of interest-like factoring fees and interest income of 57% to 43% (PY: 57% to 43%). Deutsche Factoring Bank's customers are almost exclusively domestic companies, of which some have affiliated foreign subsidiaries. Interest expenses for pension obligations of KEUR 35 (PY: KEUR 32) were offset with interest income from plan assets of KEUR 40 (PY: KEUR 27) in accordance with Section 246 (2) sentence 2 HGB.

Interest expenses

The negative interest received from refinancing of KEUR 351 (PY: KEUR 93) had a favorable effect on interest expenses.

Other operating income

Other operating income also includes gains on foreign currency translation in the amount of KEUR 22 (PY: expense of KEUR 14).

Income taxes

Income taxes as a whole reduced the net income for the year.

Other Disclosures

Other financial obligations

Financial obligations from service agreements amount to approx. KEUR 5,808. This includes KEUR 217 in liabilities to affiliated companies.

Loss-free valuation of the interest book

The loss-free valuation of the interest book is based on the periodic approach.

Due to the short terms of acquired receivables of an average 39 days (PY: 40 days) and the matching maturity refinancing, the calculation is carried out on the basis of a one-year profit (loss) taking into account risk and administrative costs.

As of the reporting date, there was a significant surplus overall. As a result, a provision for contingent losses was not necessary.

Management
The management function was performed by the general partners of Deutsche Factoring Gesellschaft mit beschränkter Haftung, Bremen, with a share capital of KEUR 60 (PY: KEUR 60), represented by their managing directors:
- Christian Eymery, Bremen (Spokesman) from March 1, 2018
- Hendrik Harms, Bremen (Spokesman) from March 3, 2017
- Uwe Müller, Bremen
- Fedor Krüger, Düsseldorf

The managing directors work full-time for the Company.

The managing directors' remuneration was not disclosed pursuant to Section 286 (4) HGB.

Supervisory Board
The composition of the Supervisory Board and further information can be found in Appendix 1.

Shares in affiliated companies
Deutsche Factoring Bank GmbH & Co. KG is included in the consolidated financial statements of Deutsche Sparkassen Leasing AG & Co. KG, Bad Homburg v. d. Höhe as of September 30, 2017. The consolidated financial statements are published in the German Federal Gazette (Bundesanzeiger).

Employees
The average number of employees in the financial year was

	2017	2016
Female employees	75	73
thereof part-time	22	24
Male employees	86	84
thereof part-time	2	0
Total	**161**	**158**

All personnel are employees of Deutsche Factoring Gesellschaft.

Deferred tax assets and liabilities
Deviations between amounts stated in the commercial and tax balance sheets result solely in differences that lead to deferred tax assets. Applying the capitalization option (Section 274 (1) sentence 2 HGB), deferred taxes were not recognized.

Total auditor's fee
The total fee payable to the auditor for 2017 financial year equaled KEUR 159 for year-end audit services and KEUR 50 for other attestation services.

Subsequent events
There were no significant events in the year under review.

Appendix 1

Supervisory Board

Members of the Supervisory Board

- **Kai Ostermann** (SB-Chairman)
  Chairman of the Management Board
  Deutsche Sparkassen Leasing Verwaltungs AG,
  Bad Homburg v. d. Höhe
- **Frank Brockmann** (Deputy SB-Chairman)
  Member of the Management Board
  Hamburger Sparkasse AG, Hamburg
- **Roland Burgis**
  Deputy Chairman of the Management Board
  Sparkasse Nürnberg Anstalt des öffentlichen Rechts
  (Institution established under public law), Nuremberg
- **Heinz-Hermann Hellen**
  Member of management
  Deutsche Sparkassen Leasing AG & CO. KG,
  Bad Homburg v. d. Höhe
- **Hans Jürgen Kulartz**
  Member of the Management Board
  Landesbank Berlin AG, Berlin
- **Dr. Tim Nesemann**
  Chairman of the Management Board
  Die Sparkasse Bremen AG, Bremen
- **Dr. Harald Vogelsang**
  Spokesman and Member of the Management Board
  Hamburger Sparkasse AG and HASPA Finanzholding,
  Hamburg
- **Rainer Weis**
  Member of the Management Board
  Deutsche Sparkassen Leasing Verwaltungs AG,
  Bad Homburg v. d. Höhe

Total remuneration of the Supervisory Board
The members of the Supervisory Board received KEUR 147 (PY: KEUR 156) in total as remuneration.

Appendix 2

Movements in fixed assets (all amounts in KEUR) [1]

	Cost 01.01.2017	Changes: Additions	Changes: Disposals	Accumulated amortization, depreciation and write-downs	Net book value 31.12.2017	Accumulated amortization, depreciation and write-downs in the financial year
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Intangible fixed assets	744	124	0	708	160	64
Property, plant and equipment						
Land and buildings	2,466	0	0	1,466	999	45
Operating facilities	189	0	0	149	40	6
Leasehold improvements	10	0	0	9	1	0
Operational and office equipment	2,568	173	69	1,813	859	204
	5,232	**173**	**69**	**3,438**	**1,898**	**256**
Financial assets Affiliated companies	3	0	0	0	3	0
Total	**5,980**	**297**	**69**	**4,146**	**2,061**	**320**

[1] Rounding differences due to technical reasons

Property, plant and equipment are solely utilized in the course of own activities.

Bremen, March 26, 2018

Deutsche Factoring GmbH

Christian Eymery   Fedor Krüger   Uwe Müller

Auditors report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Deutsche Factoring Bank GmbH & Co. KG, Bremen, for the financial year from January 1 to December 31, 2017. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's general partner. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the general partner, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hamburg, May 14, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Olschewski	Horn
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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