Deutsche Factoring Bank

Annual Financial Statements and Management Report 2016

TEAM

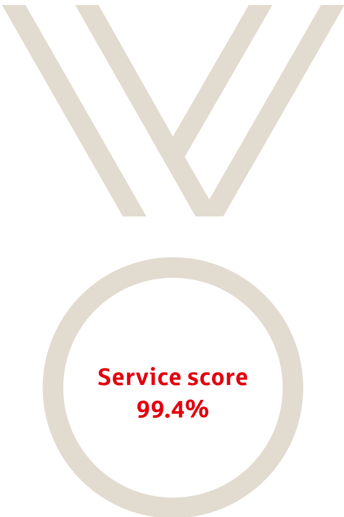
Finanzgruppe

Modern receivables management

15.5

billion euro

In 2016, the volume of business conducted by the Deutsche Factoring Bank posted a substantial increase of EUR 1.1bn, i.e. a 7.6% growth, from EUR 14.4bn in 2015 to EUR 15.5bn.



Service score 99.4%

In competition for the best-ranked world-wide import factor, the Deutsche Factoring Bank proved to have an edge over other organisations. This is reflected by the excellent service score of 99.4% achieved by the Bank in 2016. Decisive service criteria were, amongst others, rapid decision making processes, professionalism, processing quality and problem-solving competence.

Since

1971

Sustainable cooperation with partner-members of Factors Chain International (FCI) acts as the basis for our import business. The Deutsche Factoring Bank has been an FCI member since 1971.

166 employees

At 31 December 2016, the Deutsche Factoring Bank employed a total of 166 persons, of which 82 were female and 84 male. This figure includes 24 part-time employees, three apprentices and three female members of staff on maternity leave.

10 percent

The balance-sheet equity ratio increased to 10.0% in 2016 compared to 9.7% in 2015. In order to hedge against any possible unexpected risks, it is the policy of the Deutsche Factoring Bank to continuously strengthen its equity base through the retention of earnings.

57

million euro

The surplus resulting from interest and fees amounted to EUR 57m. This figure represents an increase of EUR 4.4m over the value for the previous year, and was largely due to business expansion.

Highest standards of bespoke problem-solving expertise

We are pleased to report that in 2016 the German economy posted an above-average development. In this context, factoring played a decisive role through the provision of valuable liquidity and security to the small and medium-sized business sector. The Deutsche Factoring Bank is a key player on this market. The Bank's strength is providing clients with optimal solutions that significantly improve their scope for manoeuvre.

Following the merger with Universal Factoring GmbH, Ratingen in 2016, the combined expertise of the two organisations was pooled under the umbrella of Deutsche Leasing. The aim of this promising merger is not only to substantially increase the volume of factoring business, but also assist in the rapid growth of our clients' turnover. Consequently, this will enable the Deutsche Factoring Bank to enhance its current position as market leader.

On several occasions, the Deutsche Factoring Bank has been ranked the best world-wide import factor. Last year, for example, the Bank even achieved the excellent 99.4% service score. The decisive service criteria were, amongst others, rapid decision making processes, professionalism, processing quality and problem-solving competence.

It has been demonstrated once again that client-oriented service constitutes the basis for a successful concept. This is a principle that the Deutsche Factoring Bank has strictly adhered to for more than 45 years, and will continue to do so. We work closely together with the Sparkassen and share the common aim, both now and in the future, of providing our clients with top service.

Partners

Unlimited 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 in other organisations

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

Deutscher Sparkassen- und Giroverband, Berlin

Entschädigungseinrichtung deutscher Banken GmbH, Berlin

Factors Chain International (FCI), Amsterdam, Niederlande

Hanseatischer Sparkassen- und Giroverband (HSGV), Hamburg

Contents

Page 4 Development of the Factoring Market

Page 6 Management Report

Page 15 Report of the Supervisory Board

Page 16 Balance Sheet and Income Statement

Page 20 Notes to the Financial Statements

Market data Factors Chain International, Amsterdam, Deutscher Factoring-Verband e.V., Berlin

Design moskito, Bremen

Translation G. Parker, Bremen

Printing Zertani Die Druck GmbH, Bremen

Development of the Factoring Market

THE GLOBAL MARKET FOR FACTORING SERVICES IN THE YEAR 2016

In 2016, revenues arising from worldwide factoring services remained more or less the same level as that of the previous year. The volume of business conducted by factoring organisations worldwide amounted to EUR 2,376bn, an increase of only 0.3% over the figure for 2015.

Domestic factoring accounted for the lion's share of the factoring business with revenues amounting to EUR 1,869bn (a 1.65% increase compared to 2015). On the other hand, however, international business recorded a 4.2% drop to EUR 507.1bn.

Factoring services were provided in 75 countries throughout the world, and the number of organisations providing such services rose to more than 8,000, of which admittedly more than 5,000 were located in China.

In 2016, four of the five biggest markets for factoring services were, as in previous years, to be found in Europe. As in 2015, China, with a turnover of 301.6bn (i.e. a drop of 14% compared to the previous year) was no longer the biggest single market and occupied once again the second position in 2016. The United Kingdom, with an overall volume of business amounting to EUR 326.9bn (a 13% drop on the previous year) was the biggest factoring market. France, with a turnover of EUR 268.1bn (i.e. a growth of 8% compared to 2015) and Germany with EUR 216.8bn (+3.8%) occupied third and fourth positions respectively followed by Italy with EUR 208.6bn (a growth in revenue of 9.5%).

China with a turnover of EUR 64.4bn (a drop of 49%) lost its leading position in the field of international factoring to France and Germany with volumes of business amounting to EUR 78.6bn and EUR 68bn respectively. Italy took the fourth position with EUR 49bn and Taiwan was ranked fifth with EUR 33bn. The overall volume of international factoring business amounted to EUR 507.1bn in 2016.

FACTORS CHAIN INTERNATIONAL (FCI)

The world's leading organisation of factoring providers is represented in 90 countries throughout the world. In total, more than 400 organisations are members of Factors Chain International.

In 2016, the total volume of business conducted by all FCI member organisations dropped by 0.1% to EUR 1,526bn. FCI's share of the global factoring market remained unchanged at 64% in 2016. International business grew, however, slightly by 0.8% to EUR 428.0bn. Compared to 2015, FCI members saw their share of international business rise to 84%.

FACTORING IN EUROPE

In Europe, some 690 organisations provided factoring services, and European providers recorded a combined turnover amounting to EUR 1,593bn. This figure represents an increase of 2.3% compared to the previous year. Europe's share of the overall volume of factoring business world-wide rose from 65.6% in 2015 to 67% in 2016.

International business accounted for EUR 336.3bn of the total factoring revenue, which translates into a 21.1% share of the total volume of factoring business conducted by European countries and a 66.3% share of the volume of international factoring business worldwide. This represents a substantial increase on the volume of business conducted in 2015.

FACTORING IN GERMANY

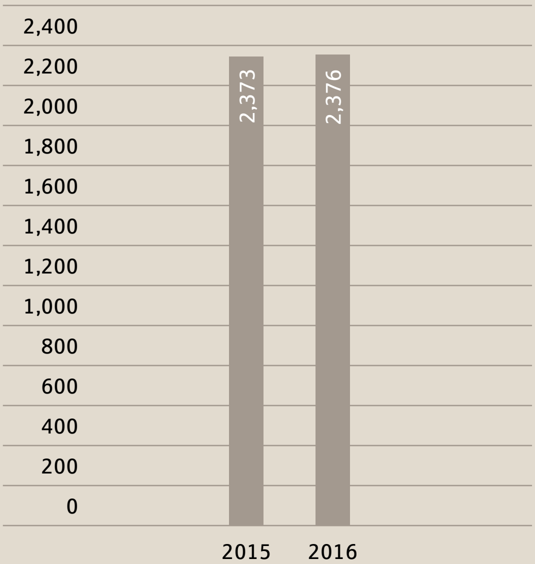
The revenues generated by the 33 leading factoring institutes belonging to the Deutscher Factoring-Verband e.V. (German Factoring Association) amounted to a total of EUR 216.8bn in 2016, a figure representing a 3.77% growth. Thus, as in previous years, the market continued to grow.

The so-called factoring quota, i.e. the ratio of the volume of receivables purchased by members of the Deutscher Factoring-Verband e.V. to gross domestic product (GDP), remained stable at 6.9%.

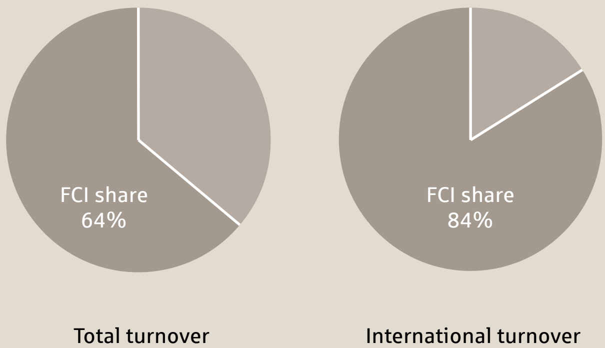
The Deutscher Factoring-Verband e.V. classified the following five branches as being the most important for the factoring industry in 2016: Trade/commission trade, production of metalware including mechanical engineering products, services, vehicle production as well as foodstuffs and beverages.

The international factoring business developed very favourably in 2016: The export business grew by 15.6% to EUR 64.5bn, however on the other hand the import business weakened and recorded an 8.9% drop. The overall volume of international factoring business amounted to EUR 67.9bn, a figure representing a 14.1% growth.

Global factoring turnover (EUR bn)



Factors Chain International's (FCI) share in 2016



Management Report

THE COMMERCIAL BASIS

The Deutsche Factoring Bank GmbH & Co. KG (Deutsche Factoring Bank), with headquarters in Bremen, is the Sparkassen-Finanzgruppe's "Factoring Competence Centre". We have gained experience over a period of more than 45 years and, as a consequence, can offer our clients the highest level of bespoke solutions for all problems relating to the management of accounts receivables and finance. This also applies for the small and medium-sized business sector. Our modular service packages for finance, protection against bad debts and management of receivables are on offer to clients coming from more than 50 different branches. Last year, once again, our successful cooperative partnership with the Sparkassen proved to be the most important source of new business.

As a credit institute, the Deutsche Factoring Bank is subject to supervision by the Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin – (German Federal Financial Supervisory Authority) and Deutsche Bundesbank (German Central Bank).

With its acquisition of shares of the Deutsche Factoring Bank GmbH & Co. KG by Deutsche Sparkassen Leasing AG & Co. KG, Bad Homburg v. d. Höhe (Deutsche Leasing) in 2016, retroactively effective as of 1 January 2016, the factoring activities of Universal Factoring GmbH, Ratingen, already part of the Deutsche Leasing Gruppe, and Deutsche Factoring Bank were merged and consolidated under the umbrella of Deutsche Leasing. As of 1 January 2016, Deutsche Leasing holds 53% of the shares of the Deutsche Factoring Bank. The previous year's figures given in the Management Report consist exclusively of the respective items of the Deutsche Factoring Bank and Universal Factoring GmbH at 31 December 2015.

Prior to the acquisition, the Deutsche Factoring Bank waived certain, no longer required, authorisation rights. As a consequence, the Deutsche Factoring Bank is no longer qualified as a Capital Requirements Regulation (CRR) credit institute.

THE DEVELOPMENT OF THE FACTORING MARKET

At the end of 2016, 187 enterprises offering factoring services were registered with the BaFin. In 2016, the members of the Deutscher Factoring-Verband e. V. accounted for factoring revenues amounting to EUR 216.8bn, a figure representing a growth of 3.77%. The factoring ratio (measured as the proportion of Deutscher Factoring-Verband e. V. member company revenues to GDP) remained stable at 6.9%, thus staying on course to achieve the seven percent mark.

ECONOMIC REPORT

As a whole, the Germany economy posted an above-average development in 2016. According to the Statistisches Bundesamt (Federal Statistics Office), GDP recorded a growth of 1.9% in 2016. In the two previous years, GDP growth was of a similar magnitude, namely 1.7% and 1.6% in the years 2015 and 2014 respectively. When considered over a 10-year period of time, GDP growth in 2016 was 0.5% above the average value of 1.4%.

Although the German economy was able to maintain its upward trend, this growth is not broadly based. The construction industry recorded an above-average growth of 2.8% in real terms against the value for the previous year. Manufacturing, not including construction, which accounts for a good quarter of the overall gross value added, also posted growth, albeit a very much more modest value of

Location Bremen

Location Ratingen

1.6%. In addition, most of the service sector reported significant growth.

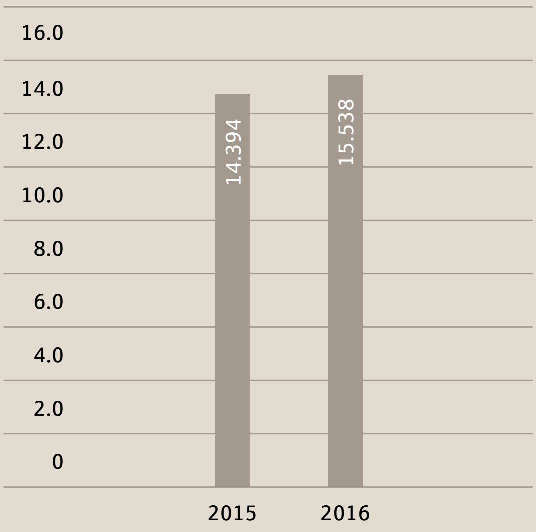
The number of corporate insolvencies declined once again for the sixth year in succession. A total of 21,518 corporate insolvencies were registered at German district courts in 2016, a figure representing a 6.9% drop on the previous year. Relatively easy access to finance, a positive earnings situation of the small and medium-sized business sector and general economic stability all contributed to this positive situation.

DEVELOPMENT OF THE DEUTSCHE FACTORING BANK IN THE 2016 BUSINESS YEAR

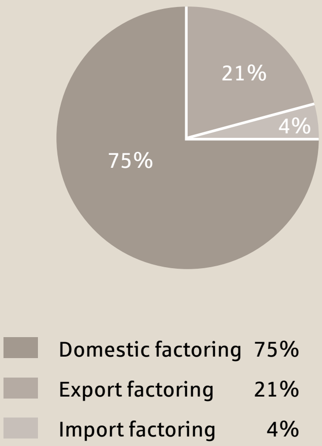
The Management is of the opinion that last year's forecasts have turned out to be true, even though the planned increase in the volume of business could not be completely achieved.

In the 2016 business year, the Deutsche Factoring Bank was active in an economic environment still characterised by tough competition and strong pressure on margins.

Turnover of Deutschen Factoring Bank (EUR bn)



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



The main reason behind this situation is the continued expansive monetary policy implemented by the ECB with interest rates at an all-time low.

In 2016, the volume of business conducted by the Deutsche Factoring Bank saw a substantial increase of EUR 1.1bn (+7.6%) to EUR 15.5bn compared to EUR 14.4bn in 2015. The main source of this growth was new clients acquired both in 2016 and the 2015 business year. The table below shows the business development of both domestic and international factoring:

	2015	2016	
	EUR m	EUR m	% change
Domestic factoring	10,983	11,727	+6.8
Export factoring	2,918	3,234	+10.9
Import factoring	493	577	+16.9

In 2016, the share of international factoring business grew by 0.9% to 24.5% compared to the 2015 financial year's figure of 23.7%.

The backbone of our import business is sustainable cooperation with our Factors Chain International (FCI) partners. The Deutsche Factoring Bank has been a member of the FCI, a global network of leading factoring institutes, since 1971. In October 2016, the Deutsche Factoring Bank received the FCI Import Factor Service Quality Award 2016 for being the best world-wide import factor. Apart from the volume of business and the number of correspondents, a total of nine service criteria are used to carry out the assessment. These include prompt decision making processes, professionalism, processing quality, risk appetite and problem-solving competence. In total, the Deutsche Factoring Bank achieved a service score of 99.4% out of a maximum of 100%. This award is not only recognition of the high quality standards of the Deutsche Factoring Bank but, at the same time, acts as an incentive for the Bank to expand its volume of import factoring further and to maintain its leading service position in a highly competitive market in the coming year.

The main focus of our activities in 2016 was on non-recourse factoring which accounted for 96.4% of our total volume of business (2015: 98.5% without taking into account the Universal Factoring GmbH portfolio).

A total of 7.9m invoices/outstanding receivables were factored by our Bank, a figure representing a 7.9% increase.

Our sector and credit risks continue to be very well spread (in this context, please see the Risk Report below). The Bank had granted total credit lines amounting to EUR 10.4bn for invoices issued to the customers of our clients at 31 December 2016, of which 17.2% had been utilised. This relatively low utilisation is typical for factoring, as clients do not have direct access to the credit lines, instead they can only use credits corresponding to invoices issued.

The average collection period of the receivables we purchased was 40 days in 2016 compared to 41 days in 2015.

Apart from the Bank's normal daily business during the 2016 financial year, our organisational activities were particularly dedicated to the implementation of the merger ("project GROWING together") and the resulting harmonisation of IT systems and business processes.

The external rating of the Deutsche Factoring Bank, conducted once again in 2016 by the Gesellschaft für Bonitätsbeurteilung mbH in Cologne (GBB Rating), confirmed once again the 2015 rating "AA-" (stable outlook). As a result of this good rating, the Bank is seen by the refinancing market as a credit institute with an above-average credit rating. It is planned to continue having the Bank assessed on a yearly basis by an external rating agency.

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

At 31 December 2016, the Bank employed a total staff of 166 persons, comprising 82 female and 84 male employees. This figure also includes 24 part-time employees, three apprentices and three female employees on maturity leave. At 31 December 2016, three female employees of the Bank were being trained as office administrators, compared with two in 2015.

Numerous further training programmes were held in the 2016 business year. The Management would like to take this opportunity to express its special gratitude and appreciation to the Deutsche Factoring Bank staff for contributing to the business success with their efforts and personal commitment.

We wish to express our sincere thanks to the members of the Supervisory Board for their professional advice and support.

We would also like to thank our business partners and, in particular, our clients for placing their trust in our organisation.

INTERNAL CONTROLLING SYSTEM

The Deutsche Factoring Bank employs both a business and risk strategy. Using selected operative parameters, the Bank defines not only budget targets, but also the strategic and medium-term business objectives.

The financial development of the Bank is monitored on a continuous basis by means of various key performance indicators and control variables. When controlling the Bank's key performance indicators, the Management focuses on parameters such as factoring volume, annual net profit after tax, cost income ratio, i.e. the ratio between necessary business expenses and operative business income (interest and commission income), as well as balance-sheet equity ratio. Moreover, a number of additional financial and non-financial performance indicators are determined and monitored. However, these only play a secondary role. We would like to expressly underline the first-class expertise and high level of efficiency of our staff.

The main performance indicators developed as follows:

	2016	2016	2015
	Actual	Planned	Previous Year
Factoring volumes (EUR bn)	15.5	17.0	14.4
Cost income ratio (%)	34.7	33.9	34.2
Annual net income after taxes (EUR m)	24,300	25,729	24,192
Risk costs (EUR m)	5,337	5,066	2,693

EARNINGS POSITION

The surplus resulting from interest and fees amounted to EUR 57m. This figure represents an increase of EUR 4.4m over the value for the previous year.

As a result of rising tariffs and the creation of new jobs, personnel expenses rose by 8.3% to EUR 13.5m in 2016. Ongoing projects related to the merger as well as payments still to be contributed to the bank levy and the Entschädigungseinrichtung deutscher Banken (compensation fund of German banks) resulted in the other administrative expenses rising by EUR 0.6m to EUR 5.5m. As a whole, general administrative costs recorded an increase of EUR 1.639m to EUR 19.0m. Compared to 2015, the cost income ratio rose by 0.4% to 33.2%.

Despite a combination of competitive pressure and increased costs, the profit before risk provisioning and taxes rose by 8.3% to EUR 38.0m (compared to EUR 35.1m in the previous year).

Compared to 2015, the overall risk costs, i.e. accounts receivables write-offs, allocations for receivables and client risk provisioning as well as expenses for default insurance, rose by EUR 3.4m to EUR 9.6m.

The 2016 annual profit, after trade tax, amounted to EUR 24.3m. This compares with the previous year's figure of EUR 24.2m including the Universal Factoring's capital gains tax. In accordance with § 26a Paragraph 1, Sentence 4 KWG (German Banking Act) the return on investment as the ratio of the net income before taxes to the balance sheet sum amounts to 1.5%.

Against the background of the current market situation, the Management is of the opinion that the 2016 earnings situation is satisfactory.

THE BANK'S ASSETS AND FINANCIAL POSITION

The balance sheet of the Deutsche Factoring Bank is characterised by purchased receivables and their corresponding refinancing.

The structure of the assets is characterised by the receivables which affect some 95.7% of the balance sheet sum compared to 94.8% in 2015. In 2016, the receivables as a share of the balance sheet total increased by 0.9% to EUR 1.5bn. In general, the receivables are subject to interest rate variations and are, almost without exception, due within three months. Risks pertaining to the receivables are covered to a large extent by our own credit insurance or through client credit insurance (in this context, refer to the Risk Report below).

The Deutsche Factoring Bank had at all times sufficient means of refinance. Time deposits from financial institutes with a maturity term of up to three months are our main sources of refinance. Additional sources are factoring clients' blocked accounts and billing accounts.

The liabilities due to banks increased slightly by 0.7% to EUR 757m. This was the most important item and corresponded to a 47.2% share of the balance sheet total compared to the previous year's figure of 50.9%.

Clients' liabilities as a proportion of the balance sheet total rose by 4.2% to EUR 655.6m. This corresponded to a 40.9% share of the balance sheet total compared to the previous year's figure of 36.6%. It should be noted that part of this is accounted for by the provision of refinance by Deutsche Leasing.

The equity ratio posted an increase from 9.7% in 2015 to 10.0% in the 2016 financial year. In order to economically underpin its growth targets and to protect against possible unexpected risks, it is the policy of the Deutsche Factoring Bank to continuously strengthen its equity base by means of retaining earnings.

The principles of proper accounting in accordance with § 10 KWG pertaining to equity and liquidity in conjunction with Art. 25 Regulation (EU) No. 575/2013 as well as § 11 KWG were adhered to at all times.

The assets and financial position of the Deutsche Factoring Bank remains sound.

RISK REPORT

Factoring involves various risks, which we minimise through systematic audits, limitation of individual risks, observation of branch-related risks and continuous monitoring. In this context, a comprehensive set of guidelines has been set out in writing in the business and risk strategy guidelines, and has been implemented in corresponding business and organisation procedures as well as in a risk management manual. These guidelines are continually revised in order to take into account the increasing demands placed on risk management, and also to achieve the highest possible degree of effectiveness. Risk management is a key element of all internal management, controlling and monitoring processes of the Deutsche Factoring Bank. As part of risk management development and improvement, appropriate measures are adopted with the aim of countering any commercial risks (business and organisational guidelines etc.). In addition, the risk management system is monitored on a continuous basis by means of risk control.

In addition, a risk report is compiled on a quarterly basis. The report contains statements pertaining to the development of factoring risks, concentration and foreign risks, the extent and development of the financing framework (advance payments to factoring clients), the development of new business, termination of contracts, debtor risks, liquidation exposure, operational risks, risk cost development (receivables write-offs, lump sum provisions for bad debts and individual write-downs), liquidity and refinancing risks as well as concentration risks. The risk assessment is concluded with a calculation of the risk bearing capacity of the Deutsche Factoring Bank. This indicates the highest aggregated risk management benchmark and, at the same time, a risk limit for unexpected losses. Stress test implementation and the calculation of the risk bearing capacity are performed at the end of each respective quarter year period as part of the risk reporting or, in the case of serious changes, in the form of ad-hoc reports. The system is critically assessed and adapted on a continuous basis. The risk bearing capacity limits stipulated by the Management were adhered to in each quarterly period.

The forward-looking capital planning process serves to complement the risk bearing capacity concept. For periods extending beyond the risk bearing capacity time horizon of one year, planned or expected external and internal changes were taken into consideration in the capital requirements planning for an additional four-year period. In doing so, changes relating to the Bank's commercial activity, or strategic goals, are taken into consideration together with changes pertaining to the economic environment as well as other possible unexpected (adverse) developments. Furthermore, all departments are obliged to submit an ad-hoc report to the Management in the event of any serious changes. Examples of such include the threat of losses, insolvencies or fundamental market changes.

The members of the Supervisory Board are informed in writing at the end of each quarter about the business development of the Deutsche Factoring Bank. The Management informs the members of the Supervisory Board, without delay, of any serious incidents such as, for example, major insolvencies, substantial market changes etc.

Credit Risks
Counterparty credit risk is the danger of a partial or complete failure to perform on the part of the contractual partner. Our organisation has specified in detail guidelines for entering such risks. Decisions pertaining to risks of a greater magnitude are the responsibility of our credit committee, or the Supervisory Board of our Bank. Our counterparty credit risk comprises three different types of risk, namely:

1. Verity Risks
Such risks arise through a lack of, or limited, legal validity of receivables acquired by our clients as well as failure to pass on payments or cheques.

Countermeasures
A standardised risk classification system (rating) serves as the basis for client assessment. The purpose of the rating system is to protect the Bank against avoidable risks connected with new business and, in the case of follow-up ratings, to recognise as objectively as possible any client-related negative developments. The Management is to be notified of each newly-prepared rating.

Financial statements, financial forecasts, liquidity plans, branch-related information, credit agency information and bank references, management assessment and the special risks involved in factoring as well as daily business experience all act as a basis for the assessment. In order to minimise risks, the following additional measures have been introduced:
– External setting of upper limits when purchasing receivables
– Risk-oriented field audit or internal client audit
– Regular auditing of client exposure with respect to risk changes (if necessary reduction of the reporting interval, cancellation of limits in the case of so-called incorrect payers etc.)
– Random requests to debtors for confirmation of balances
– Use of legally tested standard contracts
– Guarantees by partners/managing directors, or third parties

2. Counterparty Risks
Credit risks stem from an inability to pay on the part of the debtors.

Countermeasures
– Limitation by means of debtor credit lines which take into consideration possible debtor affiliations
– Checking and monitoring of the financial standing by means of analysing relevant information, experiences pertaining to the settlement of payments as well as a

partial reduction of risks involved through taking out lending insurance and payment bonds by correspondents
- Cancellation of agreed credits for accounts receivables after exceeding a certain dunning level. Such accounts receivables, or receivables deemed as negative, are handed over to our legal department

3. Correspondent Risks
Correspondent risks arise from the acceptance of payment guarantees and collection obligations in export factoring.

Countermeasures
- Selection and monitoring of the correspondents, taking into account reasonable credit worthiness criteria, as well as country risks, in particular by means of the evaluation of financial statements and credit agency reports.

Market Price Risks
Market price risks include possible losses of revenue, which may result from changes of market prices for securities, currencies and derivatives, as well as changes of interest rates and interest rate structures.

We do not engage in any kind of business involving securities or precious metals. Interest rate and currency risks are of secondary importance since, with the exception of subordinated loans, we do not enter into any mismatched interest rate commitments. Furthermore we do not bear any exchange rate risks which result from the purchase of foreign currency receivables. Such risks are borne by the factoring clients. Time deposits in the same currency as the purchased foreign receivables are used to avoid internal currency risks (so-called natural hedge).

Liquidity Risks
Liquidity risks cover the fulfilment of payment obligations at the due date, and include refinancing and market liquidity risks.

In order to ensure liquidity as well as refinancing risk handling, our partners, other Sparkassen and banks provide sufficient lines of time deposits. After taking into account short-term liquidity requirements, surplus liquidity is invested. Currency planning is subject to appropriate controlling and monitoring. Securities and deposit transactions, proprietary trading in securities and derivative trading are prohibited.

Transactions undertaken, together with a comparison of the forecast cash inflows and outflows, are determined on a daily basis. In addition, as an integral part of the risk reports, it is required that the Management and the Supervisory Board are informed in writing on a quarterly basis. In the case of a liquidity shortfall, an emergency plan has been established as part of the liquidity management.

Operational Risks
Operational risks cover all risks of losses that occur as a result of the inappropriateness, or failure, of internal procedures, persons and systems, or as a result of external events. The rules of the Deutsche Factoring Bank, set down in writing, serve primarily to avoid operational risks, and these are supplemented by an effective, efficient and continuously updated internal control system.

As operational risks are of great significance for the Deutsche Factoring Bank, they are explicitly taken into account in the Risk Management Manual. In particular, information technology is a significant production factor for the Deutsche Factoring Bank, and is thus susceptible to major internal and external risks. An appropriate IT security policy has been implemented which, taking into account the specific Bank requirements, stipulates the level of IT security as well as the resulting security objectives. In addition, based on a risk analysis, an emergency manual has been compiled which stipulates those measures to be taken following the occurrence of major system failures or other disruptions, in order to, in particular, restore IT system availability within a reasonable period of time.

Legal risks are also of particular importance for the Deutsche Factoring Bank. Such risks may arise as a result of contractual deficiencies or other obligations that the Bank inadvertently entered. We counter legal risks by the use of modularly designed standard contracts co-developed and examined by our legal department. If necessary, external lawyers are consulted in the case of agreements that differ from our standard contracts.

Operational risks are reviewed and, if necessary, reappraised as part of the annual risk inventory. Furthermore, all disruptions and incidents that occur are systematically recorded and allocated to the appropriate event categories, types of business and areas of risk.

In accordance with § 25b KWG, the Deutsche Factoring Bank has outsourced selected business functions. In the case of such outsourcing, a risk analysis is conducted on a regular basis in order to assess the type, extent, complexity as well as the degree of risk of the outsourced processes. A risk analysis is conducted prior to concluding a new outsourcing contract, or when an existing outsourcing contract is amended. By means of this risk assessment, it is determined whether the respective outsourcing involves risks of a minor or major magnitude. The method of assessment applied contains risk-sensitive assessment criteria and distinguishes between materiality evaluation and service provider assessment.

Miscellaneous Risks

Miscellaneous risks (for example, commercial risks, damage to the Bank's image, failure to recognise market developments) are monitored by appropriate means such as, for example, surveying both correspondent and client satisfaction, systematic process controls etc.

Commercial risks are managed by the Management's implementation of the Bank's strategic policy. As an integral part of their tasks, individual departments are responsible for operational procedures and risk management. To achieve this end, they conduct analyses and continually monitor the respective risks. Regular monitoring of individual client-related profitability serves as a basis for effective cost and income management.

FORECAST, OPPORTUNITIES AND RISK REPORT

According to the Deutsche Bundesbank's forecast at the beginning of December 2016 "the German economy is still in a robust upswing phase". The Bundesbank forecasts a calendar-adjusted economic growth of 1.8% in 2017 and estimates that growth will slow down slightly in 2018 and 2019 to 1.6% and 1.5% respectively. The continued low oil price, the depreciation of the euro and a continuation of the ECB's expansive monetary policy are all good indicators for further economic growth. The private consumption prospects are, however, not quite as positive due to rising inflation in Germany. The Bundesbank's global economic projection does not take into account possible consequences of the new government in the USA that go beyond market expectations related to interest and exchange rate assumptions as well as increased short-term uncertainty. This affects, in particular, possible fiscal measures, trade restrictions and migration. In addition, friction arising from a continuation of the zero interest rate policy of the ECB at a time of rising inflation and the Fed's change of monetary policy (key interest rate increase in the USA) will possibly lead, in our view, to increased uncertainty. The expansive monetary policy of the ECB on the one hand, and a tightening of monetary policy in the USA on the other hand will probably have an affect on loan conditions which are already in a state of flux. This could be clearly observed by the interest rate developments of both reserve currencies in 2016. Additional indicators for intra-European instability are, amongst others, the presidential elections in France, the political development in Italy as well as a continuation of the conflict between NATO member Turkey and the EU, in particular Germany. If, and when, such financial effects occur cannot be forecasted at the current point in time.

In 2016, work began on a comprehensive strategy aimed at overhauling and achieving an even greater integration of the competence centre "Factoring der Sparkassen" with the Sparkassen and Deutsche Leasing. The goal of these efforts is to significantly boost the Deutsche Factoring Bank's volume of business, and thus post a growth rate substantially higher than the overall factoring market in Germany.

The Management: Fedor Krüger and Uwe Müller

This economic expectation, together with the strategic reorientation and linking up with the Sparkassen and Deutsche Leasing means that our clients' aggregate revenues will continue to grow at a similar rate to the previous year. Loss of business due to insolvencies in our client portfolio or termination of agreements for other reasons still cannot be ruled out. Successful new business will continue to be the driving force behind growth in 2017. In this context, we will continue to focus on strengthening our cooperation with the Sparkassen and also on coordinating our sales with Deutsche Leasing, in particular in the small and medium-sized business segment.

Factoring still remains an attractive corporate financing instrument for small and medium-sized businesses owing to its flexibility and, from the clients' point of view, increasingly favourable prices. Moreover, we expect a substantial increase in the volume of business generated by clients acquired in 2016 due to the fact that they only factored part of their 2016 business through the Deutsche Factoring Bank.

To achieve the desired growth target, the Deutsche Factoring Bank focuses its efforts on finding a good balance between risk, on the one hand, and profitability on the other hand. This is the Bank's basis for a secure business development.

Against this background, we expect our volume of business to increase further and, once again, achieve a moderate growth in our 2017 earnings. This is based on the assumption that the price competition currently ruling on the German factoring market will continue and that the cost income ratio will decrease slightly. With respect to the risk costs, we expect that they will not exceed the average values of recent years. The expected results will allow us to continue to both meet the increased capital requirements stipulated by the Supervisory Board in the case of an increased volume of business, as well as to ensure a reasonable dividend for our shareholders. To sum up, the Management expects that 2017 will be another successful business year.

Bremen, 11 May 2017

Deutsche Factoring GmbH

Uwe Müller   Fedor Krüger

Report of the Supervisory Board

During the business year 2016, the Supervisory Board of the Deutsche Factoring Bank was informed on a continuous basis on the business development, as well as on all important business matters. Regular written and verbal reports served to provide the Supervisory Board with detailed information on the business development throughout the year.

With its acquisition of shares of the Deutsche Factoring Bank by Deutsche Sparkassen Leasing AG & Co. KG, Bad Homburg v. d. Höhe (Deutsche Leasing) in 2016, retroactively effective as of 1 January 2016, the factoring activities of Universal Factoring GmbH, Essen, already part of the Deutsche Leasing Gruppe, and the Deutsche Factoring Bank were merged and consolidated under the umbrella of Deutsche Leasing. Deutsche Leasing holds 53% of the shares of the Deutsche Factoring Bank, the Freie Sparkassen Beteiligungsgesellschaft mbH (FSB) 35 % and the Landesbank Berlin AG (LBB) 12%.

As part of these corporate changes, through a resolution of the shareholders meeting held on 18 August 2016, the following persons were appointed as members of the Supervisory Board to represent Deutsche Leasing: Kai Ostermann, as Chairman of the Supervisory Board, Rainer Weis, Heinz-Hermann Hellen and Roland Burgis. These new members complemented the existing Supervisory Board members, Frank Brockmann, Deputy Chairman of the Supervisory Board (FSB), Dr Harald Vogelsang (FSB), Dr Tim Nesemann (FSB) and Hans Jürgen Kulartz (LBB).

With effect as of 18 August 2016, the following members stepped down from the Supervisory Board: Dr Guido Brune, former Chairman of the Supervisory Board (Bremer Landesbank), Thomas Christian Buchbinder (Landesbank Saar), Michael Bücker (Bayerische Landesbank), Eckhard Forst (Norddeutsche Landesbank) and Werner Severin (Landesbank Saar).

Three Supervisory Board meetings were held in 2016; a meeting took place in the first quarter of 2016 which was attended by the Chairman of the Supervisory Board and the Management. The meeting was also attended by the auditors of the bank and the head of the internal auditing.

The financial statements for the year ending 31 December 2016, prepared by the Management, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, and were certified without reservations. The audit took both the bookkeeping and Management Report for the Business Year into account. The Supervisory Board was informed of the results of the audit, and gave its approval after conducting its own examination of the financial statements and the Management Report for the Business Year.

At its meeting of 24 May 2017, the Supervisory Board discussed the financial statements together with the Management Report for the Business Year ending 31 December 2016. In accordance with § 8.4 lit b) of the Articles of Association of Deutsche Factoring Bank GmbH & Co. KG, it was proposed at the Shareholders Meeting to pay a dividend of EUR 4.860m to the shareholders from the annual net profit of EUR 24.300m and to allocate the remaining amount of EUR 19.440m to the revenue reserves.

Bremen, 24 May 2017

The Supervisory Board of the Deutsche Factoring Bank

Kai Ostermann (Chairman)

Balance Sheet – Deutsche Factoring Bank

Assets			2016	2015 (incl. Universal)	2015
	EUR	EUR	EUR	EUR '000	EUR '000
1. Cash reserves					
a) cash balance		8,878.98		5	5
b) cash balances with central banks		0.00		2,814	2,814
of which: with the Deutsche Bundesbank	0.00				
c) cash balances with post office banks		–	**8,878.98**	–	–
2. Public sector debt instruments and bills of exchange discountable at central banks					
a) treasury bills and discounted notes as well as similar debt instruments issued by public authorities		–		–	–
of which: discountable at the Deutsche Bundesbank	–				
b) bills of exchange		–		–	–
of which: discountable at the Deutsche Bundesbank	–				
3. Loans and advances to banks					
a) payable on demand		26,900,684.05		33,291	6,228
b) other claims		39,388,337.96	**66,289,022.01**	38,661	1,992
4. Loans and advances to customers			**1,535,287,029.30**	1,398,958	1,202,109
a) of which: secured by mortgages	–				
municipal loans	–				
5. Bonds and other fixed-income securities					
a) money market instruments					
aa) from public issuers		–			
of which: eligible for refinancing at the Dt. Bundesbank	–				
ab) from other issuers		–	–		
of which: eligible for refinancing at the Dt. Bundesbank	–				
b) bonds and obligations					
ba) from public issuers		–			
of which: eligible for refinancing at the Dt. Bundesbank	–				
bb) from other issuers		–	–		
of which: eligible for refinancing at the Dt. Bundesbank	–				
c) own bonds			–	–	–
nominal amount	–				
6. Shares and other non-interest-bearing securities			–	–	–
6a. Trading portfolio			–	–	–
7. Shareholdings			**2,700.64**	3	3
of which: in banks	–				
in financial services institutions	–				
8. Shares in affiliated companies			–	–	–
of which: in banks	–				
in financial services institutions	–				
9. Trust assets			–	–	–
of which: trust loans	–				
10. Equalisation claims against the public authorities including bonds resulting from the exchange of such claims			–	–	–
11. Intangible assets					
a) self-created industrial property rights and similar rights and values		–			
b) paid concessions, industrial property rights and similar rights and values and licenses to such rights and assets		100,534.42			
c) goodwill		–			
d) advance payments made		–	**100,534.42**	162	104
12. Property, plant and equipment			**1,998,508.37**	1,978	1,881
13. Subscribed capital, but not paid up			–	–	–
14. Other assets			**282,054.00**	121	82
15. Deferred income			**140,181.96**	125	19
16. Deferred tax assets			–	–	–
17. Balance sheet asset-side difference			**184,696.70**	153	153
18. Deficit not covered by equity			–	–	–
Total assets			**1,604,293,606.38**	1,476,271	1,215,390

Balance Sheet – Deutsche Factoring Bank

Liabilities			2016	2015 (incl. Universal)	2015
	EUR	EUR	EUR	EUR '000	EUR '000
1. Amounts due to banks					
a) payable on demand		102,806,536.30		41,256	39,125
b) with agreed terms or period of notice		654,212,522.80	**757,019,059.10**	710,456	671,116
2. Amounts due to customers					
a) savings deposits					
aa) with agreed period of notice of three months		–		–	–
ab) with agreed period of notice of more than three months		–	–	–	–
b) other liabilities					
ba) payable on demand		102,162,313.74		110,679	109,726
bb) with agreed terms or period of notice		553,461,638.18	**655,623,951.92**	430,317	221,097
3. Securitized liabilities					
a) issued bonds		–			
b) other securitized liabilities		–	–	–	–
of which: money market instruments					
own acceptances and negotiable bills of exchange in circulation	–				
4. Trust liabilities			–	–	–
of which: trust loans	–				
5. Other liabilities			**2,726,654.43**	2,217	1,955
6. Deferred income			**951,889.47**	918	918
6a. Deferred tax liabilities			–	–	–
7. Provisions					
a) provisions for pensions and similar obligations		0.00		–	–
b) tax provisions		391,425.73		1,101	630
c) other provisions		7,019,246.53	**7,410,672.26**	4,716	4,308
8. (cancelled)					
9. Subordinated liabilities			**20,780,517.20**	30,908	26,908
10. Profit sharing capital			–	–	–
of which: due within two years	–				
11. Fund for general banking risks			–	–	–
12. Equity					
a) subscribed capital		6,435,874.52		6,752	5,752
b) capital reserves		4,696,360.28		6,534	1,534
c) revenue reserves					
ca) legal reserves	–			–	–
cb) reserves for own shares	–			–	–
cc) statutory reserves	–			–	–
cd) other revenue reserves	143,788,627.20	143,788,627.20		124,349	124,349
d) balance sheet profit/loss		4,860,000.00	**159,780,862.00**	6,069	7,973
Total liabilities			**1,604,293,606.38**	1,476,271	1,215,390

1. Contingent liabilities				
a) contingent liabilities from the endorsement of bills rediscounted	–			
b) liabilities from guarantees and indemnity agreements	–			
c) liability for the collateralization of third-party liabilities	–		–	–
2. Other liabilities				
a) repurchase obligations arising from non-genuine repurchase transactions				
b) placement and takeover commitments				
c) irrevocable lending commitments	14,424,718.61	**14,424,718.61**	13,800	13,800

Income Statement – Deutsche Factoring Bank

Expenses			2016	2015 (incl. Universal)	2015
	EUR	EUR	EUR	EUR '000	EUR '000
1. Interest payments			**3,716,502.90**	5,816	4,793
of which: negative interest received in EUR –93,261.81 (previous year: EUR 200,000)					
2. Expenses for commissions			**3,903,992.41**	3,679	3,068
3. Net expenses from financial transactions			–	–	–
4. General administrative expenses					
a) personnel costs					
aa) wages and salaries	11,391,053.25			10,571	7,836
ab) social security contributions and contributions towards pensions and other benefits	2,107,982.34	13,499,035.59		1,897	1,475
of which: for pensions in EUR 271,919.15 (previous year: EUR 315,000)					
b) other administrative expenses		5,526,266.99	**19,025,302.58**	4,917	3,688
5. Depreciation and write-downs on intangible assets and property, plant and equipment			**323,747.27**	340	237
6. Other operating expenses			**194,207.92**	163	159
7. Depreciation and write-downs on receivables and certain securities as well as additions to provisions for possible loan losses			**9,590,235.74**	6,210	5,365
8. Depreciation and write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets			–	–	–
9. Expenses from loss transfer			–	–	–
10. (cancelled)			–	–	–
11. Extraordinary expenses			–	–	–
12. Taxes on income and earnings			**4,114,564.27**	4,699	4,147
13. Other taxes not included under item 6			**50,676.54**	65	33
14. Profits transferred on the basis of income from profit pooling, a profit transfer or partial profit transfer agreement			–	–	–
15. Annual net profit			**24,300,000.00**	24,192	22,860
Total expenses			**65,219,229.63**	62,551	53,659

1. Annual net profit		**24,300,000.00**	24,192	22,860
2. Loss carried forward from previous year		**0.00**	3,235	0
3. Withdrawals from capital reserves				
4. Withdrawals from profit reserves				
a) from the legal reserves	–		–	–
b) from the reserves for shares in a controlling or majority holding company	–		–	–
c) from the reserves under the Articles of Association	–		–	–
d) from other revenue reserves	–	–	–	–
5. Withdrawals from profit participation rights		–	–	–
6. Transfer to revenue reserves				
a) to the legal reserves	–	–	–	–
b) to the reserves for shares in a controlling or majority holding company	–	–	–	–
c) to the reserves under the Articles of Association	–	–	–	–
d) to other revenue reserves	19,440,000.00	**19,440,000.00**	14,887	14,887
7. Replenishment of profit participating capital		–	–	–
8. Balance sheet profit/loss		**4,860,000.00**	6,069	7,973

Income Statement – Deutsche Factoring Bank

Income		2016	2015 (incl. Universal)	2015
	EUR	EUR	EUR '000	EUR '000
1. Interest income from				
a) loans and money market transactions	60,723,133.12		58,420	50,131
b) fixed-income securities and debt register claims	–	**60,723,133.12**	–	–
2. Current income from				
a) shares and other non-interest-bearing securities	–		–	–
b) participating interests	–		–	–
c) shares in affiliated companies	–	–	–	–
3. Income from profit pools, profit transfer or partial profit transfer agreements		–	–	–
4. Income from commissions		**4,161,612.89**	3,624	3,087
5. Net income from financial transactions		–	–	–
6. Income from write-ups on receivables and certain securities as well as from the release of provisions for possible loan purposes		–	–	–
7. Income from write-ups to participating interests, interests in affiliated companies and securities treated as fixed assets		–	–	–
8. Other operating income		**334,483.62**	507	440
9. (cancelled)		–	–	–
10. Extraordinary income		–	–	–
11. Income from the transfer of losses		–	–	–
12. Net loss for the year		–	–	–
Total income		**65,219,229.63**	62,551	53,659

Notes to the Financial Statements

GENERAL

The Deutsche Factoring Bank has, as a financial institute, drawn up the financial statements for the business year ending 31 December 2016 in accordance with German Commercial Code (§§ 242 ff. HGB) regulations, supplementary provisions for banks and financial institutes (§§ 340 ff. HGB) and regulations pertaining to the Ordinance Regulating the Accounting Requirements for Financial Institutes and Financial Services Providers (RechKredV).

The Deutsche Factoring Bank, Bremen is registered at the registration court, Bremen under registration number HRA 15633.

The Bank used Form 1 (annual balance) RechKredV. A "statement of account" form was chosen for the presentation of the income statement.

Alongside the financial statements, comprising income statement, balance sheet and Appendix, a Management Report was compiled in accordance with § 289 HGB. Details which may appear either in the balance sheet, income statement or in the Appendix are all to be found in the Appendix.

GENERAL ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods remained unchanged. Special circumstances and legislative amendments that occurred in 2016 are detailed as follows:

- Within the framework of a sidestep merger, the merger with Universal Factoring GmbH (Universal Factoring) took place on 29 September 2016 (entry in the commercial register) with retroactive effect to 1 January 2016 by means of a double book value carryover (§ 24 UmwG) in exchange for the issuance of new shares in the Deutsche Sparkassen Leasing AG & Co. KG (as shareholder of Universal Factoring) to the Deutsche Factoring Bank. In accordance with § 24 UmwG, the asset values shown in the closing balance sheet of the transferring legal entity Universal Factoring are classified as acquisition costs of the receiving legal entity Deutsche Factoring Bank. The assets schedule shows the addition of the original acquisition values and the cumulated depreciations. Earnings are shown as gross in the respective income items.
- In order to enhance comparability and informative value, three columns were used for the balance sheet and income statement. The right-hand column shows the Deutsche Factoring Bank's values for the previous year, whilst the middle column shows the aggregate values for the Deutsche Factoring Bank and Universal Factoring. Aggregation is not carried out using the respective audited values of the previous year's financial statements. The allocation scheme used by the Deutsche Factoring Bank was applied to the audited financial statements of Universal Factoring in order to achieve a uniform basis for the aggregation of the two sets of financial statements. The Appendix only shows the previous year's column for the Deutsche Factoring Bank.

Cash reserves as well as amounts due from banks are shown at their nominal value.

All receivables are shown as nominal values. Appropriate bad debt provisions were made for all recognisable risks in the credit business. Latent credit risks (including the risk of the possibility of there being no legal claim to a receivable) were taken into consideration by a general bad-debt provision.

Participating interests are valued at their acquisition costs.

With the exception of real estate as well as works of art acquired in 1985, intangible assets as well as fixed assets were valued by taking the cost of acquisition and deducting linearly the depreciation in accordance with the forecast period of utilisation.

Other assets were valued at their nominal values.

Differences between amounts paid and amounts received are transferred to deferred expenses and amortised according to schedule.

Liabilities are shown as those amounts which have to be repaid.

Pension provisions are assessed as that amount which is required to be repaid. The Heubeck mortality tables 2005 G with monthly payments were used as a basis. The projected unit credit method, in accordance with International Accounting Standards, was used as a basis for determining the valuation under the terms stipulated by BilMoG (German Accounting Law Modernisation Act). An interest rate of 4.03% was applied for November 2016 (average value for the last 10 years) or 3.28% (average value of the last seven years). Future pension increases of either 1.5% or 1% per annum were assumed. The expected growth of pension benefits was estimated. The difference between pension provisions calculated on the basis of the average interest rate over a period of 10 years and that of seven years amounted to EUR +103,000.

Offsetting of pension plan assets with corresponding pension obligations resulted in an excess of pension plan assets over pension liabilities at 31 December 2016.

Based on reasonable prudent commercial appraisal, the provisions were assessed as the amount required to be repaid. All recognisable risks and contingent liabilities are taken into account. Long-term provisions with a residual term of more than one year were discounted to the present value.

In 2016, a number of shareholders sold their shares in the Deutsche Factoring Bank. Profits arising from the sale are subject to trade tax. The Deutsche Factoring Bank is not liable for trade tax arising from the shares of the selling shareholders as partial liabilities and in proportion to their relative share arising from the transaction (sale and transfer of shares), up to and including the closing date. As a consequence, in 2016, net balancing of accounts was chosen in order to reduce the tax liabilities.

Assets and liabilities denominated in foreign currencies, as well as expenses and income, were translated into euro prior to being included in the financial statements. This was carried out in compliance with § 256a HGB in connection with § 340 HGB, and in accordance with the factoring clients' contractual provisions. These items are shown as amounts due from, or due to, clients.

Use was made of balancing possibilities in the income statement in accordance with § 340f, Section 3 HGB.

EXPLANATORY NOTES PERTAINING TO THE BALANCE SHEET AND INCOME STATEMENT

Terms of balance sheet items (§ 9 RechKredV)

	31.12.16	**31.12.15**
Assets	EUR '000	EUR '000
Miscellaneous amounts due from banks **Term to maturity**		
up to three months	39,379	1,992
more than three months up to one year	10	0
Amounts due from clients **Term to maturity**		
up to three months	1,515,657	1,182,400
more than three months up to one year	19,619	19,709
more than one year up to five years	11	0
Liabilities		
Obligations to banks **Term to maturity**		
up to three months	591,413	671,116
more than three months up to one year	62,800	0
Other obligations to clients **Term to maturity**		
up to three months	508,890	216,768
more than three months up to one year	4,566	4,329
more than one year up to five years	40,005	0

Explanatory notes on balance sheet items relating to companies linked by virtue of participating interests (§ 3 RechKredV)

	31.12.16	31.12.15
Assets	EUR '000	EUR '000
Amounts due from banks	63	4,361
of which from shareholders	0	4,144
Liabilities		
Obligations to banks	77,284	78,467
of which to shareholders	0	18,369

Amounts due from clients are unsecuritised and mainly involve receivables purchased by factoring clients.

Explanatory notes on balance sheet items relating to affiliated companies (§ 3 RechKredV)

	31.12.16	31.12.15
Assets	EUR '000	EUR '000
Amounts due from clients	3,077	0
of which from shareholders	0	0
Liabilities		
Obligations to clients	256,906	0
of which to shareholders	256,906	0
Miscellaneous liabilities	6	31
of which to shareholders	0	31
Subordinated liabilities	4,000	0
of which to shareholders	4,000	0

Details of currency items

	31.12.16	31.12.15
	EUR '000	EUR '000
Total sum of currency assets	47,661	33,857
Total sum of currency liabilities	46,223	33,330

Fixed assets

The development of the fixed assets is shown in the Attachment 2 (see page 26) to this Appendix. The tangible fixed assets are solely used for business purposes.

Excess of pension plan assets over pension liabilities

Reinsurance policies serve exclusively to fulfil obligations arising from pension provisions and are protected from other creditors. They were offset against the underlying obligations in accordance with § 246 Section 2 Sentence 2 HGB. The present values of the plan assets correspond to the actuarial reserves verified by the insurer and, consequently, the acquisition costs amounting to EUR 1,066,000. In accordance with § 246 Section 2 Sentence 3 HGB, the present value of the pension plan provisions in excess of the corresponding pension obligations is shown in the balance sheet as EUR 185,000. Expenses and income were offset.

Deferred income

This item comprises essentially of deferred factoring fees.

Provisions

These consist mainly of provisions for personnel costs, commissions, legal costs and outstanding invoices.

Subordinated liabilities
The subordinated liabilities are as follows:

Amount/Currency	Interest rate	Maturity
EUR '000	% p.a.	
3,300	5.28	1 June 2017
4,000	1.40	31 December 2021
5,000	4.55	12 March 2024
2,000	4.30	4 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

The creditors are two banks, one financial services institute and six insurance companies.

The subordination conditions are in accordance with the regulation stipulated under Art. 63 of Regulation (EU) No. 575/2013 and are fully met with the amount of EUR 20.300m. A reorganisation, or conversion, into another type of debt is not planned. Furthermore, the creditors are not entitled to give notice before the date of maturity.

The subordinated liabilities incurred expenses, i.e. interest, amounting to EUR 1.004m (the previous year's figure was EUR 1.298m).

Equity
At a shareholders meeting on 13 May 2016 a resolution was passed to allocate an amount of EUR 14.887m from the 2015 annual net profit to the revenue reserves.

As part of the merger, the subscribed capital of the Deutsche Factoring Bank was increased by EUR 683,840.86 from EUR 5,752,033.65 to EUR 6,435,874.51. The acquiring legal entity Deutsche Factoring Bank took over net assets of the transferring legal entity (Universal Factoring) amounting to EUR 3,846,325.50 (equity of Universal Factoring at 31 December 2015 of EUR 4,096,325.50 minus gross dividends of EUR 250,000.00 paid after the effective date of the merger). The accounting balance of the book value of the assets and liabilities (net assets amounting to EUR 3,846,325.50) exceeds the amount paid to the Deutsche Sparkassen Leasing AG & Co. KG, Bad Homburg for the shares of the transferring legal entity (Universal Factoring) to the amount of EUR 683,840.86. The positive difference amounting to EUR 3,162,484.64 (EUR 3,846,325.50 minus EUR 683,840.86) is transferred to the joint specific-purpose reserve account as laid out in § 272 Section 2 No. 1 HGB.

Following the proposal on the appropriation of profits by the Supervisory Board on 23 November 2016, a resolution for approval will be submitted at the shareholders general meeting on 24 May 2017 that the shareholders receive a dividend of EUR 4.860m and EUR 19.440m is transferred to the revenue reserves.

EXPLANATORY NOTES PERTAINING TO THE INCOME STATEMENT

Interest income
Interest income comprises interest-like factoring fees and interest income in the ratio 57% to 43%, compared to 55% to 45% in 2015. The clients of the Deutsche Factoring Bank are almost exclusively domestic enterprises, of which some have affiliated foreign subsidiaries.

Interest payments
In accordance with § 246 Section 2, Sentence 2 HGB, interest payments for liabilities pertaining to pension obligations amounting to EUR 32,000 (2015: EUR 31,000) were offset against interest income amounting to EUR 27,000 arising from pension plan assets (2015: EUR 26,000). Negative interest received arising as a result of refinancing amounting to EUR 93,000 (2015: EUR 2,000) was taken into account as positive in interest expenses.

Miscellaneous operating income
Miscellaneous operating income includes income arising from currency translation amounting to EUR 14,000 (2015: Expenses: EUR 20,000).

Taxes on income and profit
All taxes on corporate income have been paid.

MISCELLANEOUS

Other financial obligations
Financial obligations arising from service contracts etc. amount to some EUR 5.956m. This figure includes EUR 301,000 for obligations to affiliated companies.

Loss-free valuation of the interest ledger
A periodic-based approach is used to determine the loss free valuation of the interest ledger.

Taking into consideration risk and administration costs, valuation was determined on the basis of the results for a period of one year. This is due to the fact that the purchased receivables have, on average, a short 40-day (2015: 41 days) maturity and are refinanced with matching maturities.

At the balance sheet date, there was, in total, a substantial surplus. Consequently, it was not necessary to form a provision.

Management
The unlimited partner, Deutsche Factoring Gesellschaft mit beschränkter Haftung, Bremen with a subscribed capital of EUR 60,000 (2015: EUR 58,000) is responsible for the management, and is represented by its Managing Directors:
– Hendrik Harms, Bremen (Spokesman) (up to 3 March 2017)
– Uwe Müller, Bremen
– Fedor Krüger, Düsseldorf (as of 29 September 2016)

The Managing Directors are engaged on a full-time basis for the Deutsche Factoring Bank. In 2016, remunerations amounting to EUR 984,000 were paid to the Managing Directors.

Supervisory Board
The composition of the Supervisory Board, including additional information is to be found in Attachment 1 (see page 25).

Investments in affiliated companies
The Deutsche Factoring Bank GmbH & Co KG is included in the consolidated financial statements of the Deutsche Sparkassen Leasing AG & Co. KG, Bad Homburg v. d. Höhe. The Consolidated Financial Statements are published in the “Bundesanzeiger”.

Staff
The average number of persons employed over the year was:

	2016	2015
Female	71	49
of which part-time	23	17
Male	84	56
Total	**155**	**105**

All members of staff are employees of the Deutsche Factoring Bank.

Deferred taxes
The differences between the commercial balance sheet and the tax balance sheet result exclusively in deviations that give rise to deferred tax assets. Pursuant to § 274 Section 1, Sentence 2 HGB, deferred tax assets were not taken into account in the financial statements. Determination of deferred taxes is carried out on the basis of a current tax rate of 14.86%. The tax rate on profits comprises only trade tax.

Total sum of auditing fees
The total fee charged by the auditors for the 2016 business year amounted to EUR 180,000.

Supplementary report
To date in the current business year there have been no incidents of special significance.

Attachment 1

SUPERVISORY BOARD

Members of the Supervisory Board

- **Kai Ostermann** (Chairman of the Supervisory Board)
  as of 18 August 2016
  Chairman of the Management Board
  Deutsche Sparkassen Leasing AG & Co. KG,
  Bad Homburg v. d. Höhe
- **Dr. Guido Brune** (Chairman of the Supervisory Board)
  up to 18 August 2016
  Member of the Management Board
  Bremer Landesbank
  Kreditanstalt Oldenburg – Girozentrale, Bremen
- **Frank Brockmann**
  (Deputy Chairman of the Supervisory Board)
  Deputy Spokesman of the Management Board
  Hamburger Sparkasse AG and
  HASPA Finanzholding, Hamburg
- **Roland Burgis**
  as of 18 August 2016
  Deputy Chairman of the Management Board
  Sparkasse Nuremburg, Nuremburg
- **Heinz-Hermann Hellen**
  as of 18 August 2016
  Member of the 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 of the Management Board
  and Member of the Management Board
  Hamburger Sparkasse AG and
  HASPA Finanzholding, Hamburg
- **Rainer Weis**
  as of 18 August 2016
  Member of the Management Board
  Deutsche Sparkassen Leasing AG & Co. KG,
  Bad Homburg v. d. Höhe
- **Thomas Christian Buchbinder**
  up to 18 August 2016
  Chairman of the Management Board (retired)
  Landesbank Saar, Saarbrücken
- **Michael Bücker**
  up to 18 August 2016
  Member of the Management Board
  Bayerische Landesbank, Munich
- **Eckhard Forst**
  up to 18 August 2016
  Member of the Management Board
  Norddeutsche Landesbank – Girozentrale,
  Hanover/Brunswick/Magdeburg/Schwerin
- **Werner Severin**
  up to 18 August 2016
  Chairman of the Management Board
  Landesbank Saar, Saarbrücken

Remuneration of the Supervisory Board

The members of the Supervisory Board received a remuneration of EUR 156,000 (2015: EUR 162,000).

Attachment 2

Development of fixed assets [1]

	Purchase/ Manufacturing cost 01.01.2016	Changes Additions	Disposals	Cumulative depreciation	Residual book value 31.12.2016	Depreciation for the business year
	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000
Intangible assets	716	28	0	644	101	90
Tangible fixed assets						
Land and buildings	2,466	0	0	1,422	1,044	45
Fittings and fixtures	176	13	0	144	46	6
Leasehold improvements	10	0	0	9	1	0
Furniture and equipment	2,499	270	202	1,660	908	183
	5,150	**284**	**202**	**3,234**	**1,999**	**234**
Financial assets Affiliates	3	0	0	0	3	0
Total	**5,870**	**312**	**202**	**3,877**	**2,102**	**324**

[1] Rounding differences are due to technical reasons.

The tangible fixed assets are solely used for business purposes.

Bremen, 11 May 2017

Deutsche Factoring GmbH

Uwe Müller

Fedor Krüger

Auditors Report

We have audited the Annual Financial Statements, comprising the Balance Sheet, Income Statement and the Notes to the Financial Statements, together with the bookkeeping system, and the Management Report for the Business Year of the Deutsche Factoring Bank GmbH & Co. KG, Bremen for the business year from 1 January 2016 to 31 December 2016. In accordance with German commercial law, the maintenance of the books and records, as well as the preparation of the Annual Financial Statements and Management Report for the Business Year, is the responsibility of the general partner of the Bank. On the basis of our audit, it is our responsibility to appraise the Annual Financial Statements, taking into account both the bookkeeping system and the Management Report for the Business Year.

We have conducted our audit of the Annual Financial Statements in accordance with § 317 HGB ("Handelsgesetzbuch", i.e. German Commercial Code) and the generally accepted standards for the auditing of financial statements stipulated by the Institut der Wirtschaftsprüfer (German Institute of Auditors). Those standards require that the audit is planned and performed in such a manner that any incorrect statements and infringements materially affecting the presentation of the assets, the financial position and the profitability as described in the Annual Financial Statements, drawn up in accordance with (German) principles of proper accounting, as well as the Management Report for the Business Year, are detected with a reasonable degree of certainty. Knowledge of the business activities and the economic and legal environment of the Bank as well as expectations of possible errors 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, and in the Annual Financial Statements as well as the Management Report for the Business Year were 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 management of the general partner, as well as the evaluation of the overall presentation of the Annual Financial Statements and Management Report for the Business Year. We believe that our audit provides a reasonably sound basis for our assessment.

Our audit has not led to any reservations.

In our opinion, our audit showed that the Annual Financial Statements is in accordance with the legal regulations and take into account (German) principles of proper accounting. The financial statements give a true and fair view of the assets, the financial position and profitability of the Bank. The Management Report for the Business Year is consistent with the Annual Financial Statements, is in accordance with the legal requirements and, on the whole, provides a correct representation of the position of the Bank as well as the opportunities and risks involved in future development.

Hamburg, 11 May 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Olschewski	Fitz
German Public Auditor	German Public Auditor

Deutsche Factoring Bank

Deutsche Factoring Bank GmbH & Co. KG
Langenstraße 15–21, 28195 Bremen, Germany
PO Box 106360, 28063 Bremen, Germany
Telephone +49 421 3293-0
Fax +49 421 3293-240
bremen@deutsche-factoring.de
www.deutsche-factoring.de

GB-E-07-17