DEUTSCHE FACTORING BANK

Annual Financial Statements and Management Report 2014

Finanzgruppe

Freedom of choice does not simply mean choosing a large number of options from a wide range of possibilities, but rather focussing very specifically on the best possibilities.

Sound financing solutions for business decisions

For a number of decades now, the small and medium-sized business sector has been the backbone of the German economy. In concrete terms, the "German Mittelstand" (German small and medium-sized business sector) contributes more than 50% to the overall economic output. Individual enterprises are faced with the challenge of making the right decisions to achieve their self-imposed targets. Finding suitable forms of financing goes hand in hand with such decision-making. The development over the last few years has shown that from the possible range of possibilities, more and more small and medium-sized enterprises opt for factoring as a form of financing.

Tailor-made factoring solutions offered by the Deutsche Factoring Bank provide attractive means of sound financing for small and medium-sized businesses. As a consequence, the Bank has been able to consolidate, and expand, its role as a reliable partner for numerous enterprises from the most diverse sectors.

In addition, cooperation with the Sparkassen has also been consolidated and expanded. Framework cooperation agreements concluded with the Sparkassen have proved to be extremely beneficial for both parties. This close cooperation is an important factor for the particularly strong turnover development of the Deutsche Factoring Bank in 2014.

Ultimately, those numerous small and medium-sized enterprises receiving sound financial solutions from the Deutsche Factoring Bank for their strategic decisions also profit from this situation.

Partners:

Unlimited partner
Deutsche Factoring Gesellschaft mit beschränkter Haftung, Bremen → 1%

Limited partners
Freie Sparkassen Beteiligungsgesellschaft mbH, Bremen → 33%

Bayerische Landesbank, Munich → 11%

BLB Grundbesitz KG, Bremen → 16.5%

SaarLB-Bankenbeteiligungsgesellschaft mbH, Saarbrücken → 16.5%

Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover → 11%

Landesbank Berlin AG, Berlin → 11%

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, Netherlands

Hanseatischer Sparkassen- und Giroverband (HSGV), Hamburg

Development of the Factoring Market

THE GLOBAL MARKET FOR FACTORING SERVICES IN THE YEAR 2014

In 2014, global factoring revenues posted a substantial increase on the 2013 figure. The volume of business conducted by factoring organisations worldwide amounted to EUR 2,310 bn, a figure representing a 3.6% increase over the previous year.

Domestic factoring accounted for the lion's share of the factoring business with revenues amounting to EUR 1,852 bn, i.e. a growth of 1% compared to 2013. International business revenue, on the other hand, recorded a 14% increase to EUR 457.8 bn.

Factoring services were provided in 70 countries throughout the world by some 2,300 organisations.

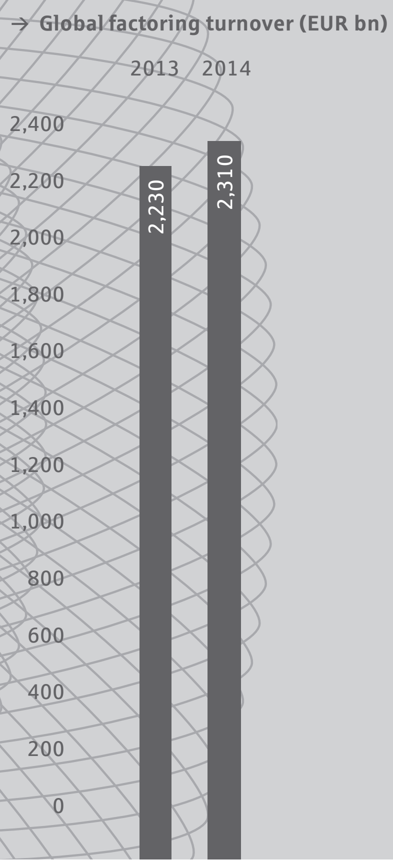
In 2014, four of the five biggest markets for factoring services were to be found in Europe. Since 2011, China has been the biggest single market, and in 2014 recorded a 2% increase in revenue to EUR 388.6 bn. China was followed by the United Kingdom with an overall volume of business amounting to EUR 376 bn (an increase of 22% on the previous year) and France with a turnover of EUR 226.5 bn (a growth of 13% compared to 2013). Germany posted a 10.8% increase to EUR 189.8 bn, thus rising to position four and was followed by Italy which saw its turnover increase by 2.8% to EUR 183 bn.

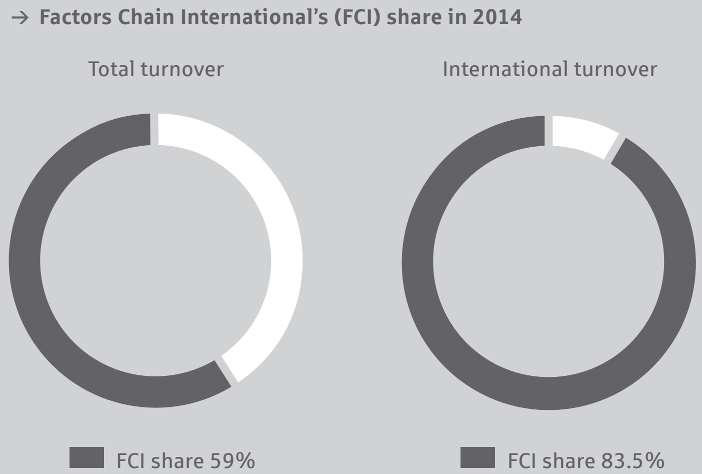
China was once again able to defend its leading position in the field of international factoring with a turnover of EUR 140.7 bn, followed by France with EUR 56.9 bn and Germany with EUR 48 bn. Italy ranked fourth with EUR 40.5 bn, and Taiwan took the fifth position with EUR 36.5 bn.

FACTORS CHAIN INTERNATIONAL (FCI)

The world's leading organisation of factoring providers is represented in 73 countries throughout the world. In total, 275 organisations are members of Factors Chain International.

In 2014, the total volume of business conducted by all FCI member organisations declined by 2% to EUR 1,372 bn. FCI's share of the global factoring market dropped correspondingly from 61% in 2013 to 59% in 2014. International business grew once again by 7.5% to EUR 384.1 bn. Compared to 2013, FCI members' share of international business remained unchanged at 83.5%.





FACTORING IN EUROPE

In Europe, some 690 organisations provided factoring services, and European providers recorded a combined turnover amounting to EUR 1,486.9 bn. This figure represents an increase of 9.8% compared to the previous year. The share of the overall volume of factoring business worldwide rose from 60% in 2013 to 64% last year.

International business accounted for some EUR 230.1 bn of the total revenue, which translates into an almost 15.5% share of the total volume of factoring business conducted by European countries and a 50% share of the overall volume of international factoring business worldwide.

FACTORING IN GERMANY

The revenues generated by the 24 leading factoring institutes belonging to the Deutsche Factoring-Verband (German Factoring Association) amounted to a total of EUR 189.8 bn in the 2014 business year. We are, thus, pleased to report that the factoring market grew by 10.8% compared to the 2013 business year.

The supply side continues to be very heterogeneously structured. The six largest factoring institutes were responsible for almost 80% of the business generated by the members of the Deutsche Factoring-Verband.

The so-called factoring quota, i.e. the ratio of the volume of receivables purchased by members of the Deutsche Factoring-Verband to GDP, was 6.50% in 2014 compared to 6.26% in 2013.

The Deutsche Factoring-Verband classified the following five branches as being the most important for the factoring industry in 2014: trade/commission trade, services, production of metalware including mechanical engineering products, foodstuffs and beverages as well as vehicle production.

The international factoring business in particular experienced a boom in 2014: the export business grew by 19.6% to EUR 44.8 bn, whilst on the other hand the import business recorded a rise of 4.8% to EUR 3.3 bn. The total volume of international factoring business amounted to EUR 48.1 bn, a figure representing 18.3% growth.

Management Report

THE COMMERCIAL BASIS

The Deutsche Factoring Bank is a member of Germany's largest financial group and, with its factoring services, complements the financial services package offered by the Sparkassen to the small and medium-sized business sector. Last year, once again, the successful cooperative partnership with the Sparkassen proved to be the most important source of new business.

Various selected key operational parameters are used by the Deutsche Factoring Bank to define not only its budget targets, but also its medium-term objectives. As part of our internal financial controlling system, the most important parameter is the volume of purchased receivables.

THE DEVELOPMENT OF THE FACTORING MARKET

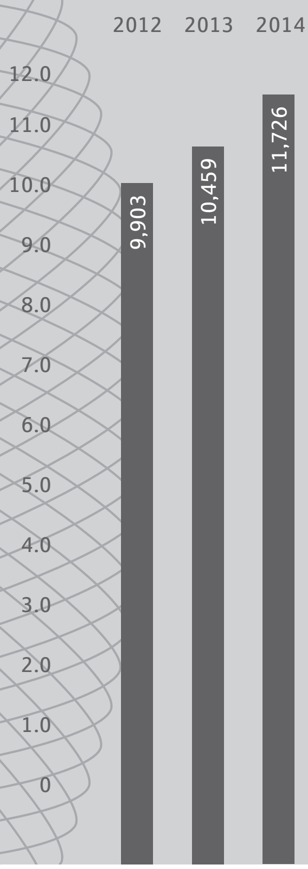
At the end of 2014, 196 enterprises offering factoring services were registered with the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) (Federal Financial Supervisory Authority). In the first six months of 2014, the 24 members of the Deutsche Factoring-Verband e. V., of which six are credit institutes, accounted for factoring revenues amounting to EUR 90.02 bn. This figure represents a growth of 11.32% compared to the first half year of 2013. The data for the complete year will first be published in April 2015. However, it is assumed that the factoring providers also continued their successful track record in the second half of 2014, thus, compared to other forms of finance, increasing factoring's share of corporate finance further.

ECONOMIC REPORT

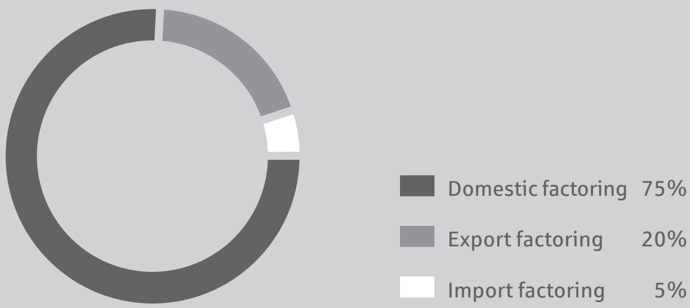
Despite the adverse European environment, the economic development in Germany was, in total, clearly positive; the extremely mild winter of 2013/14 having played a significant role. This is reflected by a 1.5% growth of gross domestic product. In total, gross domestic product posted the highest growth since 2011. The driving force behind this development was a 0.8 percentage points growth in domestic consumption. According to Statistische Bundesamt (Federal Statistics Office) data, gross investment accounted for a further 0.3 percentage points.

The volume of business generated by the Deutsche Factoring Bank increased in 2014 by EUR 1.3 bn (i.e. 12.1%) to EUR 11.7 bn (compared to the previous year's value of EUR 10.5 bn). In particular, the growth was driven by new customers acquired both in 2014 and in the business year 2013. These clients accounted for a EUR 1.6 bn growth in turnover. We are pleased to report that business with the Deutsche Factoring Bank's existing clients as well as our correspondence business developed favourably, resulting in a EUR 283.4 m increase in turnover. Loss of business due to factoring clients terminating their agreements, or insolvency, amounted to EUR 630.3 m.

→ Turnover of Deutsche Factoring Bank (EUR bn)



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



The table below shows the positive business development of both domestic and international factoring:

		2013	2014	
Domestic factoring	EUR m	7,826	8,801	+ 12.5%
Export factoring	EUR m	2,157	2,383	+ 10.5%
Import factoring	EUR m	476	542	+ 13.8%

In 2014, the share of international factoring business declined by 0.3 percentage points to 24.9% compared to the previous financial year's value of 25.2%. The backbone of our successful import business is the sustainable cooperation with 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.

The main focus of our activities was on non-recourse factoring which accounted for 98.0% of our total volume of business compared to 98.4% in 2013.

A total of 6.0 m invoices/outstanding receivables were factored by our Bank, a figure representing a 4.7% increase.

The average values of the accounts receivable purchased by the Deutsche Factoring Bank were as follows:

		2013	2014	
Domestic factoring	EUR	1,548	1,678	+ 8%
Export factoring	EUR	3,310	3,257	– 2%
Import factoring	EUR	13,959	16,392	+ 17%

Our sector and credit risks continue to be very well spread (in this context, please see the Risk Report below). We continue to provide our services to clients drawn from over 50 branches of the economy. The Bank had granted total credit lines amounting to EUR 7.0 bn for invoices issued to the customers of our clients at 31 December 2014, of which 17.1% 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 periods of the receivables we purchased were as follows:

	2012	2013	2014
	Days	Days	Days
Domestic factoring	39	40	39
Export factoring	64	63	70
Import factoring	60	56	51
Weighted average	**41**	**41**	**40**

As a whole, the 2014 financial year turned out to be relatively favourable for the Deutsche Factoring Bank.

EARNING POSITION

The surplus resulting from interest and fees amounted to EUR 45.2 m. This figure represents an increase of EUR 1.1 m, or a 2.5% increase, over the value for the previous year. This relatively poor development compared to revenue growth is due to the one-off effect resulting from a modification of the basis for charging factoring fees in the 2013 financial statements.

As a result of rising tariffs and the creation of new jobs, personnel expenses rose by 4.1% to EUR 8.8 m. The remaining administrative expenses were reduced by EUR 485,000 to EUR 3.4 m as a result of the finalisation of the necessary renovation work carried out on the Bank's premises. As a whole, the general administrative costs were reduced by EUR 141,000 to EUR 12.2 m. Compared to 2013, the cost income ratio was reduced by 0.8 percentage points to 27.4%.

Due to both the greater volume of purchased accounts receivable and the lowering of costs, the profit before risk provisioning and taxes rose by 2.2% to EUR 32.7 m (compared to EUR 32.0 m in the previous year).

The overall risk costs, i.e. amounts written off from accounts receivable, allocations for receivables and client risk provisioning as well as expenses for default insurance dropped by EUR 1.0 m to EUR 4.4 m owing to a significant reduction of individual valuation adjustments compared to 2013. Credit risk management controlling measures (central rating procedure) played a contributory role in achieving this goal in a not so economically stable environment.

The 2014 annual profit, after trade tax, amounted to EUR 24.0 m compared to the previous year's figure of EUR 22.7 m.

THE BANK'S ASSETS AND FINANCIAL POSITION

The assets structure is characterised by the accounts receivable which affect some 97.7% of the balance sheet sum compared to 99.0% in 2013. In 2014, the accounts receivable increased by 8.7% to EUR 1.19 bn. In general, the accounts receivable are subject to interest rate variations and are, almost without exception, due within three months. Risks pertaining to accounts receivable 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 blocked accounts, billing accounts and credit accounts of the factoring clients.

The external rating carried out for the first time in 2013 by the Gesellschaft für Bonitätsbeurteilung mbH in Cologne (GBB rating) was confirmed once again in the year under review. The Bank once again received the rating "AA-" (stable outlook). As a result of this rating, the Bank is seen by the refinancing market as a credit institute with an above-average credit rating. It is planned to have the Bank assessed on a yearly basis by an external rating agency.

Due to the fact that the volume of business grew, the liabilities to banks saw a rise of 9.8% to EUR 697,600. This was the most important item, and corresponded to a 57.2% share of the balance sheet total compared to the previous year's figure of 57.3%.

The liabilities to clients grew by 6.9% to EUR 359.8 m, corresponding to a 29.5% share of the balance sheet total – the previous year's share being 30.4%.

The equity ratio posted a marginal increase from 10.3% in 2013 to 10.4% in the 2014 financial year.

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

At 31 December 2014, the Bank employed a total staff of 108 persons, comprising 55 female and 53 male employees. This figure also includes 15 part-time employees, two trainees, two female employees on parental leave and two temporary employees.

The Bank pays its employees on the basis of the German private banking sector's collective wage agreement.

The Deutsche Factoring Bank provides its staff with the possibility to participate in a company pension scheme. In this respect, the Bank is a member of the BVV Versicherungsverein des Bankgewerbes a. G., and pays a part of the required contributions.

At 31 December 2014, we provided two trainees, compared to four in 2013, with vocational training as office administrators.

Apart from the Bank's normal daily business during the 2014 financial year, our organisational activities were mainly dedicated to the optimisation of internal business operations.

The European Union transposed the Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) into European law. The Deutsche Factoring Bank gave priority to the transposition of the CRR provisions in the 2014 financial year.

The Deutsche Factoring Bank has a decentralised sales structure with headquarters in Bremen and sales offices in Berlin, Bielefeld, Düsseldorf, Frankfurt/Main, Munich and Stuttgart.

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 the 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 business risks (rules of procedure and organisation etc.). In addition, the risk management system is monitored on a continuous basis by means of a newly implemented risk control system as well as the risk manager.

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. The implementation of the stress test 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, ad-hoc reports. The system is critically assessed and adapted on a continuous basis. The risk-bearing capacity stipulated by the Management was adhered to in every quarter of 2014.

In addition, a risk report is compiled on a quarterly basis. The report contains statements pertaining to the development of factoring, 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 and newly acquired clients, debtor risks, liquidity risks, operational risks, risk cost development (depreciation of accounts receivable, allowances and provisions for general risks and specific risks), liquidity and refinancing risks as well as concentration risks in compliance with § 13, Section 3 KWG or § 13 GroMiKV. Furthermore, all departments are obliged to submit ad-hoc reports to the management in the case of any serious changes. For example, these 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.

→ Credit Risks

The risk of a client defaulting involves 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 client default risk comprises three different types of risk, namely:

→ A) Verity Risks

Such risks arise through a lack of, or limited, legal validity of accounts receivable 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 for purchasing accounts receivable
- Risk-oriented field audit or internal client audit
- Regular auditing of customer 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

→ B) Counterparty Risks

Creditworthiness risks stem from an inability to settle accounts 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 receivable after exceeding a certain dunning level. Such accounts receivable, or accounts receivable deemed as negative, are handed over to our legal department

→ C) 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 creditworthiness criteria, as well as country risks, in particular by means of the evaluation of financial statements and credit agency reports

→ Market Risks

Market risks include all possible losses of revenue, which may result from changes of the 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 rates 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 risk (natural hedge).

→ Liquidity Risks

Liquidity risks involve 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 partner banks, other banks and Sparkassen provide sufficient lines of time deposits. Excess liquidity is deposited exclusively with the banks of our partners taking into account short-term money requirements. The currency planning is subject to appropriate controlling and monitoring. Securities and deposit transactions, proprietary trading in securities and derivative trading are prohibited.

Transactions carried out are reported on a daily basis to the trading and monitoring management together with a comparison of the forecast cash inflows and outflows. In addition, as part of the risk report, 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, the liquidity management is required to provide an emergency plan.

→ Operational Risks

Operational risks involve 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.

Due to the significant role played by operational risks, they are explicitly taken into account in the Deutsche Factoring Bank's risk management manual. Information technology, in particular, 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 (ISP) 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 the 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 any agreements that differ from the standard contracts.

→ Miscellaneous Risks

Miscellaneous risks (for example, business 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.

The Management implements the Bank's strategic policy in order to control the business risks. 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

The German Bundesbank forecast at the beginning of December 2014 that the German economy would grow by 1.0% in 2015. This compares with 1.5% in 2014. However, depending on whether the currently low crude oil price remains at this level in the longer term, the economic growth could turn out to be considerably better.

If this economic forecast turns out to be true, then the Deutsche Factoring Bank's volume of business will not grow as rapidly as in 2014. Furthermore, revenue losses due to clients filing for insolvency or terminating their contracts for other reasons cannot be discounted. Successful new business will continue to be the driving force behind the planned growth for 2015. To this end, we will continue to intensify our cooperation with the Sparkassen.

Despite the small and medium-sized business sector having, on average, a greater liquidity cushion, factoring remains an attractive means of complementing conventional forms of finance. This stems from both its flexibility and, from the clients' point of view, very favourable fees. In addition, we expect a considerable growth in business arising from clients acquired in 2014 since such clients only partially factored their turnover with the Deutsche Factoring Bank in 2014.

In the light of the above, we assume that the volume of purchased receivables will continue to increase and that the operating result will increase moderately in 2015. We have assumed stable price and interest rate structures, and that the risk costs over the course of 2015 will not be above the average values of recent years. The expected good operating result will not only continue to enable the Deutsche Factoring Bank to strengthen its equity basis and satisfy the Basel III requirements, but will also ensure that a reasonable dividend can be paid to our partners.

The Management:

Deutsche Factoring Gesellschaft
mit beschränkter Haftung, Bremen,
represented by its Managing Directors:
Hendrik Harms, Bremen
Uwe Müller, Bremen

SUPPLEMENTARY REPORT

To date, there have been no incidents of special significance in the current operating year.

We would like to take this opportunity to thank all members of our staff for their continued valuable efforts which have made a decisive contribution to the success of our Bank. Furthermore, we would like to extend our thanks to the staff council for their constructive cooperation.

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.

Bremen, 16 February 2015

Deutsche Factoring Gesellschaft mit beschränkter Haftung

Hendrik Harms Uwe Müller

Report of the Supervisory Board

During the business year 2014, 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. There were two Supervisory Board meetings during the 2014 business year. In addition to such meetings, a meeting is held on a regular basis between the Chairman of the Supervisory Board and the Management in those quarterly periods in which no regular Supervisory Board meeting takes place. The external auditor and the head of internal auditing also attend these meetings. These meetings are, in particular, dedicated to the monitoring of the Bank's accounting process, the effectiveness of the internal control system, the internal auditing system as well as the auditing of the financial statements. Such meetings took place twice in 2014.

The financial statements for the year ending 31 December 2014, prepared by the Management, were audited by BDO 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 Management Report for the business year.

At its meeting of 11 May 2015, the Supervisory Board, together with the Management, reviewed the financial statements of 31 December 2014 and the Management Report. In accordance with § 11, Section 3 of the Articles of Partnership of the DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG the Supervisory Board proposed to pay a dividend of EUR 9.975 m to the shareholders from the annual net profit of EUR 23.975 m and to add the remaining amount of EUR 14.000 m to the revenue reserves.

Mr Werner Severin, Chairman of the Management Board of the Landesbank Saar, was appointed as Member of the Supervisory Board of the Bank as of 1 January 2015.

Bremen, 11 May 2015

The Supervisory Board of the Deutsche Factoring Bank

Dr Guido Brune (Chairman)

The Supervisory Board:

Dr Guido Brune
(Chairman of the Supervisory Board)
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

Thomas Christian Buchbinder
Retired Chairman of the
Management Board,
Landesbank Saar, Saarbrücken

Michael Bücker
Member of the Management Board,
Bayerische Landesbank, Munich

Eckhard Forst
Member of the Management Board,
Norddeutsche Landesbank –
Girozentrale, Hanover/Braunschweig/
Magdeburg/Schwerin

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

Werner Severin (as of 1 January 2015)
Chairman of the Management Board,
Landesbank Saar, Saarbrücken

Dr Harald Vogelsang
Spokesman of the Management Board,
Hamburger Sparkasse AG and
HASPA Finanzholding, Hamburg

Deutsche Factoring Bank

	Assets		31.12.2014	2013
		EUR	EUR	EUR '000
01	Cash reserves			
	a) Cash in hand	9,790.93		11
	b) Balances at central banks of which at Deutsche Bundesbank EUR 2,471,476.46 (previous year: EUR 2,688,000)	2,471,476.46		2,688
			2,481,267.39	2,699
02	Loans and advances to banks			
	a) Daily		**21,531,869.95**	4,063
	b) Other demands		**1,927,291.76**	1,881
03	Loans and advances to customers of which secured by mortgages EUR 0.00 (previous year: EUR 0.00) municipal loans EUR 0.00 (previous year: EUR 0.00)		**1,192,255,376.64**	1,097,158
04	Shareholdings of which in banks EUR 0.00 (previous year: EUR 0.00) in financial services institutes EUR 0.00 (previous year: EUR 0.00)		**2,700.64**	3
05	Intangible assets		**137,945.31**	101
06	Tangible fixed assets		**1,855,542.52**	1,869
07	Other assets		**61,271.32**	121
08	Assets arising from overfunding of pension obligations		**203,182.96**	323
	Total assets		**1,220,456,448.49**	1,108,218

Balance Sheet

	Liabilities		31.12.2014	2013
		EUR	EUR	EUR ’000
01	Amounts due to banks			
	a) Payable on demand	20,964,442.95		32,982
	b) With agreed terms or periods of notice	676,671,315.56		602,246
			697,635,758.51	635,228
02	Other amounts due to non-bank customers			
	a) Payable on demand	136,773,150.91		114,461
	b) With agreed terms or periods of notice	223,020,177.43		222,119
			359,793,328.34	336,580
03	Other liabilities		**1,237,686.62**	1,794
04	Deferred income		**834,983.12**	819
05	Provisions			
	a) Provisions for pensions and similar obligations	–		–
	b) Provisions for taxes	480,000.00		–
	c) Other provisions	4,818,758.29		4,166
			5,298,758.29	4,166
06	Subordinated liabilities		**28,933,397.11**	15,553
07	Equity			
	a) Subscribed capital	5,752,033.66		5,752
	b) Capital reserves	1,533,875.64		1,534
	c) Revenue reserves ca) other revenue reserves	109,461,627.20		95,462
	d) Balance sheet profit	9,975,000.00		11,330
			126,722,536.50	114,078
	Total liabilities		**1,220,456,448.49**	1,108,218
	1. Contingent liabilities Liabilities arising from guarantees		**–**	2
	2. Other obligations Irrevocable credit commitments		**13,222,111.21**	12,064

Deutsche Factoring Bank

	Expenses			2014	2013
		EUR	EUR	EUR	EUR '000
01	Interest payments			**6,183,834.09**	5,721
02	Expenses for commissions			**2,995,151.98**	2,527
03	General administration costs				
	a) Personnel costs				
	aa) Wages and salaries	7,459,428.94			7,166
	ab) Social security contributions and contributions towards pensions and other benefits of which EUR 267,965.74 for pensions (previous year: EUR 261,000)	1,362,479.55			1,312
			8,821,908.49		8,478
	b) Other administration costs		3,363,938.87		3,849
				12,185,847.36	12,327
04	Depreciation of intangibles and tangible fixed assets			**295,150.14**	225
05	Other operating expenses			**272,656.67**	110
06	Depreciation and discounts on accounts receivable and provisions for possible loan losses			**4,367,470.39**	5,393
07	Taxes on corporate income			**4,321,058.20**	3,909
08	Other taxes, if not already included under item 5			**31,974.49**	33
09	Net income for the year			**23,975,000.00**	22,660
	Total expenses			**54,628,143.32**	52,905

Income Statement

	Income	2014	2013
		EUR	EUR ’000
01	Interest from loans and money market transactions	**51,317,742.62**	49,263
02	Income from commissions	**3,038,904.05**	3,070
03	Other operating income	**271,496.65**	572
	Total income	**54,628,143.32**	52,905

01	Net income for the year	**23,975,000**	22,660
02	Transfers to other reserves	**14,000,000**	11,330
03	Balance sheet profit for the year	**9,975,000**	11,330

Notes to the Financial Statements

GENERAL

The financial statements for the business year 2014 have been drawn up in accordance with German Commercial Code (Handelsgesetzbuch – HGB) regulations, insofar as they are applicable for banks, as well as German Accounting Ordinance for Banks (RechKredV).

A statement of account form was chosen for the presentation of the income statement.

ACCOUNTING POLICIES AND VALUATION METHODS OF THE BALANCE SHEET

The accounting and valuation methods remained unchanged.

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, however, 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 were 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 from this the permissible tax rules rates for the forecast period of utilisation.

Assets of relatively low value were depreciated in accordance with tax regulation § 6, Section 2a EStG.

Other assets were valued at their nominal values.

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

The pension provisions are assessed at the amount which is required to be paid. The Heubeck mortality tables 2005 G 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 4.58% was applied up to 31 December 2014. Future pension increases of either 1.5% or 1% per annum were assumed.

Due offsetting of pension plan assets with corresponding pension obligations resulted in an excess of pension plan assets over pension liabilities at 31 December 2014.

Based on a reasonable cautious commercial appraisal, the provisions were assessed at that amount which is to be paid out. All recognisable risks and contingent liabilities are taken into account. All provisions with a residual term of more than one year were discounted to the present value.

Assets and liabilities denominated in a foreign currency, as well as expenses and income, were translated into euros prior to being included in the financial statements. This was carried out in compliance with § 256a HGB in conjunction 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 (IN EUR '000)

→ Terms of balance sheet items (§ 9 RechKredV)

Assets

Loans and advances to customers

Term to maturity	31.12.14	31.12.13
up to three months	1,171,415	1,080,500
more than three months up to one year	20,840	16,658

Liabilities

Obligations to banks

Term to maturity	31.12.14	31.12.13
up to three months	676,671	602,246

Other obligations to clients

Term to maturity	31.12.14	31.12.13
up to three months	223,020	222,119

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

	31.12.14	31.12.13
Loans and advances to banks	18,335	1,784
of which from shareholders	18,166	1,594
Obligations to banks	75,309	97,242
of which to shareholders	20,803	32,729

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

	31.12.14	31.12.13
Miscellaneous liabilities	22	47

→ Details of currency items

	31.12.14	31.12.13
The total sum of currency assets	31,262	30,531
The total sum of currency liabilities	31,398	30,543

→ Fixed assets

The development of the fixed assets is shown in the attachment to these notes. The tangible assets are solely used for business purposes.

→ Excess of pension plan assets over pension liabilities

Reinsurance policies serve exclusively to ensure the fulfilment of 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 fair values of the plan assets correspond to the actuarial reserves proven by the insurer, and thus the acquisition costs amounting to EUR 898,000. In accordance with § 246, Section 2, Sentence 3 HGB, the fair value of the pension plan provisions in excess of the corresponding pension obligations is shown in the balance sheet as EUR 203,000. Expenses and income were offset.

→ Deferred income

This item comprises exclusively deferred factoring fees.

→ Provisions

These consist mainly of provisions in credit transactions, personal expenses, commissions, legal costs and outstanding invoices.

→ Subordinated liabilities

The individual subordinated liabilities are as follows:

Amount	Interest rate	Maturity
EUR '000	% p. a.	
2,000	4.01	7 September 2015
5,000	4.80	20 June 2016
910	4.68	30 June 2016
4,090	4.80	30 June 2016
3,300	5.28	1 June 2017
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 and eight insurance companies.

The criteria applicable for assessing the subordination are in accordance with Regulation (EU) No. 575/2013 and satisfy the amount of EUR 28.300 m. 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 1,000,000 (the previous year's figure was EUR 733,000).

EXPLANATORY NOTES PERTAINING TO THE INCOME STATEMENT

→ Interest income

Interest income comprises interest-like factoring fees and interest income in the ratio 53% to 47%, compared to 55% to 45% in 2013. 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 29,000 (2013: EUR 28,000) were offset against interest income amounting to EUR 43,000 arising from the pension plan assets (2013: EUR 35,000).

→ Taxes on income and profit

All taxes on annual corporate income have been paid in the amount of EUR 4.375 m.

MISCELLANEOUS

→ Other financial obligations

Financial obligations arising from service contracts etc. amount to some EUR 3,708,000.

→ 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 41-day maturity and are refinanced with matching maturities.

As a whole, there was a significant surplus at the balance sheet date. It was, consequently, not necessary to establish a provision.

→ Management

The unlimited partner, Deutsche Factoring Gesellschaft mit beschränkter Haftung, Bremen, with a subscribed capital of EUR 58,000 is responsible for the management, and is represented by its Managing Directors:

Hendrik Harms, Bremen (spokesman)
Uwe Müller, Bremen

The Managing Directors are engaged on a full-time basis for the Deutsche Factoring Bank.

In accordance with § 286, Section 4 HGB, no details will be given pertaining to the remunerations paid to the Managing Directors.

→ Investments in affiliated companies

The Bank is a 100% shareholder of Deutsche Verkehrs-Factoring Service GmbH, Bremen. The share capital of Deutsche Verkehrs-Factoring Service GmbH is EUR 25,000 which corresponds to the equity at 31 December 2014. A balanced result was posted in the 2014 business year compared to the loss of EUR 1,000 in 2013. Currently, the Company is not involved in any operational business. The investment has been written off.

As a general rule, the Bank is obliged to prepare consolidated financial statements. However, as there is only one participating interest, and this is relatively small, it is not necessary, under § 296, Section 2 HGB, to prepare consolidated financial statements. This is particularly the case, since consolidation of the subsidiary, either individually or in total, is of secondary importance in the assessment of the net assets, financial position and profit or loss of the group.

→ Staff

The average number of persons employed over the year was:

	2014	2013
Female	48	46
Part-time female	15	14
Male	53	53
Total	**101**	**99**

→ Deferred taxes

The differences between the commercial and tax balance sheet results exclusively in deviations that give rise to deferred tax assets. Due to the application of the capitalisation option stipulated under § 274, Section 1, Sentence 2 HGB, deferred tax assets were not taken into account in the financial statements.

→ Total sum of auditing fees

The total fee charged by the auditors for the business year 2014 amounted to EUR 103,000. The fee for other services rendered amounted to EUR 11,000.

→ Remuneration of the Supervisory Board

The members of the Supervisory Board received a remuneration of EUR 147,000 (2013: 154,000).

Development of fixed assets[1]
(all amounts are given in EUR ’000)

	Purchase/ manufacturing cost 01.01.2014	Changes		Cumulative depreciation	Residual book value 31.12.2014	Depreciation for the business year
		Additions	Disposals			
Intangible assets	131	103	0	95	138	66
Tangible fixed assets						
Land and buildings	2,466	0	0	1,332	1,134	45
Fittings and fixtures	136	40	0	128	48	8
Leasehold improvements	10	0	0	8	2	0
Furniture and equipment	2,139	203	156	1,514	672	176
	4,751	**243**	**156**	**2,982**	**1,856**	**229**
Financial assets Affiliates	3	0	0	0	3	0
Total	**4,885**	**346**	**156**	**3,077**	**1,997**	**295**

[1] Rounding differences are due to technical reasons.

The tangible fixed assets are solely used for business activities.

Bremen, 16 February 2015

Deutsche Factoring
Gesellschaft mit beschränkter Haftung

Hendrik Harms Uwe Müller

AUDITOR'S 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 the DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen, for the business year from 1 January 2014 to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law and supplementary partnership agreement are the responsibility of the company's management. 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 § 317 of the HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, 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 management, as well as evaluating the overall presentation of the annual financial statements and the 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 supplementary partnership agreement 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 and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Bremen, 1 April 2015

BDO AG Wirtschaftsprüfungsgesellschaft

Dr Zemke	Dr Lütke-Uhlenbrock
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

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DEUTSCHE FACTORING BANK
Deutsche Factoring GmbH & Co. KG
Langenstraße 15–21
28195 Bremen, Germany
PO Box 106360
28063 Bremen, Germany

Telephone +49 421 3293-0
Fax +49 421 3293-155
info@deutsche-factoring.de
www.deutsche-factoring.de

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