

**AKA  
Annual  
Report  
2016**

AKA

**aka** EUROPEAN  
EXPORT + TRADE  
BANK

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Guest Contribution: Dr Christoph Herfarth, Bundesministerium für Wirtschaft und Energie (BMWi), Berlin Government export credit guarantees: Facing up to the challenges	53
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## AKA at a glance

**Dieter Reiss** (Deputy Head of Export and Trade Finance),  
Employed by AKA since 1 August 1984

**Christoph Geiger** (Export and Trade Finance, FI-Desk),  
Employed by AKA since 1 January 2016

**Who we are:**

AKA is a consortium of 18 German banks including the leading banks active in foreign trade finance whose aim is to support German and European exports.

**What we do:**

AKA grants short-, medium- and long term financing, mainly under ECA-cover, and supports shareholders, borrowers and exporters through services.

**What we offer:**

Financing, refinancing, assumption of risk, services connected with short-, medium- and long term export financing and other international and commercial transactions.



## Report of the Supervisory Board

**Pamela Failer Šimović** (Portfolio Management),  
Employed by AKA since 1 September 2007  
**Beate Müller** (Head of Portfolio Management),  
Employed by AKA since 1 May 1992  
**Ebru Simsek** (Legal Department),  
Employed by AKA since 1 April 2016





During fiscal year 2016, the Supervisory Board observed the tasks incumbent on it being pursuant to the law, the articles of association and the rules of procedure and supervised the Management of AKA Ausfuhrkredit-Gesellschaft mbH in a timely and regular manner providing advice regarding the bank's strategic further development. In its meetings, the Supervisory Board examined numerous reports concerning the progress of the business, the bank's earnings position and its risk, liquidity and capital management as well as its internal monitoring system. In terms of business policy, a focus was placed on expanding activities in certain product segments and target markets. In regard to risk management, intensive efforts were put into methodically continuing to develop risk measurement and control methods.

The work of the Supervisory Board included the following:

- Periodic risk and controlling reports plus topic and event-based reports from the Management
- Reports from the internal audit team, the money laundering officer and the compliance officer
- Report from the company management on the course and result of the annual supervision meeting with Deutsche Bundesbank
- The report from the Management on the result of the credit rating assessment by GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH, Cologne
- Reports from the auditors (PwC) in connection with their audit of the 2016 annual financial statements

All members of the Supervisory Board were given sufficient opportunity to scrutinise these reports in all cases.

During 2016, the Supervisory Board held five scheduled meetings. Attendance at the Supervisory Board meetings was 98 %.

The Chairman of the Supervisory Board and the Management also engaged in a regular exchange of information outside of the Supervisory Board meetings. The Supervisory Board was informed of important developments at the latest by the respective next meeting.

In 2016, there were no personnel changes on the Supervisory Board.

**Central topics of the Supervisory Board's activities:** During Supervisory Board meetings, the company's business activities are looked at from the perspective of individual product groups, profitability, income quality pursuant to the risk/return ratio plus the development of major risks.

Because of AKA's specialism for financing trade and export with emergency markets, significant emphasis is placed on credit and country risks. In regard to market developments, both the Risk Commission and the Supervisory Board repeatedly highlighted particular topics during the course of the year. For instance, they received reports on the development of individual country portfolios and discussed the risk policy with the Management focusing on individual markets. In this context, the Supervisory Board looked at the impact of continuously low fuel prices (in particular the price of oil) on those markets that are important for AKA. Similarly, the consequences of political developments and crises, in the Middle East and Southwest Asia for example, were also discussed.

Furthermore, liquidity management and the refinancing of AKA were also discussed at every meeting of the Supervisory Board. The Supervisory Board regularly received reports on the structure of debt financing and liquidity provisions in euro and US dollars, as well as on the compliance with ratios set out in the regulatory provisions.

The Supervisory Board regularly looked at the risk bearing capacity of AKA at its meetings. In particular, it received reports on the higher equity capital requirements expected in the regulatory environment.

In terms of business planning, in its meeting of 25 February 2016, the Supervisory Board looked into the plan devised by the Management for the 2016 fiscal year and approved it. This represented the first annual tranche of the multi-year business planning and growth strategy for 2016-2020 which was adopted in December 2015. Plans subsequently needed to be updated. The annual financial statements resulted in a higher net profit for 2015 compared to prognosis planning, which also enabled a higher allocation to capital. In addition, a change in law regarding the valuation of pension provisions led to a palpable reduction in retirement provision costs.

The effect of these factors on the single and multi-year planning figures was discussed at Supervisory Board meetings. The adjusted business plan for 2016 was approved at the meeting of 14 April 2016 and the updated multi-year plan was approved at the meeting of 16 June 2016.

The Supervisory Board discussed the updating of AKA's risk strategy and authorized the amendments to the regulations proposed by the Management. In 2016, the Board focussed extensively on the Bank's risk parameters. The methodical approach was revised and

further developed both regarding the overall risk assessment (risk inventory, risk bearing capacity) and also the management of individual risk categories.

Pursuant to the MaRisk provisions, the Supervisory Board was informed of the new appointments of Compliance Officer and Money Laundering Officer and the new appointment to the Head of Internal Audit within the context of a succession plan. AKA is thus expanding its capacity in both segments. Overall, the Supervisory Board considers AKA to have a well-structured internal audit system (IAS) and coherent regulatory governance structures.

AKA plans to change its auditor as a result of the new legal guidelines. The Supervisory Board therefore initiated a call for tenders for an auditor for the 2017 financial year and agreed upon the selection criteria. It assigned the implementation of this process to the Management.

In the context of implementing regulatory requirements, the structure and composition of the Supervisory Board was subject to an assessment in 2016 on the basis of section 25d of the German Banking Act (KWG).

**Work carried out in committees:** The Supervisory Board's work is supported by committees that develop decision-making presentations or recommendations in preparatory meetings and report on their work to the overall body. Attendance at committee meetings was 97 %.

The Risk Commission (RC) met five times over the course of the fiscal year in preparation for Supervisory Board meetings. In addition, an information session also took place via telephone conference.

The Risk Commission received regular reports on the progress of AKA's credit portfolio, its risk-bearing capacity and its market price and liquidity risks.

Furthermore, the Risk Commission regularly examined AKA's risk-return profile. In terms of the credit risk assessment, during both the first and second half-year, the results of the stress tests carried out by the bank and the development of individual country portfolios was looked at intensively. The Supervisory Board was given comprehensive information on the results at the meetings held immediately afterwards.

In its meetings, the RC looked at the further development of AKA's business and discussed to what extent the further development of products and entering of new target markets would result in business risks.

The RC extensively discussed the updating of the risk strategy as the bank's regulatory framework, including all aspects of risk management, and presented a recommendation to the Supervisory Board.

Furthermore, at its final meeting of the year, the RC received reports on the impacts of changes in tax law on the calculation of country risk provisions. In some cases this led to a considerable reduction in risk provisioning rates. The RC has recommended to the Supervisory Board that the fundamental principle for calculating the country risk provisions should be maintained and the approaches permissible under tax law should also be applied in the trading balance sheet, which will result in reducing the current level of provisions for country risks.



During the course of 2016, the Nomination and Remuneration Control Committee (NRCC) was separated into the Nomination Committee (NC) and the Remuneration Control Committee (RCC) in line with statutory requirements. Both new committees consist of the Chair of the Supervisory Board and his three Vice-Chairs. The necessary change in the articles of association was made at the shareholder meeting of 14 April 2016. The necessary adjustments to the rules of procedure governing the Supervisory Board, RCC and NC took place at the following meetings. A periodic review of the Supervisory Board's remuneration was added to the RCC's rules of procedure.

During the past financial year, the NRCC met four times still in its composite form with two of these meetings taking place via telephone conferences. The RCC and NC met a further two times each following their inaugural meeting. The relevant committee chairs reported to the Supervisory Board concerning the content of the meetings.

2016, the RCC looked at the structure of Supervisory Board remuneration on multiple occasions and in detail and reported back to the Supervisory Board. It obtained expert opinions on the structure and extent of the Supervisory Board's remuneration and developed a target picture. In doing so, it took account of new statutory framework conditions and benchmarks in the finance industry. The Supervisory Board recommended the modified remuneration structure to the shareholder meeting on this basis.

The Nomination Committee also carried out an evaluation of the Management and the structure and composition of the Supervisory Board in accordance with section 25c and d of the German Banking Act.

**Auditing and approving the annual financial statements for the fiscal year 2016:** The firm appointed as auditor on 14 April 2016 – PwC PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main – audited the annual financial statements for the fiscal year 2016, the bookkeeping and the management report and issued a clean audit certificate.

The Supervisory Board acknowledged the audit result with approval. Following the conclusive result of its own audit, the Supervisory Board approved the annual financial statements giving rise to this result. It agrees with the proposal by the Management concerning the use of the balance sheet profit.

The Supervisory Board would like to thank the Management and all members of staff at the bank for their efforts and commitment during 2016. In spite of the increased political and economic uncertainty across the globe, AKA continues to have good prospects in store for the coming year.

Frankfurt am Main, March 2017

The Supervisory Board of AKA Ausfuhrkredit-Gesellschaft mbH



Michael Schmid  
(Chairman)

### Full members

**Michael Schmid**  
Economist  
Königstein/Taunus  
Frankfurt am Main  
– Chairman –

**Werner Schmidt**  
Managing Director  
Deutsche Bank AG,  
Frankfurt am Main  
– First Vice Chairman –

**Philipp Reimnitz**  
Executive Vice President  
UniCredit Bank AG,  
Hamburg  
– Second Vice Chairman –

**Alexander von Dobschütz**  
Managing Director  
Bayerische Landesbank,  
Munich  
– Third Vice Chairman –

**Sandra Gransberger**  
Head of Internal Audit  
BHF-BANK AG,  
Frankfurt am Main

**Jörg Hartmann**  
Director  
Landesbank  
Hessen-Thüringen Girozentrale,  
Frankfurt am Main

**Guido Paris**  
Executive Vice President  
Landesbank  
Baden-Württemberg,  
Stuttgart

**Winfried Münch**  
Director DZ BANK AG  
Deutsche Zentral-  
Genossenschaftsbank,  
Frankfurt am Main

**Max Niesert**  
Managing Director  
Portigon AG,  
Düsseldorf

**Knut Richter**  
Director  
Landesbank Berlin AG,  
Berlin

### Deputy Members

**Martin Keller**  
Director  
Commerzbank AG,  
Frankfurt am Main

**Frank Schütz**  
Director  
Deutsche Bank AG,  
Frankfurt am Main

**Inés Lüdke**  
Managing Director  
UniCredit Bank AG,  
Munich

**Florian Seitz**  
Director  
Bayerische Landesbank,  
Munich

**Birgitta Heinze**  
Director  
BHF-BANK AG,  
Frankfurt am Main

**Diana Häring**  
Vice President  
Landesbank  
Hessen-Thüringen Girozentrale,  
Frankfurt am Main

**Michael Maurer**  
Senior Vice President  
Landesbank  
Baden-Württemberg,  
Stuttgart

**Manfred Fischer**  
Director DZ BANK AG  
Deutsche Zentral-  
Genossenschaftsbank,  
Frankfurt am Main

**Georg Lucht**  
Executive Director  
Erste Abwicklungsanstalt AöR,  
Düsseldorf

**Sascha Händler**  
Director  
Landesbank Berlin AG,  
Berlin

## Shareholders

Bayerische Landesbank, Munich

BHF-BANK AG, Frankfurt am Main

Bremer Kreditbank AG, Bremen

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen

Commerzbank AG, Frankfurt am Main

DekaBank Deutsche Girozentrale, Frankfurt am Main

Deutsche Bank AG, Frankfurt am Main

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

HSH Nordbank AG, Hamburg

IKB Deutsche Industriebank AG, Düsseldorf

KfW IPEX-Bank GmbH, Frankfurt am Main

Landesbank Baden-Württemberg, Stuttgart

Landesbank Berlin AG, Berlin

Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main-Erfurt

Norddeutsche Landesbank Girozentrale, Magdeburg-Brunswick-Hanover

Portigon AG, Düsseldorf

SEB AG, Frankfurt am Main

UniCredit Bank AG, Munich

WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf up until 2 September 2016

10 Shareholders

Executive Directors

## Executive Directors

Beate Bischoff  
Frankfurt

Marck Wengrzik  
Frankfurt





## Management Report

**Michael Hein** (Bank Administration),  
Employed by GVK Grundstücksverwaltung  
Kaiserstraße 10 GmbH since 1 July 2010

**Stephanie Meier-Sydow** (Head of Export and Trade Finance),  
Employed by AKA since 1 June 2005

**Stefan Göllnitz** (Structured Finance & Syndication),  
Employed by AKA since 1 July 2016





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The year 2016 will be remembered as a year of historic proportions in particular in regard to political developments. It was a year that showed that the process of globalisation is not irreversible, with those politicians defending open markets often finding themselves on the losing side.

Indeed, the year began with a sense of change in the air with the lifting, in part at least, of American and European sanctions against Iran resulting in a positive spirit for German and European companies not least due to the potential trading opportunities this opened up. However, at the same time, a return to national interests was gathering pace on both sides of the Atlantic – a trend for turning back towards nationalism, combined with a shift away from supranational agreements.

In the United Kingdom, a majority voted to leave the EU. In the USA, a presidential candidate won the election whose campaign unequivocally argued against free trade and presented withdrawal from the Trans-Pacific Partnership (TPP) as a done deal. The future also looks bleak for the Trans-Atlantic Trade and Investment Partnership particularly given the substantial opposition forming in Europe's major cities.

Even though these developments do not necessarily signal an end to globalisation, 2016 clearly showed that the euphoria of mutual economic support is dwindling and the political developments of 2016 will have a major impact on the global development of trade over the following years<sup>1</sup>.

In regard to purely economic developments, 2016 turned out to be considerably less spectacular. For instance, the IMF reduced its outlook for global growth by 0.1 % to 3.1 %<sup>2</sup>. In contrast, developments in raw materials were considerably more dynamic in 2016. Moreover, it was not just oil and gas that got more expensive but also raw materials such as iron ore, metals such as copper, aluminium and tin and agricultural goods like coffee and cocoa. For example, during the course of the year the Hamburg Institute of International Economics' (HWWI) price index rose from 92 to 105 for food, drink and tobacco, from 89 to 105 for agricultural raw materials, from 83 to 110 for industrial raw materials and from 74 to 125 for iron ore and scrap steel<sup>3</sup>.

The markets were rather surprised by this development having not anticipated such an upturn. Specifically in regards to many countries dependant on trends in raw materials prices, this development was urgently required and we can surely anticipate a positive development in investment behaviour in many raw materials sectors in the future.

In terms of money market policy, in 2016, the European Central Bank remained true to the direction adopted before in 2015 and made no adjustments to either its buying programme or base rates.

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<sup>1</sup> Fuster, Thomas: Rückbesinnung auf die heimische Scholle [Returning to home soil]. In: Neue Züricher Zeitung, 2 January 2017. <https://www.nzz.ch/jahresrueckblick-2016/jahresrueckblick-wirtschaft-rueckbesinnung-auf-die-heimische-scholle-ld.137081>.

<sup>2</sup> World Economic Outlook October 2016. In: International Monetary Fund, October 2016. <http://www.imf.org/external/pubs/ft/weo/2016/02/>.

<sup>3</sup> Rohstoffpreise haben 2016 die Talsohle durchschritten. [Raw material prices broke the downward trend in 2016] In: [www.finanzen.net](http://www.finanzen.net), 23 December 2016. <http://www.finanzen.net/nachricht/rohstoffe/Hoffnung-fuer-2017-Rohstoffpreise-haben-2016-die-Talsohle-durchschritten-5248467>.

The high liquidity generated by these policies also led to a further reduction in EURIBOR rates during 2016. As a result, the average 6-month Euribor experienced a further significant reduction during the course of the year to its current level of -0.165 %<sup>4</sup>.

Despite the signals sent in 2015 by the US Central Bank that base rates might be adjusted up to four times in 2016 – following the end of the quantitative easing undertaken in 2015 – it delayed its first move until 14 December 2016 with a moderate increase in the base rate range of 0.25 % to 0.5-0.75 %<sup>5</sup>. However, interest rate levels in the US displayed continuous growth throughout 2016, for example the 6-month USD LIBOR rose around 0.8 % to approximately 1.3 % at the end of the year<sup>6</sup>.

Expectations of interest rate rises and the associated expectations regarding developments in the exchange rate between EUR and USD led to a further rise in USD/EUR swap costs in 2016 and – in regard to AKA – to increasing spreads in USD money market activities.

Confidence in the interbank market – as expressed in the EURIBOR-EONIA spread – again tended to be better during 2016 than the previous year<sup>7</sup>, especially in the second half of the year. However, in regard to the already very low EURIBOR rates, the actual effects of this further reduction in risk sensitivity were no longer perceptible in the spreads of the interbank market funds borrowed by AKA.

The global market for syndications shrunk again in 2016 by around 10 % compared to its 2015 level, reaching its current level of USD 4 trillion. It has thus signalled the biggest reduction in terms of percentage in the syndication market since 2012<sup>8</sup>.

This development was even more evident in the EMEA market for syndicated loans, which continues to be of primary importance to AKA, and resulted in 2016 in an above-average reduction in volume of 21 % compared to the already weak previous year<sup>9</sup>.

Despite these developments, AKA again succeeded in fiscal year 2016 – supported by the reorganisation of new business at the start of 2016 – in maintaining its level of activity in the syndication market and consolidating the level reached in the previous periods.

Contrary to the general trend on the syndication market, the Russian market – which is historically important for AKA – grew in 2016 despite existing sanctions, driven by structured transactions in the raw materials sector among other things. This development was also instrumental in the positive trend in AKA's Structured Finance division.

<sup>4</sup> Euribor interest rates 2016. In: global-rates.com. <http://de.global-rates.com/zinssatze/euribor/2016.aspx>.

<sup>5</sup> Press release. In: Board of Governors of the Federal Reserve System, 14 December 2016. <https://www.federalreserve.gov/newsevents/press/monetary/20161214a.htm>.

<sup>6</sup> US Dollar LIBOR interest rates 2016. In: global-rates.com. <http://de.global-rates.com/zinssatze/libor/amerikanischer-dollar/2016.aspx>.

<sup>7</sup> Thomson Reuters.

<sup>8</sup> Daniels, Vic: Syndicated loans review 2016: Thomson Reuters. In: HITC Business, January 2017. <http://www.hitc.com/en-gb/2017/01/04/syndicated-loans-review-full-year-2016-thomson-reuters/page/1/>.

<sup>9</sup> Loan Radar, 2016 – An Overview of the EMEA Loan Market plus League Tables. In: <https://www.loanradar.co.uk>.

In general, the combination of highly available liquidity and falling transaction volumes also led to a further reduction in margins and fees in 2016. In particular, developments in USD-dominated transactions are more critical as it is becoming increasingly harder in this market segment – at least for credit institutions without USD deposits – to turn a profit on the refinancing side at the prices offered given the backdrop of further increases in the cost of USD spreads and swaps.

Similar developments also occurred in the secondary market so that in 2016, there was no noticeable divergence between primary and secondary market prices.

One exception was again the particularly active secondary market for Turkish FI risks which – similarly to the political and economic developments in Turkey following the attempted coup – demonstrated a significant extension to the yields offered in the form of a corresponding change in sensitivity to risks.

The volume covered by Hermes declined by around 20 % during 2016 to EUR 20.6 billion and therefore returned to its level from before the financial crisis. A development that was also evident in other countries in 2016 and in the respective export credit insurance systems.

The reduction in Hermes cover was driven in particular by the lack of cover for aircraft and a reduction in cover in the shipping sector. Key drivers for the cover volumes in 2016 remained large projects, predominantly in the oil and gas transportation sectors and power stations, plus support for cruise ships.

The significant changes in the Hermes cover volumes were also reflected in AKA's activities last year with a lower proportion of Hermes-covered transactions conducted. However, the fact that AKA was able to maintain its level of concluded export financing deals from the previous year into 2016 is attributable to the following circumstance. During 2016, AKA was able to generate additional volumes in the sector of export financing secured by western European export credit insurance which compensated for the reductions in the Hermes-covered sector.

As a result, 2016 also made it abundantly clear how important it was for AKA to expand its cover and therefore also its potential as part of its Europeanisation strategy.

**Respectable figures in 2016:** AKA recorded a respectable volume of new business in 2016 of EUR 1,439 million and thus achieved an increase of 7 % on the previous year. This is a good result in particular given the overall decline of over 20 % in the EMEA syndication market<sup>1</sup>.

The following developments carried particular significance in fiscal year 2016:

With the creation of the new business department by separating the departments "Export and Trade Finance" and "Structured Finance and Syndication", AKA has further expanded its focus and market presence, in the context of its portfolio products, and can accommodate the direction of the business strategy more effectively.

In this connection, reorganisations have also taken place in the allocation of individual transactions to the product groups syndicated trade loans and risk participations in LCs. Accordingly, the scope for directly comparing the results recorded in 2016 with the business volume of the previous year is limited for these products.

AKA managed to hold its ground in its core business, ECA-covered financing<sup>2</sup>, despite the muted market development and was able to reach the level of the previous year.

AKA has very successfully implemented its European strategy in this market: In addition to its traditional Euler Hermes-covered business, AKA conducted 40 % of its ECA-covered transactions with other European export credit agencies.

In the short-term segment, the business volume for risk participations in LC confirmations and related products was slightly higher than in the previous year. AKA recorded an annual business volume of EUR 469 million (2015: EUR 349 million, EUR 448 million using the calculation basis used in 2016).

AKA achieved a result equal to the one of the previous year for participations in syndicated trade loans in the primary and secondary market. AKA has consolidated its market position here reaching a business volume of EUR 320 million (2015: EUR 417 million, EUR 332 million using the calculation basis used in 2016).

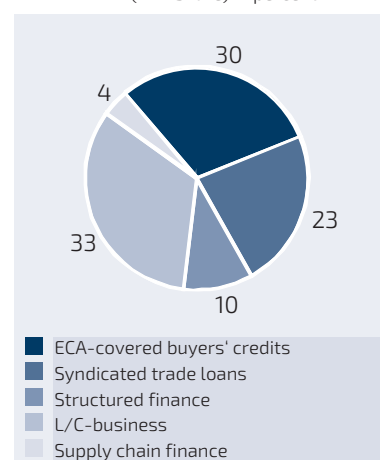
Satisfyingly, the business volume for structured financing grew to EUR 140 million (2015: EUR 118 million). In addition, EUR 52 million was transacted in the wider receivable finance sector.

### 2.1 New business developments in detail

**ECA-covered buyers' credits – intensive use of AKA's expanded service range:** The shareholder banks again made extensive use of AKA's services in the ECA-covered sector in 2016, thus displaying clear confidence in its expertise and the high quality of its partnership work. At EUR 423.4 million, the volume of AKA's proportion of contracts concluded is almost identical to the previous year's level (2015: EUR 423 million) but below the target figures for 2016.

In the course of the current strategic orientation to develop into a European trade finance institution, AKA has significantly expanded the range of services offered to its shareholder

New business by main product groups (AKA share) in percent



<sup>1</sup>Loan Radar 2016 – An Overview of the EMEA Loan Market. In: <https://www.loanradar.co.uk>.

<sup>2</sup>ECA: Export Credit Agency, state export credit insurance



banks. In addition to its traditional cooperation in the Euler Hermes-covered business, AKA offers to handle transactions covered by other European ECAs. In this context, AKA also extended its refinancing facilities in 2016 via refinancing programmes from these ECAs.

**The trend for bilateral export financing on the basis of individual credit agreements is continuing to grow:** This trend, which has emerged over the past few years, also defined AKA's loan book in 2016. Increasing numbers of transactions in the ECA sector are concluded bilaterally, meaning they are concluded directly with the foreign importers on the basis of individual credit agreements.

Both the documentation and the credit administration of these transactions are significantly more complex than financing under AKA's "Basic Agreements".

**Constant expansion of AKA's network through "Basic Agreements":** The use of transactions supplied by AKA to its shareholder banks under conventional "Basic Agreements", which mainly envisage banks as borrowers, declined. Nevertheless, AKA continues handling ECA-covered financing via this widespread network of "Basic Agreements". Their documentation is constantly updated and adjusted to the needs of the shareholder banks and borrowers.

**100% finance transactions of AKA:** These are transactions where AKA acts on the request of its shareholder banks on a bilateral basis as sole lender. Around one tenth of the business volume (EUR 48 million compared to EUR 38 million in the previous year) – but half of the number of ECA-covered transactions were arranged on this basis.

This product variant is especially useful for keeping costs low for all stakeholders in low volume transactions. These transactions include both financing deals arranged under "Basic Agreements" as well as export financing based on an individual agreement. Given the low average credit amount of EUR 3.8 million this is a good example of AKA's willingness to support small export financing deals and demonstrates AKA's commitment to taking on "Small Tickets" (average credit amount: EUR 3.7 million).

**Low demand for CIRR funds:** Demand for AKA's CIRR funds was quite muted throughout the year.

**Advance payment financing:** AKA did not receive any noteworthy contributions from its shareholder banks in advance payment financings in connection with ECA-covered buyers' credits.

**Risk participations in LC confirmations:** In this product segment, AKA takes silent risk sub-participations, namely, LCs, bank guarantees or related products with terms mostly of less than one year. Despite a moderate increase in the business volume to EUR 469 million (2015: EUR 349 million, EUR 448 million using the calculation basis used in 2016), FI business remained below expectation. This development is due to the significantly reduced risk placement requirement among our syndication partners.

**Enhanced commitment:** AKA is expanding its cooperation with selected non-shareholder banks. The target group includes globally positioned banks with first-class reputations in trade finance business. This enhanced commitment led not only to a positive income contribution for 2016 but also to a more active utilisation of country and counterparty limits in AKA's portfolio that had previously not been fully used.

**AKA's cooperation with EBRD in its Trade Facilitation Programme:** AKA's activities in partnership with the European Bank for Reconstruction and Development (EBRD) were restrained. The decisive factor here is EBRD's currently suspended engagement in Russia.

**Syndicated Trade Loans (STL):** The trade-related syndication market relevant to AKA showed a decrease in volumes in 2016 coupled with an increasing pressure in terms and conditions. Despite the difficult conditions, AKA was able to record a business volume of EUR 320 million matching the result of the previous year, in which the number of transactions concluded was also constant. The borrowers were mostly banks with a system-relevant position in their countries of registration and major international trading houses with first-class reputations. A further part of this portfolio includes transactions with an A- and B-tranche structure issued by supranational institutions. The engagements are set up for tenors of up to one year.

**Structured financing and commodity trade finance:** The volume of new business rose to 10 % of the overall business volume (2015: 9 %). Newly concluded financings are predominantly participations in commodity-supported transactions.

**Non-recourse financing:** New business – generally being revolving engagements with tenors of up to three months for prestigious European counterparties – rose pleasingly in the non-recourse financing sector to 3.6 % (2015: 1.7 %) of the total new business volume. For 2017, these activities will form a part of Structured Commodity Finance (SCF).

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**Supplier loans and guarantees:** These did not play a significant role in the reporting year.

## 2.2 Total commitments

The total commitments of AKA as of the reporting date of 31 December 2016 amounted positively compared to the previous year (EUR 4.4 billion) to around EUR 4.5 billion.

This total includes AKA's and its shareholder banks' loan volume as well as receivables held in trust by AKA. All reservations requested from AKA continue to be taken into consideration.

## 2.3 Good prospects for AKA's new business for 2017

AKA predicts the strong market position of the European export economy to continue in 2017.

In the long-term segment, AKA's new business will continue to concentrate on ECA-covered transactions for European exporters. AKA used 2016 to expand its market position and recognition for example by identifying future growth markets at an early stage. As a result, AKA expects to conclude a number of substantial transactions in the first half of 2017. In this regard, intended acquisitions are not focussed only on large-volume transactions covered by Euler Hermes and other European ECAs. As a specialised bank, AKA will continue to be open to export finance transactions of all sizes in 2017. With regard to small transactions, AKA will also use 2017 to develop new solutions for the Small Tickets business enabling a solid economic basis for these transactions. This development will represent a focus of activities in the new fiscal year.

In the FI sector, AKA is consolidating its cooperation with the syndication desk of shareholder and non-shareholder banks. The goal is to achieve an even more active utilisation of AKA's country and counterparty limits.

The Structured Finance & Syndication (SFS) department, newly created in 2016, now brings together the activities of the Structured Finance, Syndication and Supply Chain Finance teams.

The Structured Finance department pursues financing for traders and commodity producers together with the shareholder banks. These financing deals include covered structures (PXF, borrowing base) plus short-term working capital financing (RCF). Both the specialisation and the moderate staffing increase have been concluded and now ensure risk-conscious growth and professional management of these non ECA-covered transactions.

The STL department generally continued to invest in short-term, trade-related syndicated loans for banks and for 2017, we expect a return to profitable growth amid an attractive market.

In 2017, AKA's non-recourse financing activities will be brought together in the SCF department. The even more intense cooperation between AKA and the shareholder banks including their factoring and SCF platform solutions will lead to a rising income contribution.

AKA sees potential for growth both in the short- and long-term sector in a number of emerging markets including those in the Middle East and Asia. In general, AKA offers sufficient country and counterparty limits in this region to support its shareholder banks' needs.

Due to the good deal pipeline, the proactive and trusting cooperation with its shareholder banks, increased numbers of personnel in new business and well diversified limit and product structure, AKA sees good prospects that business in 2017 will even exceed the level of 2016.

#### 3.1 Aims, principles and structure of risk management

**Corporate aims of AKA:** AKA's primary goal is to participate in the loan business predominantly brought by its shareholder group on the basis of appropriate analysis. In the course of the expansion in loan business planned as part of its business policy, high quality standards are being set in order to avoid, for example, unreasonable risk concentrations. AKA controls and monitors its risks with the aim of structuring its risk and income profile in the optimum manner and thus at the same time guaranteeing the necessary risk bearing capacity at all times.

##### **Business activities:**

AKA

- is a specialised credit institution active in the sector of short-, medium- and long-term trade and export financing with a focus on emerging markets;
- acts as a complementary institution, primarily at the request of its shareholder banks;
- offers administration services, in addition to its loan business, primarily for ECA-covered buyers' credits;
- is also active in purchasing and administering debt restructuring receivables.

##### **Treasury activities:**

AKA

- is a non-trading book institution and in accordance with its authorisation, does not conduct any "deposit and savings deposit business";
- refinances itself using its own funds, refinancing lines from shareholder banks and through third parties and can, in the interest of diversifying its refinancing sources, also borrow funds directly on the capital market depending on the effort and costs required;
- is only active in treasury insofar as it is necessary for refinancing its loan business and ensuring liquidity or complying with regulatory conditions;
- strives to minimise interest rate changes and currency risks through appropriate refinancing and/or corresponding security transactions.

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**Risk policy:** The proactive risk policy relating to overall bank management includes all measures for scheduled and targeted analysis, control and monitoring of all of the risks incurred. It is AKA's business policy first and foremost to limit credit default risks associated with the key business field of trade and export finance.

**Risk management principles:** The Management sets the policy guidelines for all detectable risks, taking the risk bearing capacity into account on the basis of an analysis of the starting position in terms of business policy and of an assessment of the opportunities and risks associated with the loan business. These are documented in the risk strategy which encompasses all major risk types. The appropriateness of this strategy is checked annually by the Management and, if necessary, updated accordingly in consultation with the Supervisory Board. It falls within the overall responsibility of the Management to ensure that the risk concept is integrated throughout the organisation and that risk-awareness is firmly anchored in the company's culture.

This is ensured by means of an adequate structural and procedural organisation. Responsibility for successful implementation is determined by the Management.

**Risk Strategy:** The risk strategy is based on the principles of MaRisk and contains detailed provisions on all major aspects of risk management such as, for example, risk bearing capacity, risk management, market authorisation checks, stress tests, early warning indicators plus the principles for calculating risk provisions and the risk inventory covering all risks.

**Risk bearing capacity:** The risk bearing capacity is recalculated every month on the basis of actual balance sheet values as part of the liquidation approach. Within the scope of the consideration required by law beyond the next balance sheet date, the corresponding target figures from the multi-year business plan are considered for a period of more than twelve months. In addition, the going concern approach is assessed when calculating risk bearing capacity.

The risk coverage amount (RCA) is recalculated every month by Controlling and its compliance is monitored. AKA's Management – consisting of the Management and the department managers – and the Supervisory Board are kept regularly informed about this.

The overall risk coverage amount can be divided into the primary risk coverage amount, consisting of the operating result less any change to the risk provision, less the dividends due for payment, and the secondary risk coverage amount, which consists exclusively of the supplementary capital, the revenue reserves and the subscribed capital. The RCA calculated in this way represents the upper limit for overall losses within the context of risk bearing capacity.

As part of the risk strategy, the bank has established upper limits for losses using the limit system based on the available equity capital or RCA for all major risks, in other words, setting individual limits. These apply to credit default risks in accordance with the country of registration principle, divided into states, borrower units, individual counterparties and sectors plus market price and liquidity risks.

The defined limits are reviewed during the periodic evaluation of the risk strategy. When reviewing the risk strategy, AKA increased the allocated own funds for credit default risks to the current level of EUR 180 million.

The allocated own fund limits are set at EUR 7.5 million for operational risks EUR 28 million for market prices risks (including EUR 20 million for interest rate risks and EUR 8 million for foreign exchange risks) and EUR 8 million for liquidity risks.

Once a year, a risk inventory of all relevant risks is drawn up. The participation risk was also classed as non-significant for the bank due to its negligible volume. The 2016 risk inventory has not created any further increased risk potential for 2016 and as a forecast for 2017 such that the limits established for all types of risk are deemed sufficient.

The risk bearing capacity – even taking into account the interest and liquidity risks that are not subject to deduction according to pillar I – indicated a free coverage amount of around EUR 135 million as at 31 December 2016. 47 % of the RCA has been used at the balance sheet date. Over the course of the fiscal year, the minimal utilisation degree was around 47 % in December (2015: 52 % in September) and a maximum of 64 % in February (2015: 56 % in January). The assessment of the going concern approach shows that AKA is capable of bearing its risks at all times.



Furthermore, at least once a year stress tests are carried out on major risks as part of the calculation of RCA. These are specifically the credit default risk, market price, interest rate and liquidity risks, operational risks and business risks.

AKA is a specialised credit institution focused on international trade-related financing and risk assumptions and does not operate any retail or mortgage business. It has no assets of its own and finances no client loans for the purpose of procuring securities. The bank offers no fund transfer accounts and ATMs for the independent use of clients. This means that no unscheduled, surprising loss of liquidity can occur. Domestic securities (ECB-tradable) are exclusively held to manage liquidity in euros and foreign securities for the same purpose in US dollars.

Domestic changes to GDP growth do not have any measurable effects on loan business with emerging markets typical to AKA's business. Among other things, this affects the share price, number of private client insolvencies and the development of property prices in the euro area. AKA profits more from developments abroad. Around 91 % of the portfolio of net credit default risks remains located abroad and exclusively includes banks, corporates and government debtors.

The scenarios on which the stress tests are based were therefore developed with a focus on this business model and AKA's orientation toward short-, medium- and long-term trade financing predominantly in emerging markets. The scenarios are based on credit rating adjustments (portfolio shift) plus the overall portfolios and individual key markets and regions.

The Bank's Supervisory Board is regularly involved in selecting and assessing the appropriateness of stress scenarios. Both the Management and the Supervisory Board are kept continuously informed of the outcomes of stress test calculations as part of regular risk reporting.

AKA's reporting under supervisory law is still carried out on the basis of the credit standard approach (CSA).

AKA's risk profile pursuant to the regulations:		
	2016	2015
Weighted risk assets (incl. market risk position and operational risk) in EUR millions	1,325.1	1,166.5
Equity capital in EUR millions	224.1	212.4
Total capital ratio as per CRR in %	16.9	18.2

**Risk management organisation:** AKA's risk organisation is designed in accordance with the currently valid minimum requirements for risk management (MaRisk) and meets all legal requirements. The risk management system governs all of the AKA's activities associated with risks in a traceable manner. It includes a monitoring system developed on the basis of AKA's risk strategy which includes, among other things, organisational security measures and internal control procedures.

AKA's economic success is primarily based on its ability to recognise increasing volumes of credit default risks early in the course of its business process, to quantify these correctly

and manage them appropriately. In this regard, over many years, AKA has built up a conservative and appropriate risk culture reflected in its structural organisation, business processes and business policy.

The MaRisk-compliant independence of front and back offices is ensured in the company's organisational structure through the separation of functions and is implemented appropriately using corresponding processes. Within the framework of risk management, the terms of the current applicable MaRisk pursuant to the fourth amendment are being fully implemented.

**Risk management and -monitoring/Controlling:** At AKA, the Credit Risk Management (CRM) department is responsible for the operational implementation of credit risk management.

Its core activities include managing the credit default risks' individual risks. This covers credit checks on countries, banks, corporates, insurance policies plus commodities and trade finance risks.

This encompasses loan approval decisions on an individual basis involving portfolio-related issues within the framework of individual powers of approval. Credit Risk Management (CRM) votes on loan approval decisions coming under the Management's limit level.

The Controlling Department draws up risk standard guidelines for credit default risks (countries, banks, corporates, insurance companies, industry and concentration risks) as part of active risk management and lays down these standards in conjunction with the Management.

Controlling supports the Management in all issues relating to management and control, taking all risk factors into consideration. Therefore, an important subtask of Controlling at AKA involves risk identification, classification, measurement, assessment and control based on the risk strategy as a contribution to the achievement of company objectives. Over and above this, all executive managers at the bank are supported by Controlling in connection with the planning, management and control of all results-based processes and target values.

In this connection, Controlling is responsible for drafting the independent and internal reports containing all information relating to risks. The risk and controlling report is presented to the Management and to all executives every quarter as the basis of the bank's business and risk management. If necessary, this report includes recommendations for action.

Apart from statements about business and earnings performance, the report includes detailed information about credit risk, market risks (liquidity, interest rate, market price and foreign currency risk), IT risks, legal risks and operational risks. It therefore forms the basis for a comparison with the risk and business strategy drawn up by the Management and the Supervisory Board. The Controlling, Business Development, Credit Risk Management and Accounting/Treasury departments provide up-to-date information about AKA's risk situation to the Management at least once a month.

Regarding its principle activities, the tasks carried out by Controlling also include the continuous maintenance and further development of the risk measurement and control instruments for all major risks at AKA.

**Risk Committee:** AKA has a Risk Committee (RC) presided over by the back office manager, which generally meets every quarter or when required. The RC handles all issues relating to risk in particular the profile encompassing all risk types.

**Aims of the Risk Committee:** The primary goal is monitoring AKA's risk situation from the economic and regulatory point of view and determining risk-reducing measures and the parameters and methods needed to control risk.

**Tasks and decision-making powers of the RC:** Within the course of monitoring the risk situation at AKA, the RC discusses risk-related topics plus the results of the annual risk inventory and makes decisions on any risk-minimising measures, for instance to strengthen the internal control structures and reduce operational risks. The RC is also responsible for adopting methods, models and parameters relating to risks. Decisions to be taken by the Management in accordance with MaRisk must be confirmed by the Management after the Risk Committee's approval.

**Credit Committee:** The Credit Committee has an operational focus and handles all issues relating to credit risks.

**Aims of the Credit Committee:** The primary aim is to discuss issues relating to business policy and methodical credit (including lines, limits, products, countries and sectors), to discuss and adopt decisions on individual credit commitments with particular structure and/or a high risk ratio and regular portfolio analysis and monitoring (large credits, watch list, risk concentrations).

**Decision-making powers of the Credit Committee:** The approval of individual transactions by the Credit Committee is subject to the existing rules regarding jurisdiction.

**Risk Commission:** The Risk Commission of the Supervisory Board, which is composed of the Supervisory Board Chairman and at least two (currently five) other Supervisory Board members, monitors all risks related to AKA's business operations at the level of the bank as a whole and the risk management and risk control measures taken by the management. This panel also supports the Management in an advisory capacity in regular sessions when moving into and developing new areas of business. The Risk Commission informs the Supervisory Board on the subjects discussed in its meetings and gives recommendations for resolutions at the next Supervisory Board meeting.

In 2016, five scheduled meetings of the Risk Commission were held plus a telephone conference to discuss a special topic.

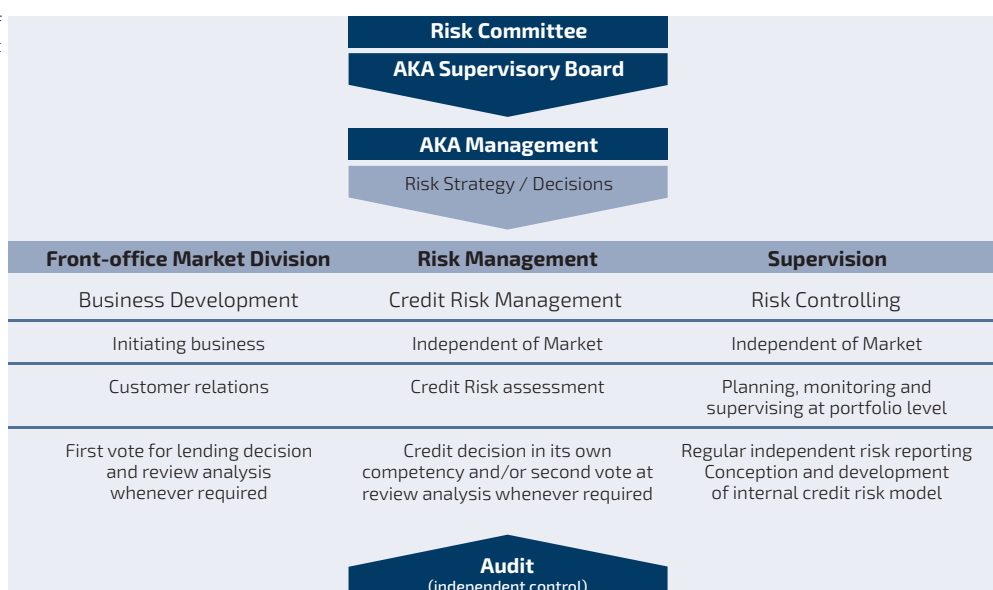
**Supervisory Board:** The Supervisory Board consists of representatives of the six largest shareholders and three further agents representing the largest business volume plus a representative chosen by the other shareholders. Among other things, it decides on the principles of the risk policy and business structure. The Management reports to the Supervisory Board and the Risk Commission at regular intervals about the progress of new business and the bank's earnings using AKA's internal risk/controlling report. This also includes all types of risk covered by risk management, their development, compliance with the stipulated limits plus their management at an acceptable level.

The risk/controlling report includes recommendations for the Management and for risk management. A summary of the key findings and recommendations is presented in the form of a cockpit. These statements are supported by the traffic light system. In 2016, the Supervisory Board held five meetings.

**Internal Audit:** In accordance with the provisions of supervisory law applicable to credit institutions, AKA possesses its own Internal Audit team which performs its audit in accordance with the regulatory requirements. The Internal Audit team supports the bank's own management of its work processes plus the design and implementation of internal projects. It assesses and judges the effectiveness and appropriateness of risk management in a risk-based and process-independent manner, the impact of the security measures set out in the work processes and the specified internal audits. The Management is informed separately about the implementation of the measures and recommendations proposed in the result of audits.

In fiscal year 2016, all Internal Audit activities were in compliance with the audit plan approved and continuously monitored by the Management in terms of its implementation. There were no grounds to carry out an unscheduled audit.

Organisation of Risk Management



### 3.2 Credit default risks

Because of its business purpose, credit default risks represent the most significant risks at AKA.

A "non-financial" but key performance indicator for AKA is the Investment Grade Ratio (IGR) of long-term new business volumes concluded.

The target value for fiscal year 2016 of more than 35 % was achieved.

Credit default risks are understood to include the risk for AKA of possible losses in the value of receivables from a contractual partner, due to

- unexpected full, partial or temporary insolvency or unwillingness to pay;
- a reduction in the value of a receivable (credit risk) associated with an unexpected reduction in a debtor's credit rating;
- an unexpected reduction in the value of collateral or guarantees (collateral risk).

In addition to the credit default risk associated with individual transactions, AKA also considers country risks to be particularly key to default risks due to the focus of its business structure on emerging markets.

AKA classifies risks in the various classes of receivables as follows, in line with the Capital Requirements Regulation (CRR):

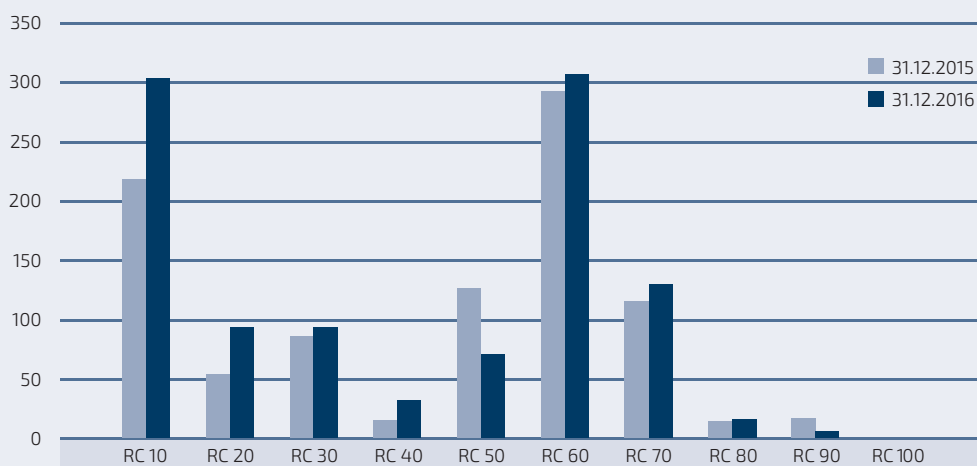
- Countries/states
- Corporates
- Banks

Due to the special orientation of AKA's business policy, risks specifically relating to

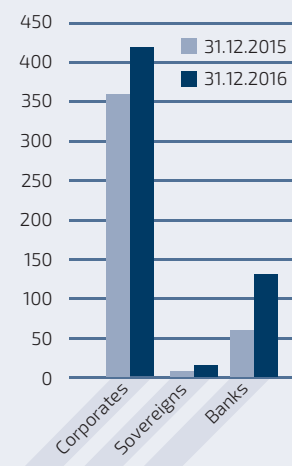
- commodity, structured and project financing and
  - private insurance cover
- are also considered.

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Structure of loan portfolio  
by country risk categories  
in EUR million



Structure of medium and  
long-term loan portfolio  
by credit risk categories  
in EUR million





**Country risks:** The country risk defines the ability of a country to pay interest and repayments on foreign debts or those denominated in foreign currencies in a timely and correct manner. A significant aspect in this regard, in addition to the political risk, is the transfer risk, in other words, when an individual debtor is willing and able to pay but a country might limit or prevent payments abroad due to a lack of currency for example. Despite this, national governments and economies may still be solvent.

Country ratings are calculated and regularly updated in the case of countries in which the AKA has a notable commitment, by CRM on the basis of reports from rating agencies (predominantly Fitch Ratings), international organisations, central banks and other known trusted sources. For the main markets of AKA, CRM prepares additional reports or ad hoc information where necessary in addition to the annual country risk analyses. Certain critical regions or countries with particular and known problems are continuously and intensively monitored by credit analysts.

The country reporting system is reviewed and further developed periodically. The focus lies on the analysis of political stability, an economy's vulnerability to shocks, the development of inflation and foreign trade, state budget and financing as well as the banking system and its stability and regulation.

In the financing of emerging markets which remains AKA's focus, the solvency of borrowers is primarily dependent on the political and economic situation of the country in question. This hugely influences the borrower's credit rating.

**Corporate risks:** The business processes of corporates are analysed using a rating system designed in collaboration with an auditing firm. The rating tool is regularly enhanced and adjusted to the portfolio of AKA.

As part of an internal validation process, the forecasting power of individual key indicators is examined and if necessary adjusted both regarding their accuracy and overall rating result. This process is supported by external experts.

The basis for each assessment of a borrower includes, at a minimum, the last two annual financial statements and interim financial statements where applicable to provide an up-to-date picture of the borrower's current financial status. Gearing, overall return on capital and liquidity thus represent accurate key performance indicators for assessing the creditworthiness of corporates.

When preparing a rating for a company, the type of auditors' opinion and its accounting basis are both considered. The AKA rating tool used for this assessment operates on a scale of 10-100. The rating results are comparable with the results of international rating agencies through corresponding mapping tables. Rating classes 10-50 are classified as investment grade, and 60-100 as non-investment grade.

The assessment is initially based on a rating of KPIs. When calculating KPIs (Key Performance Indicators), AKA reverts to a benchmarking system based on a subdivision into several sectors and eight geographical regions.

These benchmarks are reviewed and updated on a regular basis, most recently at the end of 2014, to ensure being in line with AKA's international and national corporate business.

Additional qualitative factors are taken into account for the conclusive assessment which can lead to a change in the rating result. Primarily, the size of the company and current information about the borrower are processed here. In addition, if necessary, the characteristics of local accounting and any restrictions in the auditors' opinion are taken into account in the basic rating. Affiliation to a group is assessed based on the level of interdependency. Finally, the country rating is viewed as the overriding factor as long as it is weaker than the borrower's rating.

**Bank risks:** The business transactions of banks are analysed using a rating system designed in collaboration with an auditing firm.

Each rating is based on an analysis of the last two annual financial statements plus, where applicable, a quarterly report. The quantitative data input includes, among other things, the areas of capitalisation, profitability, deposit cover and liquidity. The individual key performance indicators are allocated to the respective AKA rating classes using a benchmarking system.

Qualitative rating aspects analyse foreign currency risks, interest sensitivity or the level to which assets and liabilities meet their maturities plus, in particular, asset quality. Other information relating to ratings is included in the rating assessment using bonus or penalty points.

Moreover, the country rating applies as the "overriding factor". A further significant component is the assessment of possible state support meaning whether the analysed institutions, as part of the countries' economic system, may possibly rely on the support of the state in an emergency case.

As part of a quality assurance process, auditing companies assigned specifically for this purpose check the further development of the rating tool for its compliance with regulatory requirements and current market practice. The review carried out in 2016 served to optimise the weighting of individual rating parameters and the updating of the underlying regional benchmarks.

**Risks from structured and project financing:** Risks arising specifically from structured and project financing arrangements, primarily relating to raw materials, have to be taken into consideration as further risk categories due to the specific orientation of AKA's business policy. When assessing project risks from financing deals, AKA also relies on a rating tool. Major rating elements to assess the expected project success are the sponsorship risk, completion risk, operating risk and market risk.

In addition, AKA assesses the financing and planning risk. These credit rating factors are assessed qualitatively and quantitatively in accordance with the other AKA rating modules. Together they provide an overall rating.

**Insurance risks:** AKA has a further rating tool for the insurance business client group based on which credit default risks are increasingly also being covered by private insurance. Being part of its risk management process AKA only accepts counterparties with an investment grade rating as policyholders. In this context, the rating mainly focuses on the areas of contribution and result development plus the reserve and contribution ratio.

**Sector risks:** For both long- and short-term loan business, additional sector limits have been created to limit risk concentrations. Sector limits, in each case 10 % of the overall limit, have currently been set for 18 corporate sectors. The sector limit for "raw materials/oil and gas" has been set at 15 % of the overall limit. As a result, the country limit can have a corrective impact, depending on the country rating.

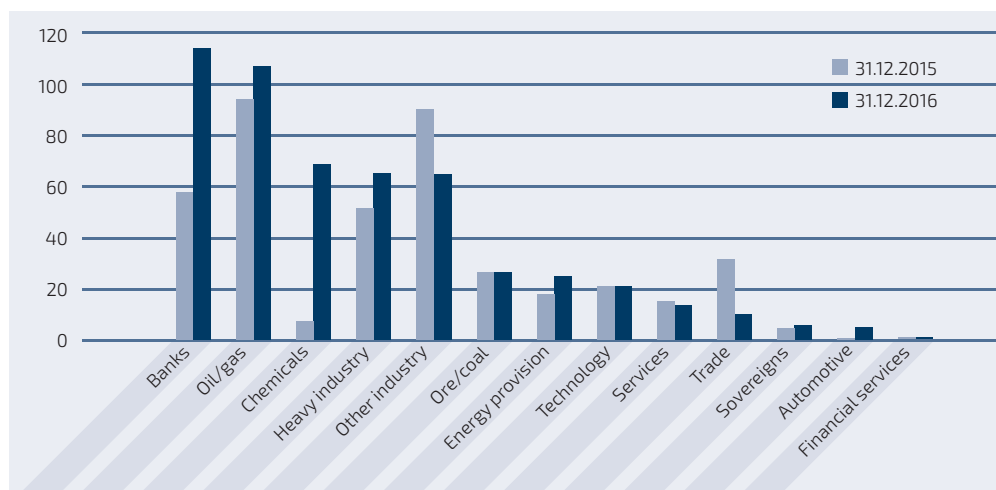
**Risk concentration:** As part of its Portfolio Management, AKA utilises a limit system that has proved successful in day-to-day business in order to control country, industry and counterparty limits and to avoid concentration risks.

In order to avoid such concentration risks, AKA primarily bases its approach on the following regulations, parameters and criteria:

- defining annual target values for new business in regard to maturity and product type
- portfolio structure in regard to counterparty and default risks
- country limits
- sector limits
- large credits in the sense of section 13 KWG and large exposures pursuant to section 387 et seq. CRR Part IV
- size classes/granularity in regard to borrower units
- counterparty limits in regard to refinancing

The above-mentioned controls and criteria used to avoid and monitor risk concentrations are drawn up in the bank's operating procedures and process descriptions and are published in the Management and Organisation Manual ("Führungs- und Organisations-Handbuch (FOH)"). They are regularly applied as part of controlling activities, amended requirements and conditions are continuously adapted on this basis and at least once a year as part of a review of the risk strategy and its suitability.

Structure of medium and long-term credit risks by sector in EUR million



**Limit framework for credit default risks and portfolio management:** The limit framework used by AKA in its portfolio management takes account of eligible collateral as per CRR and limits gross exposure. These are unevaluated financial securities from state export credit insurance providers. The limit framework is based on the maximum equity capital made available for credit default risk, whose use is calculated as part of regular risk bearing capacity calculations. The bank has defined an income limit as an upper limit for losses for all credit default risks. This has already been adjusted by the supervisory authority in light of the recent increase in equity capital requirements (9.25 %) for 2017.

The net obligation framework in the amount of EUR 2 billion quantitatively differentiates a long-term from a short-term limit framework (that is long-term: EUR 1 billion; short-term: EUR 1 billion). It is structured with increasing nominal limits based on internal rating classes. The use of these respective limits is reported to the Supervisory Board at least once a quarter at the relevant meetings.

The limits provided for concentration, credit risk, market price and operational risks are deemed to be suitable and were consistently met throughout 2016.

Compliance with all risk-related management parameters is monitored on an on-going basis by Controlling. The suitability of control parameters is checked as part of the risk strategy review which takes place at least once a year. In this regard, AKA aligns the size and structure of its limit framework every year with its business policy targets and submits this to the Supervisory Board for its attention and approval. The Supervisory Board declared its agreement with the risk strategy presented by the Management and the limit framework set out therein through the Supervisory Board Resolution as of 8 December 2016.

An economic internal monitoring and management component supplements the above-mentioned limit framework and its use of CSA equity capital.

**Internal credit model for risk management:** Internal risk assessment at portfolio level is based on the credit risk model CreditMetrics (registered trademark). Important decision-making benchmarks are calculated based on credit volumes, recovery factors according to the foundation approach (IRBF), AKA's own calculated probabilities of default and stipulated concentrations and correlations. These include "expected loss" and "unexpected loss".

The confidence level set is 99.9 %. This conforms with AKA's target rating of A-. The bank uses the system as part of its simulation calculations to assess the economic risk capital consumption and to calculate the stress tests on credit default risks.

The data continues to be used to validate AKA's own rating systems as part of an accuracy analysis.

The data gained using the internal model is also regularly compared with the applicable regulatory CSA parameters applicable to AKA. This remains the basis for risk management pursuant to the capital adequacy value calculated based on the CSA.

**Credit decision-making process and allocation of authority:** Based on AKA's own rating, Credit Risk Management makes loan approval decisions falling within the scope of approval limit or votes on loans for the subsequent decision-making process.

The separation of functions between front office and back office required under MaRisk is reflected once again in this process. A credit decision requires two consenting votes from each the New Business and Credit Risk Management (CRM) departments. New Business and CRM together have a single-transaction-related net loan approval limit (after taking account of collateral relieving the burden on equity capital) of EUR 1 million. If CRM rejects a credit transaction falling within its approval limit, New Business can escalate the loan application to the bank's Management for a final decision. In regard to loans with a net risk of more than EUR 1 million, New Business and the Executive Director responsible for the front office cast the first votes. CRM and the Executive Director responsible for the back office cast the decisive second vote. If the vote is tied (2:2), then the loan will be rejected. When it comes to risk issues, the back office cannot be overruled.

A suitable credit rating and risk-appropriate pricing are essential requirements for a positive credit decision. To this end, a RAROC calculation is prepared as part of a preliminary calculation. Only in appropriate exceptions the minimum RAROC established by the Management based on target achievement may be undercut. Should the minimum RAROC not be met, then a convincing justification will be required in the loan application for the credit to be approved. This is drawn up in writing by the market side.

The approved individual counterparty or country limits can be exceeded by 10 % for a period of up to twelve months and 20 % for a maximum of 90 days if approved by the relevant person responsible. Limits can be exceeded with reservations by up to 30 %. The granting of excesses beyond this level need to be submitted to the Supervisory Board for approval.

If necessary in the context of business development, the Management can request that the Supervisory Board approves the establishment of appropriate special limits based on demand and according to the overall credit profile. This course of action was used temporarily for a country during the fiscal year 2016.

**Risk limit/Monitoring:** All commitments are continuously monitored in regard to their economic conditions and securities as well as compliance of interest and redemption payments, contractual information obligations and other external and internal obligations.

The early recognition of increased risks is managed on the basis of defined early warning indicators. Exposures which might become conspicuous due to negative qualitative developments and changes in the borrower's economic circumstances or in the country of residence or the borrower's environment are recorded by the bank in a so called "pre-watch list". Exposures on such pre-watch list are initially placed under special observation. Depending on their subsequent development, these are then sent back to be processed in the normal manner or – where necessary – transferred to the watch list. The watch list differentiates between intensive and problematic loans. Intensive loans are defined as exposures with inherent default risks which require particular attention.

Problematic loans are exposures where the impairment of performance occurs for instance as a result of the non-payment of interest and/or redemption payments or on the breach of a contractual or payment obligation which the lender uses as justification to terminate the loan. In this regard, particular attention is given to exposures with interest and/or redemption payments overdue for 90 days or more. These loans undergo special checks to see if they can be continued. Depending on the result, this examination leads to

an action plan with the aim of reducing and/or eliminating the risk through specific measures such as restructuring, taking on additional collateral or reorganisation measures. If these measures are not needed, then the person responsible for processing problem loans will arrange for these exposures to be processed.

Management and Supervisory Board are regularly informed as part of risk reporting about the performance of accounts on the watch list and the effectiveness of any actions initiated.

### **3.3 Market and liquidity risks**

Market risks are not substantiated by contracting partners but are determined through changes in market prices and rates (for example interest rates, foreign exchange rates and stock prices). The interest rate risk and foreign exchange risk are significant for AKA in this context.

In general, it is the aim to avoid such risks by congruent refinancing of the lending business. In addition, as a non-trading book institution AKA does not conduct any transactions with the aim of realizing additional revenues arising from changes in market prices. AKA also does not hold security portfolios which would be attributable to the trading book. As a result, AKA does not maintain a trading book and consequently AKA has no trading limits.

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**Interest rate risk:** In order to monitor the interest rate risk, sensitivity analyses are performed monthly and their impacts on asset positions and revenues are quantified. On the one hand, this is accomplished by determining variations of the present value in the asset book according to the risk monitoring as required by the German Federal Financial Supervisory Authority (BaFin) and by determining the implications on assets and liabilities of a sudden and unexpected change in interest rates. Insofar as a negative change in the present value exceeds a volume of 20 % of the regulatory capital during a stress test, this indicates considerable interest rate risks (the so-called "lending institution subject to an increased risk of default"), which have to be disclosed to the German Federal Financial Supervisory Authority and Deutsche Bundesbank. As at 31 December 2016, an interest rate coefficient of 7.7 % was determined using this methodical evaluation and thus is considerably below the relevant limit. On the other hand, the impact on the earnings position, which may arise from a sudden market-induced change in interest rates, needs to be ascertained. Furthermore, AKA prepares a quarterly gap analysis in order to monitor long-term fixed interest rates. This provides information on fixed interest rates of loan and refinancing positions held.

Besides the presentation of asset and liability surpluses in the respective periods, AKA also determines marginal interest rates, which are essential for achieving revenue-related equilibrium.

**Foreign currency risks:** Foreign currency risks are controlled through congruent currency and maturity refinancing. However, the remaining low foreign currency risk results primarily from the assessment of receivables in line with an appropriate risk provisioning for these loans. In this regard, the foreign currency risk is low and backed with EUR 0.7 million equity capital as at 31 December 2016 in accordance with the CRR (Capital Requirements Regulations).



**Liquidity risks:** Pursuant to AKA's risk definition, the liquidity risk is divided into two risk classes:

- Insolvency risk;
- Liquidity maturity transformation risk.

The insolvency risk is defined as the risk that AKA will not be able to fulfil its current or future payment obligations, either in the full amount due, or as they fall due.

It includes the risk that refinancing funds are not acquired or only acquired at extortionate market rates (refinancing risks) and that assets can only be liquidated at a discount (market liquidity risk).

The liquidity maturity transformation risk represents the risk that due to a change in the bank's own refinancing curve (spread risk) a loss may occur and indeed affect a given level of confidence from the liquidity maturity transformation within a stipulated period.

**Refinancing sources:** Due to its particular shareholder structure (AKA's shareholders comprise 18 banks) AKA is in a position to ensure the successful refinancing of its lending business through its shareholder banks even in difficult market phases. An important source of financing is loans granted by shareholders and non-shareholders. In addition, the shareholder banks also provide funds for short-term refinancing in the form of money market lines. Last year, AKA continued to obtain financing for ECA-covered loans at favourable interest rates, also by using its shareholders' coverage registers. A further expansion is in progress.

In order to diversify its refinancing portfolio, AKA also uses refinancing funds from customers from the public and private sector. These funds are received in the form of fixed-term deposits and bonded loans. Unconfirmed lines for regular trading activities of fixed-term deposits to individual costumers exist. Accordingly, the refinancing structure of AKA is based on three pillars, which have been used to the following extent:

	31.12.2016	31.12.2015
	EUR million	EUR million
Shareholders	600	371
Non-shareholders	449	431
Publicly accessible funds	1,229	1,170
<b>Total amount drawn</b>	<b>2,278</b>	<b>1,972</b>

**Short-term liquidity:** In order to ensure financial solvency at all times, AKA has built a liquidity reserve amounting to EUR 182.2 million as at 31 December 2016. A volume of EUR 20 million is invested in securities with variable interest rates and maturities of up to one year, which are acceptable as collateral by Deutsche Bundesbank (bonds issued by German federal states or institutions with equivalent collateral) and EUR 62 million in short-term US treasury bills. Additional liquidity is deposited as overnight funds with Deutsche Bundesbank and the shareholder banks in both EUR and USD.

For the purpose of liquidity management, AKA regularly conducts liquidity forecasts over a period of several months on the basis of cash flows from lending business under consideration of future payment obligations. These calculations allow possible scenarios, which may present different stress situations for AKA in the money and capital markets. Even in a

scenario which merely provides for financing through shareholder banks on the hitherto existing scale, AKA's capability to finance its business was secured at all times for any respective period in 2016.

In addition, AKA's short-term liquidity risk is monitored on the basis of key performance indicators such as liquidity ratio, liquidity index in accordance with the German liquidity regulations (LiqV) and liquidity coverage ratio (LCR) pursuant to the Capital Requirements Regulations (CRR).

The LCR is defined as the ratio of the stock of highly liquid assets in relation to net cash outflows for the next 30 days. At the end of the year, highly liquid assets exceeded cash net outflows and inflows expected in January 2017 by a factor of 1.06. On an annual average, the LCR was 1.47, varying between 1.06 and 3.02. In accordance to the guideline, the minimum ratio was 0.7 in 2016. Internal AKA guidelines, however, provide for an LCR of 1.0 in the EUR area and 0.7 in USD business.

In an extended timeframe, the liquidity ratio is defined as the ratio of existing liquid assets, unrestricted money market lines and refinancing commitments to short-term payment obligations within the range of up to three months. At the end of the fiscal year, AKA's liquid assets exceeded its payment obligations in the period under review by a factor of 4.4. During the course of the year, the ratio varied between 1.7 and 4.4.

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**Long-term liquidity:** The refinancing of the loan portfolio is largely effected with matching maturities. Maturity transformation is only possible in narrow confines, which are allowed by AKA's supervisory bodies and which are monitored constantly. During the last fiscal year, the scope of maturity transformations was further reduced due to the market situation and thus the maturity transformation was always markedly below the permitted volume in the course of the year. The funding ratio, which reflects the ratio of refinancing funds to loan receivables with a remaining maturity of more than a year, is used for measuring and monitoring purposes. In the past fiscal year, it fluctuated between 0.95 to 1.05 reaching the upper limit of 1.05 at the end of the year.

The risk of increasing refinancing costs, which derives from the maturity transformation (spread risk), is regularly quantified and controlled. Within the scope of a standard scenario it is presumed that additional margins in favour of AKA double, compared with the prevailing level and the associated impact on earnings is derived over the year. For 2016, the associated risks ranged between EUR 0.6 million and EUR 1.0 million. A potential spread risk of EUR 0.6 million was recorded at the end of the year.

Forward liquidity exposures and short-term or medium-term cash flow forecasts were drawn up to monitor liquidity risks. The effect of borrower and lender defaults is studied using various scenarios.

The significant parameters are communicated using a key performance indicator system. The following values were recorded in the last fiscal year compared with the previous year:

	31.12.2016	31.12.2015
Liquidity reserve (EUR million)	182.2	156.4
Liquidity Coverage Ratio Ratio of highly liquid assets to net cash outflows over the next 30 days	1.06	1.28
Liquidity Index Ratio pursuant to LiqV Ratio of receivables to liabilities in the 1-month range pursuant to liquidity regulation	2.40	2.47
Liquidity ratio Ratio of receivables to liabilities in the 3-month range	4.42	3.44
Funding ratio Ratio of refinancing funds to loan receivables with remaining maturities > 1 year	1.05	1.0
Spread risk standard scenario (EUR million)	0.6	0.6
Spread risk extreme scenario (EUR million)	2.8	4.2
Interest rate risk (EUR million)	1.4	1.9

### 3.4 Risk provisioning

AKA takes appropriate account for all identifiable risks from the lending business. The departments of Credit Risk Management, Portfolio Management and Accounting are involved in the determining process of risk provisions.

**Country risk provision (LWB):** In accordance with its risk strategy, country risk provisions are the core element of AKA's risk provisioning. AKA composes country risk provisions for loan exposures in those countries where urgent country risks exist. The amount of the risk provision for long-term loans (more than twelve months) is determined within the permissible range for single allowances for bad debts based on the so-called "rating model" developed by the German Federal Ministry of Finance. If the borrower-related risk is assessed to be higher than the country risk, the former will be the basis for a higher provision, however, within the permissible range for single allowances for bad debts. Risk provisions are usually not formed for country risks with a remaining maturity of less than twelve months.

**Other risk provisions for acute risks:** For loans which are not solely based on the economic performance of the borrower but are also subject to collateral arising from revenues from existing purchase agreements and/or project cash flows which, however, do not exclude conversion, transfer as well as garnishment and moratoria risks, the country risk provisions of the German Federal Ministry of Finance will be considered according to the country rating by the country domicile of the supplier with a discount of 25 % to a maximum of 33 %. For structured financing (meaning financing used as advanced financing of raw material exports from emerging markets and excluding conversion, transfer, garnishment and moratoria risks), AKA has defined two risk categories considering the immanent risks for these transactions. Depending on the evaluation of political stability, these loans are adjusted at 5 % or 10 %.

**Single allowance for bad debt (EWB):** Single allowances for bad debts are recognised for loans where it will not be possible to receive all contractually agreed interest and redemption payments in course of business following a detailed audit. Depending on the rating of the borrower, the collateral provided and, if applicable, possible restructuring measures, a real-time single allowance amounting to the potential loss will be made. Credit Risk Management, in coordination with the Management, is responsible for determining the allowance required.

**Value adjustments/provisions for inherent default risks:** These are generally made for all loans which are not assessed as acutely impaired.

For these loans, AKA builds lump-sum provisions which are determined in terms of commercial law, unless tax regulations lead to higher assessments. The following overview shows the detailed development of risk provisioning in the lending business in the past year:

	2016		2015	
	EUR million		EUR million	
	EWB	LWB	EWB	LWB
<b>Allowances in the lending business</b>				
Brought forward at 1 January	11.8	16.7	10.4	23.5
Utilization	3.5	0.0	0.1	0.0
Reversal	4.6	12.0	0.2	12.3
Allocation	1.8	7.4	1.7	5.5
Reclassification	0.0	0.0	+ 0.0	- 0.0
<b>As at 31 December</b>	<b>5.6</b>	<b>12.1</b>	<b>11.8</b>	<b>16.7</b>
<b>Provisions in the lending business</b>				
Brought forward at 1 January	2.9	6.7	2.2	5.5
Utilization	0.0	0.0	0.0	0.0
Reversal	1.1	6.3	0.3	3.5
Allocation	0.0	2.5	1.1	4.6
Reclassification	0.0	0.0	- 0.1	+ 0.1
<b>As at 31 December</b>	<b>1.8</b>	<b>2.9</b>	<b>2.9</b>	<b>6.7</b>
Lump-sum provisions		1.4		1.0
<b>Total risk provision</b>		<b>23.8</b>		<b>39.2</b>

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AKA was able to reverse value adjustments and provisions for contingent losses amounting to EUR 18.3 million relating to country risk provisions compared to EUR 15.8 million in 2015.

This is particularly the result of better ratings in the ranges for country risk provisions, which are adjusted every year. This means a slightly lower allocation to country risk provisions amounting to EUR 9.9 million in total (2015: EUR 10.2 million). At the end of the year, an amount of EUR 15.0 million was allocated to country risk provisions (2015: EUR 23.4 million).

In regard to single allowances for bad debts, an amount of EUR 3.5 million was utilized and an amount of EUR 4.6 million was allocated, which is primarily attributable to the sale of receivables and the simultaneous debt waiver. Furthermore, an amount of EUR 1.8 million was allocated to single allowances for bad debts. In regard to provisions for contingent losses, an amount of EUR 1.1 million was released. The amount for credit default risks at the end of the year totalled EUR 7.4 million (2015: EUR 14.7 million).

**Provision for general banking risks:** For general banking risks, AKA has appropriated a provision in accordance with section 340f HGB which remained unchanged in 2015 at EUR 16.1 million.

### 3.5 Operational risks

According to the regulations of the German Federal Financial Supervisory Authority (BaFin), AKA defines operational risk as the threat of losses which may occur due to the

inappropriateness and/or failure of internal processes, people and systems or through external incidents or calamities. This definition includes legal, compliance, reputation and technology risks.

The CRR provides for various approaches for calculating the equity capital required in accordance with supervisory law to underpin operational risks. For the purposes of reporting, the AKA uses the basic indicator approach (BIA). The underlying equity capital is calculated on the basis of an indicator for assessing operational risk which represents the entire operational risk of AKA.

AKA allocates an equity limit of EUR 7.5 million for its operational risk. The BIA value calculated mathematically lay at EUR 5.2 million (2015: EUR 4.7 million) throughout the reporting year.

Operations management falls within the area of responsibility of the individual departments. The Controlling department coordinates and monitors the management of operational risks. Operational losses amounting to more than EUR 1,500 are recorded in a loss database and communicated to the Management and heads of departments by means of a regularly compiled risk and controlling report. Losses amounting to more than EUR 10,000 are reported on an ad-hoc basis. Any losses incurred are analysed in the appropriate manner and any required adjustments to work processes and responsibilities are examined. Where necessary, the relevant work processes are modified to avoid similar incidents occurring in the future.

**A summary of the results of the risk inventory of 2016 and its discussion in the risk committee for the purpose of a qualitative assessment:** The annual risk inventory sheds light on AKA's operational risks (including reputation and compliance risks). A self-assessment process in 2016 ascertained these risks in all departments and in the Management. All departments were asked in writing to assess their risks both for 2016 and for the whole of 2017. The reports from the individual departments were compiled by Controlling, assessed, examined for their plausibility and compiled as an overall result.

During a meeting of the Risk Committee, all heads of department discussed the overall result of the bank with the Management for a qualitative assessment and a final agreement was reached. Where necessary, relevant risk-reducing OpRisk measures were proposed to the Management for implementation. In line with a stress test conducted internally, a maximum amount of EUR 5 million – as in the previous year – was calculated for AKA.

**Legal risks:** The legal risk is also subsumed under operational risks. It comprises the following elements: consultancy risks, risks from court proceedings or from unlawful, invalid or unenforceable loan and/or security agreements, liability risks arising from non-compliance with foreign or international legal provisions and risks relating to supervisory law. It is the responsibility of the legal department to identify potential legal risks early, to implement potential solutions for preventing, reducing or eliminating them and, if necessary, to implement them in cooperation with the Management. All agreements and other legally-binding documents shall be used in business dealings only following approval by the legal department. Corresponding work flows have been drawn up to ensure that the legal department is involved by the specialist departments.

**IT risks:** IT risks represent a further component of operational risk. Various measures are taken in order to recognise and reduce IT risks. The monitoring and reporting of these risks are the responsibility of the IT risk control area in the Controlling department.

Monitoring also includes processes to check "individual data processing" (IDP) in the relevant specialist departments and the management of user rights. A catalogue of all IDP applications was drawn up and assessed as part of the 2016 risk inventory by Controlling.

In addition to providing a secure architecture and a consistent database, the IT department is also responsible for ensuring the high availability of IT systems for continuous business operations. In this respect, the availability required for major application software is up to 99.9 %. IT systems are continuously aligned in the relevant correct manner with enforced changes in business processes plus changes in the regulatory provisions.

A detailed disaster recovery plan documented in the Risk Guideline has been drawn up for AKA's IT infrastructure and applications and thus forms part of the risk strategy. This includes processes, procedures and concepts for regular and contingency operation including the necessary documentation, based on standard 100-4 of the Federal Office for IT Security (BSI). The contingency arrangements are regularly tested in simulations and their appropriateness is reviewed on an annual basis and updated where necessary.

Drawing on BSI standard (100-1), the bank set up a comprehensive IT security management system (ISMS) in 2015. In 2016, this was developed further and consolidated. This includes, among other things, various security audits and measures to recertify users and their rights.

In the fourth quarter (Q4) a review was carried out under the responsibility of IT security management (ISM) of the installed firewall using a penetration test performed on the basis of the BSI methodology by a specialist external company. As part of this, no critical weaknesses were identified and as a result no negative findings were made. In addition to backup/restore tests to verify data security, the following contingency tests were carried out during 2016 with the involvement of the specialist departments:

- a failover test on the payment transaction systems in Q1 2016 (mandatory once a year)
- a recovery test on the financial accounting application at the end of each quarter Q1, Q2 and Q3 2016
- a failover test on the email environment in Q4 2016
- a comprehensive disaster recovery test (Apollo 2) on the final treatment of all objections from the Apollo 1 disaster recovery test in Q4 (November 2014)

The results of the disaster recovery test did not produce any notable negative findings. In addition, it was possible for the disaster recovery measures to be improved considerably. Suggested improvements from the specialist departments were assessed at the end of each test on the basis of the knowledge gained through the tests. Where necessary, the required measures will be implemented in 2017.

**Reputation risks:** Reputation risks can lead to the bank suffering a loss of the trust placed in it, not only in regard to the bank's shareholder but the general public as well. Reputation risks mostly result from existing or already known risks and can intensify these by making them public. Against this background, all measures and activities by the bank regarding its external



appearance, but also in regard to the business partners and shareholder banks involved, are carefully assessed and adopted. AKA manages, controls and monitors reputation risks as part of its management of operational risks.

**Compliance risks:** AKA has appointed a compliance officer who carries out the compliance function on a permanent basis. AKA factors in and monitors compliance with pertinent statutory, regulatory and internal regulations as part of its global business activity. Based on the risk analysis of AKA, this includes in particular national laws to combat money laundering and the financing of terrorism including embargo and sanctions provisions plus laws on insider trading and combatting acquisitive crimes. These risks play a negligible role at AKA as it is not a financial securities provider and does not facilitate cash payments. Data protection also falls under the compliance function. As at 1 January 2017, AKA has appointed Dr Kinast from the law firm Kinast und Partner as its data protection officer.

For the organisational development of the compliance function, AKA has set up a new compliance and money laundering department and created an office for this purpose. This has been occupied since 1 September 2016. The function of the compliance and money laundering department since then has become separate from and independent of the legal department.

AKA manages, controls and monitors compliance risks as part of its management of operational risks.

### **3.6 Business and business strategy risks**

Business risks include unexpected and detrimental deviations from plans in regard to interest and commission income and operational expenses resulting from a deterioration in market conditions, changes in market position and/or customer behaviour plus due to possible legal framework conditions. Strategic risks include the jeopardising of the bank's long-term success.

Responsibility for the management of the business strategy lies with the Management setting business strategy objectives in cooperation with the Supervisory Board.

The Management defines the key risks of the bank and uses them to derive an adequate risk strategy. The consistency of this strategy is checked annually by the Supervisory Board on the basis of the approved business strategy and, if necessary, is modified in consultation with the Supervisory Board. The orientation of AKA's business policy, which is aligned with the needs of the shareholder banks, is continually monitored based on the amount of business supplied by the shareholders and is reviewed and updated where necessary through regular contacts.

In this context, focus is placed on the demand-orientated expansion of the range of credit products offered plus the subsequent orientation of AKA as a service provider to its shareholder banks regarding the assumption of administrative activities, in addition to guaranteeing permanent capacity to process credit default risks.

### **3.7 Risk reporting and communication**

Reporting on all of the risks relating to business operations is carried out as part of quarterly reporting through the risk/controlling report drafted by the Controlling department. The aim

of the reporting is to comprehensively present the developments requiring consideration in risk or business controlling in the interest of achieving the bank's targets.

In the sense of the activities set out by MaRisk and CRR, the report serves as a continuous management and monitoring instrument at portfolio level with a particular focus on the decisive significant and quantifiable risks for AKA. As the basis for recognising and limiting risk concentrations, credit default risks in particular should be named alongside the development of foreign currency, refinancing and liquidity risks and operational risks.

The risk/controlling report drawn up in accordance with MaRisk is itself divided into the following subject areas:

- Business development
- Earning position
- Risk management
- Risk bearing capacity
- Definition and evaluation of stress tests
- Credit risks including the watch list
- Market price risks
- Liquidity risks
- Operational risk

The content and scope of the reporting are adapted accordingly to the course of business or risk development.

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The risk/controlling report contains a summary of the key findings and recommendations in the form of a cockpit at the start. These statements are supported by a traffic light system. The report informs the Management, the head of Internal Audit and all members of the management team of the bank. The heads of department and experts receive the report in view of their sector-based involvement in business and risk management.

In addition, the Supervisory Board, Risk Commission and supervisory authorities are also notified using the quarterly reporting format. The reporting format is regularly reviewed by the Risk Commission and – where necessary – aligned with new notification requirements.

**Ad-hoc reports, emergencies and crises:** The Management is immediately informed on an ad-hoc basis about major changes to risk occurring at short notice, for example the breach of major credit limits, exceeding of limits by more than 10 %, exceeding of trigger points for the individual risk limits or any emerging liquidity shortfalls.

In accordance with the procedure agreed with the Supervisory Board, the Management initially informs the Chairman on an ad-hoc basis in the above cases in electronic form (preferably by telephone or email). The subsequent course of action, notification of the Risk Commission and remaining Supervisory Board members is then coordinated with the Chair of the Supervisory Board.

The bank has built up suitable reserves to counter extraordinary situations, emergencies and crises and these are documented in the corresponding processes. This documentation stipulates, among other things, the task of the Management to decide whether an emergency or crisis situation has occurred and what measures need to be introduced where necessary.

### 3.8 Implementation of regulatory requirements

As part of its risk management, AKA continuously monitors developments in international and national committees regarding regulatory requirements for credit institutions. It endeavours to implement these as early as possible.

AKA received a final SREP decision from the Federal Financial Supervisory Authority (BaFin) in December 2016. The corresponding reporting requirements regarding the stipulated capital add-on were implemented and reported as at 31 December 2016.

Regulation (EU) No 1333/2014 of the European Central Bank concerning statistics on the money markets published on 26 November 2014 was implemented by AKA in accordance with the stipulations of supervisory law. This has been reported by AKA in accordance with the requirements from 1 April 2016.

In 2016, the capital conservation and countercyclical capital buffers introduced within the framework of CRD IV entered into effect. AKA successfully implemented the corresponding reporting requirements in 2016.

Implementing Regulation (EU) 2016/313 published on 1 March 2016 obliges credit institutions to report additional monitoring metrics for liquidity. AKA issued its initial report on 30 June 2016 and thus fulfilled the reporting requirements.

The amended reporting requirements for the Liquidity Coverage Ratio (LCR) set out in Delegated Regulation (EU) 2015/61 of 10 October 2014 were formalised in Implementing Regulation (EU) 2016/322 of 10 February 2016. AKA reported the LCR based on the delegated regulation for the first time on 30 September 2016 and thus fulfilled the reporting requirements.

Implementing Regulation (EU) 2016/428 published on 23 March 2016 laying down implementing technical standards with regard to supervisory reporting of institutions as regards the reporting of the leverage ratio has been successfully implemented by AKA. The amended leverage ratio was first reported on 30 September 2016.

The final regulation on the collection of granular credit data through the European System of Central Banks (ESCB) – Analytical Credit Dataset (AnaCredit) published on 18 May 2016 by the Governing Council of the ECB and the national regulation on the interpretation of the AnaCredit provisions for mandatory reporting in Germany issued by the Bundesbank on 14 July 2016 has been implemented at AKA. The first report will start in January 2018.

The ECB published its final version of the regulation on reporting supervisory financial information (ECB/2015/13) on 26 March 2015. In light of AKA's status as an institution subject to the commercial code (HGB), it will be obliged to file FinRep reports from 30 June 2017. AKA is currently in the process of implementing the reporting requirements.

#### 4. Net Asset and financial position

AKA's balance sheet total rose by 7.3 % to EUR 3.099 billion as at 31 December 2016 compared to EUR 2.889 billion as at 31 December 2015. The business volume, including contingent liabilities and other liabilities, rose by 5.6 % to EUR 4.313 billion. Adjusted for changes in AKA's trust business, the increase amounts to EUR 307.2 million. This corresponds to an increase of 8.8 %.

A decrease of EUR 27.9 million to EUR 376.7 million was recorded for contingent liabilities arising from guarantees with risk-participations in letters of credit, guarantee obligations and guarantee transactions. Irrevocable loan commitments disclosed under other liabilities increased by EUR 45.7 million to EUR 837.8 million.

Loans and advances to banks and customers constitute the key asset positions and result from the lending business of the bank. They increased in the past financial year by EUR 279.9 million to EUR 2.437 billion. To refinance the business, AKA has available liabilities to banks in the amount of EUR 2.233 billion and to customers in the amount of EUR 109.1 million. As a result, the loan volume financed by banks rose by EUR 384.3 million. In contrast, the share of the business financed by customer deposits fell by EUR 110.6 million.

The trust assets managed by AKA on behalf of third parties, largely consisting of indemnified loans and CIRR loans, which were concluded by 2010, fell by EUR 79.5 million to EUR 499.7 million as at the balance sheet date. The trust assets are accompanied by trust liabilities in the same volume.

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Debenture bonds and other fixed-interest securities constitute the predominant share of AKA's liquidity reserve. They contain only short-term securities with excellent credit ratings, which, except US Treasury Bills, are eligible as collateral with Deutsche Bundesbank. As at the balance sheet date, the stock amounted to EUR 81.8 million (31 December 2015: EUR 98.1 million).

The balance from the settlement of pension provisions with assets from the cover fund is stated under the item "Active difference resulting from asset offsetting". The fund assets transferred to a trustee in the form of a contractual trust agreement (CTA) amount to EUR 23.0 million as at the balance sheet date. The acquisition costs of the settled shares also amounted to EUR 23.0 million. The settlement amount of pension provisions amounts to EUR 21.5 million.

AKA's equity is composed of the subscribed and fully paid-in capital of EUR 20.5 million and the revenue reserves. As of 1 January 2016 the revenue reserves increased to EUR 188.4 million, the net profit of EUR 22.9 million is applied as follows: EUR 18.8 million are appropriate to further augment of the revenue reserves, which now amount to EUR 207.2 million. The balance sheet profit of EUR 4.1 million is earmarked for distribution to the shareholders.

Thus AKA has a core capital of EUR 226.9 million which constitutes sufficient adequacy for the planned business both under consideration of capital adequacy in accordance with the Directive (EU) No. 575/2013 (CRR) as well as in terms of the scope of the debt levels, as provided for in the Basel III Accord (leverage ratio), for an observation period of 24 months.

Significant events, which might have had an impact on the net asset and earnings position, did not occur.

## 5. Earning position

Various factors affected the results of fiscal year 2016.

The net interest income of the past financial year amounting to EUR 29.9 million is almost equals the level of the year before (2015: EUR 30.0 million). The decline of the interest margins in the lending business was offset by an increase of the average loan volume throughout the year.

Net commission income fell by 10.9 % year on year to an overall amount of EUR 5.8 million. The decline is based on the weaker business with short-term trade financing, in particular confirmations of letters of credit. The contribution made by the administration of trust receivables remained nearly unchanged to the previous year at EUR 1.8 million.

Overall, the result from the lending business thereby amounted to EUR 35.7 million compared to EUR 36.5 million the previous year. Net earnings from the lending business as a relevant performance indicator fell by 1.4 % to EUR 34.7 million compared to the previous year. Thus, the planning expectation for 2016, which was EUR 37.8 million, could not be reached, especially in new business, because of weak developments of margins, and this could not even be adequately compensated by the growth in volume.

General administrative expenses rose as expected by EUR 0.8 million in 2016, triggered by higher personnel and other administrative expenditures. The average number of employees increased from 90 to 101.

Compared to the previous year the operating result fell by EUR 1.6 million to EUR 20.4 million.

The cost income ratio (CIR) constitutes a key performance indicator for AKA. The ratio of administration expenses to net interest income and net fee and commission income was 42.8 % in 2016 and thus 3.2 percentage points higher than the previous year.

Other operating expenditures largely contain interest-rate-induced charges for pension provisions, whereas other operating income mainly originates from the reimbursement of affiliates as well as the reversal of provisions.

AKA has appropriately allowed for risks arising from the lending business in the 2016 annual financial statements. Due to the reversal of risk provisions a result of EUR 11.5 million was achieved, compared to EUR 2.9 million the previous year. This had a major impact on the overall result. On the one hand this is the result of better ratings in the annually-adjusted LWB rates within country risk provisioning whereby higher reversals of EUR +2.5 million and negligibly lower allocations could be achieved in 2016. On the other hand, the sale of a credit exposure led to an extraordinary reversal of EUR 4.6 million within credit risks and a write-down of EUR 0.1 million was registered on the securities portfolio.

After deducting profit-related taxes, an annual net profit of EUR 22.9 million was posted. This is considerably higher than the target value, projected in the business plan, of EUR 13.6 million.

Return on investment as the ratio from annual net profit to balance sheet total improved from 0.51 % in 2015 to 0.56 % last year.

The return on equity before taxes, as AKA's third financial performance indicator, improved from 12.5 % to 15.2 % and is considerably above the annual plan of 8 %. It is determined as the ratio of annual net profit before taxes to the equity capital available at the beginning of the year less the distributable balance sheet profit. Especially the reduced need for risk provisioning had a positive impact on the return on equity.

Earnings position	2016	2015	Change	
	EUR million	EUR million	EUR million	%
Net interest income	29.9	30.0	- 0.1	- 0.3
Net fee and commission income	5.8	6.5	- 0.7	- 10.9
Administrative expenses (incl. depreciation)	- 15.3	- 14.5	+ 0.8	+ 5.5
Operating result	20.4	22.0	- 1.6	- 7.2
Other income/expenses	- 0.1	- 0.3	+ 0.2	- 73.3
Risk provisioning	+ 11.5	+ 2.9	+ 8.6	+ 296.5
Income taxes	- 8.9	- 8.6	- 0.3	+ 4.3
Annual net profit	22.9	16.0	+ 6.9	+ 42.9
Net earnings from lending	34.7	35.2	- 0.5	- 1.4
Cost income ratio	42.8 %	39.6 %	+ 3.2 %	+ 8.0
Return on equity (before taxes)	15.2 %	12.5 %	+ 2.7 %	+ 22.0



**Committees:** The bank's Supervisory Board currently comprises representatives of ten shareholder banks (at least six pursuant to the articles of association). The board supervises and accompanies in an advisory capacity and in accordance with regulatory requirements the work of the Management and decides, among other things, also on the principles of granting loans in accordance with the articles of association. To increase the efficiency of its work, the Supervisory Board has set up support committees.

The Risk Commission advises the Supervisory Board and Management in particular on questions of risk assessment, risk management and risk control. In addition, the panel also provides advice on the strategic direction of the bank. It advises the Supervisory Board on the subjects discussed during its meetings and gives it recommendations for resolutions.

The Nominations Committee (NC) and the Remuneration Control Committee (RCC) are made up of the Supervisory Board Chair and his representatives from the Supervisory Board. Both have the task of supporting the Supervisory Board and Management on all principle Human Resources Management matters falling within their area of responsibility pursuant to the articles of association as well as in the appointment of the Executive Directors. The Nominations Committee also oversees the evaluation of the Management and the structure and composition of the Supervisory Board in accordance with the requirements of the German Banking Act.

**Pension obligations:** AKA's pension assets were outsourced in 2007 in coordination with the Supervisory Board within the framework of a Contractual Trust Arrangement (CTA). Due to the fact that the performance of capital assets has developed considerably less than forecasts and expectations, a decision was made in 2012 to transfer the pension assets to a CTA particular to AKA. In autumn 2013, the bank founded AKA Treuhand e.V. and invested the pension assets that were previously separated on the balance sheet in this CTA.

**Human Resources:** The founding principle of Human Resources Management is the business strategy along with the policies and principles of AKA. In addition, the principle applies of maintaining what has been tried and tested and attentively monitoring newer developments in Human Resources and Health Management, verifying them for their suitability for AKA and implementing them where necessary.

**Training:** The aim of AKA is to promote the specialist and personal further development of its staff in order to prepare them for their tasks. This was again the focus of Human Resources work in 2016. In total, 61 % of employees attended at least one continuing professional development event or industry conference. Furthermore, due to numerous new sectorial, supervisory and regulatory requirements plus legal changes, the proportion of sector-specific continuing professional development lay at 77 %. The Human Resources development programme (PEP) was also continued in 2016. The intensive Human Resources development and qualification of employees was further expanded by AKA in a target-orientated manner.

**Staff structure:** As at the fiscal year-end, AKA employed 107 (previous year 92) employees. Taking into account those employees on parental leave and working part-time, the active employee capacities, converted to full-time employees, amount to 96.63 compared to 82.07 in the previous year.

The proportion of employees not covered by collective bargaining agreements is 48 % (49 % the previous year), the average age of all employees is around 44 years (46 last year). The average term of service is 10 years (11.5 last year) and the proportion of employees who have been at AKA for longer than 10 years is 41 %. The fluctuation rate has reduced considerably.

**Work-life balance:** AKA strives hard to promote the compatibility of work and family life. To implement the company's philosophy, AKA offers specific part-time employment options which 28 % of employees are currently utilising. In addition, AKA has set up a cooperation agreement with pme Familienservice to support its employees in terms of childcare, home/elderly care and in various other areas.

**Diversity:** By signing the diversity charter in 2007, AKA underlined in a public manner how important cultural diversity, openness and mutual respect are for the company. In 2016, the percentage of employees from an international background was 24 %. The diversity of its employees constitutes one of the greatest strengths of AKA as a specialised credit institution focusing on the financing of international trade transactions. Cultural diversity is seen as an enriching factor as it makes a substantial contribution to creativity and quality.

Without the dedicated commitment of our employees who pursue the company's declared business objectives persistently and resourcefully, the prospects for AKA's future development would look bleak. The bank would like to thank its entire staff for their efforts and motivation in driving our organisation forward every day in their dealings with partners and customers, creating a solid basis for future innovation as a result.

In 2016, AKA was able to maintain its position in its export and trade financing business with its focus on emerging markets and recorded a higher number of deals than the previous year. In this regard, the market trend in the relevant business sectors fell overall which was reflected, for example, in a lower number volume of Hermes-covered transactions. The consequences of the consistently lower price of oil and other raw materials also had a negative impact on the state budgets of those emerging markets that are highly dependent on exporting raw materials. The business performance impacted on the financial performance indicators achieved by AKA in various ways. The proportion of long-term new business with investment grade rating, a decisive quality performance indicator, is considerably higher than the target value. Conversely, in regard to net earnings from loans as a relevant financial performance indicator, the planned values have not been reached. The cost-income ratio (CIR) is considerably below the original value predicted for 2016, attributable in particular to a cost-reducing legal change regarding the amount of allocations to pension liabilities. Without this special effect, the CIR fell slightly to a lower level.

Finally, a return on equity was achieved in fiscal year 2016 that was nearly twice as high as predicted. New tax-related factors were taken into account when determining the country risk provisions, and they brought about a noticeable write-back with a corresponding positive contribution to AKA's annual net profits.

AKA's business policy continues to focus on financing and risk taking with a real-economy connection to trade and investment in emerging markets. This direction defines the growth-orientated planning of activities and earnings for 2017 as well as the multi-year business plan to 2020. In general, AKA envisages growth opportunities in all areas of its business.

The forecasts regarding German and European export activities, particularly in the area of capital goods and investments, represent one of the most important influences on AKA's business model. The assessment of the economic and political development of target markets in the emerging markets also carries great significance. Furthermore, the preview of the overall development of global trade, in particular for raw materials and consumer goods, is also relevant for AKA. In addition to forecasts from the Federal government, European Commission and supranational institutions, the forecast for the 2017 financial year also draws on assessments from economic research institutions and renowned financial publications as the basis for its planning activities and these are compared with its own expectations.

The outlook for 2017 forecasts a growth rate of 1.4 % for the German economy which is lower than the 1.8 % anticipated for 2016. German exports are expected to grow 2.3 %, again lower than the previous year's forecast<sup>1</sup>.

For the European area, economic output of around the previous year's level of 1.7 % is expected for the euro currency area<sup>2</sup>.

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<sup>1</sup> Autumn forecast issued by the Federal Government: robust growth in difficult environment for foreign trade. In: <http://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2016/20161007-gabriel-solides-wachstum-inschwierigem-aussenwirtschaftlichen-umfeld.html>. press release, 7 October 2016.

<sup>2</sup> European Commission, autumn forecast 2016: Modest growth in challenging times [https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2016-economic-forecast\\_en#modest-growth-in-challenging-times](https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2016-economic-forecast_en#modest-growth-in-challenging-times) Press release, 9 November 2016.

Across the globe, growth is forecast to be slightly higher than last year at 2.7 %. Growth of 4.2 % is forecast for emerging countries as a whole.

Countries exporting raw materials are only expected to increase by 2.3 % while it is thought other emerging markets will grow 5.6 %. Finally, the projections for global trade in 2017 are expecting growth of 3.6 %, whereas an increase of only 2.5 % was forecast for 2016<sup>3</sup>.

Emerging market countries exporting raw materials will also face challenges in 2017. Their state budgets will require further adjustments given the continuously low prices of raw materials. Even if the price of oil stabilises as expected, it would still continue to be below the budgeted level of many countries. In contrast, oil-importing countries such as those in Southeast Asia can continue to benefit in terms of growth from the low prices of raw materials. The once again more distinct increase (compared to the previous year) in the USD exchange rate vis-à-vis numerous emerging market currencies as well as the further USD interest rate hikes are expected to lead to additional debt servicing obligations for many public and private sector debtors in emerging markets. This could also prove to be an impediment for new debts in terms of the required investments.

The recessions in the large and significant countries of Brazil and Russia are predicted to come to an end in 2017. However, in the case of Russia, economic sanctions continue to exist and these could suppress an upswing in investment and trade.

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A positive outlook is predicted for Latin America overall, above all there are positive expectations again for Argentina. China, as a worldwide growth engine with its great demand for raw materials and imports, also continues to be considered a stable country.

In summary, AKA expects export and trade-oriented business in 2017 to present an environment characterised by a multitude of opportunities but also political and economic uncertainty in many emerging markets. AKA continues to pursue its target country diversification, as in prior years, in order to have a broader distribution of risk. Cooperation with non-shareholder banks within the framework of the guidelines approved by the Supervisory Board also contributes to this. AKA's European coverage still needs to be expanded and cooperation with other European ECAs further developed. In general, AKA sees further opportunities to expand its business in the consistent further development of its activities in all product groups.

Regarding liquidity management, AKA will again retain its conservative approach in 2017, refinance its credit transactions in local currency and on maturity, as far as possible, and observe all regulatory and internal provisions. In this regard, refinancing options will be continuously extended and diversified. The basis for AKA's refinancing requirements in regard to volume, duration ranges and currencies – in particular USD in addition to EUR – is therefore also stable for the forthcoming fiscal year. In 2017, AKA will continue with its more extensive use of the capital market started the previous year. AKA plans to expand its treasury capacities in order to cover the higher refinancing demands from expected business structures while complying with additional regulatory requirements.

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<sup>3</sup> Global Economic Prospects, Weak Investment in Uncertain Times. In: A World Bank Group Flagship Report, January 2017.

AKA expects interest rates in the eurozone to remain low in the forthcoming fiscal year. Its multi-year business plan is based on this fact accordingly and is assuming unchanged market interest rates based on the current situation. AKA maintains a suitable liquidity reserve in EUR and USD. When creating this reserve, the extent and structure of the expected volume of new business is given sufficient consideration. Liquidity reserves are invested on a conservative basis through deposits at the Bundesbank and investments in securities from first-class issuers. In 2016, the returns achieved from holding the USD reserve in US treasuries were again not sufficient to offset the costs in the EUR area for negative interest on deposits at the Bundesbank and negative returns on federal bonds. For fiscal year 2017, AKA anticipates an unchanged configuration and thus expects to endure a cost in connection with its liquidity reserves.

In summary, AKA plans a new business volume of about EUR 1.8 billion for 2017. It is aiming for a minimum proportion of 35 % of investment grade rated long-term financing deals. Regarding net earnings from its loan business, a result of around EUR 42 million is expected. The planned value for the operating result is around EUR 24 million. Regarding the development of the cost and earnings ratio, AKA expects a value of 42 % in 2017. Taking into account the associated risk provision for the business performance planned for 2017, a net profit after tax in the amount of about EUR 7.5 million and a return on equity before tax of about 6 % is expected.

In fiscal year 2017, a slightly higher capital ratio will apply to AKA following an SREP decision on capital add-ons. Thanks to its strong equity capital, AKA can, however, continue on its planned growth path without any changes.

In regard to the regulatory environment, AKA will be looking into implementing the additional requirements of the change to the minimum requirements for risk management (MaRisk) in 2017. Moreover, in terms of financial reporting the enhanced FinRep stipulations will need to be met plus the new AnaCredit requirements. AKA is assessing the impact of the regulatory developments summarised as "Basel IV" regarding its business model and deriving any necessary measures. In addition, the effects of the current European banking supervision and its uniform guidelines for so-called less significant institutions, to which AKA belongs, also have to be observed closely.

Externally, AKA is set to continue its successful event formats in 2017. Particular significance in this regard is placed on the annual Investors' Meeting. At these meetings, AKA looks at relevant economic and social topics and discusses their impact with experts. The Investors' Meeting increasingly goes beyond its original purpose of establishing relationships with business partners in the refinancing sector and now serves to as a meeting of AKA's numerous and diverse business connections. In general, AKA can continue to act as a platform for issues of trade and export financing in relation to emerging markets in 2017, hosting interesting and beneficial events and conferences.

AKA has a permanent seat on the Hermes Interministerial Committee for Export Credit Guarantees (IMA) as an expert for export credit guarantees. As in previous years, it will actively support the development of activities to promote German exports and trade.

Frankfurt am Main, 22 February 2017

The Management of AKA Ausfuhrkredit-Gesellschaft mbH



Handwritten signature of Beate Bischoff in blue ink.

Beate Bischoff



Handwritten signature of Marck Wengrzik in blue ink.

Marck Wengrzik





## Guest Contribution

**Dr Christoph Herfarth**



Head of Export Financing,  
Export Credit Insurance department at BMWi and  
Chair of Interministerial Committee  
for Export Credit Guarantees, Berlin

The global and political developments of last year created major challenges for the German export business in 2016. The slow down in Germany's key export markets and ongoing geopolitical crises have put the brakes on growth and investments worldwide.

However, despite this difficult environment, the German export business produced another excellent result. Foreign trade grew to a new record level in 2016 with German companies supplying goods and services worth EUR 1.2 trillion abroad. And the signs suggest this positive trend will continue. The prospects for the global economy seem to be improving. Global industrial production is on the rise. German exports bottomed out in the middle of 2016 and were rising gently again at the end of the year.

**2016 was an eventful year for the federal government's export credit guarantees:** Iranian transactions could again be secured using Hermes cover as Iran, historically an important trading partner for Germany, returned to the international stage last year. Prior to the sanctions being imposed, annual exports to Iran amounted to around EUR 4.5 billion. The volume of cover regularly placed Iran among the top 10 countries. We intend to tap into this. Following the settlement of old liabilities, export credit guarantees for Iranian transactions have been possible again since the middle of the year. The federal government has already started to cover transactions. In particular, transactions with short-term payment conditions backed by letters of credit have been secured. This has enabled requests for cover from small- and medium-sized enterprises (SMEs) in particular to be met.

However, despite all this progress in key areas, in reality there are still a whole range of challenges to overcome predominantly involving medium- and long-term financing options. These relate to various aspects such as know-your-customer processes, compliance requirements, facilities and methods for processing payments or preparing and providing information. Moreover, the fact that most, but not all, international sanctions against Iran were lifted at the start of 2016 is also having an impact. The federal government is working intensively with its international partners to create a favourable environment for medium- and long-term financing.

**Cover options for Sub-Saharan Africa expanded:** However, new opportunities for German exporters are not just opening up in the Middle East but also in other corners of the globe, in particular in Africa. For instance, last year the federal government continued on the path it started in 2014 and extended its financing guarantees for supplies and services to Sub-Saharan Africa. While over the past two years, the cover policy had already been expanded to Ethiopia, Ghana, Mozambique, Nigeria, Senegal, Tanzania und Uganda, now all transactions with the public sector in Rwanda, Ivory Coast and Togo can also be covered. The opportunity to support medium- and long-term transactions with state buyers again by using Hermes cover is a major step as in Africa the name of the state appears as the customer with increasing frequency.

However, the simplifications in securing supplies and services to Sub-Saharan Africa are still not being reflected in a corresponding increase in requests for Hermes cover. Demand is rather muted and is currently below the level expected by the government.

**Maintaining cover facilities in challenging times:** Over the past year, Hermes cover has again contributed to exporters maintaining business relationships and opening up new

target markets across the globe, despite the politically and economically uncertain times. In addition, the government continued to develop its export credit guarantees last year. By way of example, I would like to name four specific cases.

**49 PLUS – new model allows for internationalisation of economic activities:** In 2016, the federal government massively simplified the process for securing export transactions with a high proportion of foreign services and supplies. With immediate effect, a distinction will only be made between export transactions with a proportion of foreign goods of up to 49 per cent and more than 49 per cent. As a result, a modern, easily-comprehensible system with just two tiers replaces the previous three-tier system. Tier one means export transactions with a proportion of foreign goods of less than 49 per cent can be secured without the need for detailed justification. Tier two represents those export transactions where the proportion of foreign goods is higher than 49 per cent. These can also be covered under specific conditions. This is decided upon by the Interministerial Committee for Export Credit Guarantees on a case-by-case basis.

The option of a cost-free preliminary application to include proportions of foreign goods over 49 per cent, which was introduced in December 2014, has proven its worth and shall remain in place. It gives exporters and banks an initial indication at an early point in time on whether or not the transaction can be covered by the government.

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**Extending the reinsurance network:** A further significant tool to secure export transactions with a high proportion of foreign goods are reinsurance agreements between export credit agencies. With reinsurance, the export credit agencies involved share the risk in accordance with the respective proportions of goods supplied by their exporters. In 2016, this network was expanded significantly.

The reinsurance policy signed in May with the Chinese export credit agency Sinosure is the first agreement of this kind with an export credit agency from a BRIC state. A further groundbreaking agreement was concluded with the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). ICIEC brings together 42 member states from Africa, Asia and the Arabic world.

Normally, only deliveries destined for a third country from companies based in one of the two countries in question can be covered by reinsurance. The agreement with ICIEC also enables, under certain conditions, proportional reinsurance policies for supplies and services from a German exporter who does not receive deliveries from an ICIEC member state. In one fell swoop, the recent agreement entered into with the ICIEC has significantly expanded German exporters' payment facilities in a number of emerging markets in Africa, Asia and Arabia.

**Option to reduce excess with supplier credit cover extended to the end of 2019:** Exporters can also reduce the excess for supplier credit coverage for economic risks from the normal 15 per cent for individual cover and 10 per cent for whole turnover export guarantees down to 5 per cent. The federal government has extended this measure, which was introduced during the financial crisis, to 31 December 2019.

This primarily helps small- and medium-sized companies. By reducing the excess they can

remove a burden from their balance sheet, improve their refinancing options and reinforce their position in the international marketplace.

**Federal government extending support for large projects abroad:** In addition to numerous activities to support SMEs, the government has also launched an extensive package of measures to provide better support to individual large projects abroad that are of particular strategic importance to Germany. The federal government has ascertained on several occasions that the German export business is not optimally placed in the market for large volume, long-term projects abroad. The competition – primarily from Asia – often enjoys systematical political support and can demonstrate more extensive financing offers. The German support system has not been able to provide German companies with this form of support in the past. The strategy paper "New impulses for international competition for major strategic projects – improving Germany's chances" adopted by the cabinet at the start of October 2016 sets out a bundle of measures to help in this area, ranging from better coordination to optimised financing instruments.

**AKA, an important driver in foreign trade financing matters:** Financing small-volume transactions, known as small tickets, is and continues to be a challenge. In particular, SMEs complain that it is becoming increasingly hard to obtain finance for such transactions as the figures do not add up for banks. AKA has dealt with this problem early on and has developed a financing option especially for transactions conducted by small- and medium-scale enterprises using the small-ticket facility. I am very grateful to AKA for this and for the resulting very concrete and substantial recommendations for improving the financing of small lot sizes. With this, the bank has once again shown the significant impetus it brings to the task of confronting the current challenges in export financing. As a mouthpiece and important platform for export-financing banks, AKA is a key partner and idea generator for the federal government.

The year 2016 again showed: The framework conditions for promoting foreign trade are subject to permanent change which the government's export promotion instruments have to take into account in order for the German export business to continue to be successful in international competition. We will continue meeting this challenge in close dialogue with the export and credit industry.





## Annual Financial Statements

**André Siedschlag** (Bank Administration),  
Employed by GVK Grundstücksverwaltung  
Kaiserstraße 10 GmbH since 1 March 2014

**Assia El Hirsch** (Accounting/Treasury),  
Employed by AKA since 15 January 2016

**Stefan Jaskulla** (Team Head Treasury),  
Employed by AKA since 1 July 1993

**Tamana Niasi** (Accounting/Treasury),  
Employed by AKA since 1 March 2014





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**Balance sheet**  
**as at 31 December 2016**

<b>Assets</b>	EUR	31.12.2016 EUR	31.12.2015 EUR thousand
1. Cash reserves			
a) Cash in hand	1,952.34		1
b) Balances with central banks	68,969,170.89	68,971,123.23	44,452
thereof: with Deutschen Bundesbank			
EUR 68,969,170.89 (2015: EUR 44,452 thousand)			
2. Loans and advances to banks			
a) payable on demand	34,449,269.82		15,643
b) Others	565,140,946.05	599,590,215.87	587,717
3. Loans and advances to customers		1,837,081,679.69	1,553,417
4. Debenture bonds and other fixed-interest securities			
a) Money market instruments			
aa) from public issuers	0.00		22,962
thereof: accepted as collateral by Deutschen Bundesbank			
EUR 0.00 (2015: EUR 0.00)			
b) Bonds and debeture bonds			
ba) from public issuers	81,816,075.14	81,816,075.14	75,056
thereof: accepted as collateral by Deutschen Bundesbank			
EUR 20,050,000.00 (2015: EUR 75,041 thousand)			
5. Shares in affiliated companies		8,387,107.30	8,387
6. Trust assets		499,701,627.96	579,242
thereof: Trust loans			
EUR 499,701,627.96 (2015: EUR 579,242 thousand)			
7. Intangible assets		367,190.16	208
concessions acquired, industrial property rights and similar rights			
and assets as well as licenses from such rights and assets			
8. Fixed assets		818,657.00	440
9. Other assets		315,183.45	107
10. Prepaid expenses		294,260.31	338
11. Active difference resulting from asset offsetting		1,459,437.71	930
<b>Total assets</b>		<b>3,098,802,557.82</b>	<b>2,888,900</b>

**Liabilities**

EUR

31.12.2016  
EUR31.12.2015  
EUR thousand

1. Amounts due to banks			
a) Payable on demand	2,532,501.29		1,222
b) With an agreed term or period of notice	<u>2,230,931,573.43</u>	2,233,464,074.72	1,847,991
2. Amounts due to costumers			
Other liabilities			
a) Payable on demand	13,334,993.45		8,874
b) With an agreed term or period of notice	<u>95,722,730.98</u>	109,057,724.43	210,824
3. Trust liabilities		499,701,627.96	579,242
thereof: Trust loans			
EUR 499,701,627.96 (2015: EUR 579,242 thousand)			
4. Other liabilities		189,483.90	592
5. Deferred income		8,929,842.10	8,665
6. Provisions			
a) Tax provisions	6,580,324.21		4,704
b) Other provisions	<u>9,127,377.35</u>	15,707,701.56	13,819
7. Equity			
a) Subscribed capital	20,500,000.00		20,500
b) Revenue reserves			
Other revenue reserves			
As at 1 January 2016	188,367,103.15		176,432
Transfer from			
2016 annual net profit	<u>18,785,000.00</u>	207,152,103.15	11,935
c) Balance sheet profit 2016	<u>4,100,000.00</u>	231,752,103.15	4,100

**Total liabilities****3,098,802,557.82****2,888,900**

1. Contingent liabilities			
Contingent liabilities from guarantees		376,655,527.17	404,585
2. Other obligations			
Irrevocable loan commitments		837,753,238.26	792,054

**Profit and loss statement**  
for the period from 1 January to 31 December 2016

Expenses		2016	2015
	EUR	EUR	EUR thousand
1. Interest expenses		31,545,412.33	29,474
2. General administrative expenses			
a) Staff expenses			
aa) Wages and salaries	8,192,665.56		7,339
ab) Social security contributions, expenses for pensions and other employee benefits	1,530,446.25	9,723,111.81	2,154
thereof: for pensions			
EUR 394,007.77 (2015: EUR 1,173 thousand)			
b) Other administration expenses	5,178,780.47	14,901,892.28	4,683
3. Depreciation and value adjustments on intangible and fixed assets		363,488.90	271
4. Other operating expenses		1,057,671.42	1,151
5. Taxes on income		8,944,341.54	8,573
6. Other taxes		22,095.05	22
7. Annual net profit		22,885,000.00	16,035
<b>Total expenses</b>		<b>79,719,901.52</b>	<b>69,702</b>
1. Annual net profit		22,885,000.00	16,035
2. Transfer to other revenue reserves		18,785,000.00	11,935
<b>3. Balance sheet profit</b>		<b>4,100,000.00</b>	<b>4,100</b>

Income	EUR	2016 EUR	2015 EUR thousand
1. Interest income from			
a) Loan and money market transactions	61,111,443.49		59,292
b) Fixed-income securities	<u>315,552.72</u>	61,426,996.21	142
2. Net fee and commission income		5,792,508.96	6,500
3. Income from the revaluation of receivables and securities as well as from the dissolution of provisions for loans (2015: Expense for depreciation and value adjustments on receivables)		11,519,744.48	2,905
4. Other operating income		980,651.87	863
<b>Total income</b>		<b>79,719,901.52</b>	<b>69,702</b>

**General explanations:** The head office of AKA Ausfuhrkredit-Gesellschaft mbH is in Frankfurt am Main. The company is registered at Frankfurt am Main local court under the commercial register number 7955.

The annual financial statements of AKA Ausfuhrkredit-Gesellschaft mbH for the fiscal year from 1 January to 31 December 2016 were prepared in accordance with the German Commercial Code (HGB) under consideration of the generally accepted accounting principles under the German Accounting Law Modernization Act, the German Limited Liability Company Act as well as the German Ordinance on Bank Accounting.

**Accounting policies and valuation methods:** Cash reserves, loans and advances to banks and customers plus other assets as well as assets offset pursuant to section 246 (2) HGB are quoted at par or acquisition cost.

Credit risks were allowed for by means of individual value adjustments, sovereign value adjustments and specific provisions. In addition, general banking risks are covered by a contingency reserve according to section 340f HGB. The overall credit risk was also taken into account by means of a general value adjustment. This has been carried out in the amount permitted by tax law. Pursuant to section 253 (5) HGB, necessary revaluations were made.

According to the rules for current assets, with the strict lower-of-cost-or-market principle, liquidity reserve securities are shown at the lower of acquisition cost and fair value.

Shares in affiliated companies are posted at their acquisition costs.

Intangible and fixed assets are capitalised at acquisition cost less scheduled straight-line depreciation. Based on the regulation applicable from 1 January 2008 and pursuant to section 6 (2a) of the German Income Tax Act (EStG), movable low-value fixed assets with acquisition costs of between EUR 150.00 and EUR 1,000.00 are written off, over a five year period by 20 % each year, and recorded in the asset history sheet in form of a compound item, even if a movable low-value fixed asset of the compound item has already been disposed. After five years, a disposal of the recognized compound item will be shown in the asset history sheet. Liabilities are recorded at their settlement value.

Provisions for pension obligations are recognized in accordance with the German Accounting Law Modernization Act. Valuation is made according to the Projected Unit Credit Method using biometric data based on the "2005 G mortality tables" devised by Dr Klaus Heubeck. The calculation is based on the expected salary and wage increases of 2.1 % per annum. So far, pension obligations with a remaining maturity of more than one year have been discounted using the average market interest rate from the past seven fiscal years, corresponding to their remaining maturity. Due to the new regulations of section 253 (2) and (6) HGB, pension obligations with a remaining maturity of more than one year are now discounted using the average market interest rate from the past ten fiscal years, according to their remaining maturity. The actuarial interest rate for the ten-year average amounts to 4.01 %. In comparison, the actuarial interest rate for the seven year average amounts to 3.14 %.

Pursuant to section 253 (1) sentence 2 HGB, tax provisions and other provisions are posted at their settlement amount based on a reasonable commercial assessment. Provisions with a remaining maturity of more than one year are discounted using the average market interest rate from the past seven fiscal years, corresponding to their remaining maturity.

Currency conversion is based on the principles of section 256a HGB in conjunction with section 340h HGB. Foreign currency receivables and foreign currency liabilities have been converted using the European Central Bank's reference rate as at 31 December 2016.

The cash value method is used for the loss-free valuation of the banking book. The banking book includes all on- and off-balance sheet financial instruments. Hidden reserves or hidden losses result from the netting of the banking book's present value under consideration of administrative expenses and risk costs and the banking book's carrying amount. In cases, where this results in a surplus of hidden losses, a provision will be made in accordance with section 340a in conjunction with section 249 (1) sentence 1 alternative 2 HGB.

## Assets

**Loans and advances to banks:** Loans and advances to banks mainly result from loans under AKA's plafond E facility. Other loans and advances to banks are broken down by their remaining maturities as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
up to three months	73,631	58,527
more than three months up to one year	269,814	269,906
more than one year up to five years	205,058	230,275
more than five years	16,638	29,009
	<b>565,141</b>	<b>587,717</b>

Loans and advances to banks contain loans to shareholders in a total amount of EUR 16,381 thousand (2015: EUR 27,667 thousand).

**Loans and advances to customers:** Loans and advances to customers have the following remaining maturities:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
up to three months	132,946	72,631
more than three months up to one year	259,291	241,535
more than one year up to five years	909,398	755,427
more than five years	535,447	483,824
	<b>1,837,082</b>	<b>1,553,417</b>

**Debenture bonds and other fixed-interest securities:** Debenture bonds and other fixed-interest securities comprise securities of the liquidity reserve only.

in EUR thousand	marketable		listed		not listed	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debenture bonds and other fixed-interest securities	81,816	98,019	81,816	98,019	0	0

This position includes securities amounting to EUR 81,816 thousand (2015: EUR 98,019 thousand), which become due within one year of the balance sheet date.

**Shares in affiliated companies:** AKA holds a 100 % participation in the share capital of Grundstücksverwaltung Kaiserstraße 10 GmbH, Frankfurt/Main (GVK) amounting to EUR 31,000. GVK is the owner of the business properties Kaiserstrasse 10 and Grosse Gallusstrasse 1-7. For fiscal year 2015, the company recorded a surplus of EUR 346 thousand (2014: EUR 505 thousand). In addition, AKA holds a 100 % share (EUR 51 thousand) in Privatdiskont-Aktiengesellschaft (PDA), Frankfurt/Main. This company currently does not carry out any business operations. For fiscal year 2015, PDA posted a net profit of EUR 100 (2014: EUR -100). Owing to the minor importance of these subsidiaries no consolidated financial statement for the group, consisting of AKA, GVK and PDA was prepared. The shares are non-negotiable.



**Trust assets:** Trust assets include trust loans, which were granted by AKA for third parties (banks) as well as receivables from indemnified or rescheduled loans managed on behalf of third parties. These assets are divided up as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Loans and advances to banks		
a) Others	170	1,151
Loans and advances to customers		
a) Others	499,532	578,091
	<b>499,702</b>	<b>579,242</b>

**Assets analysis:** The assets analysis has been prepared in accordance with Article 31 (6) of the Introductory Act to the German Commercial Code (EGHBG).

	Shares in affiliated companies	Intangible assets	Fixed assets
<b>Historical acquisition costs</b>			
As at 01.01.2016	8,387	1,426	2,922
Additions	0	275	627
Disposals	0	10	129
As at 31.12.2016	8,387	1,691	3,420
<b>Accumulated depreciation</b>			
As at 01.01.2016	0	1,218	2,482
Additions	0	115	248
Disposals	0	9	128
As at 31.12.2016	0	1,324	2,602
<b>Carrying amount as at 31.12.2016</b>	<b>8,387</b>	<b>367</b>	<b>818</b>
<b>Historical acquisition costs</b>			
As at 01.01.2015	8,387	1,327	3,051
Additions	0	99	223
Disposals	0	0	352
As at 31.12.2015	8,387	1,426	2,922
<b>Accumulated depreciation</b>			
As at 01.01.2015	0	1,120	2,620
Additions	0	98	173
Disposals	0	0	311
As at 31.12.2015	0	1,218	2,482
<b>Carrying amount as at 31.12.2015</b>	<b>8,387</b>	<b>208</b>	<b>440</b>

**Other assets:** Other assets include tax receivables amounting to EUR 12 thousand (2015: EUR 13 thousand) and receivables from affiliated companies amounting to EUR 250 thousand (2015: EUR 12 thousand).

**Active difference resulting from asset offsetting:** The item of the active difference resulting from asset offsetting in the amount of EUR 1,459 thousand (2015: EUR 930 thousand) represents the carrying amount of fund assets in excess of the settlement amount of pension provisions.

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Explanations on the  
balance sheet

## Liabilities

**Amounts due to banks:** Amounts due to banks with an agreed term or period of notice have the following remaining maturities:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
up to three months	403,642	221,944
more than three months up to one year	321,955	314,917
more than one year up to five years	910,146	776,358
more than five years	595,189	534,772
	<b>2,230,932</b>	<b>1,847,991</b>

Amounts due to banks with an agreed term or period of notice contain amounts due to shareholders in the amount of EUR 629,645 thousand (2015: EUR 430,157 thousand).

Assets in a total amount of EUR 1,554,764 thousand (2015: EUR 1,417,025 thousand) were transferred as collateral.

**Amounts due to customers:** Amounts due to customers with an agreed term or period of notice have the following remaining maturities:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
up to three months	5,223	62,324
more than three months up to one year	73,500	148,500
more than one year up to five years	17,000	0
more than five years	0	0
	<b>95,723</b>	<b>210,824</b>

Amounts due to customers include unsecuritized liabilities to affiliated companies amounting to EUR 4,642 thousand (2015: EUR 3,468 thousand).

**Trust liabilities:** Trust liabilities are broken down as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Amounts due to banks		
a) with an agreed term or period of notice	461,570	531,441
Amounts due to customers		
a) with an agreed term or period of notice	38,132	47,801
	<b>499,702</b>	<b>579,242</b>

**Pension provisions and similar obligations:** The pension provision is offset against fund assets as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Settlement amount of pension provisions	21,493	21,702
Fund assets	22,952	22,632
Active difference resulting from asset offsetting	<b>-1,459</b>	<b>-930</b>

The settlement amount of the pension provisions was offset against fund assets, which were transferred to AKA Treuhand e.V. in a Contractual Trust Agreement (CTA). Allocations to fund assets amounted to EUR 236 thousand (2015: EUR 230 thousand). The amount of fund assets in excess of the settlement amount of pension provisions is classified as active difference resulting from asset offsetting. An allocation of income and expenses was not applicable. The fair value of the fund assets does not exceed the nominal value. Insofar, there is no prohibition on distribution.

Due to the change in section 253 (2) and (6) HGB, the difference between the valuation of pension provisions using the ten-year average interest rate and the valuation of pension provisions using the seven-year average interest rate is indicated as of each balance sheet date. This is as follows:

	31.12.2016 EUR thousand
Pension provisions valued using	
the ten-year average interest rate	21,493
the seven-year average interest rate	23,682
	<b>-2,189</b>

**Other provisions:** Other provisions comprise provisions for imminent credit risks in an amount of EUR 5,263 thousand (2015: EUR 10,031 thousand).

The change in the portfolio was effected by the compounding of provisions for imminent credit risks amounting to EUR 42 thousand (2015: EUR 31 thousand) with the allocation and the discounting of these provisions in the amount of EUR 232 thousand (2015: EUR 166 thousand) with the reversal. In addition, human resource provisions amounting to EUR 2,330 thousand (2015: EUR 2,366 thousand) were built.

#### Profit and loss statement

**Interest expenses:** Interest expenses comprise EUR 62 thousand (2015: EUR 13 thousand) positive interest on financial liabilities.

**Other operating expenses:** Other operating expenses primarily include interest expenses from the discounting of provisions amounting to EUR 858 thousand (2015: EUR 972 thousand) as well as expenses from currency conversion in the amount of EUR 112 thousand (2015: EUR 146 thousand).

**Income taxes:** Income taxes affect solely the result of ordinary business.

**Interest income from loan and money market transactions:** Interest income from loan and money market transactions according to their geographical origin can be broken down as follows:

	2016 EUR thousand	2015 EUR thousand
Africa	4,914	2,979
Asia and Oceania	7,073	8,163
EU	8,073	8,677
Europe (non-EU)	3,781	3,546
CIS and Russia	7,082	9,726
Middle East	1,665	1,143
Near East	17,530	14,581
North and Central America	10,533	9,924
South America	460	553
	<b>61,111</b>	<b>59,292</b>

Interest income from loan and money market transactions contain negative interests in the amount of EUR 179 thousand (2015: EUR 67 thousand), which primarily result from assets held at Deutsche Bundesbank, which exceed the minimum reserve requirements of Deutsche Bundesbank.

**Interest income from fixed-interest securities:** Interest income from fixed-interest securities amounting to EUR 10 thousand (2015: EUR 126 thousand) originate from securities of the EU area and EUR 306 thousand (2015: EUR 16 thousand) result from securities from North and Central America.

**Net fee and commission income:** Net fee and commission income predominantly result from AKA's trust business as well as risk sub-participations, confirmed letters of credit and purchase agreements with domestic banks.

**Other operating income:** Interest-related income accrued from the discounting of provisions amounted to EUR 1 thousand (2015: EUR 5 thousand) in the last fiscal year.

**Foreign currency business:** The total amount of assets denominated in foreign currencies – after deduction of value adjustments – is made up as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Cash held with central banks	2,589	33,960
Loans and advances to banks	159,227	79,530
Loans and advances to customers	829,296	713,466
Debenture bonds	61,766	22,962
Trust assets	39,192	47,558
Intangible assets	1	0
Prepaid expenses	54	110
	<b>1,092,125</b>	<b>897,586</b>

The total amount of liabilities in foreign currencies comprises as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Amounts due to banks	1,060,999	859,318
Amounts due to customers	39	103
Trust liabilities	39,192	47,558
Provisions	67	2,296
Deferred income	178	148
	<b>1,100,475</b>	<b>909,423</b>

Irrevocable loan commitments in the amount of EUR 215,342 thousand (2015: EUR 233,097 thousand) and contingent liabilities amounting to EUR 174,591 thousand (2015: EUR 210,878 thousand) are posted in foreign currency as at the balance sheet date.

In principle, foreign currency receivables and payables correspond in currency, amount and maturity.

**Deferred taxes:** In accordance with the option specified in section 274 (1) sentence 2 HGB, deferred taxes were not recognized. They essentially result from provisions for contingent losses, which cannot be verified fiscally, as well as from reserves formed in accordance with section 340f HGB and temporary differences relating to pension provisions. Deferred taxes have been valued on the basis of individual corporate tax rates.

As basis for calculations 15.825 % are used for corporate income tax plus the solidarity surcharge and 16.10 % for trade tax.

**Contingent liabilities:** Contingent liabilities from guarantees are broken down as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Loan guarantees	220,532	249,901
Letter of credit	120,078	118,638
Guarantee facilities	36,056	36,046
	<b>376,656</b>	<b>404,585</b>

The utilization risk of contingent liabilities is assessed as low, because they concern letters of credit and guarantee facilities within foreign trade financing.

**Other obligations:** Irrevocable loan commitments comprise as follows:

	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Irrevocable loan commitments for the lending business	837,753	787,528
Irrevocable loan commitments for securitization guarantees	0	4,526
	<b>837,753</b>	<b>792,054</b>

The utilization of irrevocable loan commitments for the lending business is expected.

**Other financial obligations:** AKA has concluded securitization guarantees with the Federal Republic of Germany as collateral for refinancing loans. As part of supplementary guarantee covenants, AKA is committed to reimburse the guaranteed amount in case of the utilization of securitization guarantees. Possible payment claims from guarantee provisioning in connection with securitization guarantees existed at the end of the year in the amount of EUR 785,232 thousand (2015: EUR 720,280 thousand).

**Forward transactions/hedge accounting:** No forward transactions with interest rate or currency risks existed as of the balance sheet date. As at 31 December 2015, one interest rate swap with a nominal volume of EUR 5,000 thousand existed. It was not part of hedge accounting units and expired as scheduled in 2016.

**Remuneration:** The members of the Supervisory Board received a remuneration of EUR 218 thousand (2015: EUR 230 thousand) plus VAT.

As at 31 December 2016, provisions for pension obligations to former members of the management and their surviving dependents were formed in the amount of EUR 7,150 thousand (2015: EUR 7,506 thousand). In 2016, remunerations amounted to EUR 621 thousand (2015: EUR 503 thousand).

With regard to the remuneration of the Management, AKA applies the derogation mentioned in section 286 (4) HGB in conjunction with section 285 no. 9a HGB.

**Auditor fees:** Fees for the auditor of the annual financial statements for fiscal year 2016 are broken down as follows:

	2016 EUR thousand	2015 EUR thousand
Annual Audit	194	192
Other confirmation or valuation services	4	9
Tax advisory services	20	19
Other services	33	5
	<b>251</b>	<b>225</b>

**Employees:** AKA Ausfuhrkredit-Gesellschaft mbH and its subsidiaries Grundstücksverwaltung Kaiserstrasse 10 GmbH and Privatdiskont-Aktiengesellschaft as well as Liquiditäts-Konsortialbank GmbH i.L. – all based in Frankfurt am Main – are conducted under common management. The average of AKA's employees in the past fiscal year is made up as follows:

	male	female	2016 total	2015 total
Full-time staff	41	31	72	65
Part-time staff	6	22	28	24
Parental leave	0	1	1	1
	<b>47</b>	<b>54</b>	<b>101</b>	<b>90</b>

**Executive bodies:** The AKA Supervisory Board is composed as follows:

Full members

**Michael Schmid**<sup>1,2</sup>  
Economist  
Königstein/Taunus  
Frankfurt am Main  
– Chairman –

**Werner Schmidt**<sup>1,2</sup>  
Managing Director  
Deutsche Bank AG,  
Frankfurt am Main  
– First Vice Chairman –

**Philipp Reimnitz**<sup>1,2</sup>  
Executive Vice President  
UniCredit Bank AG,  
Hamburg  
– Second Vice Chairman –

**Alexander von Dobschütz**<sup>1,2</sup>  
Managing Director  
Bayerische Landesbank,  
Munich  
– Third Vice Chairman –

**Sandra Gransberger**  
Head of Internal Audit  
BHF-BANK AG,  
Frankfurt am Main

**Jörg Hartmann**  
Director  
Landesbank  
Hessen-Thüringen Girozentrale,  
Frankfurt am Main

**Guido Paris**  
Executive Vice President  
Landesbank  
Baden-Württemberg,  
Stuttgart

**Winfried Münch**<sup>1</sup>  
Director DZ BANK AG  
Deutsche Zentral-  
Genossenschaftsbank,  
Frankfurt am Main

**Max Niesert**<sup>1</sup>  
Managing Director  
Portigon AG,  
Düsseldorf

**Knut Richter**  
Director  
Landesbank Berlin AG,  
Berlin

Deputy Members

**Martin Keller**  
Director  
Commerzbank AG,  
Frankfurt am Main

**Frank Schütz**  
Director  
Deutsche Bank AG,  
Frankfurt am Main

**Inés Lüdke**  
Managing Director  
UniCredit Bank AG,  
Munich

**Florian Seitz**  
Director  
Bayerische Landesbank,  
Munich

**Birgitta Heinze**  
Director  
BHF-BANK AG,  
Frankfurt am Main

**Diana Häring**  
Vice President  
Landesbank  
Hessen-Thüringen Girozentrale,  
Frankfurt am Main

**Michael Maurer**  
Senior Vice President  
Landesbank  
Baden-Württemberg,  
Stuttgart

**Manfred Fischer**  
Director DZ BANK AG  
Deutsche Zentral-  
Genossenschaftsbank,  
Frankfurt am Main

**Georg Lucht**  
Executive Director  
Erste Abwicklungsanstalt AöR,  
Düsseldorf

**Sascha Händler**  
Director  
Landesbank Berlin AG,  
Berlin

<sup>1</sup> Member of Risk Commission, <sup>2</sup> Member of Nominations Committee and Remuneration Control Committee

**AKA's Management** consists of:

Beate Bischoff  
Frankfurt


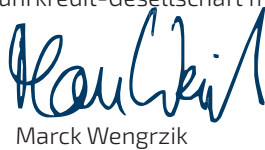
Marck Wengrzik  
Frankfurt

**Significant events after the balance sheet date:** No significant events occurred after the balance sheet date.

**Appropriation of net profit:** We propose to distribute the balance sheet profit of EUR 4,100 thousand to our shareholders.

Frankfurt am Main, 22 February 2017

The Management of AKA Ausfuhrkredit-Gesellschaft mbH

   
Beate Bischoff      Marck Wengrzik



We have audited the annual financial statements, comprising the balance sheet, profit and loss statement and the notes to the financial statements together with the bookkeeping system and the management report of AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung, Frankfurt/Main, for the fiscal year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German Commercial law are the responsibility of the Company's Managing Directors. It is our task to issue an opinion on the annual financial statements together with the bookkeeping system and the management report based on our audit of the same.

We have conducted our audit of the annual financial statements in accordance with section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the 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 the accepted accounting principles 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 accounts, annual financial statements management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Directors, 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.

Auditors' report 75

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 provision of law and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with the accepting accounting principles. 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.

Frankfurt am Main, 22 February 2017

PricewaterhouseCoopers  
Aktiengesellschaft  
Auditors



Christoph Theobald  
Auditor



ppa. Muriel Atton  
Auditor

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