AKA Annual Report 2017

EUROPEAN
EXPORT + TRADE
BANK

AKA at a glance

Who we are:
AKA is a consortium of 17 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

From the point of view of the Supervisory Board (SB), the year 2017 was a normal course of business and was strategically a transitional year, because basic decisions were made in order to sustainably support the growth targets planned for the following years.

In 2017, important cornerstones of the strategic direction were redefined in close cooperation with the SB. AKA continues to operate as a secondary market institution. While maintaining certain exclusive activities that are reserved for its shareholders, AKA can now use the updated product range and take risks across all forms of financing, even with non-shareholder banks. This opening will improve active portfolio management from a risk perspective while at the same time supporting the sought after Europeanisation of AKA. In the segment of so-called 'small ticket financing', i.e. small Hermes-backed financing, the SB advocates the development of a standardised offer by AKA to counteract the low willingness of the German banking market to finance that is criticised by exporters.

In coordination with the SB, AKA has further expanded its qualitative and quantitative management of capital and liquidity. The sound capitalisation of AKA is reflected in comprehensive capital planning, which includes a methodically more detailed allocation of equity capital to all material risks. The critical review was partially recreated through additionally-developed stress tests. AKA has taken significant steps in the field of liquidity management. Cost optimisation was also achieved as part of the daily monitoring of liquidity based on compliance with the LCR ratio. In the segment of refinancing, AKA has continued to diversify its source of funds, for example by issuing promissory notes, and has significantly extended the terms to maturity.

AKA has thus created the basis that will allow it to expand its activities, growth and portfolio management in the years to come.

Exercise of the Supervisory Board's tasks: During fiscal year 2017, the SB 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.

At its meetings, the SB discussed reports on the business development and bank's earnings situation, risk, liquidity and capital management as well as the internal control system. With respect to business policy issues, the focus was on dealing with the further strategic alignment, the product range and the necessary specialisations of AKA.

The work of the SB included the following:
– periodic risk and controlling reports plus topic and event-based reports from the Management
– reports from the internal audit team, money laundering officer, compliance officer and central office
– the Management reports regarding the course and outcome of the annual supervisory meeting with the Deutsche Bundesbank, the result of the credit assessment by GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH, Cologne, as well as the regular review of the auditing association in 2017 and the reports of the auditors (PwC) in the context of the annual audit

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

During 2017, the SB held five scheduled meetings. Attendance at the SB meetings was 98 %. The chairman of the SB and the Management also engaged in a regular exchange of information outside of the SB meetings. The SB was informed of important developments at the latest by the respective next meeting.

In 2017, the following changes were made in personnel on the SB.

- Mr Guido Paris, Landesbank Baden-Württemberg, resigned from the SB. His successor, his former representative Mr Michael Maurer, was appointed as an ordinary member on 28 March 2017. Ms Nanette Bubik was appointed as a representative for LBBW.
- Furthermore, Mr Jörg Hartmann, Landesbank Hessen-Thüringen clearing house, resigned as a full SB member with effect from 30 September 2017. His former representative, Ms Diana Häring, has taken over the role for the SB.
- Mr Martin Keller left the SB as a permanent representative for Commerzbank and the appointment of Ms Jeannette Vogelreiter as a permanent representative took place on 1 October 2017.

Focus of the Supervisory Board's activities: During SB 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.

AKA is a specialist credit institution for trade and export finance with a focus on emerging markets. The SB therefore places great importance on the consideration of credit and country risks. Both the Risk Commission and the SB have repeatedly received reports on the development of individual country portfolios as well as on product and industry focus in the course of the year and have discussed the risk policy with the Management.

The topics of liquidity management and the refinancing of AKA are discussed in detail in the meetings of the Risk Commission and the SB. The committees regularly looked at the structure of borrowings and on key figure compliance with regulatory requirements.

The Risk Commission and the SB regularly dealt with the risk bearing capacity of AKA in its meetings. The main topics here were the implementation of the higher capital requirements according to the SREP decision for AKA in capital planning as well as the methodical continued development of stress tests covering all material risks.

In terms of business planning, the SB has dealt with the 2017 fiscal year business plan presented by the Management. This was based on business volume and earnings at the annual tranche of the multi-year business planning 2016-2020. The costs were expected to be higher, especially due to regulatory-driven requirements. At its meeting on 23 February 2017, the SB discussed the effect of these factors on the planning figures and approved the 2017 plan.

The committees also dealt with the development of the multi-year business planning and approved adjustments to the multi-year business plan 2017-2021 after extensive discussions. Essentially, the assumptions for the gradual increase in new business growth were reassessed given the declining trends in the trade and export finance market and increased risk assessment. The multi-year business and capital planning 2017-2021 was approved in the SB meeting on 30 March 2017.

The SB discussed the updating of AKA's risk strategy and approved the amendments to the regulations proposed by the Management. In 2017, the focus was on the continued development of AKA's business strategy and incorporating the decisions made together with the SB, for example the possibility of cooperation with non-shareholders while maintaining certain exclusive activities for the shareholders or the product offer for "small tickets" to be redeveloped by AKA.

With respect to regulatory governance, AKA has coherent structures from the perspective of the Supervisory Board. The higher capacities in the areas of compliance and internal auditing were recognised in the process.

AKA had to change the auditor for the 2017 fiscal year due to legal regulations. The SB had already initiated the selection process in the previous year and commissioned the Management to perform the process. At the start of 2017, the presentations of the three final candidates for the audit mandate who had been determined according to predefined criteria took place and the chairman of the SB took part in the process. In the meetings on 23 February 2017 and finally on 30 March 2017, the SB was comprehensively informed in a detailed presentation about the procedure, the selection criteria and the recommendation derived from the evaluations of the presentations. The SB approved the proposal for resolution of the shareholders' meeting to propose KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Germany, for the election of the auditor for the 2017 fiscal year. On 30 March 2017, KPMG was unanimously elected as the auditor by the shareholders' meeting.

The SB has to assess its structure and composition in accordance with the provisions of Section 25d KWG [German Banking Act]. At its meeting on 7 December 2017, the SB decided to apply the evaluation of the SB to the full calendar year instead of the previous treatment during the last months of the on-going year. Among other things, this has the advantage of correctly recording the presence of the SB members of a fiscal year.

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 87 %. The Risk Commission (RC) met five times over the course of the fiscal year in preparation for Supervisory Board meetings.

The Risk Commission received regular extensive reports about the loan portfolio, the risk / return profile and the development of individual country portfolios. The Risk Commission examined the market price and liquidity risks. The RC also looked at the risk bearing capacity methodically developed further by AKA in 2017 to deal with all material risks of comprehensive stress test scenarios. The SB was given comprehensive information on the results at the meetings held immediately afterwards.

Furthermore, a special meeting of the Risk Commission took place on 21 June 2017, in which the strategic orientation of the AKA was discussed and recommendations for resolutions for the SB for the business policy development of the AKA were developed. The results of the strategy dialogue were then discussed in detail with the SB on 22 June 2017 and approved finally on 14 September 2017.

The Risk Commission 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 SB.

The Compensation Control Committee (CCC) held five meetings in 2017 in preparation for the SB meetings. The Nomination Committee (NC) met three times. The relevant committee chairs reported to the SB on the content of the meetings.

In its meetings, the CCC dealt among other things with the personnel cost structure of AKA, the budget for bonus payments, taking into account the achievement of goals in 2017, and the goal agreement for 2018. The CCC is also responsible for periodically reviewing the amount of SB compensation. For this purpose, it has commissioned an external study since the regular reconstruction of the SB is pending in 2018.

The NC has evaluated the Management in accordance with the requirements of Section 25c KWG. Furthermore, NC has addressed the adaptation of the Management contracts to current legislation. The evaluation of the Supervisory Board in accordance with the provisions of Section 25d KWG will be carried out in the course of a full calendar year and thus at the committee meetings at the beginning of each year. The NC has discussed the determining factors of the composition of the SB.

Auditing and approving the annual financial statements for the fiscal year 2017: The firm appointed as auditor on 30 March 2017 – KPMG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Germany – audited the annual financial statements for the fiscal year 2017, 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 SB 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 SB would like to thank the Management and all members of staff at the bank for their efforts and commitment during 2017. In close cooperation with the SB, important decisions were made in 2017 for AKA's strategic continued development. The AKA is thus well-prepared for the coming fiscal year, despite a challenging market environment.

Frankfurt/Main, April 2018

The Supervisory Board of AKA Ausfuhrkredit-Gesellschaft mbH

Michael Schmid

Supervisory Board

Full members	Deputy Members
Michael Schmid Economist Königstein/Taunus – Chairman –	**Jeannette Vogelreiter** Managing Director Commerzbank AG, Frankfurt/Main as of 1 October 2017 **Martin Keller** Director Commerzbank AG, Frankfurt/Main until 30 September 2017
Werner Schmidt Managing Director Deutsche Bank AG, Frankfurt/Main – First Vice Chairman –	**Frank Schütz** Director Deutsche Bank AG, Frankfurt/Main
Philipp Reimnitz Executive Vice President UniCredit Bank AG, Hamburg – Second Vice Chairman –	**Inés Lüdke** Managing Director UniCredit Bank AG, Munich
Alexander von Dobschütz Managing Director Bayerische Landesbank, Munich – Third Vice Chairman –	**Florian Seitz** Director Bayerische Landesbank, Munich
Sandra Gransberger Head of Internal Audit ODDO BHF Aktiengesellschaft, Frankfurt/Main	**Birgitta Heinze** Director ODDO BHF Aktiengesellschaft, Frankfurt/Main
NN Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main as of 1 October 2017 **Jörg Hartmann** Managing Director Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main until 30 September 2017	**Diana Häring** Vice President Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main
Michael Maurer Senior Vice President Landesbank Baden-Württemberg, Stuttgart as of 28 March 2017	**Nanette Bubik** Vice President Landesbank Baden-Württemberg, Stuttgart as of 28 March 2017
Guido Paris Executive Vice President Landesbank Baden-Württemberg, Stuttgart until 27 March 2017	**Michael Maurer** Senior Vice President Landesbank Baden-Württemberg, Stuttgart until 27 March 2017

Full members	Deputy Members
Winfried Münch Director DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main	**Manfred Fischer** Director DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main
Max Niesert Managing Director Portigon AG, Düsseldorf	**Georg Lucht** Executive Director Erste Abwicklungsanstalt AöR, Düsseldorf
Knut Richter Director Landesbank Berlin AG, Berlin	**Sascha Händler** Director Landesbank Berlin AG, Berlin

Bayerische Landesbank, Munich

ODDO BHF Aktiengesellschaft, Frankfurt/Main

Bremer Kreditbank AG, Bremen

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen until 30 Aug. 2017

Commerzbank AG, Frankfurt/Main

DekaBank Deutsche Girozentrale, Frankfurt/Main

Deutsche Bank AG, Frankfurt/Main

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main

Erste Abwicklungsanstalt, Düsseldorf-Münster as of 23 March 2017

HSH Nordbank AG, Hamburg

IKB Deutsche Industriebank AG, Düsseldorf

KfW IPEX-Bank GmbH, Frankfurt/Main

Landesbank Baden-Württemberg, Stuttgart

Landesbank Berlin AG, Berlin

Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main-Erfurt

Norddeutsche Landesbank Girozentrale, Magdeburg-Braunschweig-Hannover

Portigon AG, Düsseldorf until 22 March 2017

SEB AG, Frankfurt/Main

UniCredit Bank AG, Munich

Executive Directors

Beate Bischoff
Frankfurt/Main

Marck Wengrzik
Frankfurt/Main

Management Report

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Management Report

2017 was a year that can be regarded as a year of "splitting", especially in light of global political developments. An observation that applies to various events throughout the year, on both sides of the Atlantic:

On 20 January 2017, after eight years, Barack Obama handed over his office to his dissimilar successor Donald Trump. What was already clear during the US election campaign last year continued after the inauguration of the new US president: The trend towards a return to national interests, a trend towards renationalisation, coupled with the abandonment of supranational agreements. In November 2016, Trump announced his country's exit from the TPP Transpacific Free Trade Agreement – an announcement that sparked strong irritation among US trading partners in Asia. Trump applied his sharp words in practice in early 2017. In January, he signed a decree on the TPP exit, thus implementing one of his key campaign pledges[1].

From the pursuit of independence to political uncertainty and division: In the midst of the extremely tough Brexit negotiations between the EU and the UK in 2017, a first ray of hope emerged in December: A notification from the European Council confirmed that the exit negotiations had progressed sufficiently in the first phase, paving the way for phase two – negotiations on future trade relations. A so-called "hard Brexit" could be avoided through transitional regulations until the withdrawal on 29 March 2019 and a subsequent free trade agreement. However, it is conceivable that this outlook will also lag far behind today's standard of integration. Both negotiating partners are still far from reaching an agreement with their ideas[2].

In mainland Europe, Catalonia's separatist ambitions caused considerable political discomfort within the EU. After the declaration of independence in autumn, which is illegal under the Spanish constitution, and Catalan regional elections in December, the population is divided and the political situation remains tense.

With regard to German politics, we face a significantly changed party landscape after the 2017 parliamentary election. Instead of five, there are now seven parties sitting in the federal parliament since the election: CDU, CSU, SPD, FDP, Green Party, Left Party and AfD[3]. The era of major popular parties seems to be over, political reporters wrote in 2017, and there has been talk of a threat of permanent political fragmentation ever since.

However, 2017 was again a "year of geopolitical concern", characterised by terrorist attacks, fear-ridden debates and newly inflamed areas of conflict, such as the smouldering nuclear conflict with North Korea, which was aggravated by the provocations from Washington and Pyongyang 2017 more than it had been for years.
All of these economic policy challenges did not constrain global economic growth nearly as much as one might have expected. However, 2017 showed that political uncertainties are continuing to increase.

1 Trump terminates the Free Trade Agreement TPP.
In: tagesschau.de from 23.01.2017. https://www.tagesschau.de/ausland/trump-tpp-101.html.
2 Dr Aberle, Lukas, Dr Soltész, Ulrich: A Downgrade is Imminent.
https://www.lto.de/recht/hintergruende/h/brexit-verhandlungen-zweite-phase-downgrade.
3 Herden, Tim: Parties Under the Plow.
In: mdr aktuell Nachrichten from 20.12.2017. https://www.mdr.de/nachrichten/politik/inland/parteien-rueckblickzweitausendsiebzehn-cdu-csu-spd-afd-fdp-linke-gruene-100.html.

Economic framework conditions and consequences for the trade finance market: With regard to purely economic developments, 2017 turned out to be less spectacular: Considered globally, the economy grew by 3.7 % in 2017 – in October the IMF had expected 3.6 %[4].

As in 2016, prices for crude oil and natural gas also developed much more dynamically in the past year. The HWWI commodity price index rose in November 2017 for the fifth month in a row, with the highest annual growth rate. In the process, average prices of all commodities included in the index rose by 7.4 %. The increase in energy commodities was particularly pronounced. Their index climbed by a total of 8.5 % at the end of 2017. This is contrasted by the development of food and beverages, whose prices remained virtually unchanged in November 2017[5].

The positive economic developments in 2017 are certainly also due to the continued positive liquidity situation – which is determined by a high supply of liquidity.

While the US Federal Reserve reacted to the positive economic development in the USA at the end of 2017 by raising key interest rates by 0.25 %, the European Central Bank remained largely faithful to its direction adopted in 2015 and pursued in 2016. In 2017 (with the announcement that it would only buy bonds worth EUR 30 billion per month starting in January 2018), it merely initiated a cautious turnaround in monetary policy.

The high liquidity resulting from the monetary policy also led to a further decline in EURIBOR rates in 2017. As a result, the average 6-month Euribor experienced a further significant reduction during the course of the year to its current level of -0.26 %[6].

Regarding US interest rates, a different situation could be observed in the course of 2017: Continuing growth became apparent here with an exemplary 6-month USD LIBOR rising from around 1.318 % at the beginning of the year to 1.837 % at the end of the year[7]. Overall, the markets continue to be noticeably under the effect of high liquidity.

Compared to 2016, the global market for syndications rose around 12 % in 2017 to USD 4.6 trillion, contrary to the trend of recent years[8].

A development differentiated by regions became apparent in the EMEA market for syndicated loans, which continues to be primarily relevant for AKA. While volumes for the region

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[4] Chassot, Sylviane: Lagarde warns against complacency.
In: Neue Zürcher Zeitung from 22 January 2018. https://www.nzz.ch/wirtschaft/imf-warnt-vor-korrektur-anfinanzmaerkten-ld.1349991.

[5] Press release: Crude oil prices continue to rise in November.
In: Hamburgisches WeltWirtschaftsInstitut from 7 December 2017. http://hwwi-rohindex.de/index.php?id=7981&tx_ttnews%5Btt_news%5D=416&tx_ttnews%5BbackPid%5D=7946&cHash=f51c60fec5250e6b82c088fa81e30c73.

[6] Euribor interest rates in 2017.
In: global-rates.com. http://de.global-rates.com/zinssatze/euribor/2017.aspx.

[7] US dollar LIBOR rates 2017.
In: global-rates.com. http://www.global-rates.com/interest-rates/libor/american-dollar/2017.aspx.

[8] Syndicated loans review 2017: Top 25 firms, Thomson Reuters.
In: HITC from 3 January 2018. http://www.hitc.com/en-gb/2018/01/03/syndicated-loans-review-2017-thomson-reuters/.

of Western Europe exceeded the strong 2015-level in 2017, volumes in Eastern Europe, the Middle East and Africa declined again compared to the previous year[9].

The volume of coverage of Hermes cover again declined significantly in 2017 by around 18 %, thus falling back to pre-financial crisis levels. The reduction in Hermes cover was driven particularly by the decline in individual cover. While ship covers remained constant in volume, there were again no aircraft covers in 2017.

In terms of the Russian market, which is historically important for AKA, there was a significant loss of dominance of pre-export financing (PXF for short) in 2017. As a result, the number and volume of unsecured transactions in the Russian market increased significantly over the course of 2017, and the volume of PXF transactions declined accordingly. Therefore, the trend in margin reduction, which began in 2016, continued with increasing proportions in 2017.

Sinking margins are probably partly to be regarded here as a market correction. PXF pricing once doubled when sanctions took effect, but this was partly due to volatility in the commodity markets. But mostly, the effect can be deduced simply from the fact that PXF offered the only international option for dollar loans for Russian borrowers: The volume of Western ECA-covered project financing collapsed and the emerging international market of unsecured lending to non-sanctioned Russian companies disappeared almost entirely[10].

AKA is maintaining its position despite negative market trends: In light of the developments outlined, 2017 can nevertheless be described as a very good year for the AKA. Once again, and despite the trend of the markets primarily relevant to AKA, the bank succeeded in maintaining the level of activities in the syndication market. Despite the significant changes in the volume of Hermes cover, particularly in the secondary market, AKA succeeded in operating successfully and significantly expanding its volumes in the ECA segment. As a result, the apparent countertrend in AKA's business development is not as pronounced as the volumes might initially suggest. However, even taking into account these secondary market purchases, AKA clearly exhibited a positive business development in this important segment in 2017.

In the segment of structured finance, the fiscal year of 2017 presented a differentiated picture for AKA: The positive development in structured financing, both in terms of closing volume and income, is offset by a downgrading in transactions and commitments in the receivables segment due to a very high degree of competition and thus conditionality due to market conditions.

Considered from a different perspective, AKA has made good use of the favourable market conditions for borrowers in 2017 to move forward much more actively in both the money market and the medium to long-term borrowing market, and to secure attractive terms in the maturity band of up to 10 years.

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[9] Loan Radar, 2017 – EMEA deal pipeline – week commencing 8 January 2018.
In: https://www.loanradar.co.uk.

[10] Burroughs, Callum: Russian PXFs: Has the post-2014 bubble burst for good?
In: TXF news from 20 Nov. 2017. https://www.txfnews.com/News/Article/6303/Russian-PXFs-Has-the-post-2014-bubble-burst-for-good.

The market-related challenges also made it increasingly clear in 2017 how important it is to place AKA on a broader footing as part of its development and growth opportunities.

Already in the course of the past year, AKA's core business was characterised by a stronger focus on ECA-covered project financing. On the one hand, AKA began to invest in training and on the other hand, it started to make its first investments in the market. In 2017, AKA took the first steps to build up expertise in this segment directly by accompanying several transactions. The activities in ECA-covered project finance market are a particularly important development area for AKA, as this market generates substantial potential volume on the one hand, and has weaker competitive effects on the other due to the smaller number of market participants. Without putting quality standards at risk, there are visible opportunities here for securing a better price level.

In addition, AKA began to intensify its cooperation with non-shareholder banks in 2017, which already had active relationships within the FI-Desk business.

Finally, a topic being an increasing focus of attention already during the year 2017, needs to be emphasised here as it will become even more important in the course of the new year: Dealing with sanctioned regimes. The coverage instrument will need to evolve in response to changing challenges and risks. This year's guest contribution by Dr Kurt Dittrich, Partner and Head of Finance Division Germany at Linklaters, sheds light on the issue, especially in terms of the potential for conflict that results for banks and companies in dealing with sanctioned regimes under German foreign trade law.

2. New business development in 2017

Sound figures for new business in 2017: In 2017, AKA achieved a positive volume of new business amounting up to of EUR 1,538 million, an increase of 7 % compared to 2016. This is a more than satisfactory result in light of a continuing decline of the syndication market relevant to AKA. Earnings generated from new business reached a historic high of EUR 12.7 million.

The following developments carried particular significance in 2017:

AKA was extremely successful in its core business, ECA-covered financing. Despite the restrained market development, the business volume of EUR 675 million is well above plan and the previous year.

In line with a very weak business development, the business volume of risk sub-participations in letter of credit confirmations and related short-term products remained below plan and the previous year, in line with the very weak environment.

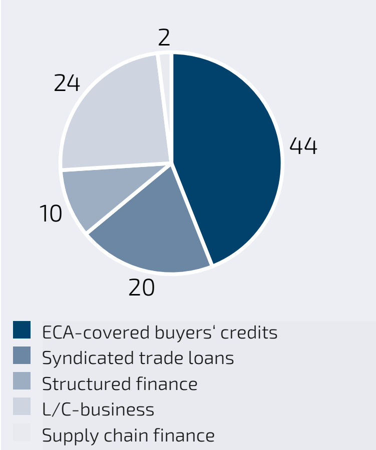
The Structured Finance and Syndication department is responsible for structured finance, syndicated trade loans (STL) and receivables. The results in 2017 show a differentiated picture:

The constant satisfactory development in structured finance increased in terms of volume and earnings. The previous year's result for STL was exceeded only in earnings. 2017 was characterised by a low willingness of our partner banks to share risk exposures with AKA. However, 2017's volume was slightly below the previous year's level.

The receivables segment was unable to meet the set expectations due to a market-driven high level of competition and thus a decline of conditions. The previous year's figures were achieved neither in volume nor in earnings.

Fortunately, the largest share in the product portfolio of new business at 43.9 % was achieved with its profitable anchor product, the participations in ECA-covered transactions (2016: 29.4 %). Second place was taken by risk sub-participations in letter of credit confirmations and related products. After many years of strong growth, the transaction numbers and volumes in this segment fell significantly below the figures achieved in the previous year. Accordingly, the share of new business fell to 23.9 % (2016: 32.6 %). Participations in syndicated trade loans followed with a volume of 20.6 %. The proportion of structured financing remained at the level of the previous year (9.7 %) at 9.5 %. The participations in non-recourse forfeiting fell to 1.8 % (2016: 3.6 %). The proportions of other product groups such as guarantees, advance payment financing or other types of financing are negligible.

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



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 2017, showing confidence in its high quality expertise and partnership.

At EUR 675 million, the new business volume of AKA (2016: EUR 423 million) is significantly above the previous year's level.

As part of its on-going strategic expansion as a European trade finance institute, AKA is increasingly offering cooperation with all European ECAs in addition to traditional cooperation with Euler Hermes.
In this context, AKA has also expanded its refinancing capabilities in 2017 via refinancing programmes from European export credit agencies.

AKA has implemented a team specialising in ECA-covered project financing since 2016. In the year under review, AKA was able to participate in some highly interesting major transactions.

A shareholder resolution in the year under review gives AKA room to significantly expand its business activities. Accordingly, AKA is expanding its cooperation in all product lines with non-shareholder banks having a strong international reputation. However, core activities of AKA continue to be exclusively available to shareholder banks.

The trend for bilateral export financing on the basis of individual credit agreements is continuing to grow. The basic agreements of AKA, which form an efficient network in many emerging markets, were used mainly in individual markets in the year under review. This trend was already apparent in previous years.

The majority of transactions in the ECA segment are concluded directly with the foreign importers on the basis of individual credit agreements.

Risk participations in LC confirmations: In this segment, AKA is involved in silent risk sub-participations in LCs, bank guarantees or related products mostly with terms of less than one year. The business volume of EUR 368 million in this segment is disappointingly ranging below the plan and the previous year. This development is due to the significantly reduced risk placement appetite among AKA's syndication partners.
AKA is expanding its cooperation with selected non-shareholder banks. The target group includes globally positioned banks with first-class reputation in trade finance business.

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 and traditionally confined to some Eastern-European markets. The decisive factor for the decline is EBRD's currently suspended engagement in Russia.

Structured finance and commodity trade finance: The volume of new transactions rose to around EUR 146 million. This exceeded the previous year's result by earnings and volume. New financings are predominantly participations in commodity-related transactions.

Receivables: In the segment of receivable financing (forfaiting and guarantee transactions), the targets were clearly missed in terms of volume and earnings, particularly because the planned participations in the platform solutions of the shareholder banks could not be implemented. Even in the individual business with larger tranches, the willingness of sharing risk exposures was limited.

Syndicated trade loans (STL): The borrowers were mostly banks that have a system-relevant position in their countries and major international trading houses with first-class reputation.

The relevant trade-related syndication market had a slump in volumes in 2017 coupled with decline in conditions. Particularly Turkey's short-term FI business, which is important for AKA, was characterised by declining yields in 2017, despite any political developments. Despite these difficult conditions, earnings of EUR 5.2 million were exceeding the previous year's level while volumes ranged slightly lower.

Another part of this portfolio includes transactions that are involving supranational institutions such as EBRD, IFC and Afrexim.

2.2 Total commitments

The total commitments of AKA declined as of the reporting date of 31 December 2017 to around EUR 4.9 billion (previous year: EUR 4.5 billion).

This total includes AKA's and its shareholder banks' loan volume as well as receivables held in trust by AKA.

2.3 Positive prospects for AKA's new business for 2018

AKA expects a continuing strong market position of the European export economy in 2018.

In the long-term financing segment, AKA's new business will continue to concentrate on ECA-covered transactions for European exporters. AKA intensively used the year 2017 to expand its market position and perception. As a result, AKA expects to transact a number of substantial deals in the first half of 2018. In this regard, AKA focuses not 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 2018. Regarding small transactions, AKA will also use the new year to develop new solutions for the so-called "small tickets" business that establishes a solid economic basis for these transactions. This development will represent a focus of activities in the new fiscal year.

In the segment of silent sub-participations of LCs, 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 product segment pursues financing for commodity traders and producers together with the partner banks. These financing deals include covered structures (PXF, borrowing base, RBL) plus short-term working capital financing (RCF). The excess demand for good, financeable assets will continue in 2018, keeping margins low and will further ease structural requirements. However, the expansion of the partner banks beyond the group of shareholder banks promises additional market opportunities.

The usually short-term, trade-related syndicated loans for banks is part of the STL segment and AKA expects the return to profitable growth in 2018 in the context of an attractive market – especially if the willingness to share risk exposures increases due to market conditions. For the coming year, activities will focus on the diversification of the portfolio.

The receivables segment will be refocused based on the results of 2017, whereby a main focus is placed on individual solutions for forfaiting and guarantee transactions in order to achieve the budget figures.

Due to the good deal pipeline, the active and trustworthy cooperation with the shareholder banks as well as the well-diversified limit and product structure, AKA sees positive prospects that business volumes and earnings will exceed the level of 2017.

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 business partners 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, i.e. in line with its business partners and not as a competitor. It acts primarily at the request of its shareholder banks. In principle, AKA may also participate in financing from non-shareholder banks, but with certain exclusive activities reserved for the 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, it does not carry out any "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 liquidity 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.

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 (SB). 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. The responsibility for the successful implementation of the risk policy determined by the Management is predominantly held by the Credit Risk Management (CRM), New Business and Portfolio Management departments, which are entrusted with the loan business, as well as the Accounting (REWE/Treasury) department, which is responsible for treasury activities.

Risk Strategy: The risk strategy is based on the principles of KWG/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 departmental 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, market price, operational, liquidity and business risks.

The defined limits are reviewed during the periodic evaluation of the risk strategy. When reviewing the risk strategy, AKA increased the own funds allocated to credit default risk defaults to the current level of EUR 200 million. The allocated own funds limits amount to EUR 7.5 million for operational risks, EUR 25 million for market price risks (EUR 18 million for interest rate risks and EUR 7 million for foreign currency risks) and EUR 8 million for liquidity risks.

Once a year, a risk inventory of all relevant risks is drawn up. The 2017 risk inventory has not created any further increased risk potential for 2017 and as a forecast for 2018 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 136 million as at 31 December 2017. 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 41 % in September (2016: 47 % in December) and a maximum of 54 % in February (2016: 64 % in February). The assessment of the going concern approach shows that AKA is capable of bearing its risks at all times.

Furthermore, at least twice 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 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), or credits with the ECB, and for US dollars HQLA bonds as well as credits with the ECB are kept in euros exclusively for liquidity management.

Domestic changes to Gross Domestic Product (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 state 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 risk standard approach (CSA).

AKA's risk profile pursuant to the regulations:

	2017	2016
Weighted risk assets (including market risk position and operational risk) in millions of EUR	1,244.1	1,325.1
Own funds in millions of EUR	242.1	224.1
Total capital ratio as per CRR in %	19.5	16.9

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, AKA has over many years 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 are implemented pursuant to the amendment V.

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 individual risk and credit default risks. This includes 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 votes on loan approval decisions that come under management's expertise level.

The Controlling Department draws up risk standard guidelines inter alia 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 business management and control, taking all risk factors into consideration. Therefore, an important subtask of Controlling at AKA involves risk identification and its classification as well as risk 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 risk prices (interest rate rand foreign currency risks), liquidity risks as well as 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.

In regard to 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.

Objectives of the RC: The primary goal is to monitor AKA's risk situation from the economic and regulatory point of view, and to determine 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 made 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 as well as regular portfolio analysis and monitoring (large credits, watch list, risk concentrations).

The Credit Committee as an organisational unit does not constitute a separate level of authority for credit approval. Within a Credit Committee meeting, loan approvals for individual transactions or credit lines may be granted by relevant management personnel responsible for approving loans.

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.

The Risk 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 it recommendations for resolutions at the next Supervisory Board meeting. During 2017, the Supervisory Board held five scheduled meetings of the Risk Commission.

Supervisory Board (SB): The SB consists of representatives of the six largest shareholders and three further persons 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 SB 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 from the Management and from Credit 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 2017, the SB held five meetings.

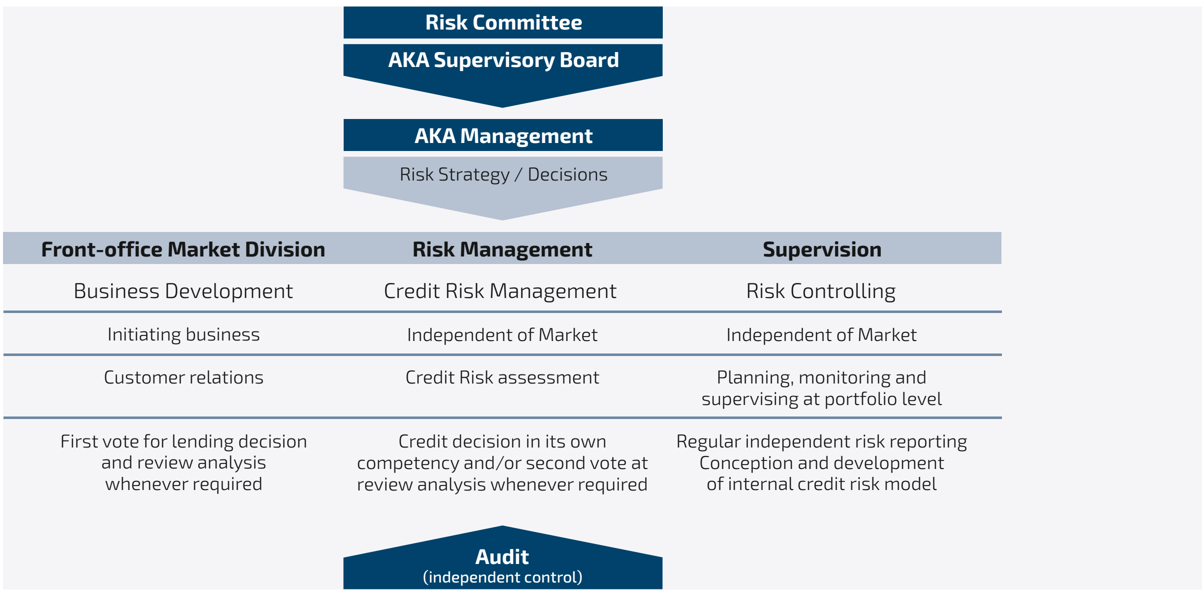
Internal Audit (IA): In accordance with the provisions of supervisory law applicable to credit institutions, AKA possesses its own IA team, which performs its tasks in accordance with regulatory requirements. The IA team independently reviews and evaluates the effectiveness and appropriateness of the bank's risk management and business controls on the basis of a risk-based approach. The audit results along with associated action plans are reported to the Management.

The IA function also participates in significant projects.

In 2017, all IA activities complied with the approved audit plan that is continuously monitored by the Management in terms of its implementation. In the period, there were no special audits required to be performed.

The IR team reports to the Supervisory Board during the year.

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 2017 of more than 35 % was achieved with around 43 %.

Credit default risks are understood to include the risk for AKA of possible losses in value of receivables from a contractual partner, due to
- unexpected full, partial or temporary insolvency or unwillingness to pay;
- reduction in the value of a receivable (credit risk) associated with an unexpected deterioration in the creditworthiness of the debtor;
- an unexpected reduction in the value of collateral or guarantees (collateral risk).

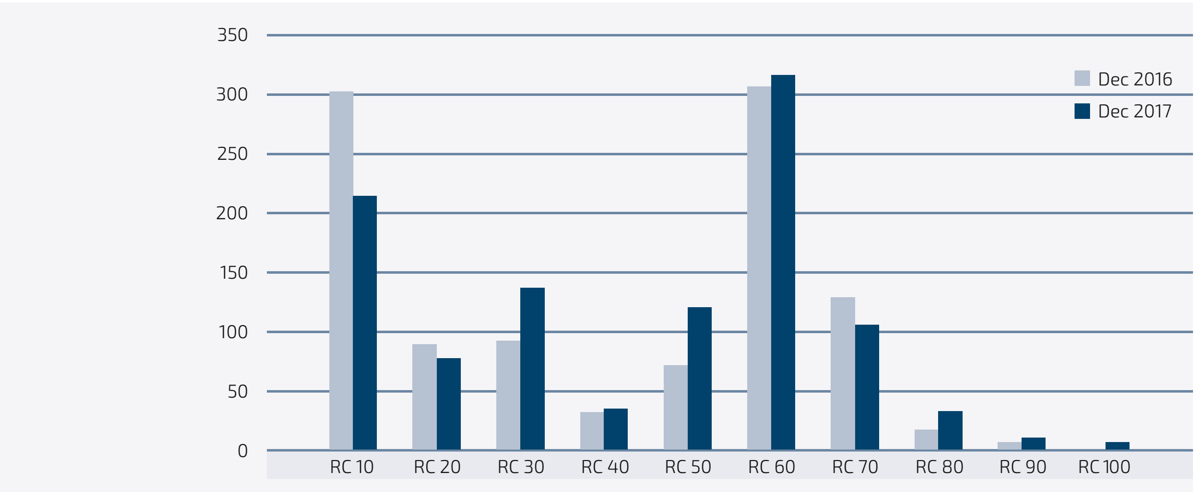
In addition to the individual transaction-related credit default risk, AKA also considers country risks to be particularly key to default risks due to the focus of its business structure on emerging markets.

AKA classifies risks in the various classes of receivables as follows, in line with the Capital Requirements Regulation (CRR):
- Countries/Sovereigns
- Corporates
- Banks

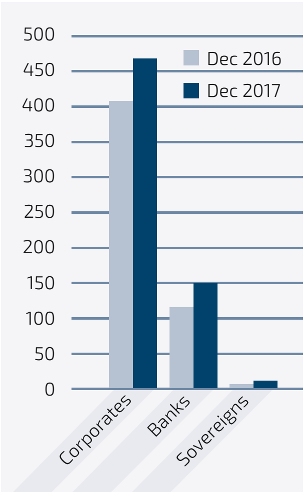
Due to the special orientation of AKA's business policy, risks specifically relating to
- commodity, structured and project financing and
- private insurance cover

are also considered.

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 principal 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, government and economy may still be solvent on national basis.

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), international organisations, central banks and other known reliable 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 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 it's 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 respective country. Consequently, this heavily influences the creditworthiness of the borrower.

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 in regard to 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, leverage ratio, 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 taken into account. 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 (Key Performance Indicators). When calculating KPIs, 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 to ensure comparisons with AKA's international and national corporate business. In a second step, 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, for example 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 last carried out in 2016 serves 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 result.

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

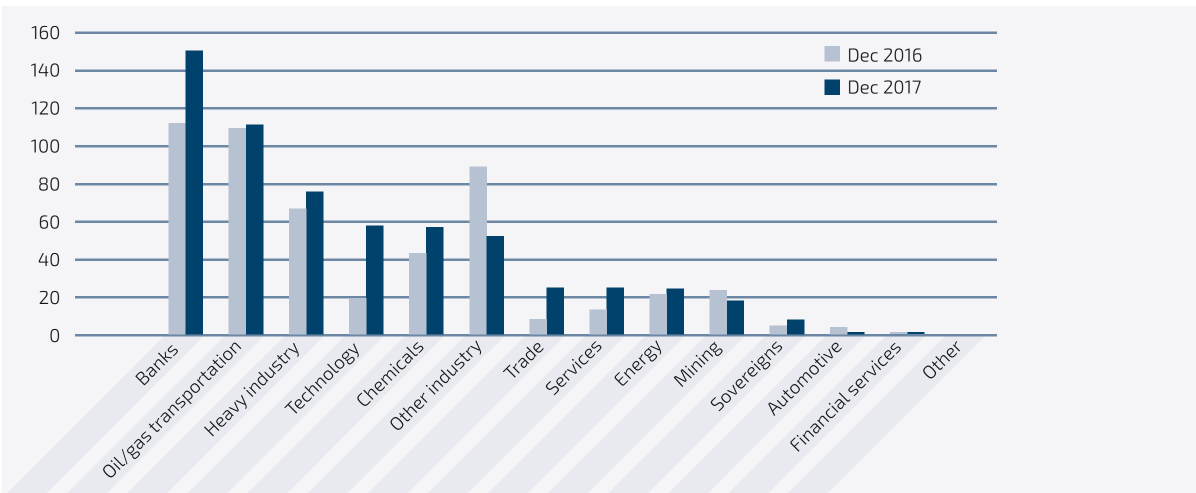
Sector risks: For both long- and short-term loan business, additional sector limits have been created to limit risk concentrations. Sector limits, in each case 10 % of the overall limit, have been set for the current number of 18 corporate sectors. The sector limits for "raw materials/oil and gas" and "trade" have 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 practice 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 credit default 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.

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 valuation-free 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

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



capacity calculations. The bank has defined an equity capital limit as an upper limit for losses for all credit default risks. This has already been adjusted in light of the renewed increase in equity capital requirements (10.375 %) for 2018 on the part of the supervisory authority.

The total net liability limit 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 utilisation 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 default risk, market price and operational risks are suitable and were consistently met throughout 2017.

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. 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 of 7 December 2017.

An economic internal monitoring and management component supplements the above-mentioned limit framework and its use of equity capital according to the standard credit approach (CSA).

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 considered based on credit volumes, recovery factors according to the foundation approach (IRBF), AKA's own calculated probabilities of default and correlations. These include "expected loss" and "unexpected loss" among other aspects.

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 are 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 (CRM) 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. Each credit decision requires two consenting votes from the New Business and CRM departments. The New Business and CRM departments 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 votes to reject loan business falling within its own approval limit, New Business can escalate the loan application to the bank's Management for a final decision. New Business and the Executive Director responsible for the front office cast the first votes on loans with a net risk greater than EUR 1 million. CRM and the Executive Director responsible for the back office cast the decisive second vote. If the vote is tied (2:2), the loan is 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 and 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 would have 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 not used during the fiscal year 2017.

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

The early recognition of increased risks is managed using 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 pre-watch list. Exposures on the 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 problematic loans will arrange for these exposures to be processed.

Management and the 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 (that is 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, effort is put into avoiding these risks by congruent refinancing of the loan business. In addition, as a non-trading book institution AKA does not conduct any transactions with the aim of realising 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.

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 stipulated 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 "credit institution with an increased risk of default"), which have to be disclosed to the German Federal Financial Supervisory Authority and Deutsche Bundesbank. As at 31 December 2017, an interest rate coefficient of 6.1 % 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 appropriate risk provisioning for these loans. In this regard, the foreign currency risk is low and backed with EUR 0.9 million equity capital as at 31 December 2017 in accordance with the CRR (Capital Requirements Regulations).

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

– Insolvency risk;
– Liquidity maturity transformation risk.

The insolvency risk represents the risk that the borrower will not be able to meet its current or future payment obligations at all, in full or on time. 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 17 banks) AKA is in a position to ensure the successful refinancing of its loan 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 being implemented.

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 customers exist. Accordingly, the refinancing structure of AKA is based on three pillars which have been used to the following extent:

	31.12.2017 EUR million	31.12.2016 EUR million
Shareholders	488	600
Non-shareholders	611	449
Publicly accessible funds	1,238	1,229
Total borrowings	**2,337**	**2,278**

Short-term liquidity: In order to ensure financial solvency at all times, AKA has built up a liquidity reserve amounting to EUR 161.1 million as at 31 December 2017. This is invested in short-term USD bonds in a scope of EUR 33.4 million.

Additional liquidity is deposited as overnight funds with Deutsche Bundesbank and 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 loan 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 2017.

In addition, AKA's short-term liquidity risks are 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 as the ratio of the stock of highly liquid assets in relation to the net cash outflows for the next 30 days. At the year-end, highly liquid assets exceeded cash net outflows and inflows expected in January 2018 by a factor of 1.56. On an annual average, the LCR was 1.22, varying between 0.99 and 1.72. In accordance to the guideline the minimum ratio was 0.8 in 2017.

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 2.85. During the course of the year, the ratio varied between 1.7 and 19.2.

Long-term liquidity: The refinancing of the loan portfolio is predominantly 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 modelling the relationship between refinancing funds for credit receivables with remaining maturities of more than a year is used for measuring and monitoring purposes. In the past fiscal year, it fluctuated between 1.0 to 1.08, whereby it was at 1.0 at the end of the year.

The risk of increasing refinancing costs deriving 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 will double compared with the prevailing level and the associated impact on earnings is derived over the year. For 2017, the associated risks ranged between EUR 0.2 million and EUR 0.4 million. A potential spread risk of EUR 0.4 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:

	31.12.2017	31.12.2016
Liquidity reserve (EUR million)	161.1	182.2
Liquidity Coverage Ratio Ratio of highly liquid assets to net cash outflows over the next 30 days	1.56	1.06
Liquidity Index Ratio pursuant to LiqV Ratio of receivables to liabilities in the 1-month range pursuant to liquidity regulation	2.46	2.40
Liquidity ratio Ratio of receivables to liabilities in the 3-month range	2.85	4.42
Fundingratio Ratio of refinancing funds to loan receivables with remaining maturities >1 year	1.0	1.05
Spread risk standard scenario (EUR million)	0.4	0.6
Spread risk extreme scenario (EUR million)	3.2	2.8
Interest rate risk (EUR million)	1.6	1.4

3.4 Risk provisioning

AKA takes appropriate account of all identifiable risks arising from the banking business. The departments of Credit Risk Management, Portfolio Management and Accounting are involved in the determining process for 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 determined 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. No risk provision is 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 provision 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 to consider 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 debts (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 review shows the detailed development of risk provisioning in the loan business in the past year:

	2017		2016	
	EUR million		EUR million	
	EWB	LWB	EWB	LWB
Allowances in the loan business				
Brought forward at 1 January	5.6	12.1	11.8	16.7
Utilisation	1.1	0.0	3.5	0.0
Reversal	0.7	4.7	4.6	12.0
Allocation	0.6	9.6	1.8	7.4
Reclassification	+ 0.1	- 0.1	0.0	0.0
As at 31 December	**4.5**	**16.9**	**5.6**	**12.1**
Provisions in the loan business				
Brought forward at 1 January	1.8	2.9	2.9	6.7
Utilisation	0.0	0.0	0.0	0.0
Reversal	0.1	2.2	1.1	6.3
Allocation	0.0	1.0	0.0	2.5
Reclassification	- 1.6	+ 1.6	0.0	0.0
As at 31 December	**0.1**	**3.3**	**1.8**	**2.9**
Lump-sum provisions	0.6		1.4	
Total risk provision	**25.4**		**23.8**	

AKA was able to reverse value adjustments and provisions for contingent losses amounting to EUR 6.9 million in connection with country risk provisions, compared to EUR 18.3 million in 2016. In contrast, the allocation to country risk provisions amounting to EUR 10.6 million is slightly above the previous year's level (2016: EUR 9.9 million). At the end of the year, an amount of EUR 20.2 million was allocated to country risk provisions (2016: EUR 15.0 million).

In regard to single allowances for bad debts, an amount of EUR 1.1 million was allocated, which is primarily attributable to the sale of receivables and the simultaneous debt waiver. Furthermore, an amount of EUR 0.6 million was allocated to single allowances for bad debts and a slightly higher amount of EUR 0.8 million was released. In regard to provisions for contingent losses, an amount of EUR 0.1 million was released. EUR 1.6 million were reclassified to country risk provisioning. The amount for credit default risks at the end of the year totalled 4.6 EUR million (2016: EUR 7.4 million).

Provision for general banking risks: For general banking risks, AKA has appropriated a provision in accordance with Section 340f of the German Commercial Code (HGB), which remained unchanged in 2017 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 own funds required in accordance with supervisory law to underpin operational risks. For the purposes of reporting and to calculate the underlying equity capital, the AKA uses the Basic Indicator Approach (BIA).

AKA allocates an equity limit of EUR 7.5 million for the operational risk. The BIA value calculated mathematically lay at EUR 5.5 million (2016: EUR 5.2 million). 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 2017 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 2017 ascertained these risks in all departments and in the Management. All departments were asked in writing to assess their risks both for 2017 and for the whole year of 2018 for further assessment. The reports from the individual departments were compiled by the Controlling department, 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 on, 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 segment 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. All IDP applications were drawn up and assessed as part of the 2017 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 as part of the risk strategy has been drawn up for AKA's IT infrastructure and applications to supplement the standard systems. 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 the BSI standard (100-1), the bank set up a comprehensive IT Security Management System (ISMS) in 2015. In 2017, 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, the obligatory 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.

Various emergency tests and a larger exercise were carried out in the course of 2017 with the participation of the specialist departments. In addition, there were numerous tests and reviews of the infrastructure's emergency capability.

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 2018.

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 in regard to 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 and a deputy compliance officer who carry 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 particularly national laws to combat money laundering and the financing of terrorism, including embargo and sanctions provisions plus laws to combat acquisitive crimes. For AKA, which is not a securities services company and has no cash payment transactions, these risks play a certain, if not superordinate, role with regard to its contract partners who are mainly based in emerging and developing countries. In 2017, AKA adopted a new sanctions directive and revised the money laundering directive and the money transfer regulation directive to take into account the requirements of the 4th EU Money Laundering Directive and the amended Money Laundering Act.

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 in regard to interest and commission income and operational expenses resulting from deterioration in market conditions, changes in the market position and/or customer behaviour plus due to possible legal framework conditions. The risk becomes effective as soon as a negative operating result is achieved within the next 12 months. Strategic business risks include the jeopardising of the bank's long-term success.

Responsibility for the management of the business strategy lies with the Management, which sets business strategy objectives in cooperation with the SB. 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 SB on the basis of the approved business strategy and, if necessary, is modified in consultation with the SB. The orientation of AKA's business policy, which is aligned with the needs of the business partners, is continually monitored based on the business development and is reviewed and updated where necessary through regular contacts.

In this regard, 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 in regard to 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
– Profit and Loss Statement
– Risk management
– Risk bearing capacity
– Definition and evaluation of stress tests
– Credit risks including the watch list
– Market price risks including Liquidity Risk
– Liquidity risks
– Operational risk

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

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

Update of SREP: AKA received a final SREP notification for an updated SREP decision from the Federal Financial Supervisory Authority (BaFin) in December 2017. The corresponding reporting requirements regarding the stipulated capital add-on will be implemented and reported after the final determination.

Revised version of MaRisk: The revised version of the MaRisk amendment was published in on 27 October 2017 by BaFin. AKA has prepared a comprehensive gap analysis in advance on the basis of the consultation paper of MaRisk. The main drivers are the "Principles for the Effective Aggregation of Risk Data and Risk Reporting (BCBS 239)", the requirements for an effective risk culture and the adjustments in module AT 9 (outsourcing). Based on the analysis, a catalogue of measures was drawn up that was compared with the requirements of the final version of the MaRisk. All relevant changes will be implemented by AKA by 31 October 2018 at the latest.

Banking supervisory requirements for IT: On 6 November 2017, BaFin published the final version of the bank supervisory requirements for the BAIT in the circular on 10/2017. Based on the consultation paper for the BAIT, AKA carried out a gap analysis in advance and identified the points relevant to AKA. AKA has identified individual measures and will implement them promptly as part of the continuous improvement of IT governance.

FINREP-/COREP notifications: The ECB published its final version of the regulation on reporting supervisory financial information (ECB/2015/13) on 31 March 2015. As a HGB institute, starting 30 June 2017 AKA is required to provide notification and must submit notifications in the scope of "Simplified FinRep". Processes were implemented in the bank for handling of non-performing loans and forbearance measures as part of the implementation. AKA has implemented all requirements and submitted the first report on 30 June 2017.

Adjustment of regulatory equity buffers: In 2017, the capital conservation and countercyclical capital buffers introduced within the framework of CRD IV were increased. AKA implemented the corresponding reporting requirements in 2017.

Finalising Basel III: At the beginning of December 2017, it became public that the Basel Committee reached an agreement on the finalisation of Basel III. In its work, the Basel Committee focused primarily on revising the methods for determining the risk-weighted assets subject to mandatory cover. The AKA is mainly affected by the revision of the credit risk standard approach. Their impact on risk-weighted assets and capital backing was extensively reviewed in 2016/17. The current capitalisation is adequate under the new requirements and all regulatory quotas can be met at all times. AKA will meet all Basel III requirements by 2022.

Upper limits for exposures opposite banks without equal banking authority: In 2017, AKA implemented the requirements of the EBA (GL/2015/20) and BaFin (circular 08/2016) with regard to exposures to shadow banks (banks that are not subject to EU-wide supervision). At AKA, the affected exposures are regularly reported to the Management. Upper limits are set for control and limitation.

AnaCredit: ECB regulation 2016/867, published on 1 June 2016, regarding the collection of granular credit data and credit risk data requires institutions to submit their first reports on AnaCredit in 2018. In 2017, AKA created the prerequisites for notification of the AnaCredit requirements and can fulfil the obligation to report the master data (key date 31 January 2018) as well as the business data (key date 31 March 2018) in due time.

AKA's balance sheet total declined by 0.9 % to EUR 3.070 billion as at 31 December 2017 compared to EUR 3.099 billion as at 31 December 2016. The business volume, including contingent liabilities and other liabilities, decreased by 2.0 % to EUR 4.226 billion. Adjusted for changes in AKA's trust business, the decline amounts to EUR 0.008 billion and therefore at a virtually unchanged level. A decrease of EUR 23.0 million to EUR 353.6 million was recorded for contingent liabilities arising from guarantees with risk-participations in letters of credit, guarantee obligations and guarantee transactions. The irrevocable loan commitments disclosed under other liabilities reduced by EUR 35.2 million to EUR 802.6 million.

Loans and advances to banks and customers constitute the key asset positions and result from the loan business of the bank. They increased in the past fiscal year by EUR 75.5 million to EUR 2.512 billion. To refinance the business, AKA has available liabilities to banks in the amount of EUR 2.188 billion and to customers in the amount of EUR 0.200 billion. As a result, the loan volume financed by banks declined by EUR 42.7 million. In contrast, the share of the business financed by customer deposits increased by EUR 90.5 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 79.0 million to EUR 420.7 million as at the balance sheet date. The trust assets are accompanied by trust liabilities in the same volume.

Debenture bonds and other fixed-interest securities were held in an amount of EUR 37.0 million (31 December 2016: EUR 81.8 million). Insofar as they form part of AKA's liquidity reserve, they are short-term securities with excellent credit ratings. As at the balance sheet date, the stock amounted to EUR 33.3 million (31 December 2016: EUR 81.8 million). In the course of debt rescheduling, the company received long-term sovereign bonds in an extent of EUR 3.7 million.

The balance from the settlement of pension provisions with assets from the cover fund is stated under "Active difference resulting from asset offsetting". The fund assets transferred to a trustee in form of a contractual trust agreement (CTA) amount to EUR 23.1 million as at the balance sheet date. The acquisition costs of the settled shares also amounted to EUR 23.1 million. The settlement amount of pension provisions amounts to EUR 22.6 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 2017 the revenue reserves increased to EUR 207.15 million, the annual net profit of EUR 11.08 million is applied as follows: EUR 6.98 million are appropriate to further augment of the revenue reserves, which now amount to EUR 214.1 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 233.7 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 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 financial position, did not occur.

5. Earning position

Various factors affected the results of the fiscal year 2017.

The net interest income of the past fiscal year amounting to EUR 32.9 million, exceeded the previous year's level by 10.3 % (2016: EUR 29.9 million). The slight decline of the interest margins in the loan business was easily overcompensated by an increase of the average loan volume throughout the year.

The net commission income fell by 1.3 % compared to the previous year to an overall amount of EUR 5.7 million. This is particularly based on the declining business of the administration of trust receivables. Compared to the previous year a decline of EUR 0.2 million to 1.6 million was reported.

Overall, the result from the loan business thereby amounted to EUR 38.7 million compared to EUR 35.7 million in the previous year. Net earnings from the loan business, as a relevant performance indicator, rose by 9.5 % to EUR 38.0 million, compared to the previous year. Thus, the planning expectation for 2017, which was EUR 42.0 million, could not be sufficiently achieved due to delayed utilisation and premature redemption of business, especially in the existing business.

General administrative expenses rose as expected by EUR 2.7 million in 2017, triggered by higher personnel and other administrative expenditures. In particular, pension expenses increased by EUR 1.4 million due to a declining interest rate factor.

Compared to the previous year, the operating result improved marginally by EUR 0.3 million to EUR 20.7 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 46.4 % and thus 3.6 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 loan business in the 2017 annual financial statements. In total, allocations to risk provisions of EUR 11.3 million faced reversals of risk provisions amounting to EUR 8.5 million. A depreciation of EUR 0.7 million was registered on the securities portfolio.

After deducting the profit-related taxes, an annual net profit of EUR 11.1 million was posted. This is considerably higher than the target value, projected in the business plan, of EUR 7.5 million.

Return on investment as the ratio from the annual net profit to balance sheet total reduced from 0.56 % in 2016 to 0.36 % last fiscal year.

The return on equity before taxes, the company's third financial performance indicator, declined from 15.2 % to 7.4 % and is considerably above the annual plan of 5.9 %. 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.

Earning position	2017	2016		Change
	EUR million	EUR million	EUR million	%
Net interest income	32.9	29.9	+ 3.0	+ 10.3
Net fee and commission income	5.7	5.8	– 0.1	– 1.3
Administrative expenses (incl. depreciation)	– 17.9	– 15.3	+ 2.6	+ 17.4
Operating result	20.7	20.4	+ 0.3	+ 1.6
Other income/expenses	– 0.5	– 0.1	+ 0.4	+ 434.3
Risk provisioning	– 3.5	+ 11.5	– 15.0	– 130.0
Income taxes	– 5.7	– 8.9	– 3.3	– 36.5
Annual net profit	11.1	22.9	– 11.8	– 51.6
Net earnings from the loan business	38.0	34.7	+ 3.3	+ 9.5
Cost income ratio	46.4 %	42.8 %	+ 3.6 %	+ 8.3
Return on equity (before taxes)	7.4 %	15.2 %	– 7.8 %	– 51.7

Committees: The bank's Supervisory Board (SB) currently comprises representatives of ten shareholder banks (at least six pursuant to the articles of association). The committee 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 and to support its work, the SB has set up support committees.

The Risk Commission advises the SB 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 SB 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 SB Chair and his representatives from the SB. Both have the task of supporting the SB 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 SB in accordance with the requirements of the German Banking Act (KWG).

Pension obligations: AKA's pension assets were outsourced in 2007 in coordination with the SB 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 to prepare them for their tasks. This was again the focus of Human Resources work in 2017. In total, 60 % 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 professional training lay at 95 %. The Human Resources development programme (PEP) was also continued in 2017. The intensive Human Resources development and qualification of employees was further expanded by AKA in a target-oriented manner.

Staff structure: At the end of the fiscal year, AKA employed 106 (2016: 107) employees. Taking into account those employees on parental leave and working part-time, the active employee capacities, converted to full-time employees, amount to 96.12 compared to 96.63 in the previous year.

The proportion of employees not covered by collective bargaining agreements is 54 %

(2016: 48 %). The average age of all employees is around 44 years (2016: 44 years). The average term of service is 10 years (like last year) and the proportion of employees who have been at AKA for longer than 10 years is 41.5 %. The fluctuation rate has increased due to dynamic personnel changes. AKA has transferred management responsibility to 24 employees. The proportion of female executives is 38 %.

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 23 % of employees are currently utilising. In addition, AKA has set up a cooperation agreement with pme Familienservice to support its employees in regard to 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 2017, the percentage of employees from an international background was 25 %. 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.

AKA has further expanded its export and trade finance business with a focus on emerging markets in 2017. It has a higher volume of new business compared to the previous year, even if the overall planned volume was not quite reached. The market environment in the relevant credit segment for AKA was very challenging in this fiscal year. In particular, the high level of liquidity in the markets led to the proven forms of financing tied to specific commodity transactions to be less in demand, since alternative financing options were offered to borrowers and investors in the sales markets. Overall, there was a decline in risk sensitiveness and, accordingly, the demand for securing financing through government export credit insurance was lower than in previous years. Nevertheless, AKA was able to grow in this core business area and is even above the volume planned for 2017 for concluding ECA-covered finance.

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 quality performance indicator, is higher than the target value. Conversely, in regard to net earnings from the loan business, a financial performance indicator, the planned values have not been reached. However, the earnings were 10 % above the previous year's level. New business accounted for a large share of earnings, while effects from existing business had the opposite effect. The cost-income ratio (CIR) of 46 % exceeded the value planned for 2017. Higher costs associated with regulatory requirements carried weight in this regard. However, the CIR remains at a value that is low for the financial industry. A return on equity of 7.4 % was achieved in the 2017 fiscal year, which is noticeably above the planned level. One of the causes is the lower allocations to country risk provisions.

AKA's business perspective for 2018 will also continue to focus on financing and risk taking with a real economic link to trade and investment. The geographical focus is on emerging markets and extends to all regions of the world. Together with its shareholders, AKA set an important course for its business policy development in 2017. It is therefore now possible to accompany transactions of non-shareholder banks across all product types, whereby certain exclusive activities are reserved for the shareholders. The activities and earnings for the year 2018, as well as the multi-year business planning until 2021, are determined by growth in all business sectors.

For AKA's business model, the most important economic drivers are the development of the German and European economies and export flows as well as the growth prospects in the emerging markets and also generally in world trade. The assessment of economic and political developments in the target markets of the emerging markets is very important to AKA in analysing the risks arising from its loan business. The assessment of risks that may arise from geopolitical tensions and conflicts is equally important.

The outlook for 2018 forecasts a growth rate of 1.9 % for the German economy. German exports are to grow by 4 %. Both values are therefore well above the previous year's forecasts. Exports in particular have developed better than expected during the course of 2017[1]. Growth in the Eurozone in 2017 also exceeded the forecasted figures[2].

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[1] Autumn forecast issued by the German federal government:
In: https://www.bmwi.de/Redaktion/DE/Dossier/wirtschaftliche-entwicklung.html.

[2] European Commission, autumn forecast 2017: Commission expects the strongest economic growth for the Eurozone in the last ten years.
In: https://ec.europa.eu/germany/news/20171109-herbstprognose_de. Press release, 09 November 2017.

From a global perspective, forecasts for 2018 assume good economic growth prospects, which include both industrialised and emerging markets. Higher commodity prices are also contributing to this, which has a stabilising effect on the economies of some emerging markets being heavily influenced by commodity exports.

Across the globe, growth is predicted to be about the same in 2018 as last year at 3.1 %. It should be noted, however, that economic growth had already picked up in 2017 and was above the projected figures of 2.7 %. Growth of 4.5 % is predicted for emerging countries as a whole. Countries exporting raw materials are expected to increase by 2.7 % while other emerging markets are supposed to grow by 5.7 %. From a regional perspective, the highest growth rates between 6 % and 7 % are expected for the countries of Southeast Asia. In contrast, Latin America brings up the rear with 2 %. Ultimately, the projections for world trade 2018 are projecting an increase of 4 %, after already growing faster than expected in 2017[3].

Geopolitical conflicts, especially in the Middle East, as well as the tensions coming from North Korea, are seen as a threat to the good global economic developments. Furthermore, there is a risk that protectionist and nationalist movements will act as a barrier to world trade. This tendency was already feared for 2017, but specific far-reaching obstacles do not yet exist. The expected further increase in USD interest rates will put some emerging markets with high foreign currency debt under pressure.

From AKA's point of view, the positive framework factors prevail with a view to 2018. The bank therefore expects a national, European and international environment, which will be characterised by good economic prospects. In the context of trade and export finance that is relevant to AKA, this means that private and public investment in the target countries is increasing, as is global trade in general. On the other hand, it cannot be ruled out that, given more stable economic conditions, there will also be less demand for risk hedges, or that the risk-dependent margins that can be achieved for AKA will be reduced. For some markets, AKA sees the risk that the implementation of major projects will be more difficult due to sanction regulations.

AKA will continue to diversify its target countries in its business activities in 2018 in order to achieve a broad risk diversification. AKA strives to support large-scale investments planned in many markets, for example, in the energy and chemical industries, by participating in ECA-covered financing. Cooperation with non-shareholder banks within the framework of the guidelines approved by the Supervisory Board also contributes to this. Furthermore, AKA continues to expand its activities with other European ECAs.

Regarding its treasury activities, AKA will continue to consistently pursue its measures for cost-optimising liquidity management and increasing refinancing options. AKA expects a further broadening of its base in terms of borrowing in the major currencies of EUR and USD, both in the uncovered segment as well as in covered refinancing for the ECA loan business. In general, AKA is maintaining its approach of refinancing its loan business as much as possible on a congruent currency and maturity basis, in compliance with all regulatory and internal requirements.

[3] Global Economic Prospects, Broad Based Upturn – but for How Long?
In: A World Bank Group Flagship Report, January 2018.

AKA expects interest rates in the Eurozone to remain low in the forthcoming fiscal year. Accordingly, its multi-year business planning is based on the conservative approach of an unchanged market interest rate scenario for the euro. However, it should be noted that an increase in interest rates in the Eurozone will have a positive impact on AKA, while the gradual increase in USD interest rates will have hardly any impact on AKA's profitability.

In summary, AKA plans a new business volume of around EUR 1.75 billion for 2018. It is aiming for a minimum proportion of 35 % of investment grade rated long-term financing deals. Regarding net earnings from the loan business, a result of around EUR 40 million is expected. AKA expects a ratio of 46 % in 2018 with respect to the cost-income ratio. Taking into account the associated risk provision for the business performance planned for 2018, a net profit after tax in the amount of about EUR 9 million and a return on equity before tax of about 6 % is expected.

AKA has a solid equity base and can continue to pursue its growth path without any changes. As a result of an SREP decision for 2018, there are slightly lower capital requirements applicated for AKA compared to the previous year.

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 2018 as well as the bank supervisory requirements for IT (BAIT). In terms of financial reporting, the new AnaCredit requirements must be implemented. In addition, the requirements of the single European banking supervision and its effects on the national, so-called less significant institutions, to which the AKA belongs, must be closely observed.

In its external appearance, AKA will continue its successful event formats in 2018, such as the Investors' Meeting and the series of the theme-based Trade Finance Dialogue. AKA will also relaunch its entire internet presence.

In 2018, AKA will continue to act as a platform for trade and export finance issues contributing to such committees as the Hermes IMA and associations with national and foreign trade relations.

Frankfurt/Main, 6 March 2018

The Management of AKA Ausfuhrkredit-Gesellschaft mbH

Beate Bischoff Marck Wengrzik

Guest Contribution

The boycott prohibition in German foreign trade law – a potential source of conflict for banks and companies

"Creating a Shared Future in a Fractured World" was the theme of the World Economic Forum Annual Meeting in Davos this year. Naturally, banks and companies involved in foreign trade and finance are feeling the impact of this “fracturing”. The number of sanctions threats, sanctions resolutions and embargo decisions has increased significantly in recent years. For this reason, foreign counterparties, especially those from the USA, are increasingly demanding compliance with the embargo provisions of their countries. Such demands might at first glance seem unremarkable, but can in fact lead to a violation of German foreign trade law. Declarations made in a foreign trade context by which a person domiciled in Germany (Inländer) participates in a boycott against another state are prohibited, pursuant to section 7 of the Foreign Trade and Payments Regulation (AWV), unless Germany also boycotts that state.

The German government introduced the anti-boycott provision in 1992 as a reaction to the boycott against Israel by the Arab League. One goal of the provision was to prevent German suppliers from agreeing not to trade with Israel in contracts with Arab trading partners. In the first drafts of the regulation, a reference to this specific situation was made, but this reference was omitted in the course of the further law-making process. The wording of the provision ended up being general, not limited to the relationship with Israel, but rather with a wide scope that, for example, extends far beyond that of the "EU Blocking Regulation", which seeks to achieve a similar outcome.

Where section 7 AWV applies, deals can fail. The underlying conflict of legal systems, primarily relevant in international trade relations, has been playing an increasingly vital role in international financings for several years. The primary reason for this is the far-reaching nature of American sanctions rules enforced by the US Office of Foreign Assets Control (OFAC), the violation of which can have severe consequences. In light of these rules, US banks or banks with relevant connections to the US want to ensure as far as possible that they do not engage in finance transactions with countries or persons subject to those US boycott provisions. Therefore, such banks usually demand extensive representations from the borrower confirming that the US sanctions provisions are being complied with. These representations often refer not only to the situation at the time of signing, but extend to the entire lifetime of the finance agreement. Clauses of this type, however, put both German borrowers and German lenders into conflict with the German anti-boycott provision. The situation is particularly delicate for German banks and companies which fall under both legal regimes, i.e. those bound by the sanctions regime of the US on the one hand and the German anti-boycott provision on the other hand. Due to the wide scope of the US sanctions regime (including provisions which allow to extend sanctions to persons without a relevant connection to the US - so-called secondary sanctions - even where the relevant sanction is introduced after signing of the finance agreement), this is a relevant scenario for German banks and companies who are acting internationally. Those who are affected are in a regulatory dilemma. This dilemma increases the desire for a reform of the German anti-boycott regime.

Risks for export companies and loan market: Alongside German trading companies, other internationally acting German market participants are affected; particularly banks (as mentioned), insurers and reinsurers. Export credit agencies sometimes wonder whether they should, or indeed have to, limit their commitments in certain cases – which can lead to significant uncertainties about their commitments of cover. This article will focus on German

banks acting as lenders in international financings, where the documentation provides for the borrower to comply with US sanctions provisions.
Where German borrowers commit themselves in finance agreements to comply with all US sanctions provisions, and these go beyond sanctions applicable in Germany, it seems obvious that this may constitute an inadmissible boycott declaration.

But the signing of such an agreement may also be considered a violation of section 7 AWV for the financing German banks: Countersigning an agreement which binds other parties to inadmissible boycott declarations may be regarded as an own legal declaration made by the banks by which they themselves participate in the boycott.

A legal risk exists for the German banks even if only foreign borrowers are involved in the finance agreement. Given that the banks fall within the definition of a "domestic" entity, their signature may be regarded as the declaration of a domestic entity that is participating in the boycott of the other contracting parties (even if the other parties themselves are not subject to the restrictions). This can also be applied to German banks which are acceding to the finance agreement later by way of syndication: by signing the accession or transfer documentation, the banks are making a declaration by which they accept the representations made by the borrower in relation to compliance with the US sanctions provisions.

In addition, in the German law of misdemeanors, the concept of participating in a legal offence is so wide that, under these rules also, German banks may be regarded as committing a legal offence simply by accepting the inadmissible declarations made by borrowers.

Difficult-to-understand anti-boycott regime: By way of general background, section 7 AWV prohibits the participation in a boycott by way of declarations. Inadmissible in this context are not only express boycott declarations referring to a particular country, boycott or blacklist, but also less explicit declarations where the intention to comply with a boycott can only be inferred. A declaration to the effect that all boycott laws of the relevant country will be observed is therefore also inadmissible. According to the interpretation by the Federal Ministry of Economic Affairs, this means that any unrestricted contractual assurances or obligations to the effect that all sanctions provisions of another country will be complied with are not permitted.

This prohibition does not apply to declarations which relate to boycotts or embargos that Germany itself enacts or enforces, or in which it participates. In practice, this means embargos which are based on UN resolutions or EU law and are or have become part of German law. There is therefore no conflict if the sanctions provisions to which the German parties undertake to adhere correspond to sanctions provisions that also apply in Germany. This fact can alleviate the situation in a number of cases.

In the finance practice, however, this aspect does not often help. Apart from the fact that it is not always easy for the parties to large international group financings to know to what extent the sanctions provisions of all relevant jurisdictions involved are congruent or not at any given time, there are usually always cases where the embargo policies of the US and the EU differ (Cuba, Iran or Russia, for example). Especially in times where foreign relationships are difficult, different sanctions regimes may emerge or existing sanctions regimes may drift apart during the lifetime of the financing.

Painful consequences: An inadmissible boycott declaration constitutes a misdemeanor which may be punished with a fine of up to EUR 500,000. A higher fine for profit-skimming or an order for a confiscation are also possible. These measures as well as an aggregation of sums for several individual cases, can theoretically allow for monetary sanctions in the order of millions of euros. In addition, regulatory measures against credit institutions are possible.

From the perspective of the agreement, an inadmissible boycott declaration will generally be null and void. Although this nullifying effect will often be limited to the relevant sanctions provisions, wider reaching effects on the agreement are not excluded, especially if the contract would not have been concluded without the non-permitted sanctions provisions.

In addition, if a finance arrangement is affected or goes into a crisis due to unilateral US sanctions (even if not foreseeable at the time of entering into the arrangement), the banks live with the uncertainty of whether their losses will be covered by the German export credit agency. If the export credit agency does not provide cover to an arrangement in light of section 7 AWV, the banks will bear the risk of a (possibly total) default.

Security desirable in increasingly uncertain times: The current anti-boycott provision is a considerable challenge for German banks and companies, and gives rise to risk and uncertainty. One reason lies in the wide scope of section 7 AWV. It is difficult for market participations to determine where the line of permitted action or participation is drawn. Restrictive interpretations and purpose-oriented reductions of the provision have repeatedly been suggested and pleaded for from various sides. However, as long as there is no official indicator of a change in approach, market participants cannot rely on these interpretations. In recent years, there has been speculation that section 7 AWV is being looked at closely by the Federal Ministry of Economic Affairs. This would certainly be welcome from the point of view of Germany's export industry and loan market, especially in the current context of increasing uncertainty in the area of international trade relations.

Dr Kurt Dittrich,
Member of the German Executive Team
and Head of the Finance Division Germany,
Linklaters LLP, Frankfurt/Main

Annual Financial Statements

Balance sheet
as at 31 December 2017

Assets	EUR	31.12.2017 EUR	31.12.2016 EUR thousand
1. Cash reserves			
a) Cash in hand	3,857.77		2
b) Balances with central banks	89,153,584.22	89,157,441.99	68,969
thereof: with Deutsche Bundesbank EUR 89,153,584.22 (2016: EUR 68,969 thousand)			
2. Loans and advances to banks			
a) payable on demand	41,448,011.55		34,449
b) others	483,862,893.71	525,310,905.26	565,141
3. Loans and advances to customers		1,986,853,477.89	1,837,082
4. Debenture bonds and other fixed-interest securities			
a) Money market instruments			
aa) from public issuers	3,674,029.64		81,816
thereof: accepted as collateral by Deutsche Bundesbank EUR 0 (2016: EUR 20,050 thousand)			
ab) from other issuers	33,365,987.57	37,040,017.21	0
thereof: accepted as collateral by Deutsche Bundesbank EUR 0 (2016: EUR 0 thousand)			
5. Shares in affiliated companies		8,387,107.30	8,387
6. Trust assets		420,680,903.17	499,702
thereof: Trust loans EUR 420,680,903.17 (2016: EUR 499,702 thousand)			
7. Intangible assets		485,455.69	367
Concessions acquired, industrial property rights and similar rights and assets as well as licences from such rights and assets			
8. Fixed assets		1,108,342.60	819
9. Other assets		277,338.51	315
10. Prepaid expenses		321,849.93	294
11. Active difference resulting from asset offsetting		539,709.66	1,460
Total assets		**3,070,162,549.21**	**3,098,803**

Liabilities		EUR	31.12.2017 EUR	31.12.2016 EUR thousand
1. Amounts due to banks				
a) payable on demand		791,266.89		2,533
b) with fixed maturity				
or period of notice		2,187,458,917.44	2,188,250,184.33	2,230,932
2. Amounts due to customers				
Other liabilities				
a) payable on demand		21,061,868.93		13,335
b) with fixed maturity				
or period of notice		178,487,016.69	199,548,885.62	95,723
3. Trust liabilities			420,680,903.17	499,702
thereof: Trust loans				
EUR 420,680,903.17 (2016: EUR thousand 499,702)				
4. Other liabilities			503,790.14	189
5. Deferred income			8,007,064.10	8,930
6. Provisions				
a) Tax provisions		7,143,600.67		6,580
b) Other provisions		7,296,018.03	14,439,618.70	9,127
7. Equity capital				
a) Subscribed capital		20,500,000.00		20,500
b) Revenue reserves				
Other revenue reserves				
as at 1 January 2017	207,152,103.15			188,367
Transfer from				
2017 annual net profit	6,980,000.00	214,132,103.15		18,785
Balance sheet profit 2017		4,100,000.00	238,732,103.15	4,100
Total liabilities			**3,070,162,549.21**	**3,098,803**
1. Contingent liabilities				
Contingent liabilities				
from guarantees			353,619,971.58	376,656
2. Other obligations				
Irrevocable loan commitments			802,577,093.89	837,753

Profit and loss statement
for the period from 1 January to 31 December 2017

Expenses	EUR	EUR	2017 EUR	2016 EUR thousand
1. Interest expenses		32,632,490.48		
less positive interest from banking business		-364,450.34	32,268,040.14	31,545
2. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	8,671,197.25			8,193
ab) Social security contributions expenses for pensions and other employee benefits	3,000,706.96	11,671,904.21		1,530
thereof: for pensions EUR 1,786,163.65 (2016: EUR 394 thousand)				
b) Other administrative expenses		5,823,359.50	17,495,263.71	5,179
3. Depreciation and value adjustments on intangible and fixed assets			429,569.31	364
4. Depreciation and value adjustments on receivables and certain securities plus allocations to provisions in the loan business (2016: Earnings from appreciation on receivables and certain securities)			3,452,138.78	-11,520
5. Other operating expenses			1,456,817.77	1,058
6. Income taxes			5,681,893.83	8,944
7. Other taxes			26,736.56	22
8. Annual net profit			11,080,000.00	22,885
Total expenses			**71,890,460.10**	**68,200**

1. Annual net profit	11,080,000.00	22,885
2. Transfer to other revenue reserves	6,980,000.00	18,785
3. Balance sheet profit	**4,100,000.00**	**4,100**

Income	EUR	EUR	2017 EUR	2016 EUR thousand
1. Interest income				
a) Loans and money market transactions	64,884,396.86			
less negative interest rates				
from money market transactions	-295,310.63	64,589,086.23		61,111
b) other fixed-interest securities		626,274.92	65,215,361.15	316
2. Net fee and commission income			5,720,391.02	5,792
3. Other operating income			954,707.93	981
Total income			**71,890,460.10**	**68,200**

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

The annual financial statements of AKA Ausfuhrkredit-Gesellschaft mbH for the fiscal year from 1 January to 31 December 2017 were prepared in accordance with the German Commercial Code (HGB), the German Limited Liability Company Act (GmbH) and the German Ordinance on Bank Accounting (RechKredV).

Accounting policies and valuation methods: Cash reserve, loans and advances to banks and customers plus other assets and assets set off 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 pursuant to Section 340f HGB. The overall credit risk was also taken into account by means of a lump sum provision. 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 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 recognised compound item will be shown in the asset history sheet. Liabilities are recorded at their settlement amount.

Provisions for pension obligations are formed according to actuarial principles. Valuation is made according to the Projected Unit Credit Method using biometric data based on the 2005 G mortality tables of Dr Klaus Heubeck. The calculation is based on the expected salary and wage increases of 2.1 % and a pension dynamic of 1.6 % to 2.1 % per annum. According to 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 3.68 %. In comparison, the actuarial interest rate for the seven-year average amounts to 2.80 %.

Pursuant to Section 253 (1) sentence 2 HGB, provisions for taxes and other provisions are recognised at their settlement amount according to 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 2017.

The cash value method is used for the loss-free evaluation 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 per loan 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:

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
up to three months	57,206	73,631
more than three months up to one year	203,729	269,814
more than one year up to five years	210,269	205,058
more than five years	12,659	16,638
	483,863	**565,141**

Loans and advances to banks contain loans to shareholders in a total amount of EUR 15,833 thousand (2016: EUR 16,381 thousand).

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

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
up to three months	94,207	132,946
more than three months up to one year	245,511	259,291
more than one year up to five years	1,059,494	909,398
more than five years	587,641	535,447
	1,986,853	**1,837,082**

Debenture bonds and other fixed-interest securities: Debenture bonds and other fixed-interest securities comprise two securities of the liquidity reserve as well as a credit-related security.

	marketable		listed		not listed	
in EUR thousand	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debenture bonds and other fixed-interest securities	37,040	81,816	37,040	81,816	0	0

This position includes securities amounting to EUR 33,415 thousand (2016: EUR 81,816 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, Germany (GVK) amounting to EUR 31 thousand. GVK is the owner of the business properties Kaiserstrasse 10 and Grosse Gallusstrasse 1-7. For fiscal year 2016, the company recorded a surplus of EUR 336 thousand (2015: EUR 346 thousand). In addition, AKA holds a 100 % share (EUR 51 thousand) in Privatdiskont-Aktiengesellschaft, Frankfurt/Main, Germany (PDA). This company currently does not carry out any business operations. For fiscal year 2016, PDA posted a net loss of EUR 0.5 thousand (2015: net profit EUR 0.8 thousand). 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:

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
Loans and advances to banks		
a) Other receivables	2,581	1,70
Loans and advances to customers		
a) Other receivables	418,100	499,532
	420,681	**499,702**

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

	Shares in affiliated companies	Intangible assets	Fixed assets
Historical acquisition costs			
As at 1 January 2017	8,387	1,691	3,420
Additions	0	246	591
Disposals	0	0	0
As at 31 December 2017	8,387	1,937	4,011
Accumulated depreciation			
As at 1 January 2017	0	1,324	2,601
Additions	0	128	302
Disposals	0	0	0
As at 31 December 2017	0	1,451	2,904
Carrying amount as at 31 December 2017	**8,387**	**486**	**1,108**
Historical acquisition costs			
As at 1 January 2016	8,387	1,426	2,922
Additions	0	275	627
Disposals	0	10	129
As at 31 December 2016	8,387	1,691	3,420
Accumulated depreciation			
As at 1 January 2016	0	1,218	2,482
Additions	0	115	248
Disposals	0	9	128
As at 31 December 2016	0	1,324	2,601
Carrying amount as at 31 December 2016	**8,387**	**367**	**819**

Tangible assets include operating and business equipment with a carrying amount of EUR 950 thousand as at 31 December 2017. Properties and buildings used for own activities are included in the amount of EUR 0 thousand.

Other assets: Other assets include tax receivables amounting to EUR 0 thousand (2016: EUR 12 thousand). Receivables from affiliated companies amounting to EUR 236 thousand (2016: EUR 250 thousand).

Active difference resulting from asset offsetting: The item of the active difference resulting from asset offsetting in the amount of EUR 540 thousand (2016: EUR 1,460 thousand) represents the carrying amount of fund assets in excess of the settlement amount of pension provisions.

Liabilities

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

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
up to three months	337,189	403,642
more than three months up to one year	307,112	321,955
more than one year up to five years	993,909	910,146
more than five years	549,249	595,189
	2,187,459	**2,230,932**

Amounts due to banks with an agreed term or period of notice contain amounts due to shareholders in the amount of EUR 496,702 thousand (2016: 629,645 EUR thousand).

Assets in a total amount of EUR 1,600,560 thousand (2016: EUR 1,554,764 thousand) were transferred as collateral.

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

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
up to three months	3,436	5,223
more than three months up to one year	70,000	73,500
more than one year up to five years	74,051	17,000
more than five years	31,000	0
	178,487	**95,723**

Amounts due to customers include unsecuritised liabilities to affiliated companies amounting to EUR 4,497 thousand (2016: EUR 4,642 thousand).

Trust liabilities: Trust liabilities are broken down as follows:

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
Amounts due to banks		
a) with an agreed term or period of notice	394,471	461,570
Amounts due to customers		
a) with an agreed term or period of notice	26,210	38,132
	420,681	**499,702**

Other liabilities: Other liabilities primarily include trade payables of EUR 358 thousand (2016: EUR 157 thousand).

Other liabilities also include tax liabilities amounting to EUR 52 thousand (2016: EUR 0 thousand).

Accrued and deferred items: The accrued and deferred items are composed as follows:

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
Risk premium	5,525	5,713
Administration fee	2,449	2,931
Others	33	285
	8,007	**8,929**

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

	31.12.2017 EUR thousand	31,12.2016 EUR thousand
Settlement amount of pension provisions	22,619	21,493
Fund assets	23,159	22,953
Active difference resulting from asset offsetting	**-540**	**-1,460**

The settlement amount of pension provisions was offset against fund assets, which were transferred to AKA Treuhand e.V. in a Contractual Trust Arrangement (CTA). Fund assets consist of Euler Hermes covered credit claims and cash balances with AKA GmbH and another bank. Allocations to fund assets amounted to EUR 152 thousand (2016: EUR 236 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 the pension provision and the ten-year average interest rate and the seven-year average interest rate is indicated on every reporting date. This is set up as follows:

	31.12.2017 EUR thousand
Pension provision valued at	
ten-year average interest rate	22,619
seven-year average interest rate	25,168
	-2,549

Other provisions: Other provisions comprise provisions for imminent credit risks in an amount of EUR 3,688 thousand (2016: EUR 5,263 thousand). The change in the portfolio was effected by the compounding of provisions for imminent credit risks from the loan business amounting to EUR 46 thousand (2016: EUR 42 thousand) with the allocation and the discounting of these provisions and in the amount of EUR 108 thousand (2016: EUR 232 thousand) with the reversal. In addition, personnel provisions amounting to EUR 2,271 thousand (2016: EUR 2,330 thousand) were formed.

Profit and loss statement

Interest expenses: Interest expenses comprise EUR 364 thousand (2016: EUR 62 thousand) positive interest expenses from time deposits from banks and investment funds.

Other operating expenses: Other operating expenses primarily include interest expenses from the discounting of provisions amounting to EUR 852 thousand (2016: EUR 858 thousand) as well as expenses from currency conversion in the amount of EUR 347 thousand (2016: EUR 112 thousand).

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

Interest income from loan and money market transactions: Negative interest income results from assets held at Deutsche Bundesbank, which exceed the minimum reserve, as well as deposits with other banks.
Interest income from loan and money market transactions according to their geographical origin can be broken down as follows:

	2017 EUR thousand	2016 EUR thousand
Africa	4,288	4,914
Asia and Oceania	6,918	7,073
EU	7,433	8,073
Europe (non-EU)	4,195	3,781
CIS and Russia	10,567	7,082
Middle East	1,679	1,665
Near East	19,176	17,530
North and Central America	10,044	10,533
South America	289	460
	64,589	**61,111**

Interest income from loan and money market transactions contain negative interests in the amount of EUR 295 thousand (2016: EUR 179 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 54 thousand (2016: EUR 10 thousand) originate from securities of the EU area and EUR 523 thousand (2016: EUR 306 thousand) result from securities from North and Central America.

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

Other operating income: In 2017 other operating income primarily resulted from the reversal of provisions amounting to EUR 518 thousand (2016: EUR 301 thousand) as well as the compensation for expenses of the subsidiary GVK GmbH in the amount of EUR 250 thousand (2016: EUR 250 thousand). During the last fiscal year, interest-related income accrued from the discounting of provisions amounting to EUR 12 thousand (2016: EUR 1 thousand).

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

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
Cash held with central banks	22	2,589
Loans and advances to banks	118,279	159,227
Loans and advances to customers	785,900	829,296
Debenture bonds	37,040	61,766
Trust assets	23,447	39,192
Intangible assets	0	1
Prepaid expenses	42	54
	964,820	**1,092,125**

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

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
Amounts due to banks	949.,767	1,060,999
Amounts due to customers	229	39
Trust liabilities	23,447	39,192
Provisions	79	67
Deferred income	66	178
	973,587	**1,100,475**

Irrevocable loan commitments in the amount of EUR 173,930 thousand (2016: EUR 215,342 thousand) and contingent liabilities amounting to EUR 132,795 thousand (2016: EUR 174,591 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:

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
Loan guarantees	186,143	220,532
Letter of credit	131,669	120,078
Guarantee facilities	35,807	36,056
	353,620	**376,656**

The utilisation 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:

	31.12.2017 EUR thousand	31.12.2016 EUR thousand
Irrevocable loan commitments for the loan business	802,577	837,753
Irrevocable loan commitments for securitisation guarantees	0	0
	802,577	**837,753**

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

Other financial obligations: AKA has concluded securitisation guarantees with the Federal Republic of Germany as collateral for refinancing loans. As part of supplementary guarantee convenants, AKA is committed to reimburse the guaranteed amount in case of the utilisation of securitisation guarantees. Possible payment claims from guarantee provisioning in connection with securitisation guarantees existed at the end of the year in the amount of EUR 724,817 thousand (2016: EUR 785,232 thousand).

Forward transactions/hedge accounting: No forward transactions with interest rate or currency risks existed at the previous year's balance sheet date.

Remuneration: A remuneration of EUR 364 thousand (2016: EUR 218 thousand) plus VAT is provided for the members of the Supervisory Board. As at 31 December 2017, provisions for pension obligations to former members of the management and their surviving dependents were formed in the amount of EUR 7,250 thousand (2016: EUR 7,105 thousand). In 2017, remunerations amounted to EUR 631 thousand (2016: EUR 621 thousand). In regard to the remuneration of the Management, AKA avails itself of the derogation provided 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 2017 are broken down as follows:

	2017 EUR thousand	2016 EUR thousand
Annual Audit	190	194
Other confirmation or valuation services	0	4
Tax advisory services	0	20
Other services	0	33
	190	**251**

Employees: AKA Ausfuhrkredit-Gesellschaft mbH and its subsidiaries Grundstücks-verwaltung Kaiserstrasse 10 GmbH and Privatdiskont-Aktiengesellschaft as well as Liquiditäts-Konsortialbank GmbH i.L. – all based in Frankfurt/Main – are conducted under common management. The average of AKA's employees in the past fiscal year can be broken down as follows:

	male	female	2017 total	2016 total
Full-time staff	48	32	80	72
Part-time staff	6	20	26	28
Parental leave	0	0	0	0
	54	**52**	**106**	**100**

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

Full members	Deputy Members
Michael Schmid[1,2] Economist Königstein/Taunus – Chairman –	Jeannette Vogelreiter Managing Director Commerzbank AG, Frankfurt/Main as of 1 October 2017
	Martin Keller Director Commerzbank AG, Frankfurt/Main until 30 September 2017
Werner Schmidt[1,2] Managing Director Deutsche Bank AG, Frankfurt/Main – First Vice Chairman –	Frank Schütz Director Deutsche Bank AG, Frankfurt/Main
Philipp Reimnitz[1,2] Executive Vice President UniCredit Bank AG, Hamburg – Second Vice Chairman –	Inés Lüdke Managing Director UniCredit Bank AG, Munich
Alexander von Dobschütz[1,2] Managing Director Bayerische Landesbank, Munich – Third Vice Chairman –	Florian Seitz Director Bayerische Landesbank, Munich
Sandra Gransberger Head of Internal Audit ODDO BHF Aktiengesellschaft, Frankfurt/Main	Birgitta Heinze Director ODDO BHF Aktiengesellschaft, Frankfurt/Main
NN Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main as of 1 October 2017	Diana Häring Vice President Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main
Jörg Hartmann Managing Director Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main until 30 September 2017	
Michael Maurer Senior Vice President Landesbank Baden-Württemberg, Stuttgart as of 28 March 2017	Nanette Bubik Vice President Landesbank Baden-Württemberg, Stuttgart as of 28 March 2017
Guido Paris Executive Vice President Landesbank Baden-Württemberg, Stuttgart until 27 March 2017	Michael Maurer Senior Vice President Landesbank Baden-Württemberg, Stuttgart until 27 March 2017
Winfried Münch[1] Director DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main	Manfred Fischer Director DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt/Main
Max Niesert[1] Managing Director Portigon AG, Düsseldorf	Georg Lucht Executive Director Erste Abwicklungsanstalt AöR, Düsseldorf
Knut Richter Director Landesbank Berlin AG, Berlin	Sascha Händler Director Landesbank Berlin AG, Berlin

[1)] Member of the Risk Commission [2)] member of the Nominations Control Committee and Remuneration Committee

AKA's Management consists of:

Beate Bischoff
Frankfurt/Main

Marck Wengrzik
Frankfurt/Main

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/Main, 6 March 2018

The Management of AKA Ausfuhrkredit-Gesellschaft mbH

Beate Bischoff　　　　Marck Wengrzik

Specifications according to Section 26a of the German Banking Act (KWG)

Country-specific reporting: The requirements of Article 89 of the EU Directive 2013/36/EU (Capital Requirements Directive, CRD IV) were transposed into German law in accordance with Section 26a KWG. This requires a "country-specific reporting" in conjunction with Section 64r (15) KWG.
This reporting discloses the following required information:

1. Company name, type of activities and geographic location of the branches
2. Revenue
3. Number of wage and salary earners in full-time equivalents
4. Profit or loss before taxes
5. Taxes on profit or loss
6. Public aid received

Revenue is defined as the sum of interest income and net fee and commission income plus other operating income. The number of employees refers to full-time employees as at 31 December 2017. The information was determined based on the HGB individual financial statements of AKA as at 31 December 2017[1].

Company	Country	Location	Type of activity	Revenue before	Employees	Profit Taxes	Taxes on profit	Received public aid
				EUR million		EUR million	EUR million	EUR million
EU countries								
AKA GmbH	Germany	Frankfurt/M.	Bank	39.6	96.1	16.8	5.7	0.0

Return on equity: Article 90 of the EU directive 2013/36/EU (Capital Requirements Directive, CRD IV) was also transposed into German law in accordance with Section 26a KWG.
As at 31 December 2017, the return on equity within the meaning of Section 26a (1) sentence 4 KWG is 0.36 %.

[1] No consolidated financial statements are prepared.

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main, which comprise the balance sheet as of 31 December 2017 and the income statement for the financial year from 1 January to 31 December 2017 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of AKA Ausfuhrkredit-Gesellschaft mbH for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to financial institutions and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Determining country risk provisioning

Please refer to Section 3.4 of the management report for more information on the risk provisioning system. Please refer to page three of the notes to the financial statements for information on the accounting policies used by AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung.

The Financial Statement risk: As of 31 December 2017, AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung recognized EUR 25.4 million in provisions for expected credit losses in its financial statements. Of this amount, EUR 20.2 million is applicable to lump-sum country risk provisioning, EUR 4.6 million to specific allowances determined for specific cases and EUR 0.6 million to general allowances pursuant to the BMF [German Federal Ministry of Finance] circular.

Country risk provisions are to be recognized pursuant to the prudence principle stipulated in Section 252 (1) No. 4 HGB in order to take country default risks into account.

The Company calculates its country risk provisions on the basis of the country risk provisioning rates issued by German Federal Ministry of Finance which are provided to the banking industry the in the form of a range with an upper and lower limit. Furthermore, the Company's calculations include customer and business data, e.g. credit volumes, collateral and industry affiliation, as well as internal risk parameters such as the customer and country ratings. Additional markdowns can be applied for certain loans that meet internally defined characteristics. Thus, the calculation of country risk provisioning depends heavily on the accuracy of the data and parameters included in the calculation. The result is the amount recognized as the Bank's country risk provisioning. Using the ranges of the country risk provisioning rates published by the German Federal Ministry of Finance means that this constitutes lump sum country risk provisioning.

The financial statement risk consists especially in the possibility of the amount for country risk provisioning being inaccurately calculated due to incorrect data recording or parameterization.

Our audit approach: Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

In the first step, we gained comprehensive insights into the development and composition of the loan portfolio and, thus, the associated country risks as well as the process used to record, for instance, customer and business data, collateral and country risk provisioning rates, and how the Bank calculates its customer and country ratings.

We inspected the relevant organizational guidelines and additional relevant documents, as well as conducted surveys and mapped the processes, in order to assess the appropriateness of the internal control system in terms of recording the necessary data, parameters and country risk provisioning rates. In addition, we verified the implementation and effectiveness of relevant controls, the correct recording of data, parameters as well as the country risk provisioning rates used to determine country risk provisioning. For the IT systems used, we involved our IT experts to verify the rules and procedures relating to the numerous IT applications and the effectiveness of application controls.

We inspected the relevant organizational guidelines, conducted survey and mapped processes in order to assess the appropriateness of the internal control system in terms of calculating customer and country ratings. In addition, we verified the implementation and effectiveness of the relevant controls designed to ensure appropriate rating determination.

We used a statistical sample as well as a risk-based selection of individual cases to verify that the customer and business data, the parameters as well as the upper and lower limits of the country risk provisioning rates were appropriately and correctly recorded. Furthermore, we reviewed the mathematical calculation of the posted country risk provisioning for selected exposures.

Our observations: The parameters underlying the calculation of lump sum country risk provisioning were accurately recorded and processed in line with the relevant accounting standards. The processes used to record calculation-relevant data, parameters and country risk provisioning rates are suitable for appropriately calculating proper risk provisioning.

Other information

Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information
- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to banks, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal controls as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation: We were elected as auditors by the shareholders' meeting held on 30 March 2017. We were engaged by the Supervisory Board on 13 October 2017. We have been the auditor of AKA Ausfuhrkredit-Gesellschaft mbH without interruption since the financial year 2017.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Iris Helke.

Frankfurt/Main, 6 March 2018

KPMG AG Wirtschaftsprüfungsgesellschaft

Helke	Robbe
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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Publisher: AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt/Main
Design: Stefan Köser Kommunikationsdesign, Frankfurt/Main
Photography: Stefan Köser, Frankfurt/Main; Page 57: Archive Linklaters LLP
Production: MachDruck, Frankfurt/Main